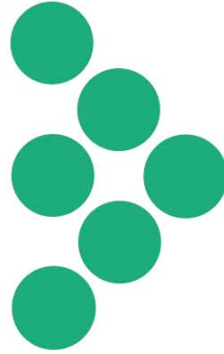


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**SCHEDULE 7a (PAYMENT MECHANISM)**

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## Part 1 – Overview

### 1. Overview of the Payment Mechanism

- 1.1 The Payment Mechanism is the basis for calculating the payments from the Authority to the Provider for delivering the Services and meeting the Contract Targets as set out in Schedule 2 (Specification).
- 1.2 Payments will be subject to Deductions, calculated in accordance with Schedule 7b (Performance and Unavailability Framework) in the event of failure to achieve Contract Targets, comply with KPIs or meet Availability requirements. In some instances, bonuses will be paid if Contract Targets are exceeded.
- 1.3 The Unitary Charge in respect of each Contract Year shall be the sum of the Monthly Unitary Charges for each Payment Period in the Contract Year and the Annual Reconciliation Payment for that Contract Year:

$$UC = \sum UC_M + ARP$$

Where:

UC = The Unitary Charge

$\sum UC_M$  = The sum of the Monthly Unitary Charges for each Payment Period in the Contract Year

ARP = The Annual Reconciliation Payment

- 1.4 The Monthly Unitary Charge and the Annual Reconciliation Payment are summarised below with the detailed methodology to calculate the component elements are set out in parts 2 and 3 of this Schedule 7a (Payment Mechanism) respectively.

#### ***The Monthly Unitary Charge***

- 1.5 The Monthly Unitary Charge ( $UC_M$ ) payable for each Payment Period is calculated in accordance with the following formula:

$$UC_M = An_M + L_M + AS + PT - D_t \pm A + M$$

Where:

$UC_M$  = The Monthly Unitary Charge

$An_M$  = The Monthly Unadjusted Unitary Charge

$L_M$  = The Monthly Landfill Payment

AS = The Ancillary Services Payment

PT = The Pass Through Payment

$D_t$  = Performance Deductions and Unavailability Deductions

A = The Landfill Allowance Adjustment

M = Milestone Payment

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- 1.6 The Monthly Unadjusted Unitary Charge and the Monthly Landfill Payment are based on forecast levels of Contract Waste.
- 1.7 The Ancillary Services Payment is based on the actual monthly activity of Ancillary Services in the Payment Period two months prior to the relevant Payment Period, to the extent that these have not been accounted for in Annual Reconciliation Payment for the previous Contract Year.
- 1.8 The Pass Through Payment is based on actual payments made by the Provider in the Payment Period two months prior to the relevant Payment Period in respect of the items set out in paragraph 5, to the extent that these have not been accounted for in Annual Reconciliation Payment for the previous Contract Year.
- 1.9 Performance Deductions and Unavailability Deductions will be levied in accordance with Schedule 7b (Performance and Unavailability Framework) for Deductions incurred in the Payment Period two months prior to the relevant Payment Period to the extent that these have not been accounted for in Annual Reconciliation Payment for the previous Contract Year.
- 1.10 The Landfill Allowance Adjustment rewards the Provider or levies Deductions on the Provider for its performance against the BMW Diversion Target in the prior Contract Year following the reconciliation of the Authority's prior Contract Year's LATS position.
- 1.11 The Milestone Payment relates to the payment due to the Provider following the Works Completion of the Oswestry IWMF.
- 1.12 Part 2 of this Schedule 7a (Payment Mechanism) sets out the detailed methodology for calculating each element of the Monthly Unitary Charge identified above.

### ***The Annual Reconciliation***

- 1.13 The Annual Reconciliation is undertaken at the end of each Contract Year:
- compares forecast to actual volumes of Contract Waste managed in the Contract Year; and
  - reviews the Provider's performance in the Contract Year against Contract Targets.
- 1.14 The Annual Reconciliation identifies the Annual Reconciliation Payment to be either paid by the Authority to the Provider, or paid by the Provider to the Authority.
- 1.15 The Annual Reconciliation Payment ensures the Unitary Charge for the Contract Year reflects the Actual Level of Contract Waste and the Provider's performance against Contract Targets.

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- 1.16 The Annual Reconciliation Payment for each Contract Year is calculated in accordance with the following formula:

$$\mathbf{ARP = V + SABC_R + L_R \pm UC_{MOP} + E - ER - R + NCW_{DP} - CDP_{OC}}$$

Where:

- ARP = The Annual Reconciliation Payment
- V = Volume Adjustments
- SABC<sub>R</sub> = The SABC Reconciliation
- L<sub>R</sub> = The Landfill Payment Reconciliation
- UC<sub>MOP</sub> = The Monthly Unitary Charge Outstanding Payments
- E = The Landfill Diversion Bonus
- ER = The Excess Revenue Share
- R = Royalty Payment
- NCW<sub>DP</sub> = Non Contract Waste Displacement Payment
- CDP<sub>OC</sub> = Contingency Delivery Point Overrun Charges
- 1.17 The Volume Adjustment compares forecast waste flows and Household numbers to actual waste flows and Household numbers to identify the amount that needs to be either paid to or recovered from the Provider in respect of any material variances.
- 1.18 The SABC Reconciliation compares the forecast waste flows to the actual waste flows from SABC and adjusts payments to the Provider accordingly.
- 1.19 The Landfill Payment Reconciliation compares the amounts paid to the Provider in the relevant Contract Year for landfill services based on forecast waste flows to actual waste flows and identifies the amount that needs to be either paid to or recovered from the Provider taking into account the Provider's performance in relation to the Contract Diversion Target.
- 1.20 The Monthly Unitary Charge Outstanding Payments is the net payment and/or deduction in respect of outstanding Ancillary Services Payments, Pass Through Payments and Performance Deductions and Unavailability Deductions for the relevant Contract Year.
- 1.21 The Landfill Diversion Bonus rewards the Provider for exceeding Contract Targets in the relevant Contract Year.
- 1.22 The Excess Revenue Share identifies and provides a mechanism for sharing any excess revenues generated by the Provider.
- 1.23 The Royalty Payment provides the mechanism for calculating the payments due to the Authority for its share of the revenue received by the Provider for any Non Contract Waste being processed at any Project Facilities in that Contract Year.
- 1.24 The Non Contract Waste Displacement Payment relates to payments to be made to the Provider for any Contract Waste Treated at the WTF that displace Non Contract Waste as included in the Base Case Model.

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- 1.25 Contingency Delivery Point Overrun Charge levies deductions on the Provider to reflect the cost incurred by the Authority of SABC delivering Clinical Waste to be disposed of outside its District boundary.
- 1.26 Part 3 of this Schedule 7a (Payment Mechanism) sets out the detailed methodology for calculating each element of the Annual Reconciliation identified above.

### **Contract Rates and Contract Performance Metrics**

- 1.27 The Contract Rates used to calculate the elements of the Monthly Unitary Charge and the Annual Reconciliation are set out in Real Terms in Appendix 1 (Contract Rates). These Contract Rates are subject to indexation in accordance with part 4 of this Schedule 7a (Payment Mechanism).
- 1.28 The calculation of the Monthly Unitary Charge and the Annual Reconciliation Payment is linked to the Provider's delivery of the Services and meeting the Contract Targets set out in Schedule 2 (Specification). The Contract Performance Metrics used in calculating the Monthly Unitary Charge and the Annual Reconciliation Payment are included in Appendix 2 (Contract Performance Metrics) to this Schedule 7a (Payment Mechanism).

### **Indexation**

- 1.29 The Contract Rates used in calculating the Unitary Charge, as set out in Real Terms in Appendix 1 to this Schedule 7a (Payment Mechanism), will be subject to indexation. Part 4 of this Schedule 7a (Payment Mechanism) sets out the methodology for calculating indexation.

### **Rebasing adjustments**

- 1.30 To minimise the financial impact of the Annual Reconciliation, the Unadjusted Unitary Charge (An) and the Landfill Payment (L), used to calculate the Monthly Unadjusted Unitary Charge and the Monthly Landfill Payment, will be subject to a rebasing adjustment for each Contract Year in accordance with paragraphs 2.16 and 3.10 of this Schedule 7a (Payment Mechanism).

### **Financial Adjustments**

- 1.31 Where a Relevant Event occurs any Financial Adjustments will be determined in accordance with clause 68 of this Contract.

### **Interim Services**

- 1.32 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Interim Service Plan then the Monthly Unitary Charge will be adjusted in accordance with paragraph 2.6 and 3.3 of this Schedule 7a (Payment Mechanism).

### **Run Out Services**

- 1.33 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Run Out Services Plan then the Monthly Unitary Charge will be adjusted in accordance with paragraph 2.7 and 3.4 of this Schedule 7a (Payment Mechanism).

