

SCRUTINY COMMITTEE	COMMUNITIES SCRUTINY COMMITTEE
DYDDIAD Y CYFARFOD	7 FEBRUARY 2014
TITLE	NORTH WALES RESIDUAL WASTE TREATMENT PROJECT - SECOND INTER AUTHORITY AGREEMENT
CABINET MEMBER	Councillor Gareth Roberts
PURPOSE	To scrutinise the intention to ask the Cabinet to agree a second inter authority agreement in order to allow us to continue with the collaboration project.

BACKGROUND

1. The European rules relating to sending waste to landfill note that authorities cannot send more than 10% to landfill by 2020 and that this figure will reduce to 5% by 2025.
2. These are statutory targets which local authorities must achieve or face substantial penalties.
3. With the landfill tax increasing substantially and the cost of running landfill sites increasing as environmental rules relating to such sites become more onerous, it is also making economic sense to recycle more.
4. In such a context, in January 2010 the Council adopted a Waste Strategy which aimed to divert more waste to recycling and ensure that there was a way of dealing with any residual waste which would mean that we would not have to take it to landfill.
5. Two cornerstones of this strategy were to establish the GwyrAD Food Waste facility and work together with 4 other authorities in North Wales to establish a facility to deal with residual waste - that is any waste which cannot be recycled or composted.
6. GwyrAD is now operational (the first of its kind to become operational in Wales) and there has been considerable activity by the 5 authorities in the North Wales Residual Waste Project to tender for a contractor to develop a solution to deal with residual waste.
7. The Partnership has been operating since 2008 on the basis of a Partnership Agreement agreed by the Council back in February 2010 and the process is managed by a Joint Committee on which the Council is represented by myself.
8. By now we have come to a position whereby the Partner Authorities need to formally appoint the contractor who will build and run the facility and as the first Inter Authority Agreement was only designed to bring us to

this point we will need to agree a new agreement for the period during which the contract with the successful contractor will run.

The Inter Authority Agreement

9. As we are now entering into a 25 year contract we will have to ensure that we have an appropriate Inter Authority Agreement for that period, and the Legal Advisors have been assisting the authorities to formulate such an agreement.
10. The work of formulating the detailed agreement is currently ongoing but the main provisions are highlighted in a report prepared and submitted recently to the Joint Committee – a report which is reproduced in Appendix 1 to this report.
11. In simple terms, Flintshire County Council will, as the lead authority, contract with the company (to be appointed – see the next report) to deal with the councils' residual waste and as a result of that contract certain liabilities and obligations will fall upon them and it is important that every other council in the partnership shares these liabilities and obligations in an equitable manner.
12. The appendix notes those principles and elements which will be included in the new agreement and the key provisions are highlighted below -
 - The governance provisions of the new agreement will broadly follow the first agreement which is that the key decisions in relation to the operation of the project will be taken by the Joint Committee on behalf of the 5 authorities, and that joint committee will be supported by a project board of officers from the 5 authorities. A representative from each of the 5 authorities will have to be present for the Joint Committee to be quorate.
 - Once we are part of the Partnership the rights of each authority to take individual decisions thereafter will be very limited with the general management of the facility being managed by the Joint Committee. In general the rights of the authority will be limited to determining the annual budget for the Joint Committee (above a specific threshold to which there will be a mandatory requirement to agree) and to withdraw from the project (with financial implications falling upon it if it chooses to do so). Otherwise it is the Joint Committee which will run the project on behalf of the authorities.
 - In general the cost associated with the agreement will be shared on the basis of tonnage sent to the facility, although until the facility is operational they will be shared equally amongst the five authorities.
 - Each Council will be responsible for running its own transfer station and meeting the associated costs (but discussions are ongoing with Welsh Government regarding this issue) but the cost of transporting

waste from those stations will form part of the common gate fee per ton which will be charged.

- As Conwy does not have a transfer station, the project will meet the cost of establishing such a facility (with Conwy responsible for meeting the running costs thereafter).

