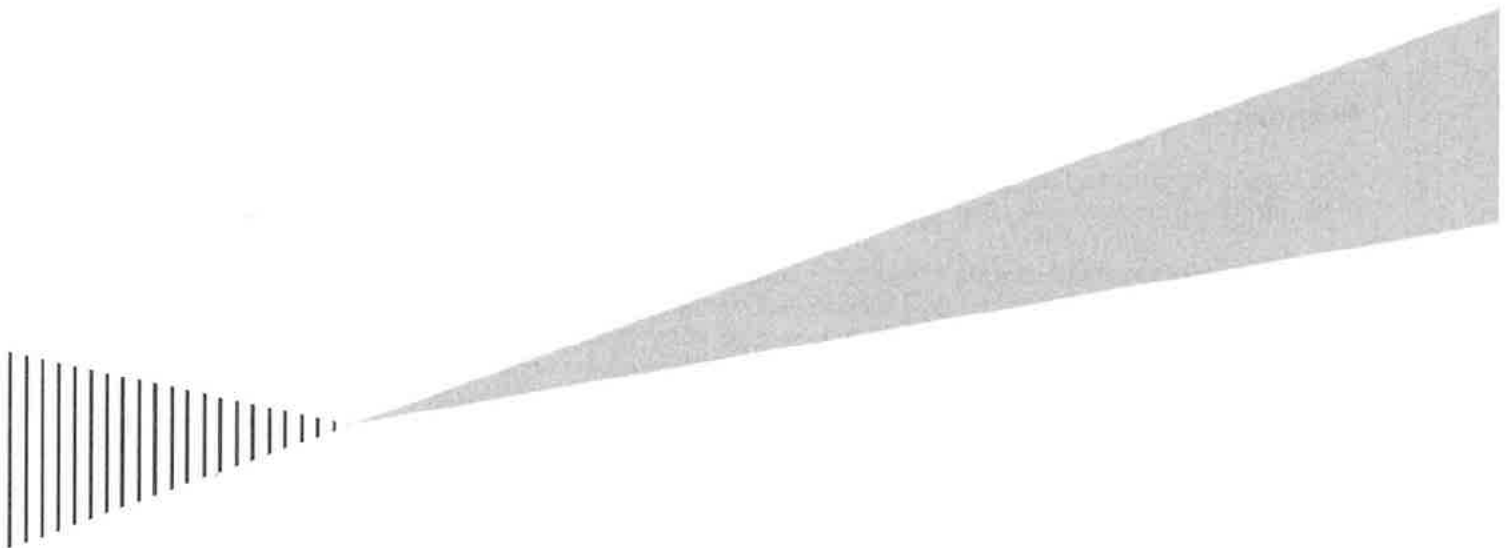


Gloucestershire County Council

Residual Waste PPP Project – Value for Money and
Affordability Analysis

5 November 2015

Ernst & Young LLP



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5 November 2015

Ian Mawsdley
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Dear Ian

Residual Waste PPP Project ("the Project") – Value for Money and Affordability Analysis

In accordance with recent discussions between the EY team and yourself we have prepared our report to set out the Value for Money (using the quantitative aspects of the Treasury Green Book methodology and the approach taken in the September 2012 Cabinet Report) and Affordability of the proposed waste PPP contract that Gloucestershire County Council ("GCC" or "the Council") plans to enter into with Urbaser Balfour Beatty ("UBB").

Purpose of our report and restrictions on its use

This report was prepared on your instructions solely for the purpose of determining the Value for Money of the proposed contract with UBB. It should not be relied upon for any other purpose.

Our report assumes a high degree of familiarity with the Council's Waste PPP contract with UBB and was not written with the intention that it be disclosed to third parties. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of the Council and for the Council's purposes.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This paper should not be provided to any third parties without our prior approval and without them recognising in writing that we assume no responsibility or liability whatsoever to them.

Our work has been limited in scope and time and we stress that a more detailed review may reveal material issues that this review has not.

Scope of our work

You required us to provide you with financial advisory services in respect of the Value for Money of the Revised Project Plan proposed by UBB. As such we have:

- Summarised and reviewed in detail 'Annex 4' - September 2012 Cabinet Report and the detailed working papers

- ▶ Reviewed the UBB financial models developed by Grant Thornton ("GT") and submitted on 16 October 2015;
- ▶ Undertaken a quantitative assessment of the Net Present Cost and Affordability of the scenarios set out in the GT models and compared to the Council internal 'Landfill Alternative' comparator in line with methodology undertaken for the September 2012 Cabinet Report. This has included restating the comparatives to reflect the revised timelines associated with this Project.
- ▶ Compared the cost of the Project with the Affordability envelope provided by the Council.

In undertaking our work, we have held discussions with the Council and UBB. In particular we have jointly considered the expected timeline and the contract mechanisms for calculating the impact of delay events on the uplift of the Project costs and the methodology to be applied in the UBB models prepared by GT to reflect such costs in the unitary charge. These discussions are reflected in the analysis below.

In respect of any Capital Contributions provided by the Council, we understand that the Council's legal advisor, Eversheds, has separately provided advice on the following legal issues:

- ▶ Vires
- ▶ State Aid
- ▶ Documentation changes
- ▶ Procurement risks including risk of challenge

We understand that Eversheds has reported on these matters separately therefore the final decisions on Value for Money should be considered based on the advice provided from both reports.

If you receive any request under the Freedom of Information Act 2000 for disclosure of any information which includes information provided by us to you, please notify us upon receipt of such request and prior to any such disclosure.

If you would like to clarify any aspect of this review or discuss other related matters then please do not hesitate to contact us.

Yours sincerely



Ernst & Young LLP

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1. Executive Summary

1.1 Value for Money

On 22 February 2013, Gloucestershire County Council achieved financial and commercial close with its waste PPP contractor, UBB. However, the planning permission application associated with the Project was rejected by the Council's planning committee and was then subsequently called in by the Secretary of State for Communities and Local Government ("the SoS")

The Project subsequently received planning approval from the SoS in January 2015 which became a Satisfactory Planning Permission in June 2015 when the Judicial Review challenge by Stroud District Council was thrown out. The extensive delays in achieving the required planning permissions meant that the parties to the Project needed to enter into a Revised Project Plan ("RPP"), including a re-pricing exercise for both the capex and the operating costs.

The purpose of this report is to consider the Value for Money and Affordability of the latest offer from UBB. Given the length of time since the initial financial close and the associated delays to the Project there has been the need to rebase a number of the comparators against which the Value for Money is assessed.

The table below sets out the nominal costs and NPVs of the current Project options which are being considered. The options are described as follows:

Table 1: Nominal Costs and NPVs of the current Project options

Iteration	NPV Base Date	First Appraisal Period Start	Last Appraisal Period End	No. of Years	NPV (£m)	NPV (£m)	NPV (£m)
Base Case	June 15	May 19	May 44	25	██████	██████	██████
Base Case with capital cont	June 15	May 19	May 44	25	██████	██████	██████
Termination (Landfill Alternative)	June 15	May 19	May 44	25	██████	██████	██

- Base Case – UBB base case model, this is the cost of continuing with the UBB contract which was signed between the Council and UBB in February 2013 and which has been subject to delays and rebased costs resulting from the RPP process. This case is inclusive of the £8m of revenue funding which has been approved to cover costs incurred during the delay period which are currently being carried by UBB.
- Base Case with capital cont – UBB Base Case adjusted for an additional Council capital contribution of £17m funded from reserves.
- Termination (Landfill Alternative) – This is an estimate of the cost of reverting to a landfill alternative, recognising the termination costs that would be incurred by the Council in terminating the contract signed in February for a Force Majeure Planning Failure event.

