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Andrew Scate,  
Director General, Infrastructure, Housing and Environment  
**BY EMAIL**

14<sup>th</sup> April 2022

Dear Andy,

**New Bellozanne Sewage Treatment Works**

The Public Accounts Committee would like to thank you and your officers for the detailed updates which have been provided to the Committee in November 2021, January 2022 and, most recently, in February and March 2022.

In all cases, but most particularly in relation to the February response, the PAC is satisfied with the answers provided regarding the rationale for the decisions which were made – particularly in relation to Infrastructure, Housing and Environment's role as principal contractor following the termination of nmcn PLC's contract on 12 October 2021 – and the governance of and accountability for those decisions.

The PAC welcomes the detail provided in February on the due diligence that has been put in place for the appointment of new contractors and the approach taken to mitigating the future risks for current suppliers on the project. It is clear from the update that as well as taking full accountability for the project, the department has sought to proactively manage the risks involved in taking the role of principal contractor and the associated governance and project management.

The evidence provided to the PAC suggests that the department sought a pragmatic and appropriate approach to a difficult situation in order to progress the project in a viable and cost-effective manner and within the bounds of applicable governance procedures.

The PAC also appreciates your most recent update on the project funding and the confirmation that there has been no change to the financial status.

For transparency and as agreed with you, the updates referred to above are appended to this letter for general publication.

The current PAC will recommend that its successor should keep a watching brief on the Sewage Treatment Works project and the IHE Department's position as principal contractor.

Yours sincerely

Deputy Inna Gardiner,  
Chair, Public Accounts Committee

**Bellozanne Sewage Treatment Works Project and the Collapse of the Contractor nmcn  
The PAC Queries by Email to Andy Scate (19 October 2021 12:12) and IHE Responses:**

- **Breakdown of budget including costs to date against works undertaken/to be completed and monies added to original budget.**

The current STW project is a single contract with nmcn PLC for the design and construction of the Sewage Treatment Works (STW) at Bellozanne. Applications for payment are received by IHE from the contractor on a monthly basis. Payment is made to the contractor on the basis of the Activity Schedule, submitted in the original tender submission, as defined in the contract and valued for the works completed during the month. The value and date of the payments made to the contractor are identified in Table 1, below.

The initial approved budget for the STW project was £79,502,000 and the current budget allocation is £75,502,000, as identified in Table 2 below (and on page 131 of the Government Plan 2022-25 [GP 22-25], table 19). The remaining £4,000,000 shortfall in funding is due to be allocated in 2023 to meet the project cashflow requirements.

Of the previously approved and allocated budget at the end of 2020, £7,990,000 was not allocated to the project by Treasury and Resources Minister in 2021, but was ring fenced in reserves to make it available in 2022 for the STW project. This is included in the GP 22-25 for 2022 under 'Capital – Major Projects' but is effectively a reallocation of funding already agreed in prior years not carried forward into 2021 under the Public Finances Law.

A Business Case has been approved for the increase in budget of £1,850,000 in 2022 and is included in the GP 22-25 Capital Allocations on page 136 (table 20). The increase in funding is for costs incurred by the project as a result of the Covid-19 pandemic.

The current total funding required for the STW project is £81,352,000.

It should be noted that there are other items not included in the current total funding required (£81,352,000) but packaged under the STW portfolio in the GP 22-25 as they relate to Liquid Waste projects allied to the STW. These include:

- Biosolids Storage Facilities £2,383,000;
- STW Odour Mitigation (States of Jersey Proposition No. P.115/2017) £1,500,000; and,
- Bellozanne STW Outfall Rehabilitation £1,000,000.

The revised total value of the STW portfolio is therefore £86,235,000 as identified in table 19 of GP22-25 and table 3 below.

Table 1 (overleaf)

[REDACTED].