## **Part 2 – Monthly Unitary Charge**

### **2. Monthly Unadjusted Unitary Charge ( $A_{nM}$ )**

#### ***Principles of the Monthly Unadjusted Unitary Charge***

- 2.1 The Monthly Unadjusted Unitary Charge forms part of the Monthly Unitary Charge.
- 2.2 The Monthly Unadjusted Unitary Charge represents the rate charged by the Provider for Services provided in the relevant Payment Period based on the Base Case Level of Contract Waste as set out in Table 8 of Appendix 2 to this Schedule 7a (Payment Mechanism). The Monthly Unadjusted Unitary Charge excludes payment for Landfill Services, Ancillary Services and Pass Through Payments.
- 2.3 The Unadjusted Unitary Charge is made up of the Collection and Recycling Services (“CRS”) Charge ( $A_{nCRS}$ ) and the Waste Treatment Services (“WTS”) Charge ( $A_{nWTS}$ ).
- 2.4 The Unadjusted Unitary Charge is subject to adjustment pursuant to clause 68 (Financial Adjustments). Schedule 37 (Unitary Charge Adjustment Protocol) provides a mechanism for adjusting the Base Case Model for additional Capital Expenditure, Operating Expenditure and the inclusion of the SABC Collection Services.
- 2.5 The CRS Charge will be paid from the Services Commencement Date. The CRS Charge is set out in Real Terms in Table 1 of Appendix 1 and is subject to indexation using the CRS Index.
- 2.6 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Interim Service Plan then the CRS Charge during the period of Interim Services delivery only will be replaced by the Interim CRS Charge ( $A_{nCRSI}$ ) as set out in Real Terms in Table 1 of Appendix 1. The Interim CRS Charge is also subject to indexation using the CRS Index.
- 2.7 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Run Out Service Plan then the CRS Charge during the period of Run Out Service delivery only will be replaced by the Run Out CRS Charge ( $A_{nCRSI}$ ) as set out in Real Terms in Table 1 of Appendix 1. The Run Out CRS Charge is also subject to indexation using the CRS Index.
- 2.8 From the Planned WTF Commencement Date, as amended in accordance with clause 10.13 (Delays and Extensions of Time), the Interim CRS Charge shall revert to the CRS Charge, as set out in Table 1 of Appendix 1 to this Schedule 7a (Payment Mechanism).
- 2.9 The CRS Charge may be subject to Performance Deductions and Unavailability Deductions for any shortfalls in the Services and/or Availability of these CRS Project Facilities from the Services Commencement Date.
- 2.10 The WTS Charge will be paid from the Planned WTF Commencement Date, as set out in the Works Programme or amended in accordance with clause 10.13 (Delays and Extensions of Time). The WTS Charge is set out in Real Terms in Table 1 of Appendix 1, based on the Planned WTF Effective Date.
- 2.11 At the Planned WTF Commencement Date the Contract Diversion Target ( $C_D$ ) and the BMW Diversion Target ( $BMW_C$ ) will increase and additional KPIs will apply. If the Provider fails to

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commence the operation of the WTF by the Planned WTF Commencement Date, the Provider will be liable for Performance Deductions and Unavailability Deductions relating to the WTF and any additional Landfill costs incurred through the Landfill Payment Reconciliation (LR).

- 2.12 Where there have been significant variances in the number of Households and/or Tonnes from the Base Case Number of Households and the Base Case Level of Recycling and Composting in any Contract Year, the CRS Charge for the subsequent Contract Year may be subject to a CRS Charge Rebasing Adjustment in accordance with paragraph 2.16 of this Schedule 7a (Payment Mechanism).

#### **Formula for the Monthly Unadjusted Unitary Charge**

- 2.13 The formula for the payment of the Monthly Unadjusted Unitary Charge for each Payment Period is as follows:

$An_m$  = The Monthly Unadjusted Unitary Charge payable each Payment Period

$An_m$  =  $An / CY_{PP}$

Where:

$An$  = The Unadjusted Unitary Charge for the relevant Contract Year

$An$  =  $(An_{CRS} * I_{CRS}) + CRS_{RA} + (An_{WTS} * I_{WTS})$

$CY_{PP}$  = The number of Payment Periods within the relevant Contract Year

Where:

$An_{CRS}$  = The CRS Charge for the relevant Contract Year as set out in Table 1 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$CRS_{RA}$  = The CRS Charge Rebasing Adjustment, as calculated in paragraph 2.16 of this Schedule 7a (Payment Mechanism)

$I_{CRS}$  = CRS Index, as calculated in accordance paragraph 18.6 of this Schedule 7a (Payment Mechanism)

$An_{WTS}$  = The WTS Charge for the relevant Contract Year as set out in Table 1 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$I_{WTS}$  = WTS Index, as calculated in accordance with paragraph 18.5 of this Schedule 7a (Payment Mechanism)

- 2.14 Where Interim Services are delivered as described in paragraph 2.6 of this Schedule 7a (Payment Mechanism) only the formula for the Unadjusted Unitary Charge ( $An$ ) will be amended as follows:

$An$  = The Unadjusted Unitary Charge for the relevant Contract Year

$An$  =  $(An_{CRSI} * I_{CRS}) + CRS_{RA}$

Where:

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$A_{\text{CRSI}}$  = Interim CRS Charge

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- 2.15 Where Run Out Services are delivered as described in paragraph 2.7 of this Schedule 7a (Payment Mechanism) only the formula for the Unadjusted Unitary Charge ( $A_n$ ) will be amended as follows:

$A_n$  = The Unadjusted Unitary Charge for the relevant Contract Year

$A_n$  =  $(A_{n_{CRSR}} * I_{CRS}) + CRS_{RA}$

Where:

$A_{n_{CRSR}}$  = Run Out Service CRS Charge

### **CRS Charge Rebasing Adjustment**

- 2.16 At the beginning of each Contract Year (with the exception of the first Contract Year) the CRS Charge Rebasing Adjustment ( $CRS_{RA}$ ) is calculated in accordance with the following formula:

$CRS_{RA}$  = CRS Charge Rebasing Adjustment for the relevant Contract Year

$CRS_{RA}$  =  $C_{RA} + R_{RA}$

Where:

$C_{RA}$  = The Collection rebasing adjustment, as calculated in accordance with paragraph 2.17 of this Schedule 7a (Payment Mechanism)

$R_{RA}$  = The Recycling and Composting rebasing adjustment, as calculated in accordance with paragraph 2.18 of this Schedule 7a (Payment Mechanism)

- 2.17 Where the Actual Household Variance ( $A_{HV}$ ) for the immediately preceding Contract Year, as calculated in accordance with paragraph 9.12 of this Schedule 7a (Payment Mechanism), is greater than the Collection Upper Zero Band ( $C_{UZB}$ ) for the immediately preceding Contract Year as set out in Table 1 of Appendix 2 to this Schedule 7a (Payment Mechanism) ( $A_{HV} > C_{UZB}$ ) the Collection rebasing adjustment ( $C_{RA}$ ) is calculated as follows:

$C_{RA}$  =  $(A_{HVp} - C_{UZBp}) * (VC_{RU} * I_{CRS})$

Where the Actual Household Variance ( $A_{HV}$ ) for the immediately preceding Contract Year (as calculated in accordance with paragraph 9.12 of this Schedule 7a) is less than the Collection Lower Zero Band ( $C_{LZB}$ ) for the immediately preceding Contract Year as set out in Table 1 of Appendix 2 to this Schedule 7a (Payment Mechanism) ( $A_{HV} < C_{LZB}$ ) the Collection rebasing adjustment ( $C_{RA}$ ) is calculated as follows :

$C_{RA}$  =  $(A_{HVp} - C_{LZBp}) * (VC_{RL} * I_{CRS})$

Where:

$A_{HVp}$  = The Actual Household Variance for the immediately preceding Contract Year, as calculated in accordance with paragraph 9.12 of this Schedule 7a (Payment Mechanism)

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- $C_{UZBp}$  = Collection Upper Zero Band as set out in Table 1 of Appendix 2 for the immediately preceding Contract Year
- $C_{LZBp}$  = Collection Lower Zero Band as set out in Table 1 of Appendix 2 for the immediately preceding Contract Year
- $VC_{RU}$  = The Upper Band Collection Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $VC_{RL}$  = The Lower Band Collection Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

2.18 The Recycling and Composting rebasing adjustment is calculated in accordance with the following formula:

$R_{RA}$  = The Recycling and Composting rebasing adjustment

$R_{RA} = (A_{RCVp} - RC_{LZBp}) * (VRC_{RL} * I_{RPIX})$

Where  $R_{RA}$  cannot be a positive number

Where:

$A_{RCVp}$  = Actual Recycling and Composting Variance for the immediately preceding Contract Year, as calculated in accordance with paragraph 9.14 of this Schedule 7a (Payment Mechanism)

$RC_{LZBp}$  = Recycling and Composting Lower Zero Band for the immediately preceding Contract Year as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$VRC_{RL}$  = The Lower Band Recycling and Composting Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$I_{RPIX}$  = RPIX Indexation

**3. Monthly Landfill Payment (L<sub>M</sub>)**

***Principles of the Monthly Landfill Payment***

- 3.1 The Monthly Landfill Payment forms part of the Monthly Unitary Charge.
- 3.2 The Monthly Landfill Payment reimburses the Provider for its forecast Landfill costs for each Payment Period, based on the Base Case Level of Landfill as set out in Table 4 of Appendix 2 and for significant variances from the Base Case Level of Landfill through the Landfill Rebasing Adjustment.
- 3.3 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Interim Service Plan then the Monthly Landfill Payment during the period of Interim Services delivery only will reimburse the Provider for its forecast Landfill costs for each Payment Period based on the sum of the Base Case Level of Landfill as set out in Table 4 of Appendix 2 and the additional Interim Service Landfill also set out in Table 4 of Appendix 2.
- 3.4 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Run Out Service Plan then the Monthly Landfill Payment during the period of Run Out Services delivery only will reimburse the Provider for its forecast Landfill costs for each Payment Period based on the sum of the Base Case Level of Landfill as set out in Table 4 of Appendix 2 and the additional Run Out Service Landfill also set out in Table 4 of Appendix 2.
- 3.5 From the Planned WTF Commencement Date, as amended in accordance with clause 10.13 (Delays and Extensions of Time), the Monthly Landfill Payment shall reimburse the Provider for its forecast Landfill costs for each Payment Period based on the Base Case Level of Landfill only.
- 3.6 The Landfill Payment (L), used to determine the Monthly Landfill Payment, may be subject to a rebasing adjustment at the start of each Contract Year in accordance with paragraph 3.8 of this Schedule 7a (Payment Mechanism).

