

Appendix 7.4

One full written response was received from the Financial Sector market testing exercise.

1. Response from Lloyds TSB

Following on from the Funders Market Test day, I am please to provide below some initial thoughts on the proposed structure and associated risks of MWDA's preferred solution, from a funder's perspective:

Multi-contract Approach

This approach is extremely interesting and, particularly with the separation of the Landfill Contract, we believe will provide more of a level playing field for prospective sponsors. As designed, we feel that this will ensure interest from a larger field of sponsors.

We believe that funding could be arranged on a project finance basis for both a multi-contract or integrated approach with regards to the Recycling and Recovery Contracts. For the proposed route, our key issue is the interface risk between the different elements (discussed further below).

Timing

You have advised that the intention is for both contracts to close contemporaneously. From a funding point of view, I am not sure that it matters if one closes before the other providing that the inputs into the Recovery facility are buttoned down properly. If they are separate contracts, it probably makes sense for the Recycling Contract to close first.

Interface Risk

A key factor re the Recovery Contract will be certainty of waste arisings, both volume and composition. It will be important to reach an agreement on these issues between the ProjectCo and Authority. Should the performance of the Recycling Contractor impact adversely on the Recovery ProjectCo, we would expect to be held harmless via recourse to the Authority or the Project Change mechanism; we would not expect to be required to take long term credit risk on the Recycling Contractor. It is difficult to say one way or another as to whether a formal Interface Agreement would be required between the contractors and we would need to seek legal advice on this issue.

Other Issues

Flexibility

We support MWDA's preference for a solution offering flexibility. There is clearly a balancing act to manage here with affordability. Options that work for a funder include: building extra capacity into the facilities from the start; or ensuring that the Project Change mechanism is able to handle potentially large additions to the Project some time in the future (without having to put out to tender).

Technology:

We fully support the decision to go with proven technology.

Planning

We are impressed with MWDA's pro-active approach to planning and believe that this will remove a key potential future "barrier" in the process to closing the project.

Alternative Funding

Whilst we believe that the Recycling Contract could be structured on a project finance basis, we note that MWDA is currently considering more traditional financing routes. Lloyds TSB is well placed to provide alternative forms of finance given its corporate relationships with key waste management companies. The Bank also has a dedicated Public and Community Sector (PACS) team which specialize in providing funding directly to county councils, unitary authorities and other public sector bodies.

Recent Geographic Experience

It is worth noting that Lloyds TSB is active in funding projects in Merseyside. For example, last year the Bank arranged a £45 million Property Lease facility to Liverpool City Council for the financing of the plant and equipment element of a new arena, conference centre and exhibition hall to be located on the Kings Waterfront Development on the banks of the River Mersey. As well as working very closely with Liverpool City Council throughout negotiations to meet its specific requirements Lloyds TSB also worked closely with a number of other Public Sector bodies and grant providers including English Partnerships, North West Regional Development Agency and the European Regional Development Fund to ensure that the terms of the facility met the requirements of all interested parties.