NORTH LONDON WASTE AUTHORITY

REPORT TITLE: NORTH LONDON HEAT AND POWER PROJECT ENERGY RECOVERY FACILITY CONTRACT UPDATE

REPORT OF: MANAGING DIRECTOR

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 12 NOVEMBER 2026

SUMMARY OF REPORT:

The North London Heat and Power Project (NLHPP) is replacing Europe's oldest operational Energy from Waste (EfW) facility with an Energy Recovery Facility with the best environmental controls to reduce emissions. This infrastructure supports the Authority's circular economy ambitions and aims to secure the most environmentally responsible and cost-effective long-term outcome for north London residents.

The construction of the energy recovery facility is 60% complete but has faced challenges. This report makes recommendations to amend the contract with ACCIONA to secure increased delivery and cost certainty. Members are asked to determine whether the proposed settlement and associated funding requirements represent the best available outcome for NLWA and therefore the seven north London boroughs and their residents. The report structure is:

Section 1: Vision, History and Project Overview.
Provides an overview of the North London Heat and Power Project, its development history, and the strategic, environmental and social benefits it is intended to deliver for north London.

Section 2: Procurement of Contract and Delivery Challenges.
Outlines the procurement of the Energy Recovery Facility, the construction progress, delivery challenges and contractual issues that emerged. It explains the independent review of the project, the assessment of alternative options, and work, in liaison with

borough officers, which concluded that negotiating a settlement with ACCIONA was the best route to securing completion of the facility.

Section 3: Negotiations with ACCIONA and Heads of Terms.
Explains the negotiations with ACCIONA following the independent audit and options review, including the assessment of the project's contractual position, programme challenges and commercial risks. It sets out how the negotiations progressed from ACCIONA's initial claims to agreed Heads of Terms intended to provide greater certainty over project cost, completion and future risk allocation.

Section 4: Proposed Amendment to the ERF Contract
Explains the proposed Settlement and Variation to the ERF Contract. It compares the current contractual position with the proposed arrangements, including changes to project cost, programme, risk allocation and dispute resolution.

Section 5: Benefits and Risks of Contract Amendment
Outlines how the amended contract would be used to increase delivery confidence and cost certainty, including early actions already taken and recent signs of recovery.

Section 6: Governance and Assurance
Proposes strengthened governance and project management processes to increase certainty in the project.

Section 7: Finances
Includes analysis to show estimated future costs and how these would compare to cancellation of the project.

Appendices
The report includes a number of appendices. The information contained in these appendices is exempt from publication under Paragraph 3 or 5 of Part 1 of Schedule 12A to the Local Government Act 1972 as it relates to the financial and business affairs of the Authority and third parties. Disclosure at this stage could prejudice the commercial interests of the Authority and its contractors.

Appendix A: Proposed Contract Amendment. CONFIDENTIAL

Appendix B: Advisor Project Delivery, Commercial and Cost Advice. CONFIDENTIAL

Appendix C: Project Audit Report Summary. CONFIDENTIAL

Appendix D: Independent Review of Delivery Options. CONFIDENTIAL

Appendix E: Legal Advice Summary. CONFIDENTIAL

Appendix F: Background and Inclusion of NAECI. CONFIDENTIAL

Appendix G: Forecast Costs to Boroughs - Modelling Overview. CONFIDENTIAL

RECOMMENDATIONS:

The Authority is recommended to:

1. Note the current position with the ERF Contract ("the Contract"), the history and the external reports and validations and agree that seeking to amend the contract to increase confidence in the delivery of the ERF and ensure the best outcome for the Authority and the constituent boroughs is appropriate.

2. Note and approve the draft terms of the proposed Settlement and Variation to the Contract which have been negotiated over the past several months, subject to Authority approval.

3. Delegate authority to the Managing Director to:

   A) Draft and issue a Voluntary Ex-Ante Transparency Notice (VEAT) and thereafter consider any responses received to it;

   B) Subject to A and the expiry of thirty days from the service of the VEAT, to finalise the terms of the proposed Settlement and Variation to the Contract together with settling all current disputes as detailed in the report;

   C) Thereafter to execute all agreements and other documents necessary to implement the decisions arising from this report and take all actions and steps necessary to give effect to the decisions arising from this report.

5. To manage the continued design, construction and commissioning of the ERF within the revised financial limits and other amendments to the Contract as set out in this report.

6. To approve the commencement of procurement processes, where required, and the extension of the various contracts, leases and licences relating to the NLHPP for periods of up to four years, where required and to undertake such procurement processes (where appropriate) and to extend, award and manage those contracts, leases and licences within the new financial limit and other contractual terms set out in this report.

SIGNED: ..... Managing Director

DATE: 03 NOVEMBER 2026

2. VISION, HISTORY AND PROJECT OVERVIEW

Vision and Rationale

2.1. The strategic vision for NLHPP extends beyond the replacement of the existing Energy from Waste (EfW) plant. The project is a comprehensive redevelopment of Edmonton EcoPark intended to create a modern, publicly owned waste and resource management hub for north London. Its objectives are to support the waste hierarchy, increase reuse and recycling, recover value from unavoidable residual waste, reduce environmental impacts and create long-term community benefits.

2.2. The programme comprises four principal facilities. Three of these, the Resource Recovery Facility, Reuse and Recycling Centre and EcoPark House education and community centre, have already been completed and are operational. Together they provide enhanced opportunities for recycling, reuse, environmental education and community engagement.



Figure 1: The new Resource Recovery and Reuse and Recycling Centre facilities

2.3. The remaining element, the Energy Recovery Facility (ERF), will replace the existing EfW plant and is designed to treat up to 700,000 tonnes of residual waste annually while generating electricity and heat from waste that cannot realistically be reused or recycled.

2.4. The strategic rationale for the ERF remains unchanged throughout the development of the project. Reviews undertaken prior to implementation of the Development Consent Order, during procurement and through subsequent

independent assessments have consistently concluded that completion of a publicly owned Energy Recovery Facility at Edmonton represents the preferred long-term solution for managing north London's residual waste[1]. The facility supports local waste self-sufficiency, provides resilience against volatile external disposal markets, enables energy recovery from unavoidable waste and has been designed to support future decarbonisation measures, including compatibility with carbon capture technology and connection to local heat networks.

2.5. Accordingly, the strategic purpose of NLHPP remains to provide a long-term, publicly owned waste management solution that supports the circular economy, delivers environmental improvements, secures resilience for essential public services and continues the long-standing ability of north London boroughs to manage their waste locally in a financially and environmentally responsible manner. The Project has been appropriately sized based on waste modelling to take account of the future waste arising in the local area, reductions in waste and increased recycling, alongside an increasing population over the life of the asset.

Public Consultation and Development Consent Order

2.6. NLWA serves seven constituent boroughs representing approximately a quarter of London's population. Together, these boroughs deliver around 560,000 tonnes of residual waste each year for disposal. For more than 50 years, the Edmonton EcoPark has enabled waste generated in north London to be managed close to where it arises, supporting the proximity principle and reducing reliance on landfill and long-distance transportation. The facility was originally owned by the Greater London Council (GLC) and passed into control of NLWA when the GLC was abolished and NLWA took over responsibility for waste disposal. As the existing facility approached the end of its operational life, NLWA officers began reviewing future waste management options in 2010[2] to ensure the continued delivery of safe, reliable and affordable waste services.

2.7. In 2013 the Authority decided not to proceed with a previously developed Public Private Partnership (PPP) solution[3]. Following detailed appraisal and revised external expert advice, Members concluded that a publicly financed and publicly owned redevelopment of the Edmonton EcoPark would deliver better value for money, greater local control and improved environmental outcomes than the PPP option then available. This decision established the strategic foundation for the North London Heat and Power Project.

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[1] Reviews of residual waste options were taken in a Part 2 Paper on Residual Waste Treatment Strategy at the 12 December 2013 Authority Meeting, a Part II Paper on Future Residual Waste Management at the 7 December 2016 Authority Meeting and for the December 16, 2021, ERF Procurement Meeting: https://www.nlwa.gov.uk/sites/default/files/2021-12/03%20ERF%20Procurement.pdf

[2] Outline Business Case Report January 2010 can be viewed at: https://www.nlwa.gov.uk/sites/default/files/inline-files/NLWA%20OBC%20012910_Final_Redacted.pdf

[3] Decision taken in a Part II Paper on Residual Waste Treatment Strategy at the 12 December 2013 Authority Meeting.

2.8. The project was subsequently taken forward through the Development Consent Order (DCO) process. Between 2014 and 2015, NLWA undertook extensive consultation with local residents, stakeholders and statutory bodies, including public exhibitions, community events and direct engagement with more than 28,000 households and businesses. Feedback received helped shape aspects of the project design, including enhanced walking and cycling provision, improvements to EcoPark House, the use of air-cooled condensers and strengthened environmental controls[4]. Following examination by the Planning Inspectorate, development consent was granted by the Secretary of State on 24 February 2017[5].

Using Waste to Generate Electricity and Heat

2.9. A key benefit of retaining energy recovery capacity in north London is that it enables residual waste to be managed close to where it is produced, in line with the proximity principle, rather than relying on landfill or transporting waste long distances to third-party facilities elsewhere in the UK or overseas. A local, publicly owned Energy Recovery Facility avoids the environmental impacts associated with exporting hundreds of thousands of tonnes of waste each year, including increased road transport, fuel consumption and associated emissions. It also provides a lower-carbon alternative to landfill, where biodegradable waste decomposes and generates methane, a potent greenhouse gas.

2.10. The ERF has been designed as a highly efficient combined heat and power-enabled facility capable of generating up to 78 megawatts of electricity from residual waste. Unlike older energy-from-waste facilities that generate electricity alone, the new ERF has been specifically designed to supply both electricity and heat. This significantly increases the overall efficiency of the facility by making use of energy that would otherwise be lost.

2.11. Siting the ERF in north London enables it to support one of the UK's largest district heat networks, with the potential to provide low-carbon heating and hot water to up to 60,000 local homes and businesses. By supplying heat directly to homes, schools, public buildings and commercial premises, the ERF can help reduce reliance on individual gas boilers and support the transition away from fossil-fuel heating.

2.12. The generation of both heat and power also improves the overall environmental performance of the facility. Recovering energy in the form of both electricity and heat means a greater proportion of the energy contained within residual waste is put to productive use, reducing the need for energy from other sources and supporting wider UK decarbonisation objectives.