***Formula for the Monthly Landfill Payment***

- 3.7 The Monthly Landfill Payment (L<sub>M</sub>) will be paid in accordance with the following formula.

$$L_M = L / CY_{PP}$$

Where

- L = Landfill Payment
- L = (L<sub>BC</sub> \* (L<sub>GA</sub> \* I<sub>RPIX</sub> + L<sub>TA</sub>)) + L<sub>RA</sub>
- CY<sub>PP</sub> = The number of Payment Periods within the relevant Contract Year

Where:

- L<sub>BC</sub> = Base Case Level of Landfill as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

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$L_{GA}$  = Landfill Gate Fee A, which includes the Provider's margin, as set out in Table 3 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$I_{RPIX}$  = RPIX Indexation

$L_{TA}$  = Prevailing rate of Landfill Tax per tonne for Active Waste in the relevant Contract Year

$L_{RA}$  = the Landfill Rebasing Adjustment as calculated in paragraph 3.10 of this Schedule 7a (Payment Mechanism)

3.8 Where Interim Services are to be delivered as described in paragraph 3.3 of this Schedule 7a (Payment Mechanism) only the formula for the Landfill Payment (L) will be amended as follows:

L = Landfill Payment

$$L = (L_{BC} * (L_{GA} * I_{RPIX} + L_{TA})) + (L_{IS} * (L_{GB} * I_{RPIX} + L_{TA})) + L_{RA}$$

Where

$L_{IS}$  = Interim Service Landfill as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$L_{GB}$  = Landfill Gate Fee B, which excludes the Provider's margin, as set out in Table 3 of Appendix 1 to this Schedule 7a (Payment Mechanism)

3.9 Where Run Out Services are to be delivered as described in paragraph 3.4 of this Schedule 7a (Payment Mechanism) only the formula for the Landfill Payment (L) will be amended as follows:

L = Landfill Payment

$$L = (L_{BC} * (L_{GA} * I_{RPIX} + L_{TA})) + (L_{ROS} * (L_{GB} * I_{RPIX} + L_{TA})) + L_{RA}$$

Where

$L_{ROS}$  = Run Out Service Landfill as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$L_{GB}$  = Landfill Gate Fee B, which excludes the Provider's margin, as set out in Table 3 of Appendix 1 to this Schedule 7a (Payment Mechanism)

### ***Landfill Rebasing Adjustment***

3.10 At the beginning of each Contract Year (with the exception of the first Contract Year) the Landfill Rebasing Adjustment ( $L_{RA}$ ) is calculated in accordance with the following formula:

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- 3.11 If the Underlying Level of Landfill in the immediately preceding Contract Year was  $\square$  greater than the Base Case Level of Landfill in the immediately preceding Contract Year ( $L_{APCY} > (L_{BCPCY} * \square)$ ) then:

$$L_{RA} = (((L_{UPCY} / L_{BCPCY}) * L_{BC}) - L_{BC}) * (L_{GB} * I_{RPIX} + L_{TA})$$

- 3.12 If the Underlying Level of Landfill in the immediately preceding Contract Year was  $\square$  less than the Base Case Level of Landfill in the immediately preceding Contract Year ( $L_{APCY} < (L_{BCPCY} * \square)$ ) then:

$$L_{RA} = (((L_{UPCY} / L_{BCPCY}) * L_{BC}) - L_{BC}) * (L_{GA} * I_{RPIX} + L_{TA})$$

Where:

$L_{UPCY}$  = The Underlying Level of Landfill for the immediately preceding Contract Year

$L_{BCPCY}$  = The Base Case Level of Landfill for the immediately preceding Contract Year as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$L_{GB}$  = Landfill Gate Fee B, which excludes the Provider's margin, as set out in Table 3 of Appendix 1 to this Schedule 7a (Payment Mechanism)

Where

$$L_{UPCY} = L_{APCY} + (A_{Dp} - C_{Dp})$$

$L_{APCY}$  = The Actual Level of Landfill for the immediately preceding Contract Year

$A_{Dp}$  = Actual Diversion Performance for the immediately preceding Contract Year

$C_{Dp}$  = Contract Diversion Target for the immediately preceding Contract Year

- 3.13 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Interim Service Plan then during the period of Interim Services only  $L_{BCPCY}$  will be adjusted to include all Interim Service Landfill ( $L_{IS}$ ) for the immediately preceding Contract Year as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism).

- 3.14 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Run Out Service Plan then during the period of Run Out Services only  $L_{BCPCY}$  will be adjusted to include all Run Out Service Landfill ( $L_{ROS}$ ) for the immediately preceding Contract Year as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism).

#### 4. Ancillary Services Payment (AS)

##### ***Principles of the Ancillary Services Payment***

- 4.1 The Ancillary Services Payment is made as part of the Monthly Unitary Charge.
- 4.2 The Ancillary Services Payment captures the Ancillary Services that are subject to separate payment outside of the Unadjusted Unitary Charge. For the purposes of this paragraph 4, costs incurred by the Provider shall only be demonstrably reasonable and proper costs where:
- they represent a reasonable market price for the services provided; and
  - the Provider's invoice is supported by satisfactory documentary evidence showing that such costs have been incurred and properly calculated.
- 4.3 No payment shall be made by the Authority in respect of Ancillary Services other than in respect of demonstrably reasonable and proper costs.

##### ***Formula for the Ancillary Services Payment***

- 4.4 The Contract Rates used to calculate the Ancillary Services Payment are set out in Table 4 and Table 8 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- 4.5 The Ancillary Services Payment for each Payment Period shall be calculated based on Ancillary Services provided in that Payment Period in accordance with the following formula:

AS = Ancillary Services Payment

AS = FT + CW + CW<sub>D</sub> + HZ + BW + WEEE + ES + SCS + MW + Sch2 + CAI

Where

FT = Fly Tipping Collection Payment

FT = FT<sub>C</sub> \* (1 + FT<sub>M</sub>)

FT<sub>C</sub> = Cost to Provider of Handling Fly Tipped Waste in the relevant Payment Period

FT<sub>M</sub> = Fly Tipping Margin, as set out in percentage terms in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)

CW = Clinical Waste Collection Payment

CW = (CW<sub>V3</sub> \* CW<sub>R3</sub> \* I<sub>RPIX</sub>) + (CW<sub>Va</sub> \* CW<sub>Ra</sub> \* I<sub>RPIX</sub>) + (CW<sub>Vsb</sub> \* CW<sub>Rsb</sub> \* I<sub>RPIX</sub>)

CW<sub>V3</sub> = Number of yellow sacks Collected of up to 3 yellow sacks per Collection in the relevant Payment Period

CW<sub>R3</sub> = Rate per yellow sack of up to 3 yellow sacks as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)

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$CW_{Va}$	=	Number of additional yellow sacks Collected in the Payment Period
$CW_{Ra}$	=	Rate per Collection of each additional yellow sack as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$CW_{Vsb}$	=	Number of Collections of sharps boxes in the Payment Period
$CW_{Rsb}$	=	Rate per Collection of sharps boxes as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$I_{RPIX}$	=	RPIX Indexation
$CW_D$	=	Clinical Waste Disposal Payment
$CW_D$	=	$CW_V * CW_{DR} * I_{RPIX}$
$CW_{VT}$	=	The Tonnes of Clinical Waste Disposed of in the relevant Payment Period
$CW_{DR}$	=	Clinical Waste Disposal Rate as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$HZ$	=	Hazardous Waste Disposal Payment
$HZ$	=	$HZ_C * (1 + HZ_M)$
$HZ_C$	=	Cost to Provider of Hazardous Waste Disposal in the relevant Payment Period
$HZ_M$	=	Hazardous Waste Disposal Margin, as set out in percentage terms in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$BW$	=	Bulky Household Waste Collection Payment
$BW$	=	$(BW_{V1} * BW_{R1} * I_{RPIX}) + (BW_{V2} * BW_{R2} * I_{RPIX}) + (BW_{V3} * BW_{R3} * I_{RPIX}) +$ $(BW_{V4} * BW_{R4} * I_{RPIX}) + (BW_{V5} * BW_{R45} * I_{RPIX})$
$BW_{V1}$	=	Number of Collections up to 3 items of Bulky Household Waste in the Payment Period
$BW_{R1}$	=	Rate per Collection of up to 3 items of Bulky Household Waste as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$BW_{V2}$	=	Number of Collections of between 4 and 6 items of Bulky Household Waste in the Payment Period
$BW_{R2}$	=	Rate per Collection of between 4 and 6 items of Bulky Household Waste as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$BW_{V3}$	=	Number of Collections of between 7 and 9 items of Bulky Household Waste in the Payment Period

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BW <sub>R3</sub>		Rate per Collection of between 7 and 9 items of Bulky Household Waste as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
BW <sub>V4</sub>		Number of Collections between 10 and 12 additional items (over and above 9 items) in the Payment Period
BW <sub>R4</sub>		Rate per Collection of between 10 and 12 items of Bulky Household Waste (over and above 9 items) as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
BW <sub>V5</sub>		Number of Collections between 13 and 15 additional items (over and above 9 items) in the Payment Period
BW <sub>R5</sub>		Rate per Collection of between 13 and 15 items of Bulky Household Waste (over and above 9 items) as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
WEEE	=	WEEE Payment (processing and disposal, where such items are not collected by the WEEE Contractor <sup>1</sup> in accordance with the requirements of Schedule 2 (Specification))
WEEE	=	$WEEE_C * (1 + WEEE_M)$
WEEE <sub>C</sub>	=	Cost to Provider for processing and disposal of WEEE in the relevant Payment Period
WEEE <sub>M</sub>	=	WEEE Margin, as set out in percentage terms in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
ES	=	Emergency Services Payment
ES	=	$ES_C * (1 + ES_M)$
ES <sub>C</sub>	=	Cost to Provider for providing Emergency Services in the relevant Payment Period
ES <sub>M</sub>	=	Emergency Services Margin, as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
SCS	=	Street Cleansing Services Payment
SCS	=	$(SC_R * I_{RPIX}) / 12 + SC_A$
SC <sub>R</sub>	=	Street Cleansing Services Rate as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)