Termination costs are estimated at ██████ for a Force Majeure Planning Failure Termination. Should the facts of the termination fail to meet the definition of Force Majeure Planning Failure then the other option for the Council would be an Authority Voluntary Termination. We have not calculated the cost of this in detail but would anticipate a sum in excess of £100m.

The most recent proposal from UBB demonstrates a VFM position of [REDACTED] when compared to the Termination (Landfill Alternative) scenario. This increases to [REDACTED] where the Council inject a further £17m into the Project above the contributions of £8m and £13m currently committed.

1.2 Affordability

The following table sets out the affordability position of the UBB Project options.

Table 2: Affordability of the UBB Project options

	2020	2021	2022	2023	2024	total
Council Budget (£'000)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
Base Case (£'000)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
Under / (Overspend)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Base Case with Capital Cont (£'000)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
Under / (Overspend)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The analysis identifies that without the additional capital contribution the Project is in breach of the Council's affordability limit until 2023 but thereafter falls inside the affordability limit as a result of the lower exposure of the gatefee to indexation than landfill. [REDACTED]

Through injecting a further capital contribution of £17m funded through reserves the Project becomes affordable in 2022 [REDACTED]

2. Introduction

2.1 Background

On 22 February 2013, Gloucestershire County Council achieved financial and commercial close with its waste PPP contractor, Urbaser Balfour Beatty. At that point, it was expected that the Project would achieve a satisfactory planning permission in May 2013. This would have allowed the Project to proceed to works commencement and for the construction programme to commence in the summer of 2013.

The planning permission application was rejected by the Council's planning committee and was then subsequently called in by the Secretary of State for Communities and Local Government ("the SoS"). The SoS decision has been delayed a number of times, most recently from September to December 2014. Ultimately the Project received a positive planning permission from the SoS in January 2015 which became a Satisfactory Planning Permission in June 2015 when the Judicial Review challenge by Stroud District Council was thrown out.

The delays in achieving the planning permission meant that the Project needed to enter into a Revised Project Plan ("RPP"), as specified in the Project Agreement. A key change in this RPP has been the increase in the underlying cost of the capital expenditure ('Engineering and Procurement Contactor' ("EPC") price). This is still being negotiated – we received the latest version of the financial model 'UBB Waste NTP draft v16g ISSUED' on 16 October 2015 which reflects the latest commercial position and which we have used as the basis of our analysis in this report.

The Council are currently in the process of drafting cabinet papers to gain approval to proceed to the second financial close of the Project. The Cabinet meeting is on 11 November 2015.

2.2 Headline timeline since 2012 Cabinet approval

The following table sets out the key milestones since September 2012:

Year	Milestone
2012	► <i>Cabinet Report</i>
	Approval to proceed given at Cabinet Meeting in September 2012.
2013	► <i>Contract Winner</i>
	Council approved the award of a contract to develop an Energy from Waste facility to UBB on 13 th September 2012 (having been selected as Preferred Bidder in December 2011).
	► <i>Financial Close I</i>
	Project reached financial close in February 2013.
	► <i>Planning Rejection</i>
	In March 2013 planning permission was rejected by the Council's planning committee, resulting in delay to the Project.

Year	Milestone
	<p>► <i>Notice to Proceed</i></p> <p>Planned date for Satisfactory Planning Permission was in July 2013, with a Planned Service Commencement date of July 2106.</p>
2014	<p>► <i>Revised Financial Model</i></p> <p>In November 2014, at the request of GCC, UBB issued revised financial models to reflect revised senior debt profiles and delay period to the Notice to Proceed. The purpose of these revisions was to assist GCC in the determination of its strategy to deal with any further planning delays.</p>
2015	<p>► <i>Secretary of State ('SoS') Approval</i></p> <p>SoS approved Planning Permission for the Project in January 2015.</p> <p>► <i>Stroud Challenge</i></p> <p>In February 2015, Stroud District Council raised a Section 288 challenge to the SoS decision. This challenge was dismissed on 10 July 2015.</p> <p>► <i>Updated Capex price</i></p> <p>In May 2015, UBB indicated that the EPC price would be in the order of [REDACTED]</p> <p>► <i>RPP issued</i></p> <p>The RPP was received from UBB on 24 June 2015, which included a revised EPC price of [REDACTED]</p> <p>► <i>Ongoing negotiations with UBB</i></p> <p>During September and October 2015, there have been a number of negotiation meetings to improve the commercial offer from UBB. Key areas which have been discussed include the EPC price, the ability of the Council to provide a further capital contribution to the Project and the guarantees on the third party waste gate fee that Urbaser may put in place.</p> <p>► <i>Target Financial Close II</i></p> <p>The proposed new Financial Close date is December 2015.</p>

2.3 Purpose and structure of this report

The purpose of this report is to consider the Value for Money and Affordability of the latest offer from UBB. Given the length of time since the initial financial close and the associated delays to the Project there has been the need to rebase a number of the comparators against which the Value for Money is assessed.

The report is structured under the following headings:

- ▶ Summary of exempt annex from September 2012 approval and position at Financial Close – to identify the Value for Money position at the initial approval stage and at close.
- ▶ Rebasing of the September 2012 analysis to the current RPP timeline – to restate the Value for Money position in the line with the current timetable. This is to make sure that all cost and revenues are reflected in the revised appraisal period and that comparisons are being made on a consistent basis.
- ▶ Value for Money and Affordability Assessment of current UBB proposal. We have followed HM Treasury Green Book Guidance in developing this section and tailored this to be consistent with the analysis undertaken in the September 2012 Cabinet Report. This requires that Value for Money is demonstrated using quantitative measures (i.e. the cost of the preferred solution compared to the other options) and qualitative measures (i.e. the benefits and risk of the preferred option which cannot be specifically quantified). Whilst a full Value for Money appraisal was undertaken at Outline Business Case stage (i.e. quantitative and qualitative), this report has only assessed Value for Money from a quantitative perspective.
- ▶ Further Revenue potential – to consider the Value for Money position with upsides which are not reflected in the Base Case.
- ▶ Termination Cost under Force Majeure Termination for Planning Failure – to set out the costs that the Council would pay out upfront if the Project does not proceed due to rejection of the RPP.
- ▶ Overall Conclusion.

3. Summary of Annex 4 from September 2012 Cabinet Report and position at Financial Close

Annex 4 (from September 2012 Cabinet Report) set out the financial position of the Project in September 2012 across the following headings:

- ▶ Value for Money
- ▶ Sensitivities
- ▶ Affordability

We summarise the position in the annex below and also compare to the Financial Close position where relevant.

