

Mike O'Donnell
Director of Finance
London Borough of Camden
Town Hall
Judd Street
London WC1H 9JE

5th January 2010

Dear Mike

Acknowledgement of Affordability Implications of Waste Management Proposals

As you are aware the North London Waste Authority has resubmitted its Outline Business Case to Defra. As part of the OBC resubmission the Authority in conjunction with its technical and financial advisers has reviewed and refreshed the technical costs and financial analysis underpinning the OBC. I am writing to you to:

- ▶ Summarise the revised financial metrics for the project and highlight the estimated affordability implications for the London Borough of Camden
- ▶ Seek reaffirmation that the revised affordability position is within the affordability envelope agreed by Borough Cabinet / Executive in October 2008, as reflected in the letters of support at that time and supplied as part of the October 2008 OBC submission – a copy of your Authority's previous letter is attached as background.

In October 2008 the Council was informed that the total project cost of the Reference Project was estimated at £7.323 billion, potentially rising to £7.725 billion after taking account of the sensitivities included in the OBC. Based on current Levy distribution this implied a range of costs from £0.911 billion to £0.952 billion for the London Borough of Camden.

As at December 2009 the total project cost of the Reference Project is estimated at £7.109 billion, potentially rising to £7.443 billion taking account of the sensitivities included within the OBC. Based on the current Levy distribution this means a range of costs from £0.866 billion to £0.900 billion for the London Borough of Camden on the basis of the Authority receiving an award of £317 million in PFI Credits.

In the event that the Authority secures PFI Credits of £258.4 million (that amount requested in May 2009), based on the current Levy distribution this means a range of costs from £0.880 billion to £0.914 billion for the London Borough of Camden

The projected costs of the Reference Project are less than the "business as usual" (do minimal) option by £0.201 billion.

I would be grateful if you could sign and date below and return to me to confirm for the benefit of the OBC resubmission that the costs quantified above (for both the £317million and £258.4 million PFI Credits) are within the affordability envelope agreed by your Authority in October 2008.

The Authority fully appreciates that the above costs are estimates and that they may change. However, should the estimates prove incorrect a further opportunity will be given to the Council to reconsider the affordability of the scheme prior to the parties becoming contractually committed.

Yours sincerely,



Tim Judson

Director of Procurement

Signed



Authority

LB Camden

Date

19 January 2010



FINANCE DEPARTMENT

London Borough of Camden

Room 205E

Town Hall Extension

Argyle Street

London WC1H 8NG

Date: 29th October 2008
Ref: Dof/KH
Enqs. To: Mike O'Donnell
Tel. No: 020 7974 5933
Fax. No: 020 7972 2740
Email mike.o'donnell@camden.gov.uk

Clyde Loakes
Chair
North London Waste Authority

Dear Clyde

Acknowledgement of Affordability to Waste Management Proposals

The full extent of the waste collection proposals included within the outline business case is clearly understood and the financial implications of the actions are fully appreciated.

In addition, the Council has been made aware of the North London Waste Disposal Authority's proposals for a procurement process consisting of new contracts for the delivery of a recycling, treatment and disposal services. The financial implications of these proposals have been presented in terms of an envelope of costs which range from the basic reference project costs to the same costs subjected to sensitivity analyses around capital expenditure, operating expenditure, recycling income and LATs expenditure. The Council has been able to review the high level outputs of the financial model including the estimated impact on the levy and collection costs

This Council has been informed that the total project cost of the Reference Project is estimated at £7.323 billion potentially rising to £7.725 billion after taking account of the sensitivities. Based on current Levy distribution this means a range of costs from £0.911 billion to £0.952 billion for the London Borough of Camden.

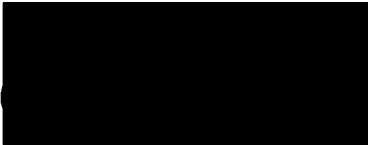
The projected costs of the Reference Project are less than the "business as usual" (do minimal) option by £0.495 billion at the pre LATs sensitivity rising to circa £0.904 billion after taking into accounts the risk associated with LATs expenditure.