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<sup>1</sup> (unless the WEEE Contractor is a Provider-Related Party in which case the WEEE payment under this Contract shall be zero)

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$I_{RPIX}$	=	RPIX Indexation
$SC_A$	=	Additional Street Cleansing Services
$SC_A$	=	$SC_{AC} * (1 + SC_{CM})$
$SC_{AC}$	=	Cost to Provider for providing Additional Street Cleansing Services in the relevant Payment Period
$SC_{CM}$	=	Additional Street Cleansing Services Margin, as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
$MW$	=	Minor Works Payment
$MW$	=	$MW_C * (1 + MW_M)$
$MW_C$	=	Cost to Provider for providing the Minor Works in the relevant Payment Period
$MW_M$	=	Minor Works Margin, as set out in Table 4 of Appendix 1 to this Schedule 7a (Payment Mechanism)
Sch2	=	Schedule 2 Waste Collection Payment calculated by multiplying the numbers of the various Schedule 2 Receptacles Collected by the Contract Rates as set out in Table 8 of Appendix 1 to this Schedule 7a (Payment Mechanism) indexed at the start of each Contract Year using RPIX Indexation
CAI	=	Commercial and Industrial Waste Collection Payment calculated by multiplying the numbers of the various Commercial and Industrial Receptacles Collected by the Contract Rates as set out in Table 8 of Appendix 1 to this Schedule 7a (Payment Mechanism) indexed at the start of each Contract Year using RPIX Indexation

**5. Pass Through Payment (PT)**

***Principles of the Pass Through Payment***

- 5.1 In respect of any Payment Period, where the Provider is liable for and has paid National Non-Domestic Rates (“NNDR”) in respect of any of the Project Facilities then the Monthly Unitary Charge shall include the amount properly paid by the Provider in respect of NNDR in the Payment Period. If directed by The Authority’s Representative, the Provider shall appeal the quantum of NNDR and if this occurs any Payments by the Authority for NNDR shall include all costs reasonably incurred by the Provider in pursuing such an appeal provided that the Provider’s invoice for the relevant Payment Period is supported by satisfactory documentary evidence that such costs have been incurred and properly calculated.
- 5.2 Pursuant to clause 28.3.2D of this Contract, the Monthly Unitary Charge may include any employer contributions paid by the Provider over and above ██████ of the aggregate Pay of the Eligible Employees.
- 5.3 Pursuant to clause 28.3.2FA the Monthly Unitary Charge may include any reimbursement for any amounts paid to the Fund in accordance with clause 28.3.1FA.

***Formula for the Pass Through Payment***

5.4 The Pass Through Payment for each Payment Period shall be calculated in accordance with the following formula:

$$\begin{aligned} \text{PT} &= \text{Pass Through Payment} \\ \text{PT} &= \text{NNDR} + \text{EEC} + \text{LSP} \end{aligned}$$

Where:

- NNDR = The amount of National Non Domestic Rates paid by the Provider in respect of Project Facilities within the Payment Period
- EEC = The amount of excess employer contributions paid by the Provider as defined in accordance with clause 28.3.2D of this Contract
- LSP = The lump sum to be paid to the Provider pursuant to clause 28.3.2FA of this Contract to reimburse it for any amount paid to the Fund in accordance with clause 28.3.1FA of this Contract

**6. Performance Deductions and Unavailability Deductions (D<sub>t</sub>)**

- 6.1 Performance Deductions and Unavailability Deductions (D<sub>t</sub>) are made from the Monthly Unitary Charge for each Payment Period.
- 6.2 Schedule 7b (Performance and Unavailability Framework) outlines the methodology for determining the total amount of Performance Deductions and Unavailability Deductions to be levied in each Payment Period.
- 6.3 The Performance Deductions and Unavailability Deductions for each Payment Period shall be calculated in accordance with the following formula:

D<sub>t</sub> = Performance Deduction and Unavailability Deduction

$$D_t = ((D_{WTS_{AV}} + D_{WTS_{P}}) * I_{WTS}) + ((D_{CRSAV} + D_{CRSP}) * I_{CRS})$$

Where:

D<sub>WTS<sub>AV</sub></sub> = Unavailability Deductions in respect of the Waste Treatment Services in the relevant Payment Period as calculated in accordance with Schedule 7b (Performance and Unavailability Framework), which determines the Availability of the Services

D<sub>WTS<sub>P</sub></sub> = Performance Deductions in respect of the Waste Treatment Services in the relevant Payment Period as calculated in accordance with Schedule 7b (Performance and Unavailability Framework), which determines the Performance of the Services

I<sub>WTS</sub> = WTS Index, as calculated in accordance paragraph 18.5 of this Schedule 7a (Payment Mechanism)

D<sub>CRSAV</sub> = Unavailability Deductions in respect of the Collection and Recycling Services in the relevant Payment Period as calculated in accordance with Schedule 7b (Performance and Unavailability Framework), which determines the Availability of the Services

D<sub>CRSP</sub> = Performance Deductions in respect of the Collection and Recycling Services in the relevant Payment Period as calculated in accordance with of Schedule 7b (Performance and Unavailability Framework), which determines the Performance of the Services

I<sub>CRS</sub> = CRS Index, as calculated in accordance paragraph 18.6 of this Schedule 7a (Payment Mechanism)

## 7. Landfill Allowance Adjustment (A)

### ***Principles of the Landfill Allowance Adjustment***

- 7.1 The Landfill Allowance Adjustment, which relates to the prior Contract Year, will be paid or deducted in the Payment Period of the relevant Contract Year of the Authority's choosing.
- 7.2 Any additional income generated or costs incurred through the Authority's participation in the Landfill Allowance Trading Scheme ("LATS") for the immediately preceding Contract Year arising from variances in the Provider's BMW Diversion Performance from the BMW Diversion Target in the prior Contract Year will be shared by the Authority and the Provider.

### ***Formula for the Landfill Allowance Adjustment***

- 7.3 The Landfill Allowance Adjustment is calculated as follows:

$$A = (\blacksquare\% * L_{ATS}) - OT_D$$

Where:

$L_{ATS}$  = The LATS income or cost arising from the BMW Diversion Performance being less than or greater than the BMW Diversion Target as calculated below in paragraph 7.4 of this Schedule 7a (Payment Mechanism)

$OT_D$  = The Off-Take Deduction, which only applies from the 1<sup>st</sup> February 2009 until the Planned WTF Commencement Date and is calculated below in paragraph 7.5 of this Schedule 7a (Payment Mechanism)

- 7.4 If the Provider has exceeded its BMW Diversion Target ( $BMW_A > BMW_C$ ) then:

$$L_{ATS} = (BMW_A - BMW_C) * \text{the lower of } \pounds \blacksquare \text{ and } (BMW_I / BMW_V)$$

Where  $L_{ATS}$  cannot be less than zero

If the Provider has fallen short of its BMW Diversion Target ( $BMW_A < BMW_C$ ) then:

$$L_{ATS} = (BMW_A - BMW_C) * \text{the lower of } \pounds \blacksquare \text{ and } (BMW_{CT} / BMW_V)$$

Where  $L_{ATS}$  cannot be more than zero

Where:

$BMW_A$  = BMW Diversion Performance, as calculated below

$BMW_C$  = BMW Diversion Target, as calculated below

$BMW_I$  = The Authority's total income from the sale of Landfill Allowances in the prior Contract Year

$BMW_{CT}$  = The Authority's total cost of purchasing Landfill Allowances and the total book value of any Landfill Allowances borrowed in the immediately preceding Contract Year.

$BMW_V$  = The Authority's actual variance in Tonnes from its LATS targets in the prior Contract Year

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Where:

$BMW_C$	=	$(C_{RC} * BMW_{RC}) + ((V_{SABCcomp} + (V_{SABCrec} * BMW_{SABCrec})) * C_{SABCrat}) + ((A_{OTT} + C_{VT}) * BMW_{Res}) + (V_{Clin} * BMW_{Clin}) + (V_{Haz} * BMW_{Haz})$
$C_{RC}$	=	the SWP Recycling and Composting Target for the prior Contract Year
$BMW_{RC}$	=	The BMW Recycling and Composting Rate, as set out in Table 10 of Appendix 2 to this Schedule 7a (Payment Mechanism)
$V_{SABCcomp}$	=	the Tonnage of Compostable Waste delivered to the Provider by SABC in the prior Contract Year
$V_{SABCrec}$	=	the Tonnage of Recyclable Materials delivered to the Provider by SABC in the prior Contract Year
$BMW_{SABCrec}$	=	the actual BMW content (measured as a percentage) of Recyclable Materials delivered to the Provider by SABC in the prior Contract Year
$A_{OTT}$	=	Additional Off Take Tonnage, as determined in accordance with Schedule 33 (Off-Take Protocol)
$C_{VT}$	=	Contract Level of Treatment as determined in accordance with paragraph 1.6 of Schedule 2 (Specification)
$BMW_{Res}$	=	BMW content (measured as a percentage) of Residual Waste, calculated in accordance with the methodology set out in paragraph 1.6.21 of Schedule 2 (Specification)
$V_{Clin}$	=	The Tonnage of Clinical Waste diverted from Landfill by the Provider in the prior Contract Year
$BMW_{Clin}$	=	The BMW content (measured as a percentage) of Clinical Waste expected to be diverted from Landfill by the Provider in the prior Contract Year
$V_{Haz}$	=	The Tonnage of Hazardous Waste diverted from Landfill by the Provider in the prior Contract Year
$BMW_{Haz}$	=	The BMW content (measured as a percentage) of Hazardous Waste diverted from Landfill by the Provider in the prior Contract Year
$C_{SABCrat}$	=	The SABC Recycling and Composting Rate, as set out in Table 7, Appendix 2 to this Schedule 7a (Payment Mechanism)