[4] The Consultation Report can be viewed at: https://northlondonheatandpower.london/project/developmentconsent-order-archives

[5] The North London Heat and Power Generating Station Order 2017 can be viewed at: https://www.legislation.gov.uk/uksi/2017/215/introduction

Environmental Features

2.13. A principal environmental benefit of the ERF is its significantly improved emissions performance compared with the existing facility and other plants operating in the UK. The plant has been designed to incorporate some of the most advanced emissions control technology available and will be among the cleanest and highest-performing facilities of its type in the UK. The facility will use a multi-stage flue gas treatment process to remove particulate matter, acidic gases, heavy metals and other trace pollutants before emissions are released to the atmosphere.

2.14. The ERF will be the first energy recovery facility of its kind in the UK to benefit from Selective Catalytic Reduction (SCR) technology, a world-class system for controlling emissions of nitrogen oxides (NOx). SCR works by converting nitrogen oxides into water vapour and nitrogen, a harmless gas that makes up approximately 78 per cent of the Earth's atmosphere. As a result, nitrogen oxide emissions from the facility are expected to be substantially below regulatory limits and around 60 per cent better than applicable UK standards.

2.15. The facility will operate under a strict environmental permit issued by the Environment Agency and will be subject to continuous emissions monitoring and regulatory oversight throughout its operation.

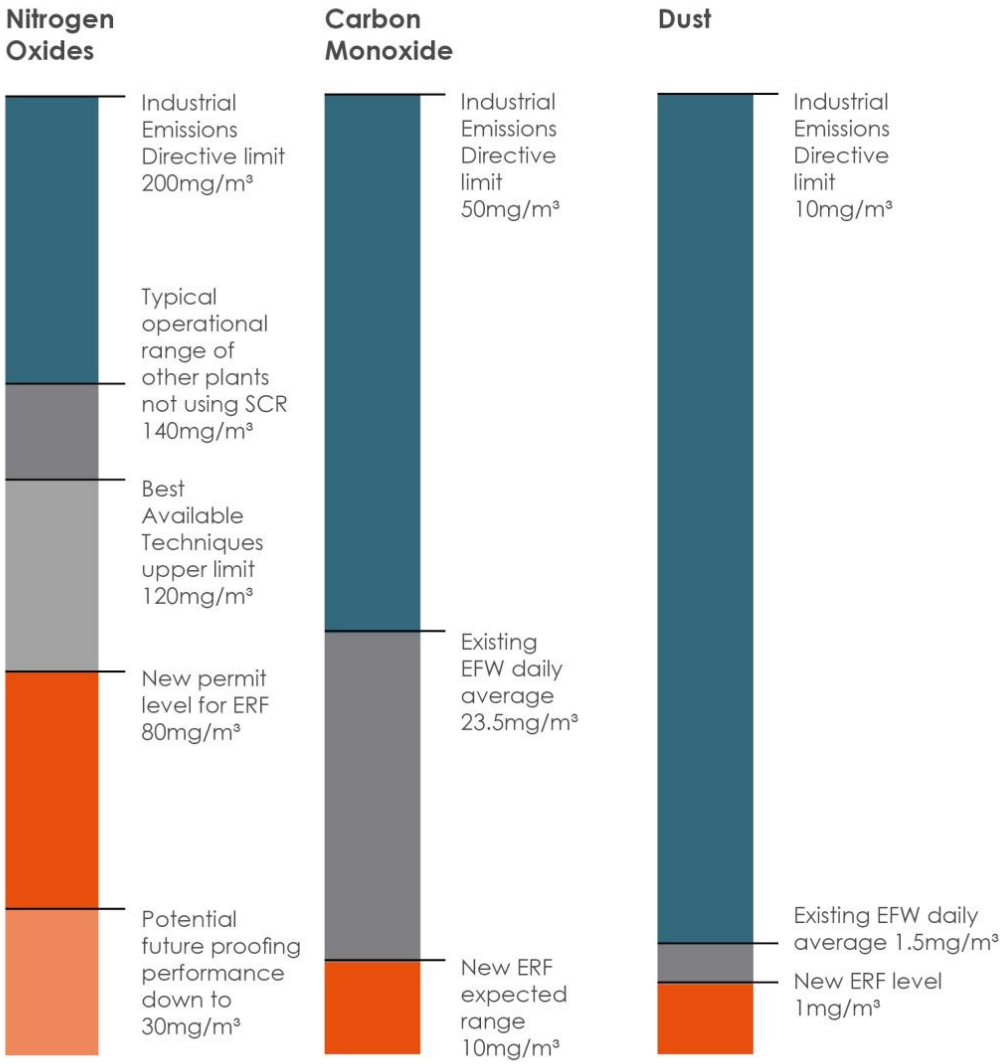


Figure 2 Graph showing the emissions from the new facility (in orange) compared to the existing facility (in Grey) and Industrial Emissions Directive limits (in blue).

2.16. The wider redevelopment of Edmonton EcoPark includes measures to enhance biodiversity and environmental quality. These include the creation of new habitats, green roofs, bird and bat boxes, insect habitats and new planting across the site. In addition, the completed EcoPark South facilities incorporate one of north London's largest rooftop solar installations, further contributing to renewable energy generation and the sustainable operation of the site. Contractors have also been required to reduce carbon emissions associated with building the facilities through careful consideration of construction materials and processes on the site, like the use of low carbon concrete alternatives.

Ambitious Social Value Objectives

2.17. From the earliest stages of the project, the Authority was clear that the redevelopment of Edmonton EcoPark should deliver benefits extending beyond waste management infrastructure. As a result, ambitious social value objectives[6] were embedded within the project's development and procurement strategy, with contractors required to contribute to local employment, skills development, apprenticeships, community engagement and support for local businesses. These objectives reflected the Authority's commitment to ensuring that investment in the project would create lasting economic and social benefits for residents across the seven north London boroughs, alongside the delivery of a modern and sustainable waste management facility.

2.18. The Authority also recognised that the scale and duration of the project created a unique opportunity to support workforce development and improve access to employment within the local area. Social value targets were therefore established covering local labour, apprenticeships, training placements and supply-chain opportunities. Throughout delivery of the project, contractors have been required to work with NLWA officers to maximise opportunities for north London residents and businesses and to report regularly on performance against these commitments.

2.19. The project has delivered significant outcomes against these objectives. Across its lifetime, approximately 2,500 jobs and employment opportunities are expected to be created through construction and associated supply chains. In addition, the project committed to providing at least 225 on-site training placements for local residents, school and college leavers, and those seeking to enter or return to employment. Apprenticeship opportunities have also been created across a range of disciplines, including construction, engineering, surveying, information technology and business, helping to develop the skills needed to support both major infrastructure delivery and the transition to a greener economy.

2.20. The Authority also sought to ensure that the project would leave a lasting legacy for local communities. This objective is reflected in the delivery of EcoPark House, a dedicated education and community facility that provides opportunities for residents, schools and community groups to learn about waste prevention, reuse, recycling and the circular economy. Together with the new Reuse and Recycling Centre and Resource Recovery Facility, these facilities support wider community engagement and help promote more sustainable behaviours across north London.

[6] A Social Value Strategy was noted by Members on 2 November 2020: https://www.nlwa.gov.uk/sites/default/files/2020-10/05%20Social%20Value%20Strategy.pdf



Figure 3 EcoPark House is a new community and education facility for north London's communities

2.21. The social value programme has therefore been an integral part of the project rather than an additional benefit. By embedding social value requirements within the project's delivery arrangements, the Authority sought to ensure that investment in new waste infrastructure would also support local employment, skills, education, community wellbeing and economic growth, creating a positive legacy for north London that extends well beyond the operational life of the facility.

3. CONTRACT PROCUREMENT AND DELIVERY

Contract Procurement and Award

3.1. In 2020 and 2021 a public procurement exercise led to the selection of ACCIONA SA as the contractor to deliver the Energy Recovery Facility (ERF). Three bidders were originally shortlisted and invited to participate in detailed dialogue; however, following the withdrawal of one bidder and the combination of two bidders into a single proposal led by ACCIONA, only one final tender was submitted.

3.2. The nature of the procurement process was to assess via competitive dialogue the tenderer's submission. 177 dialogue sessions covered 1,446 topics in a three-cycle process to validate that the bid was fit for purpose. Additional benchmarking and analysis of the tender proposals was also undertaken given the single bidder environment. The Project team raised issues with ACCIONA during this period to ensure the company understood the requirements of delivering an ERF within the north London context and test the allocation of risk within the Contract. The final

bid and results of the dialogue process were also verified by an independent third party that confirmed the project represented the best value option within the UK market. NLWA Members were presented with the position and a summary of the procurement results[7] at the December 2021 Authority Meeting where Members gave delegated approval for the Managing Director to sign the Contract.

3.3. Following contract award, ACCIONA commenced design and construction of the Energy Recovery Facility (ERF) under a lump-sum Engineering, Procurement and Construction (EPC) contract. The ERF Contract transferred significant delivery risk to ACCIONA, including responsibility for the design, procurement, construction and commissioning of the facility in accordance with the contract requirements.

Start of Construction

3.4. Construction activities for the ERF commenced in 2022 and progress was initially broadly consistent with expectations. The Project team worked with ACCIONA to mobilise the site for construction. There were some delays to handing over parts of the site to Acciona as the footprint of the Energy Recovery Facility was also being used to allow bulky waste transfer, prior to the Resource Recovery Facility being completed at the site. Despite this construction was still able to commence on a reduced footprint in September 2022.



Figure 4 Acciona Construction Area with ground works started in September 2022.

3.5. The Project team played a key role in assuring ACCIONA's designs were compliant with the requirements of the Development Consent Order and needs of north London's boroughs. Some changes were requested to the design of the fire suppression system to meet UK compliance measures and measures to ensure the waste bunker was completely watertight.

[7] Member decision paper for the ERF Procurement can be viewed at https://www.nlwa.gov.uk/sites/default/files/2021-12/03%20ERF%20Procurement.pdf

3.6. Local companies were selected to deliver the ground works, with Enfield-based company Galldris amongst the first contractors supporting the delivery in preparation for building foundations. Health and Safety has been a priority for the workforce from the outset of the Project. However, during the first year of construction a fatality occurred on the site. Works were immediately suspended and recommenced only once a thorough review of safety procedures had been carried out and NLWA as client and ACCIONA were completely satisfied that it was safe to resume.



Figure 5 Formation of the bunker walls following piling works completion by 2023.

3.7. Throughout delivery the Project team supported and monitored the delivery of construction activities on the site ensuring environmental assurance, health and safety compliance and delivery of the designs was consistent with the requirements of the Contract. Good progress was made across 2022 and into 2023 with over 1,500 foundation piles laid to support the building structure and excavation and installation of the 20m deep waste bunker and concrete building slab. The concrete used across the site was also procured from a local company reducing truck journeys to deliver to the site and supporting a reduction in the embodied carbon during the build processes.