<b>Funding Allocation (rounded)</b>	<b>Value</b>
Capital Vote - Q00BT14022 Liquid Waste Strategy	£35,594,000
Q00MF13030 - CW Refurbishment Transferred to LWS (MD)	£558,000
Infrastructure – Transferred to LWS (MD) in 2015	£1,000,000
Infrastructure – Transferred to LWS (MD) in 2016	£4,500,000
Infrastructure – Transferred to LWS (MD) in 2017	£4,500,000
Contingency Fund – Funding for CWI in 2017	£3,500,000
Infrastructure – Transferred to LWS (MD) in 2018	£7,000,000
Contingency Fund – Funding for OC (P.115/2017) in 2018	£3,000,000
Infrastructure – Transferred to LWS (MD) in 2019	£8,000,000
2020 Allocation in Government Plan (GP) 2020-23	£7,850,000
<b>Sub-Total</b> (previous project approvals)	<b>£75,502,000</b>

**Table 2**

Funding not reallocated to 2021 from 2020 by T&R Minister	(£7,990,000)
2022 Allocation in Government Plan (GP) 2022-2025 (includes the £7,990k already approved, but not reallocated in 2021)	£10,740,000
2023 Allocation in Government Plan (GP) 2022-2025	£4,550,000
2024 Allocation in Government Plan (GP) 2022-2025	£2,733,000
2025 Allocation in Government Plan (GP) 2022-2025	£700,000
<b>Grand total</b> as per GP 22-25 Major Projects envelope page 131	<b>£86,235,000</b>

**Table 3**

- **73% money spent, 60% work undertaken – breakdown (Confidential Information)**

[REDACTED].

- **A detailed 'contract journey' of last 12 months, including dates and details of engagement with key senior personnel of nmcn, what IHE was aware of and when (and who IHE informed), minutes of meetings and decisions made, copies of financial reporting you were privy to, and any internal reports on evolving situation and 'red flag' actions taken.**

Please refer to Appendix A, below.

- **Rationale and decision-making process for IHE undertaking 'umbrella' principal contractor role including analysis of what type of contract (fixed price, fixed term?), what role entails, commercial risks, pros and cons, consideration of capacity, capabilities, competency and skills, contracts for nmcn key personnel, and legal advice received.**

The key reason for IHE to take this approach has been influenced by lessons learned when Enpure Ltd failed during the project to construct the Sludge Digestion plant at Bellozanne in September 2012. At that time, and due to the complexity of the treatment process involved, the most appropriate approach considered at the time was to procure a new contractor to complete the project as a whole. Ultimately this resulted in approximately twelve months delay in the project and significant additional cost. It was found to be very difficult to find a contractor who was willing and capable to complete the project and accept liability for work that had already been completed.

Attempting to procure a new contractor to complete the whole of the STW works will inevitably cause significant delay whether it is done via negotiation or re-tender. Requirements for the new contractor to warrant the project as a whole, including accepted detailed designs and commissioning strategies, will also introduce additional costs which will mean the current remaining project budget will not be sufficient for completion.

If IHE adopt the role of Principal Contractor immediately and secure nmcn's supply chain then each contractor, supplier or designer will be responsible for completing their own previously completed work. Tendering for each package of work will have the same overall negative impact as tendering the whole project.

Programme delays and impact from re-engaging with the supply chain is unavoidable but, this is considered to be manageable in comparison with a tendering process. Furthermore, the staged commissioning strategy encourages a targeted approach of critical contractors, suppliers or designers as defined by the programme, and allows for scope to postpone the re-engagement of non-critical supply chain partners in due course. There may also be some premium to pay for disruption to subcontractors, for example they may have demobilised and will have to return to site, but again this is considered to be manageable and to represent better value for money than a tender might offer.

Furthermore, avoiding any significant delay means that partially completed work will not deteriorate while exposed to the elements or disrupt associated construction, installation or commissioning activities.

Re-engaging with supply chain partners will incorporate a range of contracts, both in terms of type and scale of terms and conditions, and will be largely dictated by the scope of works or services to be procured. Examples include the following:

- Comprehensive contracts (e.g. NEC 3 or MF/1) for larger packages of work which will often incorporate a fixed price based on an agreed activity schedule or bill of quantities;
- Design or technical service contracts (e.g. NEC 3 Professional Services) for specific services which incorporate design liabilities and associated insurance requirements;
- Design, manufacture and supply contracts for mechanical and electrical equipment; and,
- Standard GoJ terms and conditions for day rate contracts for the supply of plant and labour which will be directed by IHE.

IHE are aware that some supply chain partners, including local contractors and suppliers, have not been paid for recently completed work by nmcn, either in part or in full. [REDACTED].

In the case of key MEICA suppliers some plant and materials has already been paid for and is vested with IHE. Not engaging with these suppliers could result in additional cost and delay in finding replacements. In addition, the works completed to date has been designed for specific equipment and a change of supplier is likely to require remedial or abortive works to suit the new items.