And where:

$BMW_A$	=	$(A_{RC} * BMW_{RC}) + ((V_{SABCcomp} + (V_{SABCrec} * BMW_{SABCrec})) * C_{SABCrat}) + (A_{VT} * BMW_{Res}) + (V_{Clin} * BMW_{Clin}) + (V_{Haz} * BMW_{Haz})$
$A_{RC}$	=	The tonnage of Contract Waste Collected by the Provider or delivered to HRCs (excluding Waste delivered to the Barnsley Lane HRC in the period up to 14 February 2009) and then Recycled or Composted in the prior Contract Year

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$A_{VT}$  = Actual Level of Treatment in tonnes in the prior Contract Year

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7.5 The Offtake Deduction is designed to compensate the Authority for the costs of Landfilling Contract Waste that is forecast to be Diverted via the Off Take Contract in accordance with the Base Case Model. From the 1<sup>st</sup> October 2009 until the Planned WTF Commencement Date only the Off-Take Deduction is calculated in accordance with the following formula:

$OT_D$  = The Off-Take Deduction

$OT_D$  =  $(BMW_{CT} / BMW_V) * (\blacksquare - A_{VT})$

Where:

The calculation of  $BMW_{CT} / BMW_V$  cannot return a value of greater than  $\blacksquare$ ; and

$OT_D$  cannot be less than zero.

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## 8. Milestone Payments (M)

8.1 The Milestone Payment forms part of the Monthly Unitary Charge.

8.2 The Provider will be paid the fixed sum of [REDACTED]-uplifted by RPIX Indexation in accordance with the milestones as set out in paragraph 3.2 of the Works Development Plan in Schedule 3 (Provider's Proposals).

### ***Formula for the Milestone Payment***

8.3 The Milestone Payments (M) is calculated as follows:

$$M = \text{£ [REDACTED]} * M_{\%} * I_{\text{RPIX}}$$

Where :

$M_{\%}$  = The relevant milestone percentage as set out in paragraph 3.2 of the Works Development Plan in Schedule 3 (Provider's Proposals)

$I_{\text{RPIX}}$  = RPIX Indexation

## **Part 3 – Annual Reconciliation Payment**

### **9. Volume Adjustment (V)**

#### ***Principles of the Volume Adjustment***

9.1 The Volume Adjustment is made as part of the Annual Reconciliation.

9.2 The Volume Adjustment acts to adjust the payments made to the Provider within the relevant Contract Year to reflect any additional costs incurred or savings arising from:

- An increase or decrease in the Base Case Number of Households as set out in Table 1 of Appendix 2;
- Treating more or less Contract Waste than the anticipated Base Case Level of Treatment as set out in Table 2 of Appendix 2; and
- A variation arising between the Base Case Level of Recycling and Composting as set out in Table 3 of Appendix 2 and the Contract Recycling and Composting Target as a result of a change in the volume of Contract Waste.

9.3 The Volume Adjustment therefore comprises three separate adjustments:

VC = The Collection Volume Adjustment

VT = The Treatment Volume Adjustment

VRC = The Recycling and Composting Volume Adjustment

9.4 No Volume Adjustment will apply in the following circumstances:

- Positive and negative variances from the Base Case Number of Households between the “Collection Upper Zero Band” and the “Collection Lower Zero Band” as set out in Table 1 of Appendix 2;
- Positive and negative variances in the quantity of Contract Waste Treated between the “Treatment Upper Zero Band” and the “Treatment Lower Zero Band” as set out in Table 2 of Appendix 2; and
- Positive and negative variances in the quantity of Contract Waste Recycled and Composted between the “Recycling and Composting Upper Zero Band” and the “Recycling and Composting Lower Zero Band” as set out in Table 3 of Appendix 2.

9.5 The Volume Adjustment may be positive or negative.

9.6 The Upper Contract Waste Threshold and the Lower Contract Waste Thresholds (together the Contract Waste Thresholds) are set out in Table 5 of Appendix 2.

9.7 If it is forecast or otherwise becomes apparent that the Actual Level of Contract Waste is likely to exceed the Upper Contract Waste Threshold in any Contract Year then the provisions of clause 37.3 (Excess Waste) of this Contract will apply.

9.8 If it is forecast or otherwise becomes apparent that the Actual Level of Contract Waste is likely to be lower than the Lower Contract Waste Threshold in any Contract Year then the

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Authority shall be obliged to submit an Authority Notice of Change on the Provider pursuant to clause 55.1 (Authority Changes) specifying the proposed Change to the Services.

9.9 If it is forecast or otherwise becomes apparent that the Actual Number of Households is likely to be lower than the Collection Lower Band Threshold, as set out in Table 1 of Appendix 2, the Authority shall be obliged to submit an Authority Notice of Change on the Provider pursuant to clause 55.1 (Authority Changes) specifying the proposed Change to the Services.

9.10 The formulae for calculating the Volume Adjustment is set out below.

#### ***Formulae for the Volume Adjustment***

9.11 In any Contract Year the Volume Adjustment will be determined in accordance with the following formula:

$$V = VC + VT + VRC - CRS_{RA}$$

Where:

$CRS_{RA}$  = CRS Charge Rebasing Adjustment for the relevant Contract Year as calculated in accordance with paragraph 2.16 of this Schedule 7a (Payment Mechanism)

9.12 The Collection Volume Adjustment (VC)

Where the Actual Household Variance is greater than the Collection Upper Zero Band, ( $A_{HV} > C_{UZB}$ ):

$$VC = (A_{HV} - C_{UZB}) * (VC_{RU} * (CY_{PP}/12)) * I_{CRS}$$

Where the Actual Household Variance is less than the Collection Lower Zero Band, ( $A_H < C_{LZB}$ ):

$$VC = (A_{HV} - C_{LZB}) * (VC_{RL} * (CY_{PP}/12)) * I_{CRS}$$

Where:

$A_{HV}$  = The Actual Household Variance

$C_{UZB}$  = Collection Upper Zero Band as set out in Table 1 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$C_{LZB}$  = Collection Lower Zero Band as set out in Table 1 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$VC_{RU}$  = The Upper Band Collection Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VC_{RL}$  = The Lower Band Collection Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$CY_{PP}$  = The number of Payment Periods within the relevant Contract Year

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$I_{CRS}$  = CRS Index, as calculated in accordance paragraph 18.6 of this Schedule 7a (Payment Mechanism)

Where:

$A_{HV}$  =  $A_H - B_{CH}$

$A_H$  = Actual Number of Households in the Contract Year

$B_{CH}$  = Base Case Number of Households in the Contract Year as set out in Table 1 of Appendix 2

#### 9.13 The Treatment Volume Adjustment (VT)

Where the Actual Treatment Variance is greater than the Treatment Upper Zero Band, ( $A_{TV} > T_{UZB}$ ):

$VT$  =  $(A_{TV} - T_{UZB}) * VT_{RU} * I_{RPIX}$

Where the Actual Treatment Variance is less than the Treated Lower Zero Band, ( $A_{TV} < T_{LZB}$ ):

$VT$  =  $(A_{TV} - T_{LZB}) * VT_{RL} * I_{RPIX}$

Where:

$A_{TV}$  = Actual Treatment Variance

$T_{UZB}$  = Treatment Upper Zero Band as set out in Table 2 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$T_{LZB}$  = Treatment Lower Zero Band as set out in Table 2 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$VT_{RU}$  = The Upper Band Treatment Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VT_{RL}$  = The Lower Band Treatment Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$I_{RPIX}$  = RPIX Indexation

Where:

$A_{TV}$  =  $A_{VT} - BC_{VT}$

$A_{VT}$  = Actual Level of Treatment in tonnes in the Contract Year

$BC_{VT}$  = Base Case Level of Treatment in tonnes in the Contract Year as set out in Table 2 of Appendix 2 to this Schedule 7a (Payment Mechanism)<sup>2</sup>

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<sup>2</sup> Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts either a Baseline Interim Service Plan or a Run Out Service Plan then during the period of Interim Services or Run Out Services the Base Case Level of Treatment would be 15,000 Tonnes per Contract Year

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9.14 The Recycling and Composting Volume Adjustment (VRC)

Where the Actual Recycling and Composting Variance is greater than the Recycling and Composting Upper Zero Band, ( $A_{RCV} > RC_{UzB}$ ):

$$VRC = (VRC_{U4} * VRC_{RU4} * I_{RPIX}) + (VRC_{U3} * VRC_{RU3} * I_{RPIX}) + (VRC_{U2} * VRC_{RU2} * I_{RPIX}) + (VRC_{U1} * VRC_{RU1} * I_{RPIX})$$

Where the Actual Recycling and Composting Variance is less than the Recycling and Composting Lower Zero Band, ( $A_{RCV} < RC_{LzB}$ ):

$$VRC = (A_{RCV} - RC_{LzB}) * VRC_{RL} * I_{RPIX}$$

Where:

