

Waste treatment market – barriers and opportunities



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According to the Associate Parliamentary Sustainability Resource Groups (APSRG) recent report “*Rubbish to Resource: financing new waste infrastructure*”, the UK will need to invest circa £8bn in its waste infrastructure by 2020 to meet formal EU targets for landfill diversion and recycling. This requirement exists in an economic climate where the recent Coalition Government’s comprehensive spending review significantly cut support from the PFI sector, including seven local authorities losing their funding and the confirmation that a similar funding mechanism is unlikely to be introduced in the future, which means that much of the required waste infrastructure will have to be funded by the private sector.

On initial consideration the waste sector must appear to be a fertile area for private sector investment. It has significant EU targets to deliver, current under capacity of infrastructure, various incentive schemes (ROC’s, FIT’s etc.) in place and ever increasing disposal cost driven by landfill tax - providing the opportunity for guaranteed (large) financial returns.

However, it is a known that many private investors and financial institutions consider the sector a high risk due to a number of factors including:

1. **Planning** – The planning process for large scale waste infrastructure has historically been very protracted and challenging with many applications being rejected, incurring significant abortive costs. The Coalition Government has acknowledged that waste infrastructure is a matter of national importance, but believes that its delivery should remain at a local level. It is thought that the Localism Bill will have a generally positive impact for large schemes which will be dealt with centrally - for example, the Infrastructure Planning Commission’s recent decision to authorise Covanta’s planning application for a 585,000 tonne energy-from-waste plant in Bedfordshire may provide some encouragement to the sector. However, for those EFW projects below the 50MW threshold, and large projects involving treatment and sorting facilities which fall below thresholds of the Planning Act 2008, the situation is more precarious. They will be considered locally and the likelihood is that as local residents are given greater influence over decisions, these types of projects could become the victim of “nimbyism”.
2. **Funding** – Large scale facilities require funding to be obtained from the financial sector, which in turn require guarantees that the facilities will perform and be able to generate sufficient profit to service the debt or to provide returns to the equity investor. While this is possible in the municipal sector through long term waste treatment contracts, the commercial sector does not commit to similar terms and therefore it becomes more challenging to attract long term funding.
3. **Uncertainty with regards to fiscal incentive schemes** – Investors need to have a stable fiscal model to obtain funding, which will include any government backed fiscal incentive schemes. While not directly impacting the waste sector, recent unexpected and unpopular changes to the Feed-in Tariffs have significantly impacted the solar energy sector and have introduced a level of uncertainty relating to all similar incentive schemes, some of which are essential to making waste projects financially viable.

Based on these concerns, how can the private sector be encouraged to invest in the waste market?

One option is to consider smaller scale projects that cater for specific client's wastes (i.e. on-site treatment), community or sub-regional scale facilities as this may reduce the risks and therefore improve the attractiveness to the private sector and allow investment off balance sheet or through alternative funding arrangements.

The current challenge is to identify a suitable smaller scale thermal treatment technology that could be used that is still economic and competitive with larger scale conventional technology. Due to the need for substantial flue gas cleaning processes to meet EU air emission regulations, the capital and operational costs of traditional incineration plants increase significantly as they are downscaled.

An alternative option is to consider an Advanced Thermal Treatment (ATT) process, such as gasification which has received significant press interest as a result of the government classifying the process as a renewable electricity generating station, which could be eligible for two Renewable Energy Certificates (ROC's) per Megawatt hour (MWh) of electricity generated. A recent study by WSP revealed that of 23 known gasification projects in the UK, only one is currently fully operational and another has been constructed but is currently not operating. Many, despite having planning permission and an environmental permit, struggle to get the funding in place.

In a future issue, WSP will explore the use of Gasification as a waste treatment process, its bankability and the role that it can play in meeting both existing and future waste targets, legislation and energy supply needs.

FURTHER INFORMATION

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