13. The agreement will also refer to a Community Benefit Fund which will provide an annual sum of money to the local community to compensate them for the inconvenience of having such an incinerator close to their community. The Joint Committee's proposal is to provide an annual sum of £180,000 for this purpose with 25% being met by Welsh Government leaving the partners to meet £135,000 of the cost shared on the basis of tonnage sent to the facility. It is estimated that this will add between £1.17 to £1.50 per ton to the cost.

14. The Scrutiny Committee is invited to scrutinize the matter before the Cabinet gives it consideration.

REPORT ON THE

DRAFT SECOND INTER-AUTHORITY AGREEMENT

Note: *This report is intended to provide a high level summary of the current draft form Inter Authority Agreement. The report includes details of issues that have been discussed and agreed in principle by the Project Board at a meeting on the 16 January 2014.*

The Inter Authority Agreement is currently only in draft form. In the event that the Partnership wish to change any of the principles set out below, or wish to include any additional project specific partnering elements, then this can be accommodated.

The Partnership should also note that this report is only intended to be a high level summary of the content of the draft Inter Authority Agreement and should not be relied upon in lieu of the Inter Authority Agreement itself.

1. INTRODUCTION

- 1.1 At the beginning of the procurement, Conwy County Borough Council, Denbighshire County Council, Flintshire County Council, Gwynedd Council and the Isle of Anglesey County Council (together the "**Partnership**") agreed to work together in a partnering relationship to jointly procure a residual waste treatment facility and deliver residual waste treatment services in the project known as the North Wales Residual Waste Treatment Project (the "**Project**"). The Partnership signed the first Inter Authority Agreement on 24 June 2010, to regulate working arrangements and decision making among each of the Councils during the procurement of the Project up to financial close.
- 1.2 The Partnership has agreed that Flintshire County Council will take on the role as 'Lead Council' and will sign and enter into all the legal documents to the Project on behalf of the Partnership; the main document being the agreement with the Contractor, involving the design, construction, installation, commissioning, operation and maintenance of the facility for the treatment of residual waste (the "**Project Agreement**"). Following the commencement of the Project Agreement, the rights, liabilities and obligations of each Council set out in the first Inter Authority Agreement will be superseded by the rights, liabilities and obligations set out in the second Inter Authority Agreement (the "**IAA**").
- 1.3 As the Lead Council will take on the full contract responsibility on behalf of the Partnership, it requires assurances that each Council will meet its obligations in a timely manner to ensure that the Lead Council is never exposed to unreasonable contractual liabilities. Also, each Council needs assurance that they will receive all the contractual benefits that they are entitled to – even though they have not directly signed a contract with the Contractor. This is one of the primary objectives of the IAA.

2. PURPOSE OF THE SECOND INTER-AUTHORITY AGREEMENT

- 2.1 The overarching purpose of the IAA is to ensure that the five Councils are able to work effectively together in true partnership and with the Contractor to get maximum benefit from the Project. The IAA tries to balance the potential conflicts: that the Lead Council, as the Project Agreement counter-party, is not over-exposed in terms of risk and liability; and that the other Councils get their fair share of the contractual rights and benefits. The IAA is based on the principles of fairness and partnership working and is intended to manage the interests of all the Councils equitably.
- 2.2 The IAA attempts to reflect, where appropriate, the Project Agreement between the Partnership and the Contractor.
- 2.3 The IAA accommodates a structure to ensure that the Lead Council isn't exposed to disproportionate liability and that the contractual rights and obligations appropriately flow down to all the Councils.