3.8. In 2023 ACCIONA's Programme Director left the project after retiring and shortly after NLWA's Programme Director also retired. Both directors were strong advocates for supporting good conditions for the workforce and social value in the local community; as evidenced by the awards recognising the Schools Engagement programme, best public sector brownfield site and best workplace mental health team during 2023.

Emergence of Delivery Challenges

3.9. By late 2023 and into 2024, concerns began to emerge regarding overall delivery performance, programme adherence and the pace of construction activity for the ERF. These concerns became increasingly significant as delays accumulated across multiple aspects of the project.

3.10. A range of factors contributed to the deterioration in delivery performance. These included labour availability and mobilisation challenges, supply chain constraints, engineering and design coordination issues, and wider difficulties associated with managing a highly complex infrastructure project within a constrained urban environment. A number of global factors were impacting major projects across the UK at the time, including:

3.10.1. A strong increase in inflation following the Russian invasion of Ukraine in 2022. This also led to raw materials supply and prices becoming more uncertain;

3.10.2. Major economic uncertainty and interest rate rises associated with the 2022 “mini budget”;

3.10.3. Lack of specialist, skilled labour;

3.10.4. Continuing Covid-19 and Brexit impacts;

3.10.5. Global economic uncertainty, particularly related to events in the Middle East.

3.11. These factors contributed to increasing programme pressures, difficulties securing specialist subcontractors and growing uncertainty regarding both cost and time for project completion. The project also experienced challenges associated with logistics management, subcontractor performance and productivity levels.

3.12. As programme delays increased, the relationship between NLWA and ACCIONA became increasingly focused on resolving delivery concerns and assessing their implications for the overall project. The Project team intensified its contract management activities, seeking greater assurance regarding recovery plans, programme forecasts and the actions being taken to address emerging issues.

3.13. Despite these efforts, confidence in the reliability of project schedules and forecasts continued to decline. Significant differences emerged between the parties regarding the causes of delays, responsibility for project impacts and the appropriate mechanisms for addressing them under the Contract. Construction continued during this period into late 2024 when the mechanical and electrical works began on the site.

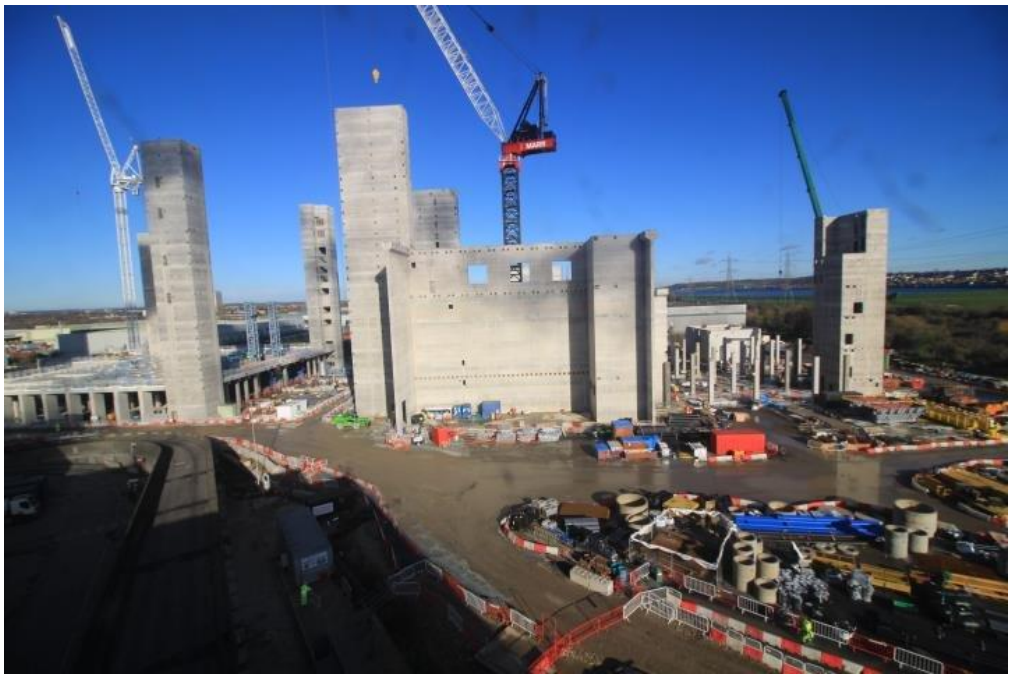


Figure 6 Concrete and civils complete with steel erection commencing in late 2024 behind schedule.

3.14. Throughout this period, NLWA maintained oversight through its project governance arrangements and specialist technical, legal and commercial advisers. However, given the scale of the challenges and the importance of securing an objective assessment of the project's position, the Project team concluded that additional independent assurance was required.

Project Audit and Review of Delivery Position

3.15. To support a fuller understanding of the project's status and future prospects, the Project team commissioned an independent audit of the contract and delivery programme. The Project Audit was designed to provide a comprehensive and objective assessment of project delivery and underlying causes of delay. Specifically, the Project Audit sought to:

3.15.1. Evaluate compliance with contractual obligations, milestones and deliverables.

3.15.2. Assess the effectiveness of project management and governance arrangements.

3.15.3. Review the status and quality of engineering and construction activities.

3.15.4. Identify risks, weaknesses and deficiencies affecting project delivery.

3.15.5. Recommend actions to improve project performance and oversight.

3.15.6. Assess the feasibility and robustness of the project programme and delivery timeline.

3.16. The Project Audit was undertaken over a three-month period using a methodology based upon recognised auditing standards, including ISO 19011:2018. The review process included extensive examination of project documentation, interviews with the client project team and advisers, discussions with contractor personnel, programme analysis, assessment of engineering and construction activities, and review of risk, procurement and quality management arrangements.

3.17. Documentation reviewed included contractual records, project execution plans, design documentation, technical specifications, baseline and updated schedules, quality assurance records, risk registers, meeting records and project correspondence.

3.18. The Project Audit evaluated project performance against contractual requirements, recognised project management methodologies, quality management standards and established industry practices. Particular consideration was given to programme performance, governance arrangements, engineering progress, construction delivery, workforce mobilisation, resource planning, subcontractor management and supply chain performance.



Figure 7 Steel frame of building making progress in 2025 with equipment to process waste being installed.

3.19. The Project Audit identified a number of significant issues affecting project delivery. Key areas examined included:

3.19.1. Project timelines and schedule performance.

3.19.2. Documentation and systems integration.

3.19.3. Project management and governance.

3.19.4. Labour availability and recruitment.

3.19.5. Logistics and supply chain management.

3.19.6. Engineering and construction management.

3.19.7. Risk management and mitigation.

3.19.8. Quality assurance and quality control processes.

3.20. The Project Audit concluded that substantial improvements were required in a number of areas to increase the likelihood of successful project delivery. In particular, it highlighted opportunities to strengthen engineering and construction management processes, improve quality assurance arrangements, enhance logistics planning and subcontractor management, develop more robust risk management processes and establish a more reliable and achievable delivery programme.

3.21. The Project Audit also identified the importance of rebuilding a more collaborative working relationship between the Project team and ACCIONA. While recognising the contractual disputes and challenges affecting the project, the review concluded that improved cooperation and communication would be an important factor in supporting future delivery performance.

3.22. A comprehensive set of recommendations was produced. The majority were directed towards ACCIONA and focused upon:

3.22.1. Strengthening engineering and construction management.

3.22.2. Improving quality assurance and quality control processes.

3.22.3. Developing a comprehensive subcontractor strategy.

3.22.4. Improving logistics planning and coordination.

3.22.5. Strengthening risk management and mitigation.

3.22.6. Developing a robust and achievable delivery programme supported by productivity assessments.

3.22.7. Improving collaboration and communication with NLWA.

3.22.8. Implementing formal improvement plans supported by 30, 60 and 90-day review periods.

3.23. The Project Audit also identified actions for NLWA, including:

3.23.1. strengthening oversight arrangements

3.23.2. improving document verification procedures

3.23.3. supporting improvements in client-contractor collaboration.

3.24. The findings provided the Project team with an important independent assessment of the project's status and future prospects. The findings were shared with Members, and the overview report can be found in confidential Appendix C: NLHPP Audit report Summary.



Figure 8 Close up aerial view of emissions cleaning technology installed in the Energy Recovery Facility.

Independent Review of Delivery Options

3.25. The Project Audit formed one element of a broader review of the future delivery of the ERF. The Clerk, on behalf of borough Chief Executives, asked the Managing Director of NLWA to organise a detailed assessment of the strategic, commercial and delivery options available. This work considered the implications of continuing with the existing contractual arrangements, potential alternative delivery approaches and the consequences of more fundamental changes to the project's delivery model. The outcome of this review is included as Appendix D: Independent Review of Delivery Options.

3.26. The assessment considered programme impacts, cost implications, procurement requirements, delivery risks, technical considerations and wider operational consequences. Particular consideration was given to the effect that any alternative approach would have on the delivery timetable for the ERF and the Authority's long-term waste management strategy.

3.27. The review examined a range of alternative delivery options, including replacing the contractor or restructuring delivery arrangements, and found that these would be likely to introduce significant additional programme, procurement, legal and transition risks, with no clear assurance of a better outcome. This analysis demonstrated that all realistic alternatives carried significant cost, programme and implementation risks. Potential alternative delivery routes would have required substantial mobilisation activities, complex contractual transitions, a new procurement process and significant additional time before construction activity could recommence at scale.

3.28. Although the Project Audit identified important areas to address in project delivery, it also identified a pathway through which performance could improve if appropriate corrective actions were implemented. When the Project Audit was considered alongside the wider strategic and commercial analysis carried out as part of the Independent Review of Delivery Options, it was concluded that completion of the project with ACCIONA remained the most deliverable and lowest-risk route to securing completion of the Energy Recovery Facility.

3.29. This conclusion did not imply that project risks had been removed. Rather, it reflected a judgement that the risks associated with alternative delivery options were likely to be greater than those associated with seeking to improve performance within the existing contractual framework. findings were shared with Members, and the overview report can be found in confidential Appendix C: NLHPP Audit report Summary.

Contractual disagreements

3.30. As is common on major infrastructure and construction projects, some commercial disagreements arose between NLWA and ACCIONA as delays to the project increased and the parties adopted differing views on the allocation of risk and responsibility as set out in the Contract. In particular, ACCIONA argued that NLWA, as the client, should bear a greater share of the financial consequences associated with certain project impacts.

3.31. ACCIONA submitted a number of claims under the Contract seeking additional time and cost relief. NLWA carefully considered these claims but did not accept that the amounts sought represented ACCIONA's contractual entitlement. As a result, disputes emerged regarding the interpretation and application of contractual provisions and the extent to which additional costs should be borne by NLWA as the client.

