

Financial Clarifications – NLWA Response 8.1.10

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Third iteration returned 8.1.10. Revisions in red.

No.	Ref	Issue	Response	Open/closed
1	Table 8.1	What is the split between the Waste Service and Fuel use procurements and could a breakdown also be provided by work stream for the external advisers i.e. technical, financial and legal?	<p>The split between the Waste Services and Fuel Use is approximately 60% to 40% respectively. The same split applies to the work streams for the external advisers. A breakdown of the Authority's budget for advisors has been provided as an attachment to the response to the general Clarifications (General Clarification 23.12.09 – Annex 2)</p> <p>It should be noted that table 8.1 of the OBC, 'Waste Procurement Programme Budget and Resource Requirement', was subject to a printing error, however, this will be refreshed in the OBC as per General Clarification 23.12.09 – Annex 2.</p>	Closed
2	Table 8.1	Does the budgeted amount for internal resources cover all of the costs of those individuals of the project team seconded into the project and included in section 6.3?	Yes, the budgeted costs include the costs of all secondees.	Closed
3	8.2	Could you please advise whether mini- tender exercises for	A mini tender exercise for the	Closed

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		advisers will still be required? If so at what stages of the procurement? Also can you please confirm that the secondment periods of those individuals detailed in section 6.3 will cover the duration of the procurement?	appointment of consultants through to the end of the procurement was completed in January 09. On a similar basis, Team members are employed on a secondment for the duration of the procurement unless the Authority considers it necessary to replace individuals.	
4	6.4	The reporting line for the financial advisers is direct to the procurement director (rather than a financial lead). This is slightly unusual – is there any particular reason for this and how will this work in practice when two competitive dialogue processes are likely being run in tandem?	It is anticipated that the Authority will appoint an FTE Senior Finance officer reporting directly to the Procurement Director in the New Year. At such a time the reporting line for external financial advisers would be direct into this role. Until then the most appropriate person within the team to manage this interface is the Procurement Director. The internal resources budget includes provision for this.	Closed
5	Tables 8.5	In relation to the optimism bias paper prepared to support the optimism bias assumptions (prepared by AEA?) could you	Please find attached (Financial Clarifications 23.12.09 – Annex 1)	Closed

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	and 8.6	please provide us with a copy and would suggest this forms part of the supporting information for appendix N.	a paper on Optimism Bias.	
6	8.5.1	Have any of the constituent boroughs developed further their thinking in whether to set up sinking funds to fund their affordability gap contributions?	It has been agreed with the constituent boroughs, that they will manage their own sinking funds rather than the Authority smoothing the costs.	Closed
7	8.5.3	Could the financial advisers to the Authority provide a letter of support to confirm the financial assumptions reflect current market practice? Similarly, could the technical advisers please provide a letter of support in respect of the technical input costs?	Please find attached financial and technical adviser letters of support at appendix D & E	Closed
8	8.5.4	Can the Authority please provide supporting evidence for the £90 million purchase price of LWL shares?	[REDACTED]	Closed

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			<div>CONFIDENTIAL</div> <div>[REDACTED]</div>	

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9	8.5.4	Can the Authority please provide details of the assumptions supporting the assessment of the receipt of £72 million for the sale of shares in LWL?	[REDACTED]	Closed
10	8.5.4	In relation to the sale of shares to the successful Waste Services Contractor on financial close, can the Authority Please explain its expectations in relation to the levels of due diligence any contractor/funder would seek to undertake on the company and how this would fit in with the procurement timetable and competitive dialogue process?	[REDACTED]	Closed

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			[REDACTED]	
11	8.5.4	In relation to the reversion of key assets from LWL back to the Authority at the end of the PFI contract term, how does the Authority envisaged that this will be dealt with from a legal perspective?	[REDACTED]	Closed

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12	8.5.4	How is the £72 million cost dealt with in the financial models (affordability and shadow tariff)?	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	Closed
13	5.9.1	If the Authority was to contribute the LWL shares to the successful contractor for nil value, would this impact upon the initial view outlined in 4.9.1 that the project assets would be off balance sheet under ESA 95?	<p>The preliminary accounting assessment contained within the OBC has been conducted on the basis that:</p>	Closed