- 2.4 At its most basic level, having signed the Project Agreement, the Lead Council is committed to the delivery of all the Partnership's waste and the full payment for its treatment. The Contractor, for its part, is obliged to accept and treat the waste.
- 2.5 Given this commitment, the IAA needs to ensure that each Council is committed to deliver its waste to the Contractor and pay to the Lead Council the correct amount in advance of the Lead Council having to pay the Contractor.
- 2.6 The IAA sets out the duties of the Lead Council. These duties include (but are not limited to);
- 2.6.1 acting on behalf of the Councils for the management and supervision of the Project Agreement,
 - 2.6.2 acting under the direction of the Joint Committee;
 - 2.6.3 being responsible for liaising with the Contractor, and
 - 2.6.4 entering into any contracts that may be required (for example, the appointment of consultants) and liaising with Welsh Government.
- 2.7 The IAA also regulates such things as:-
- 2.7.1 Decision making;
 - 2.7.2 Termination and Withdrawal from the IAA;
 - 2.7.3 Flexibility to Contract Changes; and
 - 2.7.4 Liabilities of the Councils.

3. **DECISION MAKING**

3.1 **Contract Manager**

- 3.1.1 The Partnership will appoint a suitably qualified Contract Manager for the day-to-day management of the Project. The Contract Manager will be responsible to all the Councils but will be employed by or seconded to the Lead Council and shall report to the Project Board. The Contract Manager shall act as the Authority's Representative (as such term is defined in the Project Agreement.)
- 3.1.2 The Contract Manager will have sufficient authority to make day-to-day decisions and will liaise on a regular basis with key personnel at each Council and with the Project Board and the Joint Committee.
- 3.1.3 For those decisions with a budgetary impact, the Contract Manager will have authority up to an annual financial threshold of [£], over which the decision would have to be escalated to the Project Board. It is noted however, that regardless of financial threshold, the Contractor Manager has the ability to refer any matter to the Project Board.

3.2 **Project Board**

- 3.2.1 The Councils shall form the Project Board for the purpose of the day-to-day management and the implementation and monitoring process and to carry out those specific Project Tasks as indicated in Schedule 1 (Project Tasks) of the IAA and any matters referred to the Project Board by the Contract Manager.
- 3.2.2 The Project Board will have authority to decide on a matter at a quorate meeting of the Project Board by those present and entitled to vote in respect of a matter that will have (or is reasonably expected to have) an annual financial threshold of up to [£], over which the matter would

need to escalate to the Joint Committee, provided always that the Project Board has the ability to refer any matter of any financial value to the Joint Committee to decide.

3.2.3 Any such decision of the Project Board will be binding on all the Councils.

3.3 **Joint Committee**

3.3.1 The Councils shall form the Joint Committee, (which shall supersede and replace the Joint Committee formed pursuant to the first Inter Authority Agreement), to carry out the functions set out in Schedule 2 (Joint Committee Terms of Reference) of the IAA and to carry out the Project Tasks as indicated in Schedule 1 (Project Tasks).

3.3.2 The proposed annual threshold for Joint Committee matters is up to [£]. Any decisions to be made on a matter in excess of these parameters shall be referred as a 'Matter Reserved To The Councils' and decisions would have to be taken by each individual Council.

3.3.3 The Joint Committee may determine that any Joint Committee Matter or Project Board Matter may be referred back to each Council for a decision as a Matter Reserved to the Councils and/or make a decision to delegate any matter to the Project Board for decision.

3.4 A general principle of decision making under the Project Board and the Joint Committee structure is that decisions should be by majority voting. For Matters Reserved To The Councils, such decisions shall not be implemented unless approved by all of the Councils on a unanimous basis.

3.5 It is agreed that there is no requirement for Council Lead Officers to be included within the IAA and the necessity and appointment of Project Officers for the purposes of the Project will be for the Joint Committee to determine from time to time as required.

4. **TERMINATION, WITHDRAWAL AND EXTENSION**

The IAA shall continue in full force and effect from the date upon which the IAA is entered into by the Partnership, until the earlier of the following dates:

- (a) all the Councils agree in writing to its termination; or
- (b) there is only one remaining Council who has not withdrawn from the IAA; or
- (c) the date falling six (6) months after the expiry or earlier termination of the Project Agreement (subject to any agreed period of time in respect of the decommissioning of the Site as noted below).