3.1 Value for Money

The annex identified that the key considerations in delivering Value for Money include:

- a. Developing a competitive procurement process through which both quality and cost are used for evaluation purposes and which maintains competitive pressure.
- b. Developing a robust business case.
- c. Determining an affordable contract price.

In September 2012, it was possible to point to the competitive tension that existed through the competitive dialogue procurement process. Aligned with this, the contract proposed closely followed Standardisation of PFI Contracts version 4 (SoPC4) and as such represented an appropriate allocation of risk between the Council and UBB.

In addition to the above, an assessment was made comparing the UBB solution against the ongoing cost of disposing of residual waste through landfill. This assessment included all the costs associated with the treatment solution and continuing to landfill waste, including the cost of landfill, landfill tax, haulage and transfer.

Since January 2015, the price fixity of the EPC contract has been removed. The initial RPP submitted in June 2015 included a significantly inflated price of [REDACTED]. The Council has had some success in negotiating this EPC price down and it now stands at [REDACTED]. We understand that the Council expects to see further improvement in this price.

Given the stage of the Project, it is now more difficult to use the impact of competitive tension as a means of demonstrating Value for Money. The Council has therefore increasingly focussed on a comparison of the cost of the PPP option against the continuing cost to dispose of waste through landfill, both in terms of an NPV analysis and by consideration of the Real Average Gate Fee.

In the Cabinet report, the following key assumptions were made:

- a. The new residual waste contract has been modelled by UBB based on the financial assumptions at final tender.
- b. The impact of a £13 million capital contribution has been modelled.
- c. Debt funding terms have been updated to reflect the positive (swap rates) and negative (margin) changes which have occurred since the final tender.

- d. Income from the sale of electricity to the grid is recognised and calculated based on published Ofgem forecasts ('Green Transition').

The NPV of this analysis is summarised in the table below (with the corresponding figures from Financial Close identified):

Table 3: Comparison of continuing to landfill and Project cost

£'000	Continuing to Landfill	Project Cost - £13m contribution – September 2012	Project Cost - £13m contribution – Financial Close
Unitary Charge	-	410,590	399,390
Non-PFI / Landfill costs	25,119	25,119	25,119
Landfill costs	552,558	4,553	15,368
Opportunity cost of £13m capital contribution	-	10,245	10,193
Total costs (nominal)	577,677	450,507	450,070
Total costs (NPV)	245,064	201,505	202,495
Forecast saving (NPV)	-	(43,559)	(42,569)

As Table 1 demonstrates, in September 2012 the potential savings from the Project compared to a scenario that sought to rely on long term landfill as a disposal option is £43.6m. This position was maintained through the preferred bidder stage and the Financial Close position delivered was similar, at £42.6m.

3.2 Sensitivities

The Cabinet Paper was clear that regardless of the diligence with which it is procured, with any long term project a degree of uncertainty will remain. A number of sensitivities were therefore performed on the following variables:

- Waste tonnages
- Electricity income
- Planning delay

As the Project now has a Satisfactory Planning Permission, we have not considered item (c) further in this report.

3.2.1 Waste tonnages

Waste tonnages were modelled to provide a projection should waste flows vary significantly from the base case waste flows assumed. The sensitivities used were:

- High waste flow projection – 55% recycling achieved by 2020
- Low waste flow projection – 60% to 70% recycling. The assumption that 60% recycling would be achieved by 2020 and 70% by 2030 and waste growth of 0.8% between 2029 and 2040

Table 4: Waste flow sensitivities

£'000	Base Case	High waste flow projection	Low waste flow projection
Continue to landfill (NPV)	245,064	284,174	209,736
Project costs (NPV)	201,505	220,948	194,024
Forecast saving (NPV)	(43,559)	(63,226)	(15,712)

As Table 2 demonstrates, the Project demonstrated Value for Money under both the high and low waste flow projections. The increase in the NPV benefit as the tonnage gets higher is due to the average disposal cost per tonne reducing under the Project whereas it remains the same under the continue to landfill option. The UC is a fixed cost spread over a greater tonnage which is only partially indexed as opposed to the landfill costs which are indexed in full.

3.2.2 Electricity

Electricity income was tested using the following price sensitivities compared to the base case assumption, using the Ofgem Green Transition price curve. The Ofgem price curves are created using differing supply and demand scenarios in the energy market. The options used were:

- a. Ofgem Green Stimulus – there is a slow recovery from the recession and restricted availability of finance. Governments around the world implement green stimulus packages to achieve environmental goals and boost economic activities. High carbon prices and government policies support investment in renewables, nuclear and carbon capture and storage. The effect on domestic energy bills is an increase of 14% by 2020.
- b. Ofgem Dash for Energy – Global economies bounce back strongly but security of supply concerns prevail over meeting environmental targets. As a result the UK renewables targets and the government's carbon budgets are missed. Competition between countries for energy resources results in tighter gas supplies and high fuel prices. Planning and supply chain constraints prevent new nuclear plant from becoming operational before 2020. The effect on domestic consumer bills is an increase of more than 60% by 2016 before falling back.
- c. £40 / MWh in real terms, i.e. no increase in electricity prices.
- d. Council uses the electricity generated by the Project to supply its own infrastructure (rather than electricity being supplied to the electricity market under the 'base case' Project assumptions).

Table 5: Electricity Price Sensitivities

£'000	Base Case – Ofgem Green Transition	Ofgem Green Stimulus	Ofgem Dash for Energy	£40 / MWh	Council purchases electricity
Continue to landfill (NPV)	245,064	245,064	245,064	245,064	245,064
Project costs (NPV)	201,505	212,652	182,561	230,841	152,771
Forecast saving (NPV)	(43,559)	(32,412)	(62,503)	(14,223)	(92,293)

The sensitivity analysis demonstrates that the Value for Money position is sensitive to changes in the underlying assumptions used to forecast the electricity price. However in all scenarios the Project remained Value for Money.

3.3 Affordability

When considering the affordability of the Project, the Council compared the existing forecast budget position as represented in the Medium Term Financial Strategy (MTFS) with the forecast cost of the new contract and associated disposal services, in particular looking at the transition between the two contracts.

At the time of writing the September 2012 report, the existing landfill contract with Cory had been subjected to improved terms as part of an agreed contract extension and therefore provided comparatively short term and advantageous pricing. Despite this, a comparison between the re-negotiated lower landfill prices and the projection for the Project showed potential avoided costs of between £905k and £1,552k per annum from the Project, under the base case assumptions, and thus indicated that it would be affordable.

The following table sets out the previously forecast affordability of the Project in the first four years from 1 April 2015 compared with the MTFS (adjusted for non-Project and landfill cost) and considers both the September 2012 and Financial Close position.

Table 6: Affordability

Nominal £'000s	13/14	14/15	15/16	16/17	17/18	18/19
Sep 2012 Project Cost			15,037	16,455	16,653	17,240
Financial Close Project Cost						
Adjusted MTFS	15,094	16,268	16,589			
Continue to landfill (proxy for MTFS post 2015/16)				17,360	17,979	18,419
Forecast saving in September 2012			1,552	905	1,326	1,179
Forecast saving at Financial Close						

Table 4 indicates that the Council viewed the Project as affordable at both September 2012 and the Financial Close stage.