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			<ol style="list-style-type: none"> 1. LWL will be transferred to the Waste Services Contractor 2. LWL assets will not be newly created assets 3. The existing condition of the LWL assets, capital expenditure required to maintain them, residual value and decommissioning risk will be a private sector risk. 4. The Waste Services Contractor may make use of existing LWL assets to fulfil the obligations of the Waste Services Contract prior to completion of the MBT assets, but this will be driven by the Contractor, not directly under the control of the Authority. <p>It is unclear at this stage whether the ultimate form of agreement will make the LWL assets separable from the remainder of the Waste Services Contract</p>	

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			<p>assets for PFI accounting treatment purposes. This will be a matter for judgement at a later stage once contractual documentation is further developed.</p> <p>To the extent that the LWL assets may be considered separable, the current expectation is that the LWL transaction will akin to a disposal, and therefore in itself likely to be outside the scope of IFRIC12 and the HMT application note related to PFI transactions and the National Accounts. This may be considered to be the case independent of the form of consideration (payment at value to the Authority, capital contribution from SPV shareholders or reduced gate fee in return for transfer at a peppercorn). In this circumstance, such a divestment will be accounted for in accordance with</p>	

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			<p>guidance contained in the Manual on Government Deficit and Debt. Whilst we have not reviewed the guidance in detail at this stage, we would expect that such a separable disposal is likely to take the assets off balance sheet for National Accounts purposes.</p> <p>Where the assets are not considered separable from the wider Waste Services Contract assets the IFRIC12 and ESA95 guidance will continue to apply. Again, the conclusions in the OBC would not be expected to be impacted by alternative forms of consideration.</p> <p>Ultimately, given the sophistication of the transaction and the general nature of the guidance available, the ultimate treatment will be a matter for consideration once contractual terms are crystallised during the</p>	

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			dialogue process. We will update our accounting view at this point and alert WIDP to any concerns that may arise.	
14	8.5.5	Can the Authority please confirm that the budgeted figures for the Constituent Boroughs in 2011/12 still remain the relevant figures as detailed in the Constituent Boroughs medium terms financial strategy?	Yes.	Closed
15	8.5.4.1	The collection costs of £3.7 billion have reduced from £4.0 billion in the draft OBC version dated May 2009. Can the Authority please summarise the key changes to the assumptions that have taken place?	Indicative collection costs have been calculated for each Borough using models that assess the planned collection schemes to be introduced within the Boroughs. The model is primarily driven by the tonnage, collection scheme type and number of households forming the collection rounds. The latest OBC models have included revised waste arising projections (newer data) and reductions in recycling and composting levels being achieved at the kerbside (the refreshed OBC models a 50% performance rather than 51.8% in the May 2009 OBC. The combination of reduced	Closed – as now picked up under technical clarifications

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			<p>waste within each borough and the reduction in the quantity of recyclables and biowaste collected has reduced the overall collections costs compared to the previous submission. An additional factor impacting on collections costs is the location of the facilities, reducing distances that vehicles have to travel will undoubtedly reduce overall service costs. The additional transport arising from the bulking facilities is not contained within the collection costs but is dealt with separately within the costing of each of the different scenarios.</p> <p>In addition, the collection costs were also reviewed subsequent to the May OBC submission. This work entailed scrutinising the data provided by the Boroughs and identifying a number of areas where data was incorrect. These covered issues linked to details of</p>	

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			the schemes and costs that had been double counted or provided incorrectly. This work reduced the collection costs between 2009 and 2042 by ~£45million (nominal).	
16	8.6	Appendix HH is the standing order for the Authority. Please provide the relevant Authority members approval dated 9th December 2009.	<p>Draft minutes including the resolutions relating to the OBC will be provided by the 8th January. These are subject to formal acceptance at the NLWA meeting of the 10th February.</p> <p>The summary of recommendations that were agreed are as follows:</p> <ul style="list-style-type: none"> a. Agree the Outline Business Case for submission to Government prior to the deadline of 11 December 2009 b. In particular to note and agree the cost and affordability analysis contained in section 8 of the OBC text; 	Closed

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			<ul style="list-style-type: none"> c. Delegate authority to the Director of Procurement to make any minor drafting changes to the text of the OBC in consultation with the Chair; d. Delegate authority to the Director of Procurement to pursue discussions with Government officers with a view to securing Government approval of the OBC for PFI credit purposes; and e. Require regular progress reports on Government's scrutiny and approval process. 	

Please note that "CLOSED" in the WIDP comment column indicates that the Authority has addressed the questions raised. WIDP Scrutiny evaluation comments on the responses provided are recorded in the WIDP evaluation document.