4.2 **Termination**

4.2.1 The IAA makes provision for terminating one of the Councils in the event of an unresolved breach of a Council's obligations under the IAA. The decision to terminate the participation of a Council shall be treated as a Matter Reserved To The Councils.

4.2.2 The defaulting Council would be liable to the other Councils for any increased cost and losses suffered as a result of the default and agreed pursuant to a Liability Report (as defined in the IAA), prepared by the Lead Council and agreed by the Joint Committee.

4.3 **Withdrawal**

- 4.3.1 It is possible for a Council to withdraw from the Project if it chooses. Any Council wishing to withdraw from the Project shall provide written notice to the other Councils.
- 4.3.2 The withdrawing Council would be liable to the other Councils in accordance with the Liability Report as prepared by the Lead Council and agreed by the Joint Committee.
- 4.3.3 If the Lead Council is the withdrawing Council then the Lead Council shall be required to novate each of the Contract Documents (including the Project Agreement, Independent Certifier's Appointment, Parent Company Guarantee and the Lease of the Site) to the new lead council selected by the remaining Councils.

4.4 **Extension**

- 4.4.1 The Project Agreement contains an option for the Councils to extend the Contract Period by a period of up to five years. It is agreed in principle that this will be a Matter Reserved To The Councils and decided by way of a unanimous decision.

5. **FLEXIBILITY TO CHANGE**

- 5.1 The IAA reflects the flexibility embedded in the main Project Agreement to accommodate any variations under the Project Agreement (whether the proposed variation is required due to a change in law or a contract change required by one or more of the Councils or the Contractor or any other matter affecting the Project which may have an equivalent effect).
- 5.2 The Councils agree to be bound by the obligations on the Lead Council set out in Clause 43 (Authority and Contractor Changes) and Schedule 21 (Change Protocol) of the Project Agreement.
- 5.3 The Councils will work with the Contractor to achieve the best value solution for the Project.
- 5.4 If the Councils decide to support a proposed variation under the Project Agreement, the Lead Council will seek an Authority Change (as defined in the Project Agreement) with the Contractor in the Project Agreement, and where the proposed Authority Change is agreed to have a mutual benefit to the Project, the costs of such proposed Authority Change shall be shared between the Councils. Where the Authority Change does not have a mutual benefit, the Council seeking the change in the Project Agreement shall bear responsibility for the payment of the costs of the Authority Change.
- 5.5 It is noted that with the recent publication of the Williams Commission Report and on the understanding that Flintshire County Council and Wrexham County Council, Denbighshire County Council and Conwy County Council, and Gwynedd Council and the Isle of Anglesey County Council are to amalgamate over the next couple of years, the Councils acknowledge that any new "successor Council" following such an amalgamation shall automatically succeed the original Councils for the purposes of the IAA. However, it is further acknowledged by the Councils that any amalgamation shall not have the ability to automatically alter the Administrative Area (as defined in the Project Agreement), and the only way for the Councils to amend this (so as to capture the geographical area of any new "successor Council" for the purposes of the Project) shall be to implement a variation under the Project Agreement by way of an Authority Change as noted above.

6. **LIABILITIES OF THE COUNCILS**

6.1 **General Indemnities**

- 6.1.1 The Lead Council shall indemnify each of the Councils against any losses, claims, expenses, actions, demands, costs and liability suffered, to the extent arising from any wilful default, wilful breach or negligent act or

omission by the Lead Council of its obligations under the Contract Documents (as defined under the IAA (including the Project Agreement and the IAA).

- 6.1.2 Each of the other Councils (acting severally), shall indemnify the Lead Council against any losses, claims, expenses, actions, demands, costs and liability suffered, to the extent arising from any wilful default, wilful breach or negligent act or omission by a Council of its obligations under the IAA.
- 6.1.3 The Councils agree that the amount to be paid to the Lead Council shall be borne by each of the Councils to the extent that they were responsible, however, in the event that responsibility is shared between two or more defaulting Councils, then the amount to be paid will be divided between those Council's responsible in such proportions as the Joint Committee may determine.
- 6.1.4 The Councils shall ensure that adequate insurance cover is effected and maintained in respect of any liabilities they may have in the event of any neglect or default on their part.