$A_{RCV}$  = Actual Recycling and Composting Variance

$RC_{UzB}$  = Recycling and Composting Upper Zero Band as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$RC_{LzB}$  = Recycling and Composting Lower Zero Band as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$VRC_{RU4}$  = The Fourth Upper Band Recycling and Composting Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VRC_{RU3}$  = The Third Upper Band Recycling and Composting Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VRC_{RU2}$  = The Second Upper Band Recycling and Composting Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VRC_{RU1}$  = The First Upper Band Recycling and Composting Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VRC_{RL}$  = The Lower Band Recycling and Composting Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$VRC_{U4}$  =  $RC_{UAV} - (RC_{UB1} + RC_{UB2} + RC_{UB3})$   
Where  $VRC_{U4}$  cannot be a negative number

$VRC_{U3}$  =  $RC_{UAV} - (RC_{UB1} + RC_{UB2}) - VRC_{U4}$   
Where  $VRC_{U3}$  cannot be a negative number

$VRC_{U2}$  =  $RC_{UAV} - RC_{UB1} - VRC_{U3} - VRC_{U4}$   
Where  $VRC_{U2}$  cannot be a negative number

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$$VRC_{U1} = RC_{UAV} - VRC_{U2} - VRC_{U3} - VRC_{U4}$$

Where  $VRC_{U1}$  cannot be a negative number

$$I_{RPIX} = RPIX \text{ Indexation}$$

Where:

$$RC_{UAV} = \text{Recycling and Composting Upper Adjusting Variance}$$

$$RC_{UAV} = A_{RCV} - RC_{UB}$$

Where  $RC_{UAV}$  cannot be less than zero

$$RC_{UB1} = \text{Recycling and Composting Upper Band 1 as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)}$$

$$RC_{UB2} = \text{Recycling and Composting Upper Band 2 as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)}$$

$$RC_{UB3} = \text{Recycling and Composting Upper Band 3 as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)}$$

And where:

$$A_{RCV} = (C_{RC} + C_{SABC}) - BC_{RC}$$

$$C_{RC} = \text{SWP Recycling and Composting Target, measured in tonnes, for the relevant Contract Year as calculated in accordance with paragraph 11.7 of this Schedule 7a (Payment Mechanism)}$$

$$C_{SABC} = \text{SABC Recycling and Composting Target, measured in tonnes, for the relevant Contract Year as calculated in accordance with paragraph 11.7 of this Schedule 7a (Payment Mechanism)}$$

$$BC_{RC} = \text{Base Case Level of Recycling and Composting in the Contract Year as set out in Table 3 of Appendix 2 to this Schedule 7a (Payment Mechanism)}$$

## 10. SABC Reconciliation ( $SABC_R$ )

### ***Principles of the SABC Reconciliation***

- 10.1 The SABC Reconciliation is performed as part of the Annual Reconciliation.
- 10.2 The SABC Reconciliation compensates the Provider for the loss of third party revenues caused by changes in the composition and volume of Recyclable Material and Compostable Waste delivered to the Provider by SABC up to the SABC Collection Date.

### ***Formula for the SABC Reconciliation***

- 10.3 The SABC Reconciliation is calculated in accordance with the following formula:

$$\begin{aligned} SABC_R &= \text{SABC Reconciliation} \\ SABC_R &= ((VFSABC_{COMP} - VSABC_{COMP}) * (SABC_{COMPI} * I_{RPIX})) + \\ &\quad ((VFSABC_{REC} - VSABC_{REC}) * (SABC_{RECI} * I_{RPIX})) \end{aligned}$$

Where:

- $VFSABC_{COMP}$  = Base Case Level of SABC Compostable Waste, as set out in Table 6 of Appendix 2 to this Schedule 7a (Payment Mechanism)
- $VSABC_{COMP}$  = Actual Tonnage of SABC Compostable Waste in the relevant Contract Year
- $SABC_{COMPI}$  = Income per tonne (in pounds) for Compostable Waste delivered to the Provider by SABC, as set out in Table 6 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $VFSABC_{REC}$  = Base Case Level of SABC Recyclable Material, as set out in Table 6 of Appendix 2 to this Schedule 7a (Payment Mechanism)
- $VSABC_{REC}$  = Actual Tonnage of SABC Recyclable Material in the relevant Contract Year
- $SABC_{RECI}$  = Income per tonne (in pounds) for Recyclable Material delivered to the Provider by SABC, as set out in Table 6 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $I_{RPIX}$  = RPIX Indexation

## 11. Landfill Payment Reconciliation ( $L_R$ )

### ***Principles of the Landfill Payment Reconciliation***

11.1 The Landfill Payment Reconciliation is part of the Annual Reconciliation.

11.2 The Landfill Payment Reconciliation directly links the payment by the Authority for Landfill services to the Provider's achievement of the Contract Diversion Target. The effect of the Landfill Payment Reconciliation ensures that:

- where the Contract Diversion Target is achieved or exceeded by the Provider, all costs associated with Landfill are reimbursed; yet
- where the Provider fails to achieve the Contract Diversion Target in any Contract Year, the payment covers the Provider's Landfill costs up to the Contract Diversion Target only.

11.3 The Contract Diversion Target is the sum of:

- the Contract Recycling and Composting Target;
- the SABC Recycling and Composting Target;
- the Contract Level of Treatment as determined in accordance with paragraph 1.6.7.1 of Schedule 2 (Specification);
- Any Additional Off Take Tonnage as determined in accordance with Schedule 33 (Off-Take Protocol)
- the tonnage of Rubble segregated by the Provider at the HRCs or otherwise; and
- the tonnage of Clinical Waste and Hazardous Waste Diverted from Landfill by the Provider.

11.4 Where more Contract Waste is sent to Landfill in a Contract Year than the Base Case Level of Landfill for that Contract Year, as set out in Table 4 of Appendix 2, then for this surplus Tonnage only, the Landfill gate fee payable will exclude the Provider's profit margin.

### ***Formula for the Landfill Payment Reconciliation***

11.5 The Landfill Payment Reconciliation is calculated in accordance with the following formula.

11.6 Where the Actual Diversion Performance is greater than or equal to the Contract Diversion Target ( $A_D \geq C_D$ ):

$$L_R = (V_A - AL_{NC} - A_D + W) * (L_G + L_{TA}) - L$$

11.7 Where the Actual Diversion Performance is less than the Contract Diversion Target ( $A_D < C_D$ ):

$$L_R = (V_A - AL_{NC} - C_D + W) * (L_G + L_{TA}) - L$$

Where :

$A_D$  = Actual Diversion Performance for the relevant Contract Year

$A_D$  =  $A_{RC} + A_{SABC} + A_{VT} + V_{Rub} + V_{Clin} + V_{Haz}$

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- $C_D$  = Contract Diversion Target for the Contract Year
- $C_D$  =  $C_{RC} + C_{SABC} + C_{VT} + A_{OTT} + V_{Rub} + V_{Clin} + V_{Haz}$
- $V_A$  = Actual Level of Contract Waste handled for that Contract Year
- $AL_{NC}$  = The balance of the actual level of Residual Waste Landfilled at Landfill facilities designated by the Authority's representative pursuant to paragraph 12.2.1.ii of Schedule 2 (Specification) in the relevant Contract Year less any Tonnage Landfilled pursuant to paragraph 12.3.5 of Schedule 2 (Specification)
- $L_G$  = Contract Landfill Gate Fee per tonne for that Contract Year
- $L_G$  = IF  $A_D \geq C_D$  then  $((T_1 * L_{GA} * I_{RPIX}) + (T_2 * L_{GB} * I_{RPIX})) / L_A$   
IF  $A_D < C_D$  then  $((T_1 * L_{GA} * I_{RPIX}) + ((T_2 - (C_D - A_D)) * L_{GB} * I_{RPIX})) / (L_A - (C_D - A_D))$
- $L_{TA}$  = Prevailing rate of Landfill Tax per tonne for Active Waste in the relevant Contract Year
- $W$  = The Tonnage of Contract Waste Treated at the WTF prior to the Planned WTF Commencement Date
- $L$  = The Landfill Payment, as calculated in accordance with paragraph 3 of this Schedule 7a (Payment Mechanism)

And where:

- $A_{RC}$  = The tonnage of Contract Waste Collected by the Provider or delivered to HRCs (excluding Waste delivered to the Barnsley Lane HRC in the period up to 14 February 2009) and then Recycled or Composted in the relevant Contract Year
- $A_{SABC}$  = The tonnage of Recyclable Materials or Compostable Waste collected by SABC which is then Recycled or Composted in the relevant Contract Year
- $C_{RC}$  = SWP Recycling and Composting Target, measured in Tonnes, for the relevant Contract Year as calculated below:
- $C_{RC}$  =  $C_{RCrat} * (V_{SWP} - V_{Rub} - V_{Clin} - V_{Haz})$
- $C_{RCrat}$  = The Contract Recycling and Composting Rate, set out in Table 7 of Appendix 2 to this Schedule 7a (Payment Mechanism)
- $V_{SWP}$  = The Tonnage of Contract Waste collected by the Provider from the Collection Contract Area or delivered to HRCs (excluding Waste delivered to the Barnsley Lane HRC in the period up to 14 February 2009)
- $V_{Rub}$  = the Tonnage of Rubble segregated by the Provider at HRCs or otherwise in the Contract Year
- $V_{Clin}$  = The Tonnage of Clinical Waste Diverted from Landfill by the Provider in the

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- $V_{\text{Haz}}$  = The Tonnage of Hazardous Waste Diverted from Landfill by the Provider in the Contract Year
- $C_{\text{SABC}}$  = SABC Recycling and Composting Target for the relevant Contract Year as calculated below:
- $C_{\text{SABC}} = C_{\text{SABCrat}} * (V_{\text{SABCcomp}} + V_{\text{SABCrec}})$
- $C_{\text{SABCrat}}$  = The SABC Recycling and Composting Rate, as set out in Table 7, Appendix 2 to this Schedule 7a (Payment Mechanism)
- $V_{\text{SABCcomp}}$  = The Tonnage of Compostable Waste delivered to the Provider by SABC and meeting Waste Reception Criteria set out in Schedule 40 (Waste Reception Protocol)
- $V_{\text{SABCrec}}$  = The Tonnage of Recyclable Materials delivered to the Provider by SABC and meeting Waste Reception Criteria set out in Schedule 40 (Waste Reception Protocol)