3.4 Summary of Financial Close position

In the September 2012 Cabinet Report, the parameters within which the Council would view the Project as Value for Money and Affordable were set out. Whilst significant work was undertaken on the Project to Financial Close, the final price of the solution was very similar to that contained in the September 2012 analysis. It was therefore agreed that this approach would be taken for monitoring the Value for Money of the Project going through the planning process.

4. Rebase of September 2012 appraisal to the current RPP timeline

As set out previously, the initial Financial Close of the Project was in February 2013. However, despite there being an anticipation of a potential delay to the Project, the call in of the planning decision by SoS and the Stroud challenge resulted in a lengthy delay to the Project timeline.

In November 2014, at the request of GCC, UBB issued revised financial models to reflect both a revised senior debt profile and the delay periods for the notice to proceed period. This included a model to reflect a two year delay to the initial timeline (the "2 year delay model") on which the Financial Close and the Sep 2012 model were originally based.

The most recent financial model reflecting the current RPP position was provided by UBB on 16 October 2015 ("v16g"). The position outlined in the initial Do Nothing scenario and the Sep 12 model was provided over 3 years ago, and the 2 year delay model nearly a year ago. There has therefore been a need to update the timeline and other associated assumptions in the underlying comparators so that a consistent comparison can be made to the current RPP model.

It is worth noting that the Do Nothing (PSC) – Landfill Alternative is no longer the PSC as at Financial Close in February 2013 the Contract signed and any decision to terminate and pursue a landfill alternative would require a termination payment to UBB to meet costs already incurred. This cost, amounting to c£60m (as set out in Appendix A) has been added to the cost of the Landfill Alternative.

The table below outlines the key dates in the Project timeline for the different comparators.

Table 7: Key dates for appraisal periods of model iterations since September 2012 Cabinet paper

Scenario/Model	Description	Planned Service Commencement Date	Senior Debt Repayment Date	Contract End Date
Do Nothing (PSC) – Landfill Alternative	This is the Council's "Do Minimum" comparator model. This model tracks the cost of continuing to landfill over the duration of the contract period.	n/a	n/a	n/a
Termination (Landfill Alternative)	This is the Council's alternative to continuing with the contract signed in Feb 2013 and includes the termination costs required to terminate the contract plus the landfill over the duration of the contract period.	n/a	n/a	n/a
Cabinet Report – "Sep 12 model"	The bidder financial model supporting the cabinet report issued at the meeting in September 2012.	July 2016	July 2039	July 2041
Initial Financial Close model	The financial close model for the original close on 22 February 2013.	July 2016	July 2039	July 2041
Nov 14 Model – "2 year delay model"	A revised financial model issued by UBB which assumed a delay in the NTP date to February 2015, with EBL and Senior debt re-profiled to maintain a 2 year tail	July 2018	July 2041	July 2043
v16g	The most recent revised base case model issued by UBB.	May 2019	May 2042	May 2044

The adjustments required can be split into three main categories - timeline adjustments, updates to include v16g inputs and the cost of terminating the contract signed in February 2013 under a Force Majeure termination scenario. This requires the following:

- ▶ Extension of the appraisal period (including actual costs and revenue inputs) to cover a 25 year period of operations;
- ▶ Movement of the extended timelines to display analysis on a comparable concession period basis (i.e. as per v16g key dates noted above), including removal of assumptions regarding commissioning payments outside of this time period; and

- Uplifting the restated positions to adjust for the impact of indexation on Landfill payments (in relation to tonnages not taken through this Project) and NNDR Pass-through costs on each respective modelled period (i.e. apply model specific indexation factors based on an inflation rate of 2.0% p.a.). A consistent base date of 1 April 2019 was assumed for all iterations.
- Calculation of a termination payment if the Council decides not to proceed with the contract (see section 7 and Appendix A).

The following assumptions from the v16g model were also applied to each scenario:

- The contract tonnage profile outlined for the v16g position was applied to the previous model scenarios. This applied the actual tonnage assumed in the v16g model to the tonnage banding and respective price assumptions made in each of the previous models, in order to allow comparability between the previous models and the current base case position;
- A re-stated NPV base date of June 2015 (previously June 2012) was assumed across all models, in line with the v16g timeline; and
- Opportunity costs (relating to contribution amounts already committed by GCC (c. £13m) and respective electricity pricing adjustments relating to this Project have an identical profile for all scenarios, with time proportional adjustments applied to the last period of the concession for each iteration accordingly.

The table below provides a summary of the key values for each model iteration stage, resulting from the application of the v16g timeline and the applicable adjustments noted above.

Table 8: Restatement of key comparator models

Iteration	NPV Base Date	First Appraisal Period Start	Last Appraisal Period End	No. of Years	Termination	Landfill	Unitary Charge	Opportunity Cost	Electricity Pricing
Do Nothing (PSC) - Landfill Alternative (restated)	June 15	May 19	May 44	25	■	■	■	■	■
Termination (Landfill Alternative)	June 15	May 19	May 44	25	■	■	■	■	■
Cabinet Report – “Sep 12 model”(restated)	June 15	May 19	May 44	25	■	■	■	■	■
Initial Financial Close model (restated)	June 15	May 19	May 44	25	■	■	■	■	■
Nov 14 Model – “2 year delay model” (restated)	June 15	May 19	May 44	25	■	■	■	■	■

These restated positions provide a consistent comparator across the model iterations to understand the movements at each stage of the Project so as to understand the impact of the delay upon the contract cost.

¹ This amount includes Non-PFI costs (those relating to existing haulage contracts), Landfill costs (in respect of tonnages not taken through this project), the Unitary charge (see definition of Nominal UC in point 3 below) and the Opportunity cost relating to amounts already committed by GCC (c.£13m)

² This amount includes Tonnage Payments, Weighted Landfill Payments and NNDR Pass-through costs only.

³ This amount includes the items noted in 1 above, in addition to Commissioning Payment amounts, net of Electricity Pricing Adjustments.

⁴ This amount includes all the items noted in 2 above, net of adjustments in relation to the Opportunity Cost associated with the Authorities Contribution.

5. Value for Money and Affordability Assessment of current UBB proposal

This section sets out our approach to assessing the Value for Money and Affordability of the current UBB proposal. Our approach is set out over the following headings:

- Summary of the NPVs of the current UBB proposal (Section 5.1)
- Sensitivities (Section 5.2)
- Affordability (Section 5.3)
- Key changes in the UBB proposal compared to Financial Close (Section 5.4)
- Conclusion (Section 5.5)

5.1 Summary of the NPVs of the current UBB proposal

This section sets out the NPVs of the current UBB proposal from the most recently provided RPP discussions on the basis of continuing with the contract.

We have also included a scenario where an additional capital contribution is injected to the Project as this is being considered under the options to improve the affordability of the Project but is not a direct driver for VFM.

The alternative to continuing with the contract is the option to terminate and return to the original comparator of landfilling the waste.