3.32. Such disputes are not unusual on large and complex construction projects. Under the contractual arrangements, where the parties could not reach agreement, ACCIONA has the right to pursue its claims through arbitration. Arbitration provides a formal mechanism for the independent resolution of disputes relating to contractual entitlement and risk allocation. The outcome of any legal proceedings cannot be guaranteed and carries the prospect of prolonged litigation, significant legal costs and ongoing uncertainty regarding both the final cost and completion date of the project.

3.33. In addition, the existence of multiple disputes risked diverting management attention and resources away from the primary objective of completing and commissioning the Energy Recovery Facility. While the more recent negotiations took place, disputes were put to one side, and this has benefitted delivery in measurable terms. Against this backdrop, it was in the interests of the constituent boroughs for the project team to explore whether a negotiated settlement could provide a more certain, lower-risk and more cost-effective route to achieving completion. Exploring a negotiated resolution did not reflect a change in the Authority's view of the merits of ACCIONA's claims; rather, it reflected a pragmatic assessment of how best to secure delivery of the project while reducing the risks, costs and uncertainties associated with prolonged dispute resolution.



Figure 9 Aerial view of Energy Recovery Facility in August 2026 with Stack completed and major elements of the emissions cleaning equipment installed.

4. RENEWED NEGOTIATIONS AND HEADS OF TERMS

4.1. The findings of the Project Audit, alongside the Independent Review of Delivery Options, informed the decision to pursue renewed negotiations with ACCIONA. Negotiations were led by the Clerk on behalf of the Authority and conducted under a Memorandum of Understanding dated 23 January 2026.

4.2. The objective of these negotiations was to improve confidence in project delivery, establish a more realistic framework for future programme performance and secure arrangements that would better protect the Authority's interests while supporting successful completion of the project.

4.3. Negotiations considered a range of commercial, contractual and delivery matters, including programme assumptions, risk allocation, governance arrangements, dispute resolution and mechanisms designed to improve project performance and oversight.

4.4. As set out in 2.30-2.33, the discussions took place against the backdrop of ongoing contractual disputes and claims but were nevertheless pursued on the basis that a negotiated outcome offered the best opportunity to improve certainty regarding delivery of the ERF.

4.5. The Project team engaged closely with constituent borough Chief Executives, Directors of Environment and Directors of Finance throughout this period because

of the significant implications for future Authority costs which would affect constituent boroughs.

4.6. Following that engagement, the Authority determined that negotiations should be undertaken on a formal "Without Prejudice" basis. This means that in undertaking negotiations neither side was renouncing the contractual entitlements to which they considered themselves entitled. The negotiations sought to establish:

4.6.1. an agreed route to project completion;

4.6.2. a realistic and achievable programme;

4.6.3. greater certainty over project cost;

4.6.4. improved future risk allocation;

4.6.5. enhanced governance arrangements;

4.6.6. a framework for project recovery;

4.6.7. resolution of existing disputes and claims.

Existing Contractual Position

4.7. The Contract is an amended IChemE Red Book design and build contract entered into on 24 January 2022. The ERF Contract requires relevant engineering construction activities to be undertaken in accordance with the National Agreement for the Engineering Construction Industry (NAECI), which establishes nationally agreed employment and industrial-relations arrangements for work within its scope.

4.8. Although procured as a design and build contract, the Contract differs from a conventional fixed-price EPC arrangement because a number of risks were either retained by, or shared with, NLWA. These include:

4.8.1. The risk that a NAECI workforce would be less productive than could be achieved without requiring contractors to adhere to NAECI (NAECI productivity risk)

4.8.2. Future pay rises for workers on NAECI terms as these are negotiated at a national level and an individual site is bound by the national negotiations (NAECI wage-rate escalation)

4.8.3. NAECI is intended to reduce the potential for industrial action and create successful working between employers and employees. The Authority agreed to accept the risk of industrial relations if ACCIONA had showed that it had complied with NAECI requirements (industrial relations risks).

4.8.4. Given that the project would take some years to complete the Authority also accepted risks for certain inflation applying to future costs (general cost indexation).

4.9. The interpretation of the contractual provisions relating to NAECI productivity, and the lawfulness of those provisions, are the subject of disagreements, as set out in section 2. Further details are provided to Members in Appendix F: Background and inclusion of NAECI.

Original Contract Value

4.10. At contract award, the Managing Director and Programme Director were granted delegated authority to enter into and manage the Contract within an overall financial limit of £885.1 million.

4.11. At the time of procurement, this was considered sufficient to manage the risks retained by the NLWA as the client. However, subsequent project experience demonstrated that assumptions relating to inflation, productivity, labour market conditions and risk allocation evolved significantly from those anticipated during procurement. £885.1m does not represent the final amount payable under the existing Contract because a number of disputed matters remain unresolved.

Programme Position

4.12. The original contractual Take Over Date was 9 September 2026. Following the award of three Extensions of Time, the contractual Take Over Date moved to 14 May 2027.

4.13. Notwithstanding those Extensions of Time, in 2026 neither party considered completion by May 2027 to be achievable. By the commencement of negotiations, ACCIONA's reported programme position indicated project completion in 2032. At the same time, ACCIONA asserted that the completion date was effectively "at large" meaning the end date was unknown, arguing that delays which they considered a client risk prevented reliance on the contractual completion mechanism. NLWA rejected that position and maintained that ACCIONA remained bound by its contractual obligations.

4.14. The result was that the parties no longer had a common programme baseline against which progress, responsibility for delay and forecast completion could be measured. This created increasing uncertainty regarding both delivery and future commercial exposure.

Completion of Negotiations and Heads of Terms

4.15. The final round of negotiations resulted in non-binding Heads of Terms being agreed and, forming the basis of the proposed Settlement and Variation to the Contract as set out in Section 4. The non-binding nature of the Heads of Terms

reflects that officers cannot make firm commitments unless and until they are approved by Members.

4.16. The proposed contractual amendments reflect the lessons identified through the audit process, the conclusions of the options assessment and the Authority's objective of securing the most practical and deliverable route to project completion.

4.17. The rationale and basis for a Settlement and Variation Agreement (SVA) between NLWA and Acciona in relation to the ERF Contract is provided to Members in Appendix B (Project Delivery, Commercial and Cost Advice). This includes commercial, programme and project-delivery analysis supporting the consideration of the proposed SVA.

5. PROPOSED AMENDMENT TO THE CONTRACT

5.1. The proposed Settlement and Variation Agreement (SVA) was developed following an extensive period of commercial engagement between the Project Team and ACCIONA. The agreement is intended to establish a clear, deliverable and contractually agreed basis for completion, replacing the current position in which the parties maintain differing views regarding programme, entitlement and future delivery assumptions. It would replace the current uncertain and disputed commercial position with a defined Contract Price, revised Take Over Date and clearer allocation of future risk.

5.2. The proposed Settlement and Variation should be viewed as a project recovery intervention rather than solely a commercial settlement. It seeks to establish a stable contractual and commercial framework for completion of construction, commissioning, performance testing, takeover and transition into operation, whilst providing greater certainty regarding programme, cost, risk allocation and project delivery.

5.3. The agreement also forms an integral part of the wider strategy for securing successful completion of the ERF and bringing the facility into operation at the earliest realistic opportunity.

5.4. Key points that have been agreed in principle under the non-binding Heads of Terms are:

5.4.1. A revised Contract Price.

5.4.2. A revised contractual Take Over Date of 29 December 2029.

5.4.3. All NAECI productivity risks previously shared between ACCIONA and NLWA, and currently subject to dispute between the parties, are transferred in whole to ACCIONA.

5.4.4. NAECI wage rate escalation risk transfers to ACCIONA.

5.4.5. Indexation risk transfers to ACCIONA.

5.4.6. Industrial relations risk transfers to ACCCIONA.

5.4.7. Agreement to review contract schedules to support improved and more efficient delivery.

5.4.8. Full and final settlement of all existing claims and closure of the arbitration proceedings.

5.4.9. Agreement between the parties to use best endeavours to identify, evaluate and where feasible implement opportunities to reduce the remaining cost of delivery and improve project efficiency.

5.5. The revised Contract Price and associated financial details including risk transfer and residual risks are set out in Appendix A (Proposed Contract Amendment). As these matters are commercially sensitive and remain subject to approval by the Authority, they are exempt from publication at this stage. This is consistent with the approach adopted when the original contract was awarded, with commercially confidential pricing information being made fully available to Members and considered in confidential Appendix A: Proposed Contract Amendment. Subject to the Authority's decision, the agreed contract value will be published through the appropriate procurement and transparency processes, including the publication of a Voluntary Ex-Ante Transparency (VEAT) notice.

5.6. Successful completion requires ACCIONA to continue committing corporate leadership, specialist personnel, engineering capability, supply-chain support and substantial financial resources. An agreed Contract Price, Approved Programme and future allocation of risk are essential to providing both parties with a sufficiently clear and sustainable framework for completing the Project.

Comparison of Existing and Proposed Contractual Positions

Issue	Current Position	Proposed Position
Contract Price	Subject to continuing dispute and future risk exposure	Fixed
Programme	Differing positions between the parties	Agreed programme and milestone framework
Existing Claims	Ongoing disputes and arbitration	Settled through the SVA
Productivity Risk	Shared/disputed	ACCIONA responsibility
Wage Escalation Risk	NLWA exposure	ACCIONA responsibility

Issue	Current Position	Proposed Position
Indexation Risk	NLWA exposure	ACCIONA responsibility
Industrial Relations Risk	NLWA exposure	ACCIONA responsibility

5.7. The table above compares and demonstrates the differing levels of certainty associated with the two positions. Under the proposed Settlement and Variation, key areas of programme, cost and risk allocation would be governed by agreed contractual arrangements. Without the Settlement and Variation, a greater proportion of future exposure would remain dependent upon the resolution of disputes and future commercial negotiations. In that scenario, the Authority would continue to carry a larger number of risks that are difficult to quantify in advance, including the effects of inflation, labour market changes, supply-chain disruption and other external events that may affect cost and delivery outcomes.

Commercial Framework and Financial Certainty

5.8. The proposed revised Contract Price is a negotiated settlement figure intended to establish a clear and deliverable basis for completion of the ERF. It does not represent a determination of ACCIONA's contractual entitlement, nor does it represent a forecast of ACCIONA's actual outturn cost of delivering the works.

5.9. In developing the proposed settlement, officers considered the existing Contract Price, agreed and outstanding variations and claims, together with the value associated with achieving greater certainty regarding future project delivery. Particular consideration was given to the transfer of significant future risks to ACCIONA, the establishment of an agreed programme baseline and the resolution of existing disputes.