The North London Waste Authority has provided indicative Levy increases for either end of the envelope of costs to assist in assessing the question of affordability. This letter gives approval of the costs quantified being met, within the current affordability envelope, and subject to the sensitivities described above and outlined in more detail in the outline business case.

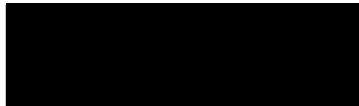
It is acknowledged that the additional costs of both collection and treatment/disposal have been taken into account with overall affordability of waste management considered.

The Council fully appreciates that the above costs are estimates and that they may change. However we have been assured by the NLWA that, should the estimates prove incorrect, then a further opportunity will be given to this Council to reconsider the affordability of the scheme prior to the parties becoming contractually committed.

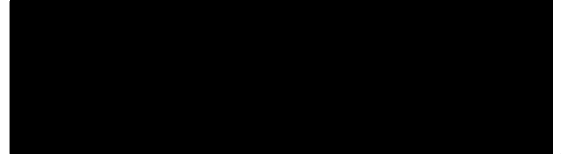
Yours sincerely



Keith Moffitt
Leader



Moira Gibb
Chief Executive



Mike O'Donnell
Director of Finance

Dec-09

£m Nominal Base Case*	Barnet	Camden	Enfield	Hackney	Haringey	Islington	Waltham Forest	Total
Reference Project Cost	722	325	596	396	497	347	518	3,400
Collection Costs	655	541	433	610	507	586	377	3,708
	1,377	866	1,029	1,006	1,003	934	895	7,109
Disposal Budget	374	245	300	260	263	265	235	1,944
Collection Budget	463	389	325	467	460	438	350	2,892
Affordability Gap***	548	281	404	279	280	230	309	2,272
£m Nominal Upper Threshold**	Barnet	Camden	Enfield	Hackney	Haringey	Islington	Waltham Forest	Total
Reference Project Cost	797	359	665	431	549	365	569	3,734
Collection Costs	655	541	433	610	507	586	377	3,708
	1,452	900	1,097	1,041	1,055	951	946	7,442
Disposal Budget	374	245	300	260	263	265	235	1,944
Collection Budget	463	389	325	467	460	438	350	2,892
Affordability Gap***	615	285	472	314	332	247	361	2,606

Dec-09

£m Nominal Base Case*	Barnet	Camden	Enfield	Hackney	Haringey	Islington	Waltham Forest	Total
Reference Project Cost	742	339	613	410	511	360	532	3,509
Collection Costs	655	541	433	610	507	586	377	3,708
	1,397	880	1,046	1,020	1,018	946	909	7,217
Disposal Budget	374	245	300	260	263	265	235	1,944
Collection Budget	463	389	325	467	460	438	350	2,892
Affordability Gap	568	246	421	298	295	242	324	2,361
£m Nominal Upper Threshold**	Barnet	Camden	Enfield	Hackney	Haringey	Islington	Waltham Forest	Total
Reference Project Cost	816	373	681	445	563	377	583	3,838
Collection Costs	655	541	433	610	507	586	377	3,708
	1,471	914	1,113	1,055	1,069	963	960	7,546
Disposal Budget	374	245	300	260	263	265	235	1,944
Collection Budget	463	389	325	467	460	438	350	2,892
Affordability Gap***	634	280	488	328	346	269	375	2,719

* Reference Case

** 2 year Delay sensitivity with 10% uplift
in capital Costs

*** Affordability Gap figures reconciled
back to Authority Meeting of 9 Dec 2009

Dec-09

Costs £m (Whole life, nominal)	Reference Project Oct 2008 £'000	Reference Project Dec 2009 £
PFI Project Costs	2,739	3,535,154
Additional System Costs	560	824,126
Landfill Costs (gate fee and tax)	373	494,387
Collection Costs	4,152	3,708,391
Less Effect of PFI credit	(501) -	589,495
Total Nominal Costs Pre LATs Exp.	7,323	7,972,563