

### The Financial Parameters

1. The Councils are satisfied that the additional cost of the Variation is **affordable** in relation to:
  - (a) the Councils' MTFP and relevant reserves; and
  - (b) the total cost of Waste Contract and the Variation for the life of the Waste Contract to 2023 (or as extended) compared with the inflated financial envelope of what was originally intended to be delivered (Kidderminster); and
  - (c) likely costs of ownership and operation beyond the life of the Waste Contract (as extended) whether out-sourced or not (including the amount of any balloon payment to be made on termination/expiry).
2. The additional cost of the Variation represents **value for money** when assessed:
  - (a) absolutely in terms of the processes used by Mercia to procure competitively the facilities comprised within the Contractor's Proposals; and
  - (b) relatively with other similar facilities procured recently;
  - (c) in the light of the opportunity cost and other disadvantages of the "do nothing" option having regard to both:
    - (i) the effects of an increasing land fill tax
    - (ii) the finite capacity of existing landfill and the absence of a planning consent for any other form of residual waste treatment; and
  - (d) in the light of the opportunity cost of terminating the Waste Contract (in whole or in part) and re-procuring the facilities afresh.
3. The amendments to the Schedule 6 prices and Payments Mechanism are made on the assumption that capital costs are **amortised linearly** over the design life of the facilities comprised within the Variation.
4. The Internal **Rate of Return** (IRR) over the whole life of the Waste Contract shall not exceed the IRR used in the financial model in the original procurement.
5. DEFRA (WIDP) approve the **Variation Business Case**.
6. Neither DEFRA nor Audit Commission indicate that they have an objection to the Variation on grounds of value for money.