GRL and Bovis JV close largest MBT waste PFI

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On 2 March 2007, a joint venture between Global Renewables (GRL) and Bovis Lend Lease signed the largest ever waste PFI scheme utilising MBT technology with the Lancashire Waste Partnership (LWP) of Lancashire County and Blackpool Council and five joint MLAs

The scheme has a contract value of £820 million over the entire 29 year term and involves the construction of a network of nine waste management facilities of which seven will be local facilities for dry recyclates and three will be mechanical biological treatment (MBT) plants.

The scheme is the first time Mechanical Biological treatment has been attempted at such a grand scale and the second ever MBT project to close - the first being a much smaller scheme that Shanks closed in 2003.

Background

The scheme is rooted in a waste strategy that began in November 1997 when the Lancashire Municipal Waste Management Steering Group was formed and produced Lancashire's Municipal Waste Management Strategy 2001 - 2020, 'A Greener Strategy for a Greener Future.' This established the policies that would guide the development of sustainable waste management in Lancashire for the next 20 years and to help to insure that Lancashire can reduce refuse sent to landfill and avoid being penalised under the EU directives.

There is an estimated £11 billion of waste infrastructure required for the UK to meet its targets for reducing dependence on landfills by the 2013 to 2020 EU deadlines.

Currently local authorities will be fined £150 for every tonne sent to landfill above the target amount.

In June 2001, all fifteen local authorities in Lancashire signed up to the strategy and formed the Lancashire Waste Partnership (LWP) comprising of all fifteen Waste Collection and Disposal Authorities and superseding the Strategy Steering Group.

Blackburn with Darwen council left the partnership which was then made up of 12 district councils within Lancashire, Lancashire County Council and Blackpool Borough Council.

The 14-strong LWP - with the task of overseeing the implementation of the strategy - began developing a plan to procure a PFI deal utilising MBT technology.

The Deal

The deal with Global Renewables had a smaller scale predecessor in a £110 million PPP scheme - with German waste company Herhof Environmental - to DBFO the Leyland MBT plant.

This scheme encountered trouble in 2005 when Herhof appealed to delay construction after failing to secure financing.

The company also announced a couple of months later in March 2005 that the scheme would be significantly delayed as a result of its sister firm Herhof Umwelttechnik - the supplier of the technology for the proposed plant - moving into administration.

A spokesman for the Lancashire local authority said at the time that if it was unable to conclude the proposed contractual arrangements with Herhof (recently taken over by Irish firm Treasury Holdings), the county council would include the development of the Leyland facility within its larger PFI contract for the wider Lancashire waste network.

The current deal with Global Renewables and Bovis consequently became the second deal attempted by Lancashire, and absorbed the first deal which failed to get off the ground.

The Leyland plant became one of the two MBT plants - the other being the plant in Thornton - that are included in the Global renewables deal.

The scheme's two MBT plants will have a capacity to process 600,000 tonnes of municipal waste per year.

The deal was given an even 'greener' slant with the LWP's proposition to use the compost produced from the centralised composting facilities to plant two million trees over Lancashire.

This planting proposal became the environmental mitigation requirement of the County Council's future waste management contract and will be provided for by its contractor.

The Financing

GRL and Bovis have an equal 50:50 stake in the project company and will jointly invest £53 million equity into the scheme.

The scheme has a £250 million capital cost and a full funding requirement of £355.4 million which is a total of £53 million equity and a £302.4 million senior debt facility with a debt:equity ratio of 85:15.

The total debt size is £343m which includes:

- senior debt facility - £302.4m
- equity bridge facility - £26.6m
- standby - £10m
- working capital facility - £4m

The £302.4m senior debt will be split equally between five joint arrangers at a rate of LIBOR + 110-125bps.

The five banks are:

- NIBC - £60.48m
- HVB - 60.48m
- BoI - £60.48m
- Lloyds - £60.48m
- Commonwealth Bank of Australia - £60.48m

Lloyds is the sole arranger for the working capital facility.

The project is estimated to generate nominal revenues of £2.4 billion, and has an estimated contract value of £820 million over the 25 year concession.