We have outlined the scenarios below based on the outputs from the updated v16g model provided by UBB. The cost of the termination scenario is based upon a Force Majeure Planning Failure Termination event.

Table 9: Summary of NPVs

Iteration	NPV Base Date	First Appraisal Period Start	Last Appraisal Period End	No. of Years	NPV	NPV	NPV	NPV	NPV	NPV
Base Case	June 15	May 19	May 44	25	£1.1m	£1.1m	£1.1m	£1.1m	£1.1m	£1.1m
Base Case with Capital Cont ⁵	June 15	May 19	May 44	25	£1.1m	£1.1m	£1.1m	£1.1m	£1.1m	£1.1m
Termination (Landfill Alternative)	June 15	May 19	May 44	25	£1.1m	£0.1m	£0.1m	£0.1m	£1.1m	£0.1m

The table above sets out the nominal costs and NPVs of the current Project options which are being considered. The options are described as follows:

- Base Case – UBB base case model, this is the cost of continuing with the UBB contract which was signed between the Council and UBB in February 2013 and which has been subject to delays and rebased costs resulting from the RPP process. This case is

⁵ Assumes GCC utilises existing reserves to fund the contribution. The cost of reserves has been estimated as the long term interest on deposit foregone through investment in this project. As long term rates are not published this has been estimated based upon the midpoint of the 25 year swap and 25 year gilt rates rounded to 1 decimal place giving a rate of 2.4%.

inclusive of the £8m of revenue funding which has been approved to cover costs incurred during the delay period which are currently being carried by UBB.

- ▶ Base Case with Capital Cont – UBB base case adjusted for a capital contribution of £17m. This is injected during the construction period (drawdown has been profiled in line with the capex expenditure) assuming the contribution is funded via reserves.
- ▶ Termination (Landfill Alternative) – This is an estimate of the termination costs to the Council, under a Force Majeure Planning Failure, should the Project be terminated and all waste is considered to be landfilled for the duration of the contract period.

Details of the Force Majeure Planning Failure Termination cost calculation are set out in section 7 below.

The Council needs to carefully consider how it uses the above analysis. Whilst the inclusion of Termination Costs is in accordance with HMT Green Book guidance, the disclosure of this to UBB as part of the negotiations would weaken the Council's bargaining position (notwithstanding that discussions with UBB indicate that it is aware of the fact, if not the quantum, of the impact generated by the potential termination costs).

The scenarios (apart from the Termination (Landfill Alternative) which is calculated by the Project team) are all based upon financial models provided by UBB from which we have extracted the Tonnage Payments and Pass-through costs that will be paid by the Council.

These costs are then adjusted to include the Project costs/benefits which sit outside the direct visibility of UBB but are relevant to the Project. The adjustments applied are:

- ▶ The Council sells the electricity to the grid at a different price to that guaranteed into the UBB model. This is based on the latest published DECC scenarios.
- ▶ The benefit of the revenue funded £8m has been calculated on a pro-rata basis from the benefit of the £17m scenario so as to not disclose the commitment of this money to UBB as this would weaken the councils bargaining position
- ▶ Council opportunity cost associated with the capital contributions to the Project. Both the original committed £13m and the subsequent £8m and proposed £17m.
- ▶ Other waste collection contract costs (these are neutral across all solutions but relevant for Affordability purposes) and are consistent with the costs included in the evaluation at the prior Financial Close.

5.1.1 Summary of NPV position

The NPV of the UBB base case model is [REDACTED] below the Termination (Landfill Alternative) scenario and inclusion of the further £17m of capital contributions increases this to [REDACTED]

5.2 NPV Sensitivities

The GCC Cabinet Paper in 2012 was clear that regardless of the diligence with which it is procured, as with any long term Project, a degree of uncertainty will remain. Signing the contract in 2013 removed a great deal of this uncertainty – however, with the update in the pricing we recreated them to confirm that the outcome remained consistent with the original (2012) analysis and they would not impact the current Value for Money decision.

The following sensitivities have therefore been performed on the 'Base Case with Capital cont' scenario:

- ▶ Waste tonnages

► Electricity income

5.2.1 Waste tonnages

Waste tonnages were modelled to provide a projection should waste flows vary significantly from the base case waste flows assumed. The sensitivities used were:

- a. High waste flow projection – 55% recycling achieved by 2018
- b. Low waste flow projection – 60% to 70% recycling. The assumption that 60% recycling would be achieved by 2020 and 70% by 2030 and waste growth of 0.8% between 2020 and 2040

Table 10: Waste flow sensitivities

£'000	Base Case (Capital Cont)	High waste flow projection	Low waste flow projection
NPV	██████	██████	██████
Termination(Landfill Alternative)	██████	██████	██████
Forecast (saving) /cost (NPV)	██████	██████	██████

The analysis above shows the quantum of change between the Base Case and the tonnage sensitivities to be similar to the movements observed in the September 2012 report as set out in Section 2.

5.2.2 Electricity

Electricity income was tested using a “high” and “low” DECC price sensitivities compared to the base case assumption based on the 3 point estimate of the DECC price curves which was applied as the base case. The DECC price curves have been taken from “Annex M: Growth assumptions and prices” of the DECC Updated Energy & Emissions Projections published in September 2014 (link <https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2014>).

The electricity curves for each scenario are taken from the “Prices: wholesale electricity” section of both the “High Price” and “Low price” worksheets. We understand these scenarios are included to incorporate a variance in the fossil fuel prices assumptions from the “Reference Scenario” (“a scenario based on central estimates of growth and fossil fuel prices contains all agreed policies where decisions on policy design are sufficiently advanced to allow robust estimates of impact”). Specific assumptions made by DECC are noted in the source analysis.

Table 11: Electricity Price Sensitivities

£'000	Base Case (Capital Cont)	High Curve	Low Curve
NPV	██████	██████	██████
Termination (Landfill Alternative)	██████	██████	██████
Forecast (saving)/cost	██████	██████	██████

(NPV)			
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The sensitivity analysis demonstrates that the Value for Money position is sensitive to changes in the underlying assumptions used to generate the electricity price. However, the Project demonstrates a lower NPV than the Landfill Alternative in all sensitivities.

5.2.3 Prudential Borrowing

Due to the delay in the project the Council have reviewed the impact of utilising Prudential Borrowing to offset the cost increases of the delay. This injection of Prudential Borrowing is in addition to the £8m injected by the Council at Financial Close 2 and the £13m at Service Commencement.

The scenarios modelled have been structured to utilise material Council contributions to offset the entire cost of delay. The two scenarios presented are:

- ▶ 100% of the senior funding requirement is replaced by Prudential Borrowing at service commencement.
- ▶ Prudential Borrowing injected throughout the construction period pro-rata with the construction cost such that the project real average gate fee is equal to that of the project at the original Financial Close.

The table below sets out the NPV benefit of the additional Prudential Borrowing scenarios as compared to the Termination (Landfill Alternative) scenario.