5.10. The revised Contract Price should therefore be viewed as a comprehensive commercial settlement which combines resolution of historic matters with allocation of future risks and responsibilities.

Settlement of Existing Disputes

5.11. The proposed Settlement and Variation would provide a structured resolution of a number of disputes and areas of disagreement that have emerged and referred to in section 2.

5.12. The Authority and ACCIONA presently hold differing positions regarding responsibility for delays, programme impacts and associated commercial consequences. If left unresolved, these matters have the potential to result in continued dispute activity, uncertainty regarding future liabilities and increased management effort.

5.13. The proposed settlement would provide a framework through which these matters can be resolved, reducing the risk of prolonged dispute resolution processes and enabling both parties to focus resources on successful completion of the remaining works.

Transfer of Future Delivery Risks

5.14. A key benefit of the proposed Settlement and Variation Agreement (SVA), detailed in Appendix B (Project Delivery, Commercial and Cost Advice) is the transfer to ACCIONA of several significant future risks that are currently shared with, or retained by, NLWA. These comprise NAECI productivity risk, NAECI wage-rate escalation risk, indexation risk and industrial-relations risk.

5.15. In return for the revised Contract Price, ACCIONA would assume responsibility for the future cost and programme consequences arising from these risks. This would materially reduce NLWA's exposure to future increases arising from them and provide greater certainty regarding future project costs and delivery obligations.

5.16. If Members approve the recommendations, a VEAT Notice will be published and, following the expiry of the 30-day period, the amendment to the Contract will be effected by way of a Settlement and Variation Agreement (SVA) between NLWA, acting as Purchaser, and ACCIONA, acting as Contractor.

6. BENEFITS AND RISKS OF CONTRACT AMENDMENT

6.1. The amendment through the Settlement and Variation Agreement (SVA) would replace the current disputed commercial and programme position with an agreed contractual framework for completing the ERF. It would settle the identified historic claims and arbitration proceedings, establish a revised Contract Price and take over date, transfer specified future risks to ACCIONA, and introduce a new approved programme against which delivery can be managed.

6.2. The SVA preserves NLWA’s ability to hold ACCIONA accountable for delivering a completed, commissioned and contractually compliant facility, rather than merely completing individual elements of construction. Together with the revised Contract Price, transferred risks and New Approved Programme, this provides a clearer basis for monitoring performance, identifying delay or non-compliance, and requiring mitigation, recovery or corrective action.

6.3. A significant benefit to NLWA is that ACCIONA would continue to be held to its integrated responsibilities. ACCIONA would remain contractually responsible for completing the design, procurement and construction of the facility, integrating its systems, rectifying defects, undertaking testing and commissioning, and demonstrating the required plant performance through the contractual testing process.

6.4. Maintaining this single point of responsibility is particularly important given the technical complexity and interdependence of the remaining construction, systems-integration, commissioning and performance-testing activities. It avoids NLWA having to separate responsibility for existing design and construction from responsibility for completing and proving the facility or attempting to transfer those obligations to a replacement contractor that may be unwilling to accept responsibility for work already undertaken. Soft market testing indicated that if contractors could be found to step in; the premium for the risk they were taking on would be an excessively high cost for NLWA to cover.

Why the New Approved Programme Improves Confidence

6.5. The SVA establishes a New Approved Programme for completing the remaining construction, testing, commissioning, performance testing and Take Over activities, with a revised contractual Take Over Date of 29 December 2029. The programme replaces the previous contested position with a single, integrated and contractually enforceable baseline against which progress, forecast completion and ACCIONA's performance can be assessed.

6.6. The programme sets out a recognisable and practicable route to completion. The critical path progresses through Boiler Line 2 mechanical erection, cable installation, cold commissioning, hot commissioning and performance testing. It also provides the basis for integrating the detailed delivery sequence with contractual milestones, payment arrangements, third-party interfaces, information deliverables, commissioning requirements and operator-readiness activities.

6.7. The New Approved Programme provides NLWA with:

6.7.1. Objective milestones against which progress can be measured.

6.7.2. Improved visibility of the critical path, risks and dependencies.

6.7.3. Better alignment between physical progress, contractual achievement and payment.

6.7.4. Earlier warning of emerging delay.

6.7.5. A stronger basis for requiring mitigation or recovery action.

6.7.6. Improved integration of construction, commissioning, third-party interfaces and operational readiness.

6.8. The New Approved Programme provides benefits beyond establishing a revised Take Over Date. It creates a series of objective intermediate milestones against which performance can be measured and challenged, provides improved visibility of critical-path activities and establishes a clearer basis for monitoring progress and delivery confidence.

6.9. The agreed programme is also intended to provide earlier warning of emerging delay than is possible under the current disputed programme position. This will support more timely intervention, mitigation and recovery activity where performance begins to diverge from planned outcomes.

Consequences of Not Amending the Contract

6.10. Failure to formally agree and implement the Settlement and Variation, or significant delay in doing so, would not preserve a certain position. The arbitration and other commercial disputes would continue and the Contract Price, Approved Programme and contractual responsibility for significant future commercial risks would all remain contested.

6.11. Immediate consequences would include that Disputes would continue; there would not be an agreed programme for works; and there would be continued uncertainty over cost, time and risk allocation. This would bring the strong potential for deteriorating delivery performance and contractor commitment.

6.12. NLWA could therefore progressively lose effective control of the Project's completion strategy, with delivery increasingly driven by dispute resolution, enforcement processes and contractor loss-minimisation rather than by an agreed and coordinated completion plan.

6.13. The contractual process which addresses deteriorating contractor performance means a formal default and enforcement processes may be enacted and, ultimately, termination by NLWA. There is no assurance that a replacement contractor could be secured or that it would accept responsibility for ACCIONA's existing design and construction work or provide equivalent integrated plant-performance guarantees. In this scenario, a Public Procurement exercise would be required; also adding 12-18 months to the programme. In addition, because the Heads of Terms remain non-binding until the SVA is executed, delay could result in changes to the negotiated position or the underlying project circumstances upon which the proposed settlement has been developed and undermine the improved relationship and delivery position NLWA is currently seeing.

Signs of Recovery

6.14. In recent months while positive negotiations have progressed, ACCIONA have implemented substantial internal changes to move the delivery forward quicker. These include:

6.14.1. An internal restructure, moving staff from functional department reporting to a single project director reporting line, ensuring focus on ERF delivery.

6.14.2. Strengthening their resources by bringing in specialist staff from their head office in Spain to bolster management and from their sister ERF build in Birmingham to plan and support the future commissioning activities - The

Birmingham facility is well through the commissioning stage; having completed a 'First Fire' of waste.

6.14.3. Investment in a NAECI Skills Academy to assist workers with the required paperwork to work on the site. ACCIONA have also revisited their procurement strategy to let smaller packages of works; which are more attractive to the market.



Figure 10 Technical Testing Accreditation Centre supporting NAECI skills entry to site. Pictured is an operative being tested on pipefitting.

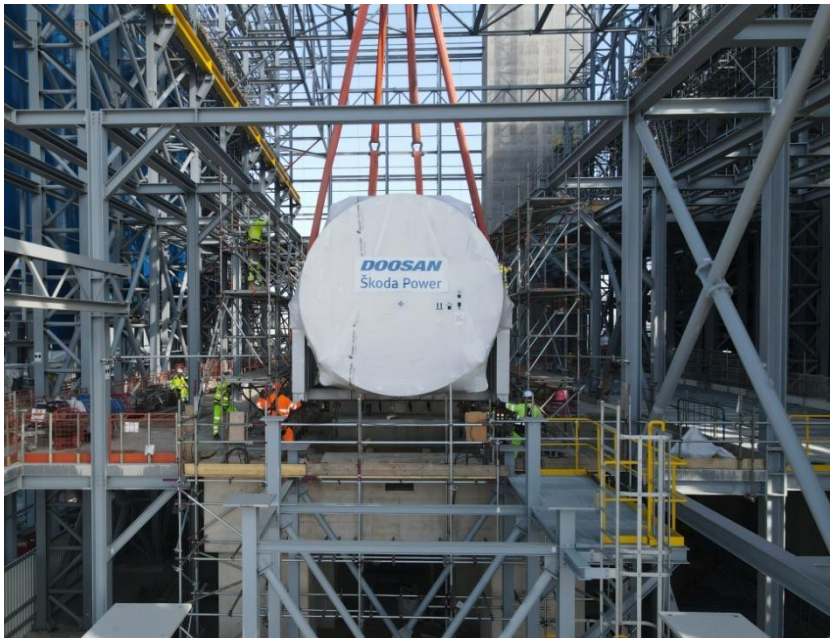


Figure 11 Major milestone completed as the Turbine is lifted into the facility in September 2026.

6.15. ACCIONA have demonstrated a willingness to commit more resources and investment to the project, including progressing key procurement activities, focusing additional attention on critical path works and key contracts with

subcontractors have been signed (previously stalled due to commercial disputes). As a result, early signs of increased activity on site are already being observed, such as the successful installation of the steam turbine and generator and the acceleration of the mechanical installation of the boilers.

6.16. Since early 2026, the NLWA Project Team has observed a number of indicators of improved project mobilisation and delivery performance. These include strengthened project leadership, increased focus on critical-path activities, improved subcontractor mobilisation and progress in key construction areas, including the boiler installation programme. ACCIONA has also increased investment in site resources, management attention and specialist personnel.

6.17. In parallel, there has been greater senior corporate engagement by the Company Board in the Project, together with enhanced focus on programme delivery and recovery activities. Whilst these developments do not remove delivery risk, they provide evidence of increased commitment to successful completion and support the Authority's assessment that the ERF delivery is now operating from a stronger delivery position than previously.