The full term of the contract is 29 years - including 4 years for construction.

The debt is to be syndicated, hopefully without the trouble experienced by the first ever MBT deal closed by Shanks in 2003.

A source close to the scheme told *IJ News*: 'Hopefully the risks in syndicating the deal presented by the new technology will be mitigated by the deal's sheer size and scale - the Shanks deal was small.'

Addleshaw Goddard provided legal advice to the GRL/Bovis JV, with KPMG providing financial advice.

Lovells acted as legal adviser to the banks.

Walker Morris acted as legal adviser and Grant Thornton as financial adviser to LWP.

PFI and Recycling

The strategy also included the plan to set up a recycling consortium via a partnership between the Lancashire Waste Authorities, some community groups and the private sector to promote the development of long-term markets for localised recycling activities which would not be included in the partnership with the main waste management contractors.

The LWP made successful funding applications to DEFRA enabling Lancashire to invest in the equipment and infrastructure needed to offer recycling services to the population of the county.

Lancashire's recycling rate grew from less than 3 per cent in 1998 to over 35 per cent in 2005.

The strategy targets are to:

- Recycle and compost 40 per cent of all waste by 2005
- Recycle and compost 56 per cent of all waste by 2015

If the maximum achievable recycling and composting recovery rate of 56 per cent is achieved, this will result in the recovery of:

- over 367,000 tonnes of municipal waste by 2005
- over 459,000 tonnes by 2010
- 564,000 tonnes by 2015
- almost 600,000 tonnes by 2020

The PFI deal with Global Renewables and Bovis will enable more than 150,000 tonnes of resources to be recycled every year and over 1,000 hectares of community woodlands; the equivalent of 8,000 football pitches to be established over the life of the contract, as well as mitigating over 4 million tonnes of greenhouse gas emissions.

The scheme's integrated network of nine waste management facilities will be able to process up to 765,000 tonnes of municipal waste per year.

Conclusion

The deal represents a milestone in the use of new technologies in waste management and hopes to make up for - in size and scope - the problems faced by projects using new technology wanting to syndicate their debt - as demonstrated in the first MBT scheme to close with Shanks in 2003.

Five banks were approached in the worry that finding funders would be difficult - as experienced by German firm Herhof in the first Lancs MBT scheme that collapsed and was subsequently absorbed into the bigger GLR/Bovis deal.

Other local waste authorities have had to play off the potential future cost of EU fines against the immediate and future cost of procureing waste management PFI schemes.

For Lancashire the cost of not procuring waste management facilities and consequently failing to achieve the waste minimisation target would cost them an extra £30 million every year by 2020.

The proposed £2 million per year expenditure on the PFI deal is far more cost effective.

The project at a glance

Project Name	Lancashire Waste PFI
Location	Lancashire, north England
Description	The construction and operation of two MBT plants
Sponsors	Renewables (GRL) and Bovis Lend Lease
Project Duration (Including construction)	29 years
Construction Stage	4 years
Full funding requirement	£355.4m (£302.4m senior debt + £53m equity)
Capex	£250m
Total equity	£53m
Equity Breakdown	GRL - 50 per cent Bovis Lend Lease - 50 per cent
Total debt size	£343m
Total senior debt	£302.4m
Total debt breakdown	Senior debt facility - £302.4m Equity bridge facility - £26.6m Standby - £10m Working capital facility - £4m (Lloyds sole arranger)
Senior debt pricing	LIBOR + 110-125bps
Debt:equity ratio	85:15
Joint mandated lead arrangers	NIBC - £60.48m HVB - £60.48m BoI - £60.48m Lloyds - £60.48m Commonwealth Bank of Australia - £60.48m
Estimated Nominal	£2.4 billion
Contract value over 25 years	£820m
Legal Adviser to sponsor	Addleshaw Goddard
Financial Adviser to sponsor	KPMG
Legal adviser to banks	Lovells
Legal adviser to government	Walker Morris
Financial adviser to government	Grant Thornton
Date of financial close	2nd March 2007