Table 12: Financial Impact of Prudential Borrowing

Scenario	PB required	Nominal All In Cost	NPV	% NPV of Termination scenario
Termination (Landfill Alternative)	N/a	■	■	1
100% PB funding at Service Commencement	■	■	■	■
RAGF of £90/t through injecting PB during construction	■	■	■	■

The assumptions which underpin the estimation of these Prudential Borrowing

- ▶ The PB interest rate is 2.89% as advised by GCC
- ▶ No break costs have been included in the calculation as we understand it is not possible to fund these through PB borrowing therefore would be an incremental cost not directly captured by the gatefee
- ▶ The funding structure is unchanged by the injection of PB and all other security package (cover ratios, reserve accounts, Letters of credit etc) are unchanged by the injection of this contribution.
- ▶ There is no deterioration of the value benefit of the contribution at levels above ■ for the RAGF scenario

- ▶ The PB funding at service commencement is treated as though the Council were acting as a funder therefore the saving is from the difference in interest rates.
- ▶ We have not quantified the additional risk that the Council is taking back in these scenarios

5.3 Affordability

GCC have provided updated budgets for each year from 2020 to 2024 against which we have reviewed the Project costs to inform upon the affordability position.

The GCC budget is built up of the non-PPP costs which sit outside the Project as identified in the 2012 report and the current assumptions around the tonnage treatment costs.

The Project cost consists of the Tonnage Payment, Landfill pass through payment, NNDR payment and commissioning payments and added to these are the non-PPP costs.

Table 13: Affordability of the project over first five years of operations

	2020	2021	2022	2023	2024	Total
Council Budget (£'000)						
Base Case (£'000)						
Under / (Overspend)						
Base Case with Capital Cont (£'000)						
Under / (Overspend)						

The analysis identifies that without the capital contribution the Project is in breach of the Council's affordability limit until 2024 but there after falls inside the affordability limit as a result of the lower exposure of the gatefee to indexation than landfill. [REDACTED]

Through injecting a further capital contribution of £17m funded through reserves the Project becomes affordable in 2022

5.4 Affordability Sensitivities

As further sensitivities to the Affordability analysis, the Council has considered:

- a. The Retail Electricity Benefit is also considered – more detail is set out on this at section 6.1.2 below;
- b. Scenario (a) included and the a revised forecast tonnage is modelled. This revised forecast tonnage reflects the basis on which the current waste budgets of the Council are calculated. These tonnages are above those currently modelled by UBB in the Financial Model.

The table below sets out the results of this modelling and demonstrates that both scenarios are affordable over the first five operational years of the project.

Table 14: Affordability sensitivities

	2020	2021	2022	2023	2024	Total
Cap Con with Retail Electricity Benefit	■	■	■	■	■	
Under / (Overspend)	■	■	■	■	■	■
Cap Con with Revised Forecast Tonnage & Retail Electricity Benefit	■	■	■	■	■	
Under / (Overspend)	■	■	■	■	■	■

5.5 Key changes in the UBB proposal compared to the position at Financial Close

To provide further clarity on the cost of delay and the changes in assumptions within the Project, we have highlighted below the key areas of change and noted the variance in totals over time.

Table 15: Key changes in the UBB proposal since Financial Close 1.

Variable	Financial Close	v16g with capital cont. £25m	Variance
Capex	██████	██████	██████
SPC and bid costs	██████	██████	██████
Operating Costs (unindexed per financial model)	██████	██████	██████
Nominal Tonnage Payments (per financial model)	██████	██████	██████
Contract Tonnage (tonnes per annum)	3,431,683	██████	██████
Base Price per tonne – band 1	146.36	██████	██████
Base Price per tonne – band 2	15.00	██████	██████
Third Party Gatefee – 3a (£per tonne)	██████	█	██████
Third Party Gatefee – 3b (£per tonne)	██████	██████	██████
Third Party Gatefee – 3c (£per tonne)	██████	█	██████
Senior debt capital	██████	██████	██████
Senior Debt Interest	██████	██████	██████
Gearing	██████	██████	██████
Libor	██████	██████	██████

The delay of the Project has increased the cost due to a number of different drivers, which we have discussed in further detail below.

- ▶ The capital expenditure increase of ██████ is a result of the pricing renegotiation allowed under the RPP which was required to extend the project beyond the Planning Permission Longstop Date.
- ▶ SPV costs are largely driven by the incurring of the costs associated with the foreign exchange swaps/re-hedging costs of c. ██████ and additional bid costs of c. ██████ associated with the RPP and RPP production costs.
- ▶ Tonnage payments are largely driven by levels of contract waste assumed and associated banding prices, in addition to the impact of indexation which we note as the

variance above is comparing totals from financial models with different timelines. However, since Financial Close there has been an increase in the level of waste being incorporated into the contract, which has resulted in a rise in tonnage payments. This movement combined with the increase in prices associated with each tonnage band are the main drivers for an increase in tonnage payments being assumed as a result of the delay period.

- ▶ Operating costs (unindexed) have also increased overtime, with a [REDACTED] total rise since Financial Close. This movement is a result of changes in a range of variables incorporated into this amount with the key fluctuations outlined below. We note for comparability purposes, we have applied an uplift to these costs such that the base date is identical in base scenarios (i.e. 1 April 2015);
 - ▶ Increases in landfill tax and gate fees of [REDACTED] largely resulting from the increase in contract tonnage assumed;
 - ▶ Increases in associated labour [REDACTED] consumables [REDACTED] and maintenance [REDACTED] costs;
 - ▶ A rise in NNDR costs of [REDACTED]
 - ▶ A significant escalation of operations insurance costs [REDACTED] and
 - ▶ Third party waste revenues have decreased by [REDACTED] over the project life which is driven by the restructuring of the gate fees to provide the benefit at the front end of the project. Further dialogue is required with the Council to agree that the position is providing better value.
- ▶ Senior funders' fees (notably commitment fees) have continued to accumulate through the delay period. This, and the additional senior debt funding of [REDACTED] (thus incurring additional arrangement fees) have resulted in [REDACTED] of additional cost in the model.

5.6 Conclusion

5.6.1 Value for Money

The most recent proposal from UBB demonstrates a Value for Money position of [REDACTED] when compared to the Termination (Landfill Alternative) comparator. This increases [REDACTED] where the Council inject a further £17m into the project above the contributions of £8m and £13m currently committed.

The upside sensitivities on electricity pricing and waste flows improve the Value for Money position significantly, the converse being true for the downside scenarios, although these continue to demonstrate an NPV lower than the Termination (Landfill Alternative) comparator.

5.6.2 Affordability

[REDACTED]

In order to address this shortfall the Project team has proposed that the Council utilise a further capital contribution of £17m which reduces the project cost such that it becomes affordable in 2022 and the budget headroom over the period to 2024 becomes £3,081k.

A composite sensitivity which considers additional tonnages and an the increased margin of electricity being sold at retail prices also continues to demonstrate an affordable position.

6. Further Revenue Potential

The analysis presented above has focussed on guaranteed positions within the latest UBB solution. There are three areas where additional upside revenues may be generated within the Project. However these would need further negotiation with UBB, either before or after financial close.