6.2 **Early Termination**

- 6.2.1 The Councils' liability on early termination of the Project Agreement shall be defined by reference to the Lead Council's obligation to pay compensation on early termination to the Contractor under the Project Agreement.
- 6.2.2 The Councils shall be liable (and shall indemnify each other) for equal proportions of the termination sum payable to the Contractor following an early termination of the Project Agreement where the early termination occurs during the works period of the Project prior to completion of the Facility. If termination occurs when the Facility is operational then liability shall be determined on a pro rata basis in respect of the actual tonnage delivered by each of the Councils.
- 6.2.3 If the Councils are not equally at fault for such early termination, the Councils agree that the Council or Councils whose acts or omissions gave rise to the termination shall be liable for a greater proportion of the termination sum or all of the termination sum.
- 6.2.4 It is noted that the Lead Council shall not be entitled to issue a notice of voluntary termination of the Project Agreement unless such action has been approved by all of the Councils as a Matter Reserved To The Councils.

7. **SITE AND DECOMMISSIONING**

- 7.1 Upon expiry of the Project, the Site shall be retained by Flintshire County Council. However, as noted above, in the event of a Lead Council termination or withdrawal from the IAA, then the Site will transfer to the new Lead Council (as selected by the remaining Councils) for the duration of the Project and upon expiry of the Project the Site shall then return to Flintshire County Council.
- 7.2 It is agreed in principle that on early termination of the Project if the Facility is operational then the Partnership should agree appropriate arrangements to continue the use of the Facility for the remainder of the 25 years. If however the Facility has not been built (due to eg. a planning/permitting failure) then the Site shall be retained by Flintshire County Council and there shall be no further obligation for the Site to be utilised for the purposes of the Project. If the Facility has been partly built but is not yet operational then the Councils shall agree to discuss and decide upon appropriate arrangements and the Councils shall equally share liability in respect of any costs.

7.3 Upon expiry of the Project, the cost of decommissioning will be split equally between the five Councils, unless Flintshire County Council (in its absolute discretion) elects not to undertake decommissioning of the Site, in which case, Flintshire County Council shall be solely liable for any future decommissioning costs.

7.4 It is noted that the cost of decommissioning the Site should be included in the Liability Report as a payment to be made by any withdrawing or terminated Council.

8. COMMUNITY BENEFIT FUND

8.1 The Councils have agreed in principle to payments in respect of a Community Benefit Fund. Each of the Councils shall contribute towards the fund and the payments shall be determined on a pro rata basis in proportion to the tonnage provided by each of the Councils.

9. WELSH GOVERNMENT FUNDING

9.1 It is agreed in principle that in the event that Welsh Government funding is withdrawn from the Project then the Councils shall be required to cover the lost Welsh Government funding on a pro rata basis in proportion to the actual tonnage provided by each of the respective Councils.

10. CONTRACT MANAGEMENT COSTS

10.1 During the works period of the Project up until the Facility being completed and operational, the Contract Management Costs associated with the Project shall be split equally between the Councils. During the operational period of the Project the Contract Management Costs shall be on a pro rata basis and payments will be proportional to the actual tonnages delivered by each of the Councils.

11. NEW WASTE TRANSFER STATION

11.1 It is agreed in principle that the costs of building a new Waste Transfer Station will be a capital expenditure to be split equally between each of the five Councils.

11.2 If it is determined that the new Waste Transfer Station shall be built on a site that is to be provided by Conwy County Council then upon expiry or termination of the Project the site will be retained by Conwy County Council. If however, the Partnership jointly fund and provide a site on which to build the new Waste Transfer Station, then upon expiry or early termination of the Project the IAA will contain provisions which shall allow the Councils to agree at the time how they would like to deal with the site and the new Waste Transfer Station.