#### And Where:

- $A_{\text{VT}}$  = Actual Level of Treatment in Tonnes in the Contract Year
- $C_{\text{VT}}$  = Contract Level of Treatment as determined in accordance with paragraph 1.6.7.1 of Schedule 2 (Specification)
- $A_{\text{OTT}}$  = Additional Off Take Tonnage, as determined in accordance with Schedule 33 (Off-Take Protocol)
- $T_1$  = Contract Waste sent to Landfill up to the Base Case Level of Landfill
- $T_1 = \begin{cases} L_A & \text{IF } L_A \leq L_{\text{BC}} \\ L_{\text{BC}} & \text{IF } L_A > L_{\text{BC}} \end{cases}$
- $L_{\text{GA}}$  = Landfill Gate Fee A (including the Provider's margin) as set out in Table 3 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $T_2$  = Contract Waste sent to Landfill over the Base Case level of Landfill
- $T_2 = L_A - L_{\text{BC}}$
- $L_{\text{GB}}$  = Landfill Gate Fee B (excluding the Provider's margin) as set out in Table 3 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $L_A$  = Actual Level of Landfill
- $L_A = V_A - A_D - A_{\text{LNC}}$
- $L_{\text{BC}}$  = Base Case Level of Landfill as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

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$I_{RPIX}$  = RPIX Indexation

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## **12. Monthly Unitary Charge Outstanding Payments (UC<sub>MOP</sub>)**

- 12.1 The Monthly Unitary Charge Outstanding Payments (UC<sub>MOP</sub>) is part of the Annual Reconciliation.
- 12.2 The Monthly Unitary Charge Outstanding Payments is the net payment and/or deduction in respect of outstanding Ancillary Services Payments, Pass Through Payments and Performance Deductions and Unavailability Deductions relating to the relevant Contract Year, calculation of which will be in accordance with paragraphs 4, 5 and 6 of this Schedule 7a (Payment Mechanism) respectively.

### 13. Landfill Diversion Bonus (E)

#### ***Principles of the Landfill Diversion Bonus***

13.1 The Landfill Diversion Bonus is paid as part of the Annual Reconciliation.

13.2 Where:

- the Actual Diversion Performance is greater than or equal to the Contract Diversion Target ( $A_D \geq C_D$ );
  - The Tonnage of Contract Waste Collected by the Provider and the Tonnage of Recyclable Materials or Compostable Waste collected by SABC that is Recycled or Composted is greater than or equal to the Contract Recycling and Composting Target;
  - the Actual Level of Provider Landfill is less than the Base Case Level of Landfill; and
  - KPI 8 of Schedule 7b (Performance and Unavailability Framework) has been satisfied,
- the Provider will be paid a Landfill Diversion Bonus.

13.3 If it is forecast or otherwise becomes apparent that the Actual Level of Landfill is likely to exceed the Base Case Level of Landfill in any Contract Year the Authority and the Provider will review paragraph 13 of Schedule 7a (Payment Mechanism) to assess whether the Provider has appropriate incentive to Divert the additional Contract Waste from Landfill.

#### ***Formula for the Landfill Diversion Bonus***

13.4 The Landfill Diversion Bonus is calculated in accordance with the following formula:

IF  $A_D \geq C_D$   
AND  $L_{AP} \leq L_{BC}$   
AND  $A_{RC} + A_{SABC} \geq C_{RC} + C_{SABC}$   
AND KPI 8 has been satisfied

THEN

$$E = (L_{BC} - L_{AP}) * (L_{TA} * \blacksquare\%)$$

Where:

$L_{AP}$  = Actual Level of Provider Landfill

$L_{AP}$  =  $L_A - (VSABC_{RES} - VFSABC_{RES})$

$L_{BC}$  = Base Case Level of Landfill as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$L_{TA}$  = Prevailing rate of Landfill Tax per tonne for Active Waste in the relevant Contract Year

And:

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$L_A$  = Actual Level of Landfill

$VSABC_{RES}$  = The Actual Level of SABC Residual Waste

$VFSABC_{RES}$  = The Base Case Level of SABC Residual Waste, as set out in Table 6 of Appendix 2 to this Schedule 7a (Payment Mechanism)

13.5 Where in accordance with Schedule 34 (Interim Services Plan and Run Out Services Plan) the Authority accepts the Baseline Interim Service Plan then during the period of Interim Services only the formula for calculating the Landfill Diversion Bonus is amended to be as follows:

IF  $A_D \geq C_D$

AND  $L_{AP} \leq (L_{BC} + L_{IS})$

AND  $A_{RC} + A_{SABC} \geq C_{RC} + C_{SABC}$

AND KPI 8 has been satisfied

THEN

E =  $((L_{BC} + L_{IS}) - L_{AP}) * (L_{TA} * \blacksquare\%)$

Where:

$L_{IS}$  = Interim Service Landfill as set out in Table 4 of Appendix 2 to this Schedule 7a (Payment Mechanism)

## 14. Excess Revenue Share (ER)

### *Principles of the Excess Revenue Share*

- 14.1 The Excess Revenue Share is part of the Annual Reconciliation.
- 14.2 The Excess Revenue Share shares any additional third party income, over and above that included in the Base Case Model, between the Authority and the Provider.
- 14.3 The Excess Revenue Share applies to:
- excess revenue from energy generation from the Planned WTF Commencement Date; and
  - excess revenue from the sale of Recyclable Materials and Compost.

### *Formula for the Excess Revenue Share*

- 14.4 The Excess Revenue Share for the relevant Contract Year (ER) is calculated as follows:

$$\text{ER} = \begin{array}{l} \text{The higher of:} \\ ( \blacksquare \% * ((\text{EN}_A - \text{EN}_C) + (\text{REC}_A - \text{REC}_C)) ) - \text{ER}_{\text{CUM}} \\ \text{and 0 (zero)} \end{array}$$

Where :

- $\text{EN}_A$  = The actual amount (in pounds) of Cumulative Energy Generation Revenue arising in the Contract Year (from the Planned WTF Commencement Date only)
- $\text{EN}_C$  = Contract Cumulative Energy Generation Revenue as set out in Table 7 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $\text{REC}_A$  = The actual amount (in pounds) of Cumulative Recyclable Material and Compost Revenue
- $\text{REC}_C$  = Contract Cumulative Recyclable Material and Compost Revenue as set out in table 7 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $\text{ER}_{\text{CUM}}$  = The actual amount (in pounds) of cumulative Excess Revenue Share payments received from the Provider up to and including that paid relating to the immediately preceding Contract Year

## 15. Royalty Payment (R)

### ***Principles of the Royalty Payment***

- 15.1 The Royalty Payment is part of the Annual Reconciliation.
- 15.2 The Royalty Payment shares any income arising from Non-Contract Waste being Handled at Project Facilities.
- 15.3 The Royalty Payment applies separately to:
- The Waste Treatment Facility; and
  - CRS Project Facilities.

### ***Formula for the Royalty Payment***

- 15.4 The Royalty Payment (R) is calculated as follows:
- 15.5 Where the Non-Contract Waste Treated ( $NCW_T$ ) is less than or equal to the Contract Level of Treatment ( $C_{VT}$ ) less the Actual Level of Treatment ( $A_{VT}$ ) ( $NCW_T \leq C_{VT} - A_{VT}$ ):

$$R = (NCW_{TR} - (NCW_T * VT_{RU} * I_{RPIX})) * \blacksquare \% + R_{CRS}$$

- 15.6 Where:

- the Non-Contract Waste Treated ( $NCW_T$ ) is greater than the Contract Level of Treatment ( $C_{VT}$ ) less the Actual Level of Treatment ( $A_{VT}$ ) ( $NCW_T > C_{VT} - A_{VT}$ ); and
- the calculation  $C_{VT} - A_{VT}$  cannot return a value less than zero:

$$R = ((NCW_{TR} - (NCW_T * VT_{RU} * I_{RPIX})) * ((C_{VT} - A_{VT}) / NCW_T) * \blacksquare \%) + ((NCW_{TR} - (NCW_T * VT_{RU} * I_{RPIX})) * ((NCW_T - (C_{VT} - A_{VT})) / NCW_T) * \blacksquare \%) + R_{CRS}$$

Where :

- $NCW_{TR}$  = Non-Contract Waste Treatment Revenue for the relevant Contract Year
- $NCW_T$  = Non-Contract Waste Treated (in Tonnes) at the WTF in the relevant Contract Year
- $VT_{RU}$  = The Upper Band Treatment Volume Adjustment Rate for the relevant Contract Year as set out in Table 2 of Appendix 1 to this Schedule 7a (Payment Mechanism)
- $I_{RPIX}$  = RPIX Indexation
- $R_{CRS}$  = The CRS royalty calculated in accordance with paragraph 15.7 of this Schedule 7a (Payment Mechanism)
- $A_{VT}$  = Actual Level of Treatment in tonnes in the Contract Year
- $C_{VT}$  = Contract Level of Treatment as determined in accordance with paragraph

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1.6.7.1 of Schedule 2 (Specification)

15.7 The CRS royalty is calculated in accordance with the following formula:

$$R_{\text{CRS}} = (\text{£} \blacksquare * I_{\text{RPIX}}) * \text{NCW}_{\text{CRSPF}}$$

$$\text{NCW}_{\text{CRSPF}} = \text{Total Non-Contract Waste (in Tonnes) Handled at CRS Project Facilities}$$

## 16. Non Contract Waste Displacement Payment (NCW<sub>DP</sub>)

16.1 The Non Contract Waste Displacement Payment forms part of the Annual Reconciliation.

16.2 The Non Contract Waste Displacement Payment relates to payments to be made to the Provider for Tonnages of Contract Waste Treated at the WTF that displace Non Contract Waste as included in the Base Case Model.