6.1 Increased third party revenue potential

6.1.1 Guaranteed longer term contracts

Alongside the offer set out in 5.1, the Council is currently negotiating the level of the third party waste gate fee guaranteed in the equity case within the Financial Model. The current assumption is:

[REDACTED]

[REDACTED]

[REDACTED]

There are ongoing discussions with UBB as to how a higher TPW gate fee can be reflected in the base case Financial Model. Currently the optimisation protocols contained prevent these additional revenues from being realised.

[REDACTED]. They have suggested that if this could be considered as guaranteed revenue by the Council in its calculations (and therefore run through the Payment Mechanism sharing) this would reduce the RAGF by [REDACTED] / tonne.

6.1.2 Sale of electricity to other public sector bodies

As discussed in section 2.2.2, there is potentially a benefit to the project of the Council using the electricity to supply its own infrastructure rather than electricity being supplied to the market under the 'base case' project assumptions. This is due to the saving achieved by the Council by supplying its own electricity at cost, rather than buying it at a discounted market price.

Further to the wholesale price benefit the Council could also act as a supplier of the electricity from the Project to the wider market. The pricing difference between the wholesale and retail price is made up of a number of components reflecting elements of the Network and Grid charges for supply of electricity plus the margin a supplier would generate.

The exact network and grid charges which would be applicable would depend upon the structure of the supply arrangement between the Council and the purchaser and as such we cannot identify whether there would be a cost saving through avoiding elements of these charges at this stage but the supplier margin has been included as a potential additional upside benefit which would flow through to the Council in the event of acting as a supplier.

Margins will vary between Suppliers and individual contract and will be subject to negotiations as the facility becomes operational. The table below sets out the additional nominal and NPV benefit which may arise based on margins observed in the market:

Table : Additional nominal cost and NPV benefit where Council sell electricity to other public sector bodie

£'000	Nominal (£'000)	Additional NPV Benefit (£'000)
██████ Margin	██████	██████
██████ Margin	██████	██████

7. Termination Cost under Force Majeure for Planning Failure

The Council has received legal advice that if it rejects the current RPP then this is deemed to be a Force Majeure Termination as a result of Planning Failure. Eversheds has advised that there are no specific grounds set out in the contract to reject the plan, but as the RPP is only supposed to relate to price and timing updates then it would be difficult to argue that the RPP can be rejected on other grounds.

If the Council terminates the Project for any reason other than rejecting the RPP then this would be viewed as an Authority Voluntary Termination. The approach to calculating the Termination Cost under this scenario is different from that of a Force Majeure Termination for Planning Failure and it is likely to be more costly. We have not attempted to calculate in detail the financial impact to the Council of a Voluntary Termination at this stage but we consider that the cost of this would be in excess of £100m.

The remainder of this section is structured under the following headings:

- ▶ Definition of Force Majeure Termination
- ▶ Approach to our work
- ▶ Indicative Calculation of Force Majeure Termination Sum
- ▶ Potential impact on Council Value for Money assessment

7.1 Definition of Force Majeure Termination

As set out at paragraph 1.2 and as updated by paragraph 1.7 of Part 5 of Schedule 17 of the Contract, the Authority will pay the Contractor the "Force Majeure Termination Sum". This is defined as "an amount equal to the aggregate of:

Paragraph 1.2

- "1.2.1 the Base Senior Debt Termination Amount (full definition set out below);
- "1.2.2 the Junior Debt less an amount equal to the aggregate of payments of interest made by the Contractor under the Subordinated Financing Agreements"
- "1.2.3 all amounts paid to the Contractor by way of subscription for shares in the capital of the Contractor less dividends and other Distributions paid to the Shareholders of the Contractor (save to the extent deducted under paragraph 1.2.2 above); and"
- "1.2.4 redundancy payments for employees of the Contractor that have been or will be reasonably incurred by the Contractor as a direct result of termination of this Contract and any Sub-Contractor Breakage Costs"

Where the Base Debt Termination amount is defined as:

- (a) all amounts outstanding at the Termination Date, including interest and Default Interest accrued as at that date, from the Contractor to the Senior Lenders and in respect of Permitted Borrowing (other than in respect of Additional Permitted Borrowing),
- (b) all amounts including costs of early termination of interest rate hedging arrangements and other breakage costs (including any GIB Breakage Costs), payable by the Contractor to the Senior Lenders as a result of a prepayment in respect of Permitted Borrowing (other than in respect of Additional Permitted

Borrowing), or in the case of early termination of interest rate hedging arrangements only, as a result of termination of this Contract, subject to the Contractor and the Senior Lenders mitigating all such costs to the extent reasonably possible,

less, to the extent it is a positive amount, the aggregate of (without double counting in relation to the calculation of the Base Senior Debt Termination Amount or the amounts below):

- (i) all credit balances on any bank accounts (but excluding the Joint Insurance Account and Distribution account) held by or on behalf of the Contractor on the Termination Date;*
- (ii) any amounts claimable on or after the Termination Date in respect of Contingent Funding Liabilities;*
- (iii) all amounts, including costs of early termination of interest rate hedging arrangements and other breakage costs, payable by the Senior Lenders to the Contractor as a result of prepayment of amounts outstanding in respect of Permitted Borrowing (other than in respect of Additional Permitted Borrowing), or in the case of early termination of interest rate hedging arrangements only, as a result of termination of this Contract; and*
- (iv) all other amounts received by the Senior Lenders on or after the Termination Date and before the date on which any compensation is payable by the Authority to the Contractor as a result of enforcing any other rights they may have;*

Paragraph 1.7

“1.7 If a Force Majeure Termination occurs as a result of the operation of paragraph 3.5 of Schedule 26 (Planning) ...then for the purposes of paragraph 1.2 above:

1.7.1.1 limb (a) of the definition of Base Senior Debt Termination Amount shall be no higher than £14,593,833; and

1.7.1.2 limb (b) of the definition of Base Senior Debt Termination Amount shall be uncapped,

provided that for the purposes of this paragraph 1.7.1 the calculation of Base Senior Debt Termination Amount shall not take into account any amounts claimable in respect of Contingent Funding Liabilities;

“1.7.2 the amounts under paragraphs 1.2.2 and 1.2.3 (Junior Debt and subscription in equity shall be no higher than £1,000; and

“1.7.3 the amounts under paragraph 1.2.4 shall be no higher than £4.6m (excluding the breakage of any Sub-Contract Hedging Arrangements which shall be calculated to reflect the date of Termination).

7.2 Approach to our work

In undertaking our work we have performed the following tasks:

- ▶ Reviewed the Financial Close Financial Model (FCFM) ('Gloucestershire Waste UBB Financial Close Base Case FINAL 22Feb13.xls'), September 2014 Model ('Gloucs Waste UBB NTP (DRAFT REVISED ADD DELAY 2 YEAR TAIL).xls'), v16g (GCC UBB Waste NTP draft v16g ISSUED.xlsm) and v16G with capital contribution from GCC (GCC UBB Waste NTP draft v16g 25m cont pari passu ISSUED.xlsm)
- ▶ Reviewed the SPV costs during the period from the original longstop to 18 October 2015 provided by UBB in agreeing the extension to the longstop date and the step down in commitment fees from April to October 2015.
- ▶ Calculated breakage costs on interest rate and foreign exchange hedging agreements.
- ▶ Based on the above, we have estimated an indicative termination value range for the contract. This work is set out in the following section.