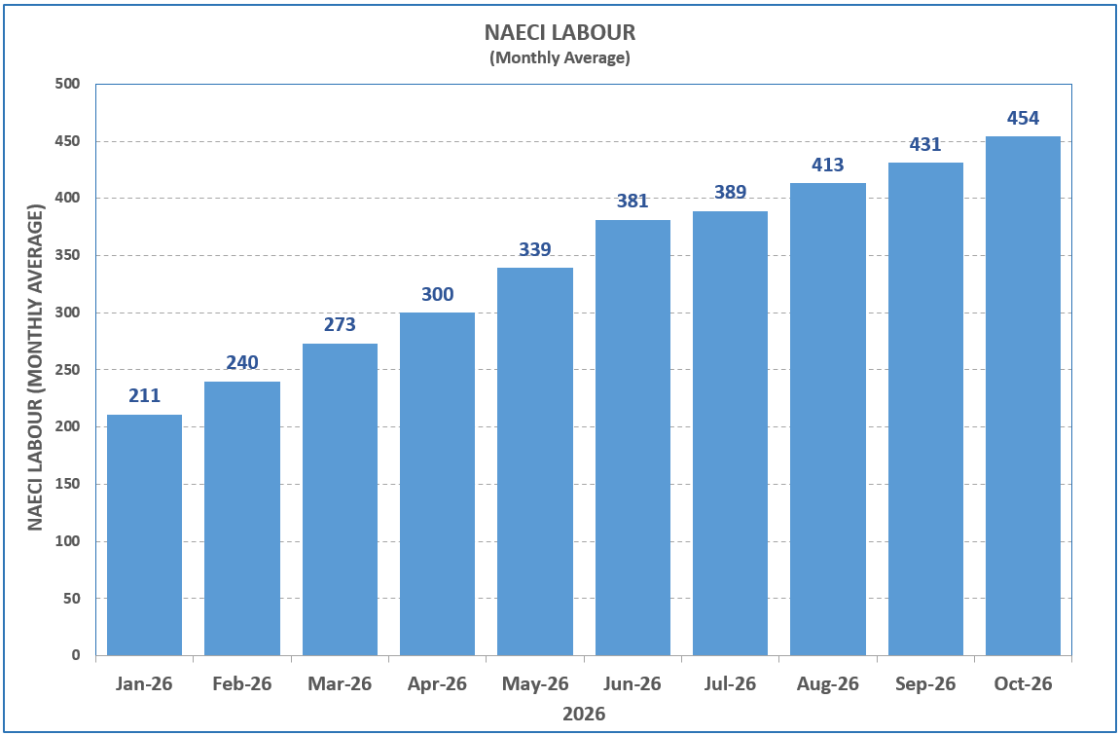


Figure 12 NAECI labour levels across 2026.

6.18. Until the beginning of 2026, the NAECI labour resources were below 200 workers, which were below the planned levels. ACCIONA has shown commitment to the project throughout the negotiations in 2026 and the number of workers have exceeded 400, as Figure 12 shows.

6.19. Through recent negotiations, ACCIONA and NLWA have worked to better understand each other's perspectives and identify behaviours that support effective resolution of ongoing challenges. Alongside formal contractual

arrangements, informal engagements and site walkovers involving the Project Directors and relevant senior project team members have provided a shared view of progress, risks and issues. This has improved transparency, strengthened relationships, and enabled earlier and more constructive resolution of emerging matters.

6.20. The graph in Figure 14 shows monthly progress for the ERF construction, in quarters of a year. From early 2026, the factors above have reflected in more progress on site.

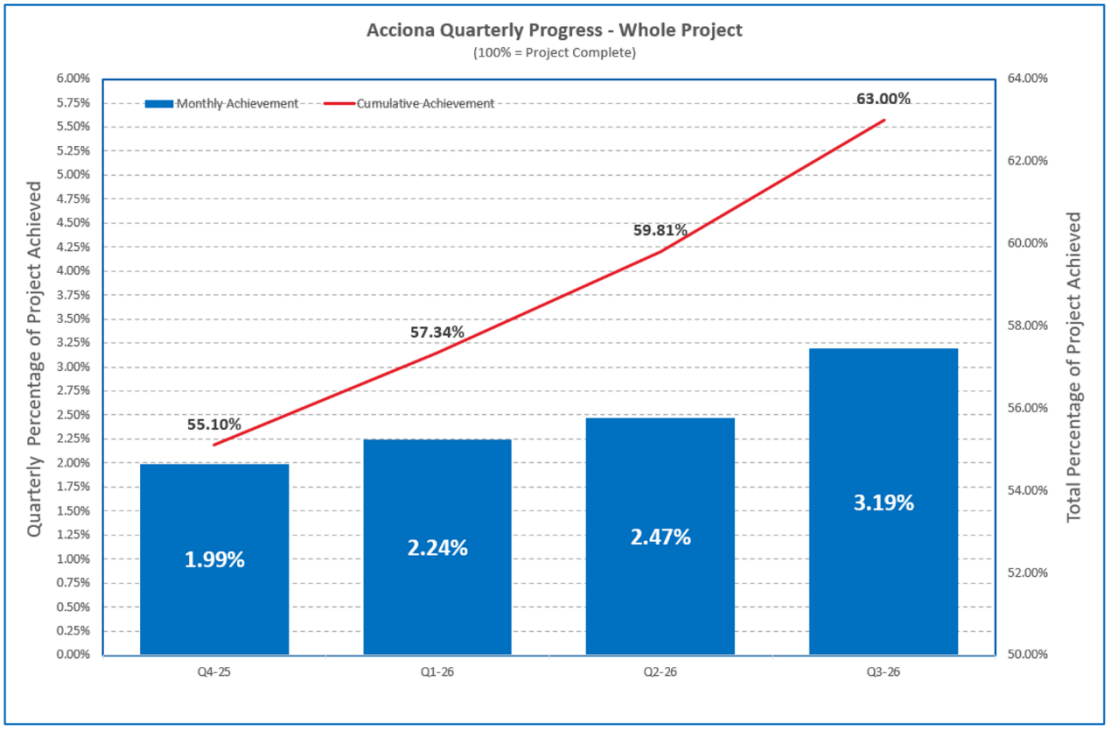


Figure 13 ACCIONA's progress on site over the last 12 months.

7. GOVERNANCE AND ASSURANCE

7.1. The following section in this report explains what arrangements give confidence to NLWA that ACCIONA can be trusted to deliver to a new timeline and budget, and how NLWA will continue to strengthen its project oversight. Strengthened arrangements gives NLWA greater oversight and independent assurance during the remaining construction and commissioning period.

Improved Delivery Certainty

7.2. The proposed changes are intended to place risks with the party best positioned to manage them and provide greater certainty over the completion of the remaining works. The current potentially escalating cost exposure will be converted into a clearer allocation of risk, and establishes a revised contract sum, agreed completion programme and improved contractual controls.

7.3. With a clear way forward, that reduces uncertainty and resolves issues that have consumed significant management effort on both sides, resources will be focused

on construction and commissioning activities rather than ongoing contractual disagreement.

Continuing to Work with ACCIONA

7.4. NLWA's negotiations with ACCIONA were informed by detailed legal, technical and commercial review of the remaining works. Through that process, both parties recognised that the existing Contract has become increasingly adversarial and is not creating the optimum environment for delivery.

7.5. Continuing to work with ACCIONA is not based on trust alone, but on a detailed examination of the remaining works, the resources required to complete them, and the commitments ACCIONA is prepared to make in support of a revised delivery plan.

7.6. If a contract change cannot be agreed, it is almost certain that ACCIONA will seek to limit their costs; resulting in a deterioration of performance; ultimately resulting in NLWA having to terminate. Replacing ACCIONA creates significant delivery risks for the project and leads to substantial delay while the works are secured, assessed and a new completion strategy developed and procured. There is no guarantee of securing a replacement contractor quickly, or one willing to assume responsibility for existing design and construction work. In these circumstances, project delivery could become driven by dispute resolution and contractual enforcement rather than a coordinated plan to complete the facility.

Strengthened Project Oversight

7.7. The project team recognises the final phase of a project of this scale requires intensive oversight and regular challenge. The project team will proactively identify delivery risks and intervene before delays become embedded.

7.8. This will include:

7.8.1. enhanced technical, commercial and programme assurance;

7.8.2. more detailed scrutiny of construction and commissioning progress;

7.8.3. earlier escalation of emerging risks;

7.8.4. active review of recovery plans where delays arise;

7.8.5. closer engagement with ACCIONA and external stakeholders to remove barriers to delivery;

7.8.6. the Clerk and ACCIONA group chief finance officer continuing to participate in a senior Principals Group to enable issue resolution at the highest levels between organisations

7.8.7. a new NLHPP Programme Board and ongoing coordination with Borough officers,

7.8.8. Appointment of a new programme director to enhance senior level leadership of relations with ACCIONA, enhance reporting to Members and boroughs and enhance coordination of transition plans with LondonEnergy Ltd.

7.9. The project team's focus will be on understanding progress at a level beyond the headline programme. This will include scrutiny of critical path activities, short-term look-ahead schedules, milestone achievement and recovery actions. Where performance concerns emerge, NLWA will require ACCIONA to demonstrate how it intends to recover progress and will monitor implementation of those actions through its governance and assurance arrangements. This approach is intended to provide earlier intervention and greater confidence that issues are addressed before they become material threats to delivery.

Supporting Contracts, Leases and Licences

7.10. Delivery of the remaining stages of the North London Heat and Power Project will continue to rely on a range of supporting contracts, professional advisory appointments, leases and licences. Given the delayed programme period and the need to maintain effective delivery arrangements through construction, commissioning and transition into operations, it is anticipated that certain arrangements will require extension, replacement or re-procurement during the remaining delivery period.

7.11. Officers shall have regard to the Standing Orders and applicable procurement legislation and determine the most appropriate approach in each case, taking into account continuity, knowledge retention, delivery risk and value for money. Any re-procurements will be undertaken in accordance with the Authority's Standing Orders and applicable procurement legislation. Any lease or licence arrangements will be managed in accordance with the Authority's Standing Orders and best value requirements.

New Governance Enhancements

7.12. The project is focussing heavily on construction and also towards preparations for the transition from construction to commissioning, testing and operational readiness. In response, the Authority has implemented several governance and assurance enhancements following a review with advisors Arup, NLWA officers and LondonEnergy Ltd (LEL) executives. The review considered project controls, governance and delivery arrangements.

7.13. Alongside a review of project roles, responsibilities and meeting structures, these changes are intended to improve integration across the project team,

LondonEnergy, advisers and ACCIONA and provide a stronger framework for delivery through to completion and operation of the facility.

7.14. These changes are intended to strengthen delivery confidence, improve decision-making and ensure that cost, schedule, risk, change and operational readiness are managed through a fully integrated framework which encourages collaboration within the delivery team and NLWA's delivery partners especially ACCIONA.

7.15. Enhancements include the establishment of a dedicated Programme Board to provide oversight, challenge and assurance, strengthened commercial, legal and financial assurance arrangements, and a revised governance and reporting structure that improves the flow of information from project-level forums through to senior management and Members. This will be chaired by the Programme Director when appointed.

7.16. The project team is also continuing engagement with borough officers and appointed borough advisers to provide visibility of project performance, risks and mitigation activities. Escalation routes have been clarified and will be utilised swiftly in the event of any delays.

Strengthening Client Capability and Project Oversight

7.17. Alongside the governance strengthening outlined above and to complement the proposed contractual amendments, the project team has implemented a number of changes intended to strengthen its ability to oversee successful delivery of the ERF. Client-side capability has been reviewed in light of the stage of the delivery.

