Background Information Paper

This background information paper gives you the information required in order to complete the consultation on how North London Waste Authority provides waste disposal services. Please read through this background paper and then complete the accompanying survey which can be accessed by visiting northlondonheatandpower.london as well as on the previous webpage.

Who we are

North London Waste Authority (NLWA) is the statutory waste disposal authority for the north London area. We arrange the disposal, recycling and composting of waste collected by the seven London boroughs of Barnet, Camden, Enfield, Hackney, Haringey, Islington and Waltham Forest. Our core statutory duties are to dispose of the waste collected by these boroughs and to arrange for reuse and recycling centres for the area's residents.

More information about our activities and strategies can be found at nlwa.gov.uk

About this consultation document

This consultation follows on from the granting of a Development Consent Order which allows us to build new facilities for the treatment of residual waste that is collected from residents across north London that needs to be disposed of, in other words, the waste that is not recycled or composted. This consultation is about how we implement that permission, and in particular asks questions about the choices we need to make when we decide on how we take the permission forward. This document tells you:

- how we dispose of north London's waste at the moment
- how this might change in the future
- what choices we have to make about the future delivery of waste disposal services.

We then ask you to answer some questions about these choices.

Thank you for taking the time to read and help us with this consultation. Your answers and your opinions count. They will be considered and used by us to help make strategic decisions about the services we provide.

The consultation will run from 9 October 2017 to 24 November 2017. You can access the survey on the previous webpage and by clicking on this link - surveymonkey.co.uk/r/NLHPProject. The survey opens in Survey Monkey and consists of seven questions - you can answer as many of these questions as you wish.

What currently happens to north London's waste?

Under a contract with us, LondonEnergy Ltd (previously called LondonWaste Ltd), a company wholly owned by us, manages and disposes of most of the waste collected by the seven north London boroughs.

Waste collected by the boroughs is delivered or taken to the Edmonton EcoPark, a 16 hectare site in Edmonton, London where LondonEnergy is based. Waste that cannot be reused, recycled or composted is used as fuel to generate electricity at an Energy from Waste (EfW) facility there.

We manage a network of Reuse and Recycling Centres (RRCs) in the north London area, where members of the public can dispose of household waste and recycling, most of which are operated on our behalf by LondonEnergy. Residual waste from these centres is also taken to the EcoPark for treatment by LondonEnergy, while the recyclable materials are sent for further sorting and/or onward use to make new products.

Why might these arrangements change?

The EfW facility has served north London well for over 45 years, and has diverted more than 21 million tonnes of waste which would have otherwise gone to landfill. The facility has been well maintained, but is now reaching the end of its useful life and so we have decided to replace it.

The planned works include:

- an Energy Recovery Facility (ERF) - to replace the existing EfW plant
- a Resource Recovery Facility (RRF), replacing the existing facility on site - where bulky waste will be separated for recycling. Anything left over will be used as fuel in the ERF. The RRF will also include a Reuse and Recycling Centre (RRC) where householders and businesses will be able to dispose of their waste and recycling at the EcoPark for the first time from 2021
- EcoPark House – a new office block and visitors' centre where everyone can find out more about recycling, waste, heat and power.

Following two rounds of public consultation in 2015 and 2016, we were granted a Development Consent Order (DCO) (a type of planning permission) for the development of these new facilities. In preparing for the DCO application, the cost of the ERF was estimated at £500 million in 2015.

Why are we asking for your views?

We are now exploring different ways of delivering the ERF. This means considering the types of contract we might let (whether works, or works and operations) and how the works will be funded. As we consider this, we will be taking strategic decisions about the way we will provide some of our services in the future.

In line with our statutory best value duty, we will seek to make arrangements to secure continuous improvement in the way we exercise our waste management functions, having regard to a combination of economy, efficiency and effectiveness. In deciding how to fulfil this best value duty, and before we take strategic decisions about the way we provide services, we are seeking your views on the issues set out in the rest of this document. No decision as

to how to procure and fund the ERF has yet been taken and we are asking for your comments to inform decision making.

What are our options for future service delivery?

We have considered a number of options for future service delivery. Where the money comes from for this development will have an impact on how we provide some of our services in the future and how much they cost. We have concluded that the two most achievable options are:

- **private delivery** – We appoint a single private sector partner to design, build, finance and operate the ERF. Here the private sector partner borrows the money needed for the works ('capital'), probably from a bank or similar financial institution. Once the ERF is up and running, the private sector partner charges us on a monthly basis for its use. The operation of some of the other new facilities we are building on the site (such as the RRC and RRF) could also be brought within the contract but this would not necessarily be the case. The relevant LondonEnergy staff would transfer to the private sector partner on the same employment terms and conditions that they currently enjoy.
- **public delivery** – We appoint a private sector partner(s) to design and build the new ERF. We borrow the capital needed for the works from a public sector source such HM Treasury or potentially from a bank ourselves. We retain the responsibility for delivering services at the site (through LondonEnergy, who would operate the plant) once the new facilities have been commissioned.

