

RE3 partnership waste recycling PFI project

Ayse Yildizoglu

08/11/2006

On 3 November 2006 WRG (Waste recycling group) signed a 25- year joint waste PFI with three councils; Reading Borough Council, Bracknell Forest Borough Council and Wokingham District Council - known as the RE3 waste partnership

The £600 million (US\$1.14 billion) RE3 project, aimed at increasing recycling rates and reducing reliance on landfill will see new waste management facilities constructed at the Smallmead site in Reading, and the Longshot Lane site in Bracknell.

Drivers

The project is the first time three councils have worked together in partnership to share waste facilities and pool waste targets.

They have a joint waste disposal board, constituted by the membership of two councillors per authority, and Project Director for the group - Jon Freer, assistant director of Environment and Leisure from Bracknell council.

The other functions technical and financial are shared out amongst the other two councils.

The chairman of the Joint RE3 waste disposal board is Councillor Rob Stanton, executive member for corporate services at Wokingham District Council.

The scheme is an answer to the waste demands of three councils; they have pooled their waste targets into joint figure.

The joint target of the three councils is to achieve 40 per cent recycling by 2010. The total waste produced by the three boroughs stands at 200 000 tonnes per year.

The RE3 partnership chose to not specify the technologies for the project in their tender, leaving that up to the individual bidders to suggest according to their project bid.

Mike Snell, Managing Director of WRG said: 'what we proposed was based on what we felt was a robust solution.... not with new technologies but proven technologies.'

Alistair Shotliff, project Director for WRG said: 'We've put together a range of tried and tested technologies in a single service, so you're guaranteed the recycling and recovery targets the council has been set. It's a partnership approach.'

Scope of the Project:

The project comprised the development of 2 waste management parks.

Smallmead in Reading -

- Materials Recycling Facilities - 50,000 tonnes capacity a year
- Household waste recycling centre (HWRC)
- Transfer station
- Associated offices
- Education centre

Longshot Lane in Bracknell

- Household waste recycling centre HWRC
- Transfer station
- Associated offices

The project was to be completed on a tight timetable

- 2004/2005 - Tenders issued
- Early 2005 - WRG chosen preferred bidder
- 31 October 2006 - Financial close
- January 2007 - Phase one construction begins
- Early 2008 - Phase one HWRC and transfer station completed
- December 2008 - Materials Recycling Facility at Smallmead completed
- April 2008 - Focus moves to Longshot lane
- June 2009 - Longshot Lane transfer station and HWRC completed

The company

Waste Recycling Group -WRG - was established in the early 1980's they were a small recycling company from the east of England, the company grew and was floated in 1994 on the London stock exchange.

After flotation it grew more rapidly by acquisition and was bought by Terra Firma in 2003. They focused attention on key business development areas and turned round the company to enable it to be sold to Spanish group FCC earlier this year 2006.

Mike Snell said: 'We own and operate landfill sites, we're involved in disposal of residual waste, we operate two energy-from-waste incinerators, we are in the process of offering those to local authorities and we also offer other technologies such as MBT.

'The focus of the company has for some time been on providing waste management services for local authorities. We are in business with the private sector for commercial waste management but the real focus of our business is PFI and PPP; and providing long term solutions to local authorities'

On the waste sector he said: 'It's a very busy sector because of the EU and UK government drive to improve recycling recovery and to make the whole of waste management more sustainable, all the local authorities have targets as do these three that they have to meet,

'As for the choice of different technologies, it depends on the needs of the local authorities in question, to be fair there isn't a silver bullet out there, that can do everything so much easier and cheaper, everyone looks at their own personal position and then takes a view as to how can that be matched up to technology.'

Concession and financial structure

The RE3 contract is a 25 year PFI concession agreement between three councils Reading Borough Council, Bracknell Forest Borough Council and WRG (Waste Recycling group).

The overall contract value is £600m (US\$1.14bn) which includes the management of the sites over 25 years as well as the capital cost of construction.

The capital cost of construction for the waste disposal facilities and related buildings at the two sites is £29m (US\$55.2m).

Senior debt for the project is £25m(US\$48m) and equity is estimated at £6m (US\$11m). Debt: equity will be around 81:19.

The MLA for the project is NIB Capital.

Shotliff explains that the concession's fee is based on a complex performnce-based unitary charge:

'Waste differs fundamentally (from other PFI contracts) as it has a much more complex paying mechanism which is based on the tonnage handled and then whatever recycling or energy recovery processes the waste is then diverted into. So it's quite a complicated formula.'

The unitary charge will be around £600 - £29 / 25 years - £23.64m (US\$50m) a year.

Future plans

WRG is currently preferred bidder for a project in Wrexham which they anticipate coming to financial close in spring 2007.

Mike Snell said: 'were always bidding for something, the only new PFI we are looking at right now is the Wakefield council deal, which is still going through the tendering process.

'We haven't announced whether we'll be bidding for the Cheshire £1 billion plus MBT PFI project yet but we're obviously interested in all opportunities to work with local authorities.'

The project at a glance

Project Name	RE3 Project
Location	Smallmead - Reading Longshot lane - Bracknell
Description	Recycling and waste managment
Sponsors	Waste Recycling Group (WRG)
Project Duration (Including construction)	25 years
Total Project Value	£600m (US\$1.14bn) over 25 years
Total equity	£6m (US\$11m)
Total senior debt	£25m (US\$48m)
Debt:equity ratio	81:19
Mandated lead arrangers	NIBC Bank
Legal Adviser to sponsor	Walker Morris
Financial Adviser to sponsor	BDO Stoy Hayward
Legal adviser to banks	Ashurst
Legal adviser to government	Eversheds
Financial adviser to government	Ernst & Young
Date of financial close	31 October 2006

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.