

# Nottinghamshire's pathfinder waste PFI

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04/07/2006

Veolia Environmental Services and Nottinghamshire County Council have closed the groundbreaking £140 million (US\$259m) waste management PFI project - a deal that stands out as a pathfinder on a number of levels

For one thing, this is the first waste project to close since Viridor Waste closed the £26 million (US\$47m), 25-year [West Sussex County Council PFI](#) deal in early April 2004 - more than two years ago.

On top of that dubious honour - after all the UK has numerous such projects to close (some believe it to be as much as £30 billion worth) if it wants to avoid penalties imposed through the [EU Landfill Directive](#) - this deal (which received £38 million in PFI credits) was financed purely off Veolia's balance sheet. Veolia, however, plans to refinance this after a few years.

The EU Landfill Directive targets require that by 2020 the UK must have cut drastically the level of biodegradable municipal waste that is currently being disposed of in landfill sites, amounting to 35 per cent of the 1995 level.

Back in 1999, the UK sent 81 per cent of its waste to landfill sites, which compares far from favourably with the likes of Switzerland which was guilty of disposing of 7 per cent of its biodegradable municipal waste in that manner, Denmark (13 per cent) and the Netherlands (19 per cent).

To hit these EU-imposed targets, the UK is going to have to clean up its act and while this latest deal close is a step in the right direction, there needs to be a lot more - and soon.

## The project

Veolia was selected as preferred bidder for the 25-year, integrated waste management project last year which will bring in revenues of as much as £850 million (US\$1.6bn) over the life of the concession.

The project commences this year and is being run with support from not only the local authority, but also the Department for Environment Food and Rural Affairs (Defra) and Partnerships UK (PUK).

The work on this pathfinder working project has helped shape Defra's guidance on SoPC3 derogations applicable to future waste PFI projects (published in May 2006).

Environment minister Ben Bradshaw says of the deal: 'The signing of this contract shows what can be achieved and should give confidence to the waste PFI sector.'

'The contract aims to recycle and compost progressively more and to divert more waste away from landfill. This is essential if we are to meet our targets and to protect our environment.'

The contract to handle the 460,000 tonnes of waste produced annually in the county represents a long-term balance of proven and deliverable solutions including:

- waste education
- recycling
- composting
- energy recovery through incineration

The council's recycling and composting targets - which rise progressively to 52 per cent in 2020 - will be met in two ways:

- kerb-side collections of missed dry recyclables, green waste and glass by the Waste Collection Authorities (WCA)
- and the performance of Household Waste Recycling Centres (HWRC)

Veolia will manage 17 HWRCs and will be responsible for handling of recyclables and the disposal and treatment of residual waste.

Proposed facilities include:

- the provision of a materials recovery facility in Mansfield that will handle and sort some 85,000 tonnes per annum of recyclable waste collected by the district councils - from the summer of 2008
- a new composting facility in central Nottinghamshire and the use of existing composting sites to handle 100,000 tonnes of green waste pa
- new HWRC to serve Worksop and the upgrade and continuing operation of the council's network of sites
- network of new transfer stations to receive and handle waste and recyclables from district council collections to serve Newark and Worksop, as well as to use existing sites at Giltbrook and South Nottingham
- a 180,000 tonnes pa power plant in the Mansfield / Ashfield area, burning the waste that cannot be recycled or composted into power. This will be operational from 2011, with the 15MW recovered and fed on to the national grid
- the use of existing planned, constructed and licensed landfill sites to take the waste that cannot be recycled or composted

From 2011, there will be virtually no direct delivery of material to landfill ensuring the authority exceeds its diversion requirements.

David Kirkham, leader of the council, says the regional already has a good record in recycling, adding: 'This contract with Veolia will see us in six years' time reducing the amount of residual waste going to landfill from 75 per cent to just 12.5 per cent. Rubbish will either be recycled, composted or incinerated to produce energy.'

Veolia chief executive Cyrille du Peloux says this deal increased his company's presence in the PFI market, adding: 'Our focus will be providing an environmentally-friendly balance of recycling, composting and energy recovery to the county's 750,000 residents.'

#### Financing

Veolia Environmental Services, which formerly operated as Onyx before being taken over by Veolia Group - one of the UK's largest waste management companies with a sizeable presence around Europe and beyond - had the muscle to go alone in this multi-million deal

Cash-rich Veolia felt sufficiently confident to corporately finance this deal and is making a capital investment of £140 million over the term of the contract in the phased development of new recycling, composting treatment and delivery facilities as well as plant and equipment.

The project breaks down into two separate contracts with a twin SPV structure:

- an initial £35m (US\$63.6m) contract for minor infrastructure facilities, focusing on FM, recycling, composting, end disposal and managing the waste stream. It will include a materials recovery facility (MRF) that will sort around 85,000 tonnes a year of recyclable waste

- by late 2011, a £97m (US\$176m) contract to provide and operate a major energy recovery facility (ERF) with 15MW output

The French giant was comfortable with footing the entire bill alone, but it will likely be refinanced within a few years, creating an interesting precedent.

Conclusion

Hopefully this deal will prompt hundreds of millions of pounds worth of deals that are working through the procurement pipeline to make it to fruition.

It is interesting that Veolia was able to afford the finance the project on its own and the product that will come to the secondary market - probably within a couple of years - will be snapped up by the secondary market.

The industry cannot expect to see this happen very often, so as a precedent it will not prove to be much of a trend-setter.

Hopefully it will encourage the next waste PFI that is expected to close - Lancashire - to sign on the dotted line, and then all the rest of them to follow.

However, the likelihood of them following in Nottinghamshire's footsteps as a corporately financed deal is extremely unlikely.

In the meantime, the industry is content to see some action after two-and-a-half years and looks forward to refinancing in a couple more.

The project at a glance

Project Name	Nottinghamshire Waste PFI
Location	Nottinghamshire, in the English east midlands
Description	Waste management and recycling for the Nottinghamshire area as well as an associated 15MW power plant fuelled by the waste that cannot be recycled
Sponsors	Nottinghamshire County Council
Operator	Veolia Environmental Services
EPC Contractor	Veolia Environmental Services
Project Duration (Including construction)	25 years
PPA	Negotiated with National Grid
Total Project Value	£140 million (US\$259m)
PFI credits	£38 million (US\$69m)
Equity Breakdown	100 per cent from Veolia
Legal Adviser to sponsor	Sharpe Pritchard
Financial Adviser to sponsor	Deloitte
Technical adviser to sponsor	Enviros
Legal adviser to operator	Pinsent Masons
Financial adviser to operator	PKF
Date of financial close	26 June 2006

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