How we have arrived at these options

Last year, we looked at various possible alternatives to proceeding with the development envisaged by the DCO. This was done in order to check that nothing had changed since we decided to apply for the DCO and that the DCO scheme was still the best approach to take. Other options we considered and rejected were whether:

- the existing EfW facility could be used for a longer period of time
- the existing EfW facility could be refurbished or rebuilt
- a solution based at another location might represent better value.

We also considered other technologies which have been developed for waste disposal, and concluded that none of these were sufficient for the volume of waste forecast to arise in the north London area in the future. The DCO application was therefore based on advanced moving grate technology which is well proven way of converting waste to energy that is used around the world.

Further details of the analysis that we carried out is available in the Summary Paper on Options found here: nlwa.gov.uk/docs/2011/3-dco-update-and-next-steps-(web).pdf

What issues have we considered in looking at the two options?

We are confident that both the public and private service delivery options would deliver:

- **a robust service provision** – in both private and public delivery this will be through contractual incentives and remedies with the operator (either the private sector partner or LondonEnergy)
- **strict environmental protections** – in both scenarios, the Environment Agency will regulate our activities, and contractual requirements will ensure that environmental rules are complied with by the operator
- **certainty for the current employees** – their employment will transfer on the same terms to the private sector operator or it will remain with LondonEnergy.

We therefore do not believe that the above issues are determining factors in deciding on public or private service delivery.

Considerations relating to price versus risk?

We obviously need to make sure that the chosen option will deliver value for money. But value for money isn't just about finding the cheapest way of delivering the services. Whichever option we choose, there are potential risks which we need to factor into our decision making. If some of the potential risks actually materialise, it might mean that the actual cost of delivering the service is greater than expected. Or even if they don't have a cost impact, the potential risk consequences might be so serious that we don't want to take the risk at all, such as a risk to health and safety.

To get the balance right, we propose to select the option with the lowest cost that has an acceptable level of risk, we will not choose the cheapest option if that option carries an unacceptable level of risk. This means that we need to think about what risks it is reasonable to take in order to achieve the lowest cost for the public purse.

What are the key risks that might materialise?

We have carried out a detailed analysis of the risks involved in delivering this project and how those risks should be managed for either the public or the private delivery approach.

Where we contract with a private sector partner to deliver the project, we will set out in the contract what they are required to do, and include the standards they are expected to operate to. In this way, there may be an opportunity to transfer to them some of the risks of delay in the new facility being available or in poor performance of the facility. We would do this by making them responsible contractually for the consequences if the risk materialises; but they will then build the fact that they are taking on this risk into the cost of the service and we will have to then pay extra whether or not it happens. However, we can never completely pass risk to a partner, not least because the legal responsibility for waste disposal will always fall back to us as the statutory waste disposal authority, if things go wrong.

These are three of the key risks that illustrate the price and risk choices we have.

- **It may take longer to build the ERF than originally planned** – under a private delivery model, we would expect the private sector partner to bear more of the risk of delays from unforeseen events. This is because they are responsible for project-

managing the works, but they would be likely to include the cost of managing this risk in their price. Under a public delivery model, we would retain more of this risk as we would be project-managing the works. The choice here is therefore whether it is acceptable for us to take the risk that the project might be delayed (and so possibly cost more than originally thought), in the hope that either the risk will not arise, or it can be managed (e.g. by good project management) if this makes the project less expensive.

- **The cost of waste disposal operations might be higher than expected** – under a private delivery model, the private sector operator would mostly bear the risk of its delivery costs being higher (for example staff costs) because the price we pay to it for waste disposal would be largely fixed. Because the price is fixed, the operator would have the benefit if the costs were lower than anticipated. The downside though is that the operator would build the cost of taking this risk into its pricing. Under a public delivery model, we would bear the cost increase risk but get the benefit of any cost reductions also. So the choice here is between a potentially higher cost but with the benefit of price certainty (for private delivery) and a potentially lower cost but with a greater risk of future price increases (for public delivery).
- **The income generated by the ERF may be lower than anticipated –** as is the case with the existing EfW facility, the ERF presents us with an opportunity to generate income by providing services for third parties. This allows us to offset some of the costs of waste disposal. One way that we will do this is by selling the electricity generated by the ERF, but if there is sufficient capacity in the ERF we may also allow others to dispose of their waste at the facility for a fee.

Under a private delivery model, the private sector operator would be selling the electricity. We would expect it to build into its price for waste treatment services an assumed amount of income so that this was effectively guaranteed for NLWA through this price. It might also agree to share income with us if income exceeds an agreed amount. Alternatively, under a public delivery model, all of the income would be kept by us. But, of course, we would not have a guaranteed minimum income and so we would potentially be more exposed to changes in income.