### ***Formula for the Non Contract Waste Displacement Payment***

16.3 Where the Base Case Level of Treatment is less than 90,000 Tonnes ( $BC_{VT} < 90,000$ ) and the Actual Treatment Variance is less than or equal to 90,000 Tonnes less the Base Case Level of Treatment ( $A_{TV} \leq (90,000 - BC_{VT})$ ) then:

$$NCW_{DP} = A_{TV} * \text{£} \blacksquare * I_{RPIX}$$

16.4 Where the Base Case Level of Treatment is less than 90,000 ( $BC_{VT} < 90,000$ ) and the Actual Treatment Variance is greater than 90,000 less the Base Case Level of Treatment ( $A_{TV} > (90,000 - BC_{VT})$ ) then:

$$NCW_{DP} = (90,000 - BC_{VT}) * \text{£} \blacksquare * I_{RPIX}$$

Where :

$A_{TV}$  = The Actual Treatment Variance as calculated in accordance with paragraph 9.13 of this Schedule 7a (Payment Mechanism)

$BC_{VT}$  = Base Case Level of Treatment in tonnes in the Contract Year as set out in Table 2 of Appendix 2 to this Schedule 7a (Payment Mechanism)

$I_{RPIX}$  = RPIX Indexation

## 17. Contingency Delivery Point Overrun Charge (CDP<sub>OC</sub>)

17.1 The Contingency Delivery Point Overrun Charge forms part of the Annual Reconciliation.

17.2 Contingency Delivery Point Overrun Charge levies deductions on the Provider to reflect the cost incurred by the Authority of SABC delivering Clinical Waste to be Disposed of outside of the administrative area of SABC.

### ***Formula for the Contingency Delivery Point Overrun Charge***

17.3 The Contingency Delivery Point Overrun Charge is calculated in accordance with the following formula:

$$CDP_{OC} = CDP_1 * (£ \blacksquare * I_{RPIX})$$

CDP<sub>1</sub> = The instances of SABC Delivering Clinical Waste to a Contingency Delivery Point outside of its administrative area

I<sub>RPIX</sub> = RPIX Indexation

**Part 4 Indexation**

**18. Indexation**

18.1 This section sets out the methodology for calculating the indices used to index the Contract Rates.

***Indexation for the Unadjusted Unitary Charge (An)***

18.2 As outlined in paragraph 2 of this Schedule 7a (Payment Mechanism), the Unadjusted Unitary Charge (An) comprises the WTS Charge (An<sub>WTS</sub>) and the CRS Charge (An<sub>CRS</sub>).

18.3 Indexation is applied to both An<sub>WTS</sub> and An<sub>CRS</sub> based on the following:

- A proportion that is indexed at RPIX representing the non-labour costs;
- A proportion that is indexed at RPI + ██████-representing the labour costs; and
- A proportion that is not indexed.

18.4 The proportions vary between the WTS Charge and the CRS Charge, reflecting the differing cost to the Provider of providing the CRS and the WTS. The proportions to be indexed are set out in Table 5 of Appendix 1.

18.5 The WTS Charge (An<sub>WTS</sub>) as set out in Table 1 of Appendix 1 is subject to indexation at the start of each Contract Year using the WTS Index (I<sub>WTS</sub>) as calculated in accordance with the following formula:

$$I_{WTS} = \text{WTS Index}$$
$$I_{WTS} = \text{Fixed}_{WTS\%} + (\text{RPIX}_{WTS\%} * I_{RPIX}) + (\text{Labour}_{WTS\%} * I_{LABOUR})$$

Where

Fixed<sub>WTS%</sub> = Percentage of the WTS Charge not subject to indexation as set out in Table 5 of Appendix 1 to this Schedule 7a (Payment Mechanism)

RPIX<sub>WTS%</sub> = Percentage of the WTS Charge subject to RPIX Indexation for each Contract Year as set out in Table 5 of Appendix 1 to this Schedule 7a (Payment Mechanism)

Labour<sub>WTS%</sub> = Percentage of the WTS Charge subject to Labour Indexation for each Contract Year as set out in Table 5 of Appendix 1 to this Schedule 7a (Payment Mechanism)

I<sub>RPIX</sub> = RPIX Indexation

I<sub>LABOUR</sub> = Labour Indexation

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- 18.6 The CRS Charge ( $A_{CRS}$ ) as set out in Real Terms in Table 1 of Appendix 1 is subject to indexation at the start of each Contract Year using the CRS Index ( $I_{CRS}$ ) as calculated in accordance with the following formula:

$$I_{CRS} = \text{CRS Index} \\ I_{CRS} = \text{Fixed}_{CRS\%} + (\text{RPIX}_{CRS\%} * I_{RPIX}) + (\text{Labour}_{CRS\%} * I_{LABOUR})$$

Where

$\text{Fixed}_{CRS\%}$  = Percentage of the CRS Charge not subject to indexation as set out in Table 5 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$\text{RPIX}_{CRS\%}$  = Percentage of the CRS Charge subject to RPIX Indexation for each Contract Year as set out in Table 5 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$\text{Labour}_{CRS\%}$  = Percentage of the CRS Charge subject to Labour Indexation for each Contract Year as set out in Table 5 of Appendix 1 to this Schedule 7a (Payment Mechanism)

$I_{RPIX}$  = RPIX Indexation

$I_{LABOUR}$  = Labour Indexation

- 18.7 The RPIX Indexation ( $I_{RPIX}$ ) is calculated in accordance with the following formula:

$$I_{RPIX} = \text{RPIX}_t / \text{RPIX}_{BD}$$

Where:

$\text{RPIX}_t$  = The value of the January RPIX immediately preceding the start of the relevant Contract Year as published in table RPO5 by the Office for National Statistics

$\text{RPIX}_{BD}$  = The value of the January 2006 RPIX as published in table RPO5 by the Office for National Statistics

$\text{RPIX}_{BD}$  = 189.4

- 18.8 The Labour Indexation ( $I_{LABOUR}$ ) is calculated in accordance with the following formula:

$$I_{LABOUR} = ((\text{RPI}_t / \text{RPI}_{BD})^{(1/Y)} + \text{■})^Y$$

Where:

$\text{RPI}_t$  = The value of the January RPI immediately preceding the start of the relevant Contract Year as published in table RPO4 by the Office for National Statistics

$\text{RPI}_{BD}$  = The value of the January 2006 RPIX as published in table RPO4 by the Office for National Statistics

$\text{RPI}_{BD}$  = 193.4

$Y$  = The number of years from January 2006 to the January preceding the start of the relevant Contract Year

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***Indexation for the Monthly Landfill Payment ( $L_M$ ) and the Landfill Payment Reconciliation ( $L_R$ )***

- 18.9 The Landfill Gate Fee A ( $LG_A$ ) and Landfill Gate Fee B ( $LG_B$ ), as set out in Real Terms in Table 3 of Appendix 1, are subject to indexation at the start of each Contract Year using RPIX Indexation.

***Indexation for the Ancillary Service Payment (AS)***

- 18.10 The Contract Rates used within the Ancillary Service Payment as set out in Real Terms in Table 4 and Table 8 of Appendix 1 are subject to indexation at the start of each Contract Year using RPIX Indexation.

***Indexation for the Performance Deductions and Unavailability Deductions ( $D_t$ )***

- 18.11 Performance Deductions and Unavailability Deductions in respect of the Waste Treatment Services are subject to indexation using the WTS Index. Performance Deductions and Unavailability Deductions in respect of the Collection and Recycling Services are subject to indexation using the CRS Index.

***Indexation for the Volume Adjustment (V)***

- 18.12 The Contract Rates used within the Collection Volume Adjustment (VC) are subject to indexation at the start of each Contract Year using the CRS Index ( $I_{CRS}$ ) as calculated in 18.6 above.
- 18.13 The Contract Rates used within the Treatment Volume Adjustment (VT) and the Recycling and Composting Volume Adjustment (VRC) are subject to indexation at the start of each Contract Year using RPIX Indexation.

***Indexation for the SABC Reconciliation ( $SABC_R$ )***

- 18.14 Contract income per tonne for Recyclable Materials delivered to the Provider by SABC ( $SABC_{RECI}$ ) as set out in Table 6 of Appendix 1 and Contract income per tonne for Compostable Waste delivered to the Provider by SABC ( $SABC_{COMPI}$ ) as set out in Table 6 of Appendix 1 are subject to indexation at the start of each Contract Year using RPIX Indexation.

***Indexation for the Royalty Payment (R)***

- 18.15 | The royalty fee of ██████ in respect of CRS Project Facilities is subject to indexation using RPIX Indexation at the start of each Contract Year using RPIX Indexation.

***Indexation for the Non-Contract Waste Displacement Payment ( $NCW_{DP}$ )***

- 18.16 | The revenue per tonne of ██████ in respect of Non-Contract Waste is subject to indexation using RPIX Indexation at the start of each Contract Year.

***Indexation for the Contingency Delivery Point Overrun Charge ( $CDP_{OC}$ )***

- 18.17 | The overrun charge of ██████ in respect of the delivery of SABC Clinical Waste to a Contingency Delivery Point is indexed using RPIX Indexation at the start of each Contract Year.

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**Appendix 1 - Contract Rates**

**Appendix 2 - Contract Performance Metrics**