7.18. The project team continues to utilise specialist external advisers to provide technical, commercial, programme and legal support. These changes are intended to strengthen the ability to monitor delivery performance, identify and challenge emerging issues, support timely decision-making and maintain effective oversight of activities.

Integrated Assurance Framework

7.19. The project team has strengthened its governance and assurance arrangements to reflect the project's next phase of transition from major construction into systems integration, commissioning, testing and operational readiness. The revised arrangements align with established UK Government (OGC Achieving Excellence in Construction Procurement Guide – Project Organisation: roles and responsibilities) and wider industry guidance and best practice for major capital infrastructure delivery. This ensures clear accountability, effective oversight and independent assurance.

7.20. The framework is structured around three lines of assurance. The first line comprises the project delivery functions responsible for day-to-day management, including programme leadership with the Programme Director role currently being

recruited to, project controls, commercial management, technical assurance, contractor management, LondonEnergy interface management and operational readiness activities. The second line provides oversight, challenge and assurance through the NLHPP Programme Board, borough-appointed financial and legal advisers, senior borough officer engagement and executive oversight arrangements. The third line comprises independent assurance activity, including internal audit, external audit where appropriate, and independent reviews commissioned by the Authority where required.

Future Reporting and Assurance

7.21. As the ERF Project moves towards commissioning, testing, operational readiness and implementation of the proposed SVA, reporting and assurance arrangements are being further enhanced to reflect the increasing importance of integrated decision-making, delivery assurance and stakeholder reporting.

7.22. Programme assurance activities undertaken by Arup and other independent advisers will continue to challenge programme assumptions, delivery forecasts and progress reporting. Assurance activity will focus not only on what has been achieved, but also on whether current performance supports the forecast completion trajectory and remains aligned to the Approved Programme. This approach will be supported by ongoing site monitoring, review of workforce levels and productivity, scrutiny of critical path activities, regular engagement with ACCIONA's senior leadership team and escalation of concerns through the Project's governance arrangements where required.

7.23. The NLHPP Programme Board, shown in the diagram in Figure 15, will provide an additional layer of oversight and assurance and complement existing governance arrangements and providing greater visibility of project performance, principal risks and mitigation measures. Together, these enhanced reporting and assurance arrangements are intended to support informed decision-making on project delivery, funding, risk and future strategic matters.

7.24. Future arrangements will include enhanced reporting to Members, continued engagement with constituent boroughs and borough-appointed advisers, ongoing monitoring of SVA implementation and targeted independent assurance activities where appropriate.

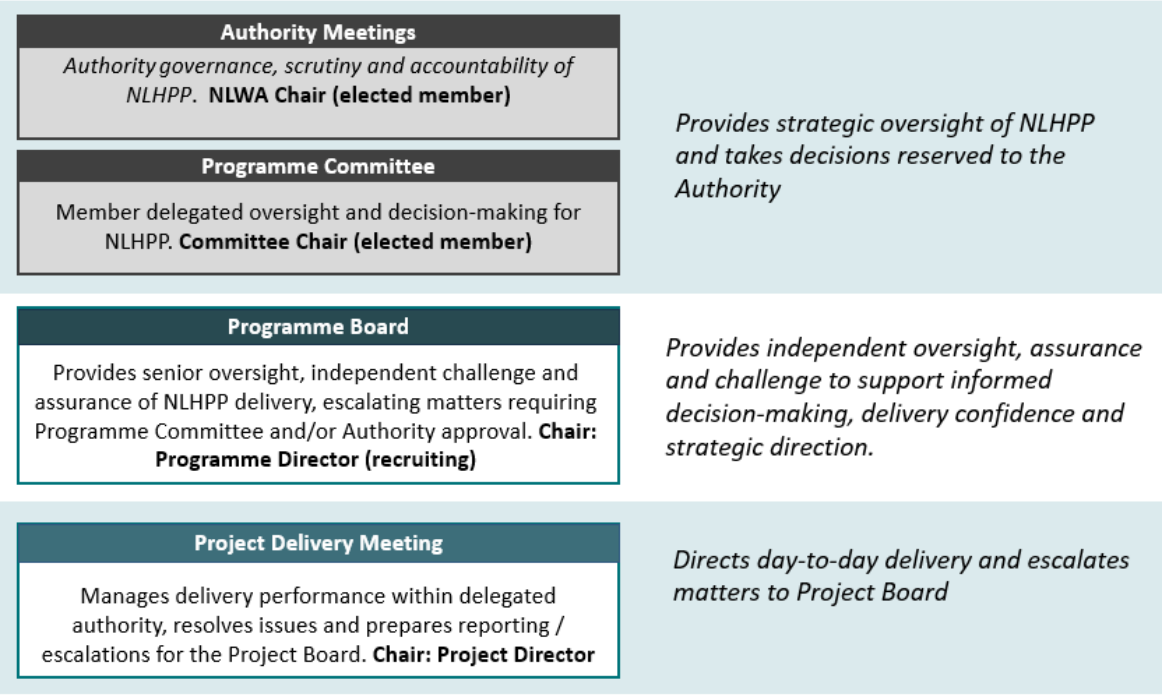


Figure 14 NLWA ERF delivery strengthened governance arrangements.

Confidence in the December 2029 Take Over date

7.25. The project team's confidence in the revised 2029 programme position will not be based on a single milestone or forecast date. It is derived from a range of indicators, including workforce levels, productivity performance, critical path progress, the maturity of remaining subcontract packages, commissioning readiness, independent assurance reviews and delivery against near-term milestones.

7.26. The transfer of risk and settlement of claims and disputes under the proposed contract settlement and variation is also an important factor in understanding how the delivery environment has changed. At the outset of the ERF Contract many risks were hypothetical and, over time, responsibility for those risks became a source of dispute. Under the revised arrangements, many of the most significant and previously contested risks now sit with ACCIONA, who is best placed to manage them. This creates clearer accountability, stronger delivery incentives and a more stable platform from which to complete the project.

7.27. Officers have worked to reset the relationship with ACCIONA through 2026 and develop a stronger understanding of each other's objectives and challenges. Without the immediate prospect of arbitration and a culture centred on claims management, the parties have operated for several months within a more collaborative environment, characterised by earlier identification of issues, greater transparency and joint problem solving. Combined with a financial position that provides greater certainty for the contractor, this has enabled ACCIONA to maintain resources and focus on delivery.

8. FINANCIAL IMPACT

8.1. The agreement of a Contract Sum for the ERF with ACCIONA provides increased certainty over the cost of delivering the Energy Recovery Facility (ERF). In addition to the Contract Sum, the Authority will need to fund ongoing client-side costs, including the project team, professional advisers, technical support, third-party costs, and appropriate risk and contingency provisions. As of 31 August 2026, cumulative programme expenditure incurred for the ERF is approximately £722 million.

8.2. In order to fund the existing programme, borrowing will need to be undertaken. NLWA officers consider the best borrowing opportunities in conjunction with their Treasury advisors and senior borough officers. The impact of Capital Financing and alternative options for repayment are currently being worked through with the support of a newly appointed Strategic Finance Lead. Modelling and opportunities for financing decisions will be shared with officers at the earliest opportunity, and the outcomes will be included in future budget papers.

Forecast costs to boroughs

8.3. Future long term cost assessments have been updated. The update reflects the latest available information and assumptions. Officers have held briefings with Directors of Finance and Directors of Environment, as well as held borough specific briefings to discuss the forecast costs to boroughs. Key updates include:

8.3.1. The proposed Contract Price for ERF construction and commissioning

8.3.2. Revised Authority service delivery forecasts and contractual commitments, including the new food waste contract;

8.3.3. Updated estimates of facility operating costs provided by LondonEnergy Ltd (LEL) for the costs of operating the new waste management facilities;

8.3.4. Revised waste tonnage forecasts, including adjustments to revise down previous long term residual waste volumes;

8.3.5. Updated interest rate assumptions to reflect current borrowing forecasts; and

8.3.6. Revised assumptions for future electricity prices and third-party waste income.

8.4. Further confidential details can be found at Appendix G (Forecast costs to boroughs - Modelling Overview). While the work has taken place to agree the SVA and forecast the cost to boroughs, officers also continually seek to minimise the cost to boroughs. As the facility proceeds towards completion, it will be possible with greater certainty to plan with other Authorities and waste companies to maximise the benefits of the new facility to deliver the best environmental results for treating

waste. This could include commercial waste collected in north London which currently cannot be treated in the area or waste from nearby authorities where use of the new ERF would enable reduced transport and emissions associated with incineration. Income from such waste would help to keep costs down to constituent boroughs.

8.5. An updated table in Figure 16 sets out the forecast costs to boroughs modelled in 2026 for the initial 3 years of operations of the Energy Recovery Facility. A forward look at expected costs 10, 15 and 30 years into operations is included.

Borough	Full Operations 2030/31 £m	+1 Year 2031/32 £m	+2 Years 2032/33 £m	+10 Years 2039/40 £m	+15 Years 2044/45 £m	+30 Years 2059/60 £m
Barnet	31	31	31	36	39	52
Camden	21	21	21	24	26	34
Enfield	26	26	26	30	32	43
Hackney	25	25	25	28	31	41
Haringey	21	21	21	24	26	35
Islington	21	21	21	24	26	35
Waltham Forest	20	20	20	23	25	34
TOTAL	**167**	**164**	**167**	**188**	**204**	**274**

Figure 16 Table for Forecast Borough Costs in initial years of ERF operations including a 10, 15 and 30 year look ahead.

Cost of Cancelling or Failing to Complete the ERF

8.6. A counterfactual assessment was undertaken to compare the financial and operational implications of completing the ERF against alternative arrangements for managing the Authority's waste disposal obligations. The model showing forecast costs to boroughs includes the counterfactual scenario in which

construction is assumed to cease from August 2026, with costs incurred up to that point treated as sunk costs that would still require financing. The assessment indicates that not completing the ERF would increase reliance on third-party waste treatment providers, require additional transfer infrastructure to enable waste to be transported out of the area and external market capacity, resulting in greater operational and financial risk. Overall, the analysis concludes that completing the ERF remains the more financially sustainable, operationally resilient and strategically flexible option over the long term.

8.7. This graph in Figure 17 compares the latest forecast costs to boroughs under the revised ERF delivery scenario with a counterfactual scenario in which the project is terminated and the Authority is forced to rely on alternative waste disposal arrangements. The first full year of operation of the ERF is currently forecast to be 2030/31. Based on the latest 2026 forecast incorporating the renegotiated contract arrangements, the total cost for 2030/31 is estimated at approximately £167 million, compared with an estimated cost of approximately £270 million under the no-ERF scenario. For comparison, the forecast presented to Members in December 2023 estimated a cost of approximately £138 million for the same period under the then-current contractual assumptions.