7.3 Indicative Calculation and Assumptions

The table below summarises the indicative amounts estimated as payable under a Force Majeure Termination scenario. A more detailed calculation is set out in Appendix B which sets out a range of possible outcomes and a single estimate value, in each case based on the assumptions in the table. It also sets out the key assumptions used to generate the values and other areas which may be open to interpretation.

Our analysis assumes a Termination Date of 18 October 2015.

Table 16: Summary of Termination Sum under a Force Majeure for Planning Failure Scenario

Cost Head	£M	£M
Base Senior Debt Termination Amount – per para 1.7.1.1 of Part 5 of Schedule 17		■
Base Senior Debt Termination Amount – per para 1.7.1.2 of Part 5 of Schedule 17		
Break of Bank Interest Rate Swap	■	
FX settlement costs to date	■	
Current mark to market position on FX swap	■	■
Payout of Junior Debt and Equity		■
Redundancy and Sub-contractor break cost		■
Total		■

8. Overall Conclusion

The most recent proposal from UBB demonstrates a Value for Money position of [REDACTED] when compared to the Termination (Landfill Alternative) comparator. This increases to [REDACTED] where the Council inject a further £17m into the project above the contributions of £8m and £13m currently committed.

The upside sensitivities on electricity pricing and waste flows improve the Value for Money position significantly, the converse being true for the downside scenarios, although these still generate an NPV below the Termination (Landfill Alternative) comparator.

[REDACTED]

In order to address shortfall the Project team has proposed that the Council utilise a further capital contribution of £17m which reduces the project cost such that it becomes affordable in 2022 [REDACTED]

There is the potential for additional revenue upsides to the Project which have not been included in the Base Case modelling. These relate to the:

[REDACTED]

- Sale of Electricity to other Public Sector bodies – There is the opportunity for the Council to act as a retailer of electricity to other public sector bodies and as such would be able to recognise a margin on the retail power. This has been estimated between [REDACTED] and [REDACTED] nominal over the contract period.

The Council is also currently negotiating an improvement in the current commercial offer from UBB. It needs to maintain the competitive tension to achieve improvements to:

[REDACTED]

[REDACTED]

If these negotiations lead to a reduction in the underlying price charged by UBB then this will improve the Value for Money and Affordability positions presented above.

Appendix A Termination Cost under Force Majeure for Planning Failure – Detailed Calculation

The table below summarises the indicative amounts estimated as payable under a Force Majeure Termination scenario. It sets out a range of possible outcomes and a single estimate value, in each case based on the assumptions in the table. It assumes a Termination Date of 18 October 2015, this being the earliest point at which Force Majeure Termination could be taken as at this point we will have received the contractors RPP submission. It also sets out the key assumptions used to generate the values and other areas which may be open to interpretation.

Cost Head	Estimated Value at 18/10/15 (£m)	Potential Range (£m)	Comment/Assumption
Base Senior Debt Termination Amount (as per para [1.7.1.1])			
Amounts outstanding at the Termination Date, including interest and Default Interest accrued as at that date, from the Contractor to the Senior Lenders and in respect of Permitted Borrowing (other than in respect of Additional Permitted Borrowing),			<p>This is the capped value as set out in the Contract.</p> <p>We do not know the actual drawdown and spend profile but feedback from the Contractor is that they have committed expenditure which is significantly in excess of the cap. We have therefore assumed that a payment would be made up to the level of the cap.</p>
Extension of the Planning Longstop Date to 15 Feb 2015 per signed agreement signed by Council 28/1/15			This being the increase in the Base senior debt termination amount to account for the additional commitment fees & other SPV costs to the agreed date of 15 Feb 2015.
RPP period extension per the signed agreement signed by Council 13/2/15			On entering into the RPP the Council indemnified the Contractor for the costs during this period. We have included all the SPV costs per the estimated in the summary provided by UBB during our discussions with funders to agree the step down in commitment fees over the period. We note that costs up until 31 st December 2015 have been included.

Cost Head	Estimated Value at 18/10/15 (£m)	Potential Range (£m)	Comment/Assumption
Base Senior Debt Termination Amount (as per para [1.7.1.1])			
Additional costs of preparing the RPP per the summary provided by UBB on 20/3/2015 ("RPP Budget Estimate 2015320.pdf")			In entering into the RPP UBB committed to a retendering of the construction sub contracts, this exercise was estimated by UBB to potentially cost as much as . The Council challenged these figures and it appeared there were a number of unnecessary costs and an element of cost duplication across the sub categories. Based upon discussions held between the Council and UBB we would not expect the actual delivery of the RPP to cost the full but we have included the figure in the analysis as a prudent value.
Sub – total (1.7.1.1)			
Cost Head	Estimated Value at 18/10/15 (£m)	Potential Range (£m)	Comment/Assumption
Base Senior Debt Termination Amount (as per para 1.7.1.2)			
Interest Rate Swap Breakage Costs			<p>The reflects the breakage costs calculated by EY as at 18 October 2015 in respect of the interest rate swap entered into at financial close by UBB.</p> <p>Given the continual movement in rates, the value of any breakage costs or income as a result of breaking the swaps depends on the rate prevailing at the point of breakage. In this context, and to provide a basic sensitivity analysis, a range of possible outcomes has been calculated based in turn on the range of movement in Equity Bridge Loan and Senior Debt interest rates rates over the past twelve months.</p>
Foreign Exchange Swap costs settled			These relate to the historic settlements of the Eur:GBP swap which have been incurred to retain the fixed price of the Project capital expenditure to be funded by the senior debt. Note that were the Project to go ahead these are matched by the equivalent reduction in the Euro capex element resulting in a net neutral position.

Cost Head	Estimated Value at 18/10/15 (£m)	Potential Range (£m)	Comment/Assumption
Base Senior Debt Termination Amount (as per para 1.7.1.2)			
Foreign Exchange Swap costs – current mark to market			The reflects the favourable foreign exchange movements calculated by EY as at 18 October 2015 in respect of the outstanding foreign exchange hedging instruments entered into at financial close by UBB.
Sub – total (1.7.1.2)			
Junior Debt and Subscription of Equity (1.7.2)			
Junior Debt and Subscription of Equity			As per the Contract these amounts are capped at
Sub-contractor breakage costs and redundancy costs (1.7.3)			
Redundancy and Sub-Contractor Breakage Costs			<p>The is an estimated value based on the cap agreed with UBB on a Force Majeure Planning Failure. We have no transparency as to how the cap was determined as it was a bid-back figure at financial close and it is not possible to give a more accurate figure without liaison with UBB and its sub-contractors. Eversheds has not been able to identify specific provisions within the underlying sub-contracts which would allow quantification of this sum at the current point in time.</p> <p>UBB have indicated that the full has been spent prior to the RPP period but we have seen no evidence to confirm the expenditure.</p>
Sub – total (1.7.2 + 1.7.3))			
TOTAL (1.7.1 + 1.7.2 + 1.7.3)			