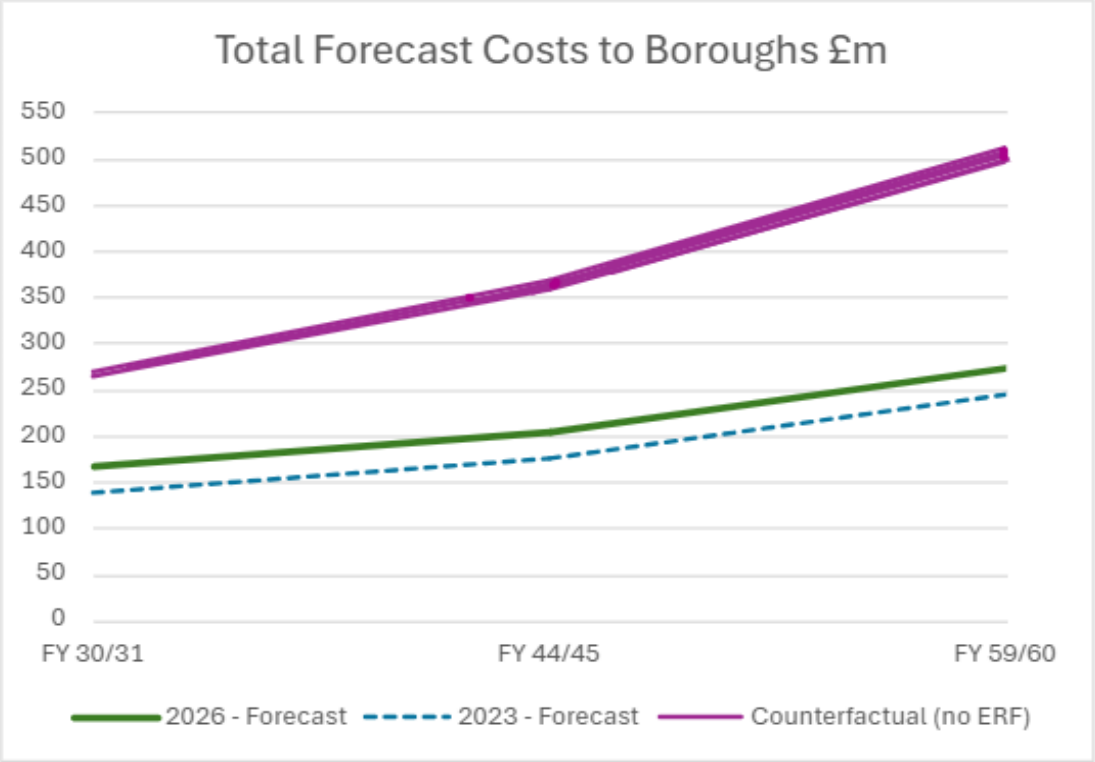


Figure 16 Graph comparing total borough cost forecasts in £million per year.

8.8. While this represents a less favourable outcome than previously anticipated, the revised 2026 forecast continues to demonstrate a significant financial advantage to completing the ERF when compared with the counterfactual scenario. Under the counterfactual, forecast costs increase materially over time as boroughs remain exposed to the cost of securing alternative waste treatment and disposal capacity.

NLHPP Financing Strategy

8.9. Given the scale, duration and complexity of the NLHPP, borrowing decisions are considered alongside cashflow requirements, asset life assumptions, the Minimum Revenue Provision (MRP) and interest on borrowing policies, reserve strategy and prevailing market conditions. This is to ensure decisions around financing and borrowing are affordable, resilient and representative of the life of the programme.

8.10. The financing strategy is that it is intended to only borrow when required, then flexibility is retained by avoiding long-term borrowing commitments too early, and that increases in borough costs are managed as smoothly as possible while the ERF is being delivered.

8.10.1. A range of borrowing approaches have been considered, taking account of forecast cashflow requirements, current market conditions, affordability and the need to retain flexibility over future financing decisions.

8.10.2. As at 31 August 2926, the Authority held cash balances approximately £74m in Sterling and €40m in Euro. The forecast indicates that additional Sterling borrowing is needed by November 2026 to maintain the Authority's minimum cash balance and avoid a funding shortfall.

8.10.3. Given that long-term borrowing rates remain high at around 6-7%, a flexible borrowing strategy is considered appropriate.

8.10.4. Consistent with current local authority treasury management practices, and following advice from the Authority's treasury advisers, MUFG, the proposed approach is to secure borrowing over the shorter to medium-term period of 5 to 10 years.

8.10.5. Accordingly at this stage, the Authority is seeking to borrow up to £250m in the form of maturity loans from the PWLB to retain flexibility while market conditions remain uncertain, avoiding early commitment to higher long-term borrowing rates. This borrowing is expected to meet cashflow requirements to June 2027 at which point the Authority will reach its minimum cash balance for NLHPP, and from August 2027 further borrowing will be required.

8.10.6. The changes in the funding required on an on-going basis require the Authority's Prudential indicators to be updated for approval by Members. These Prudential Indicators have been revised and included in the Finance Update paper elsewhere on this agenda.

Use of Management of Reserves

8.11. The Authority's reserves position has been reviewed as part of the financing strategy to ensure that adequate resources are available to support the long-term operation and maintenance of the ERF while maintaining financial resilience. The

principal reserve is the Maintenance Reserve, which was established to smooth the impact of future asset maintenance costs, support the Authority's medium-term financial position, and reduce the risk of significant forecast costs to boroughs increases or unplanned borrowing as maintenance requirements arise. The Authority's longer-term intention remains to build this reserve over time as the facility becomes operational.

8.12. As of October 2026, total usable reserves are forecast to be £17.7m, comprising a £16.3m Maintenance Reserve and £1.4m of Capital Receipts. While these balances provide an important financial safeguard, they are either earmarked for specific purposes or subject to legal restrictions and are therefore not fully available to meet general financial pressures. Any future decisions regarding the use or reallocation of reserves will be considered within the context of the Authority's wider financial position and overall financial sustainability.

9. EQUALITY IMPLICATIONS

9.1. There are no equality issues arising from this report.

10. COMMENTS OF THE LEGAL ADVISER

10.1. The report outlines in detail the history of this project, the significant challenges it has faced such as Brexit, increased inflation and the conflicts around the world which have adversely impacted contractual performance in terms of delivery and price. The report also details perceived failings by the contractor beyond those external factors together with contract monitoring failures on the part of the NLWA itself and acknowledges the substantial legal disputes that have arisen between the contractor and NLWA to date. The report also details the external review validation the project has received over a significant period. Rightly the Authority has repeatedly asked itself whether this project is the right one for it and for its constituents. The answer to this question has been and continues to be that it is the right project.

10.2. The Authority has also considered the alternative routes it could take, with a careful consideration of the current position, in particular a project which is significantly advanced in construction terms. This includes advice on the costs of this contract failing, having to be reprocured (and the continued legal action by the contractor which would inevitably escalate exponentially should the Authority seek to hold Acciona to the original terms of the contract.)

10.3. The above background and context is extremely important when advising on the legal implications of the proposed decision. The above leads to a very firm conclusion that the steps proposed are reasonable and prudent ones for the Authority to take. This does not seek to diminish the scale, significance, and unusual nature of the decision nor the fact that it comes with significant legal risks. Rather it suggests that to assess those risks in a vacuum from the alternative routes open to the Authority and the risks that those would bring would be wrong. Part II

contains details of the legal risks including advice obtained from external lawyers and Members are urged to carefully consider it. However, while that advice does not address the alternative routes open to the Authority now and the even greater risks which attach, without consideration of those alternative routes the advice loses the appropriate context. In simple terms this is a decision which carries risks against alternatives that carry even greater risks, both legal and financial.

10.4. This decision is at risk of potential challenge in a range of ways. This would no doubt to some extent always be the case in something of this value and scale. Like all decisions taken by public bodies it could be subject to potential application for judicial review, although as stated above it remains the position that it is considered that the decision falls squarely within the range of reasonable decisions available to the decision-maker. Detailed privileged legal advice is contained in a Part II Appendix E. As stated above that advice needs to be considered in light of alternative and higher risk options for the Authority and also understanding the uniqueness of the circumstances and context in this particular case.

10.5. It is important that the Authority seeks to mitigate those risks as well as seeks to be as transparent as it can be in both acknowledging its current position, the wider context and the lack of credible alternatives. It is recommended that this is achieved partly by this report being in the public domain and by the publication of a VEAT notice. The notice will give full details of the amendments we are recommending to the contract and allow any concerned parties to raise any issues or questions they may have about the proposals. The Authority itself will not enter into the amended contractual arrangements for 30 days following its publication.

10.6. Also significant in the recommendation to amend the current contract is the fact that the parties are already in a confidential arbitration. There are currently 5 substantial claims brought under the arbitration against NLWA. These matters are testament to the complexity of the arrangements and the wider pressures impacting the contract some of which have already been detailed. The recommendation to the Authority is that we finally settle the current disputes (including their future effects) and amend the current contract to clarify certain contract terms and streamline project delivery. It is anticipated that the proposed settlement and variations to be made will provide a full and final binding settlement of claims with releases provided to NLWA in respect of those claims.

10.7. In respect of recommendation 5: the proposed contract extensions which this decision would require will be carefully considered. The amounts are significant and regulations 72(1)(e) and 72(8) of the Public Contracts Regulations 2015 have been considered. Therefore, for each, officers will consider the best and lowest risk way to extend if that is the appropriate thing to do. The extensions are required due to delays to the NLHPP, and replacing incumbent suppliers, particularly professional advisers which are embedded in the NLHPP, could create continuity, knowledge transfer and liability risks. However, a clear audit trail supporting the reason(s) for each extension will be maintained by the Authority should any

challenge be forthcoming. Should any contract be re-procured, this must be undertaken in accordance with the Authority's Standing Orders and, where applicable, the Procurement Act 2023. It may also be the case, depending on advice for each contract, that the authority will publish a VEAT notice for reasons of transparency. Any lease or licence extensions fall outside procurement legislation must instead comply with the Authority's Standing Orders together with consideration given to Best Value.

11. COMMENTS OF THE FINANCIAL ADVISER

11.1. The Financial Adviser has been consulted during the drafting of this report, and all comments have been incorporated.

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12. APPENDICES

Appendix A: Proposed Contract Amendment. Confidential

Appendix B: Advisor Project Delivery, Commercial and Cost Advice. Confidential

Appendix C. Project Audit Report Summary. Confidential

Appendix D. Independent Review of Delivery Options. Confidential

Appendix E: Legal Advice Summary. Confidential

Appendix F: Background and Inclusion of NAECI. Confidential

Appendix G: Forecast Costs to Boroughs - Modelling Overview. Confidential