It may be appropriate to have nmcn novate 'live' contracts to IHE but there is no guarantee that the supply chain partner(s) will accept this and may prefer to engage with IHE on either IHE's or their own standard terms and conditions. This will be explored with the supply chain on a case-by-case basis.

Notwithstanding the above, the appointment of each supplier and subcontractor will be assessed for their financial stability before being engaged as part of the due diligence process. There is a risk that some will be impacted by nmcn entering administration beyond that directly from the New Bellozanne STW project.

IHE accept that adopting a Direct Delivery Model has resulted in the reallocation of project risks, including IHE carrying a number of risks previously allocated to nmcn as the Principal Contractor, as follows:

- **Insurance and liabilities:** As Principal Contractor IHE will be required to carry additional insurance. IHE will also be responsible for rectifying or correcting quality errors and other incidents on the construction site as well as providing welfare and site management facilities. The construction site, storage areas and project office/ welfare block is well established and retaining key staff from the nmcn team will provide continuity of approach.
- **Inflation:** [REDACTED].

A proportion of this risk fund is within the residual value of the works but inflation is currently high and suppliers are likely to want/ need to take account of this when engaging with IHE.

- **Supply chain decide not to continue:** Some suppliers may decide that they do not wish to return to the site, particularly if they are UK based. Preliminary discussions have not indicated any suppliers considering this option so far.
- **Responsible for delivery:** IHE will be solely responsible for continuing the project on time, to the required quality standards and within budget. The scheme is highly visible on the Island and subject to widespread public and political scrutiny. However, the required work is not considered unusual and IHE have completed similar installations in the past. The key difference is only the scale in that all the work is simultaneous.
- **Pandemic/Brexit:** The impacts of both the Covid-19 pandemic and Brexit are still developing and create much uncertainty for delivery of the project.
- **Procurement costs:** Additional cost are anticipated from re-engaging with the supply chain and these costs can be affected by many of the above items. There are also the direct costs associated with administering such a large number of contracts; however, these costs will be offset to some extent through the absence of nmcn's fees on subcontracts.

These risks can all be mitigated through effective project management and governance. In particular, all expenditure will be run and managed in accordance with the Public Finance Manual and Procurement best practice toolkit, together with the associated documents. Commercial Services will act in an advisory capacity throughout the process. The initial phase of engaging the existing supply chain will also identify any areas of particular concern.

Existing arrangements with IHE's Technical Consultant (Sweco) and Legal Advisers (Eversheds Sutherland) will continue to support the existing IHE Capital Delivery Team as at present. However, an additional layer of Contracts Management will be required to manage, administer and supervise the various supplier contracts. This team will be based on site as a replacement of the role undertaken by nmcn.

The Contracts Management Team will consist of key staff from the previous nmcn site team to retain and utilise their knowledge and experience of the project. The team will continue with the function and responsibilities of nmcn and will bring another dimension to the GoJ approach. The costs associated with the Contracts Management Team were included in nmcn's preliminary and general items (e.g., site preliminaries and supervision; preliminaries for labour and plant; mobilisation and maintenance of site accommodation; site surveys and investigation works; traffic management, etc.)

The possibility of engaging the Contracts Management Team (consisting of mostly agency/ self-employed staff and some former nmcn staff) through our framework consultant has been investigated. This approach would incur significant mark ups ([REDACTED]). Therefore, the mechanism for retaining the Contracts Management Team is expected to be via Matchtech, an Engineering Recruitment Specialists, and have agreed to keep the administration fees the same as for nmcn [REDACTED] for this project.

The proposed retained staff capture a range of roles and experience in order to fulfil the responsibilities of the Contracts Management Team and will be complemented by IHE's inhouse expertise and technical consultants. The roles and responsibilities include the following:

- Project/ Construction Manager;
- Commercial Manager;
- Design Manager and Technical Review Coordinator;
- Programmer;
- Civil Construction & Quality Manager;
- MEICA Coordination & Quality Manager;
- Quality Manager;
- Commissioning/ Process Lead & Commissioning Engineer; and,
- Health, Safety & Environmental Manager.

The resources identified for the Contracts Management Team have a contracting background with knowledge of the necessary supply chain to deliver the project, experience in Jersey and a detailed understanding of the scope of the New Bellozanne STW project. This approach is expected to result in value for money and save costs in the long run.

The Direct Delivery Model Organogram is attached for information.

[REDACTED].

- **An explanation of the term ‘mutual benefit’ in context of the continuing contract.**

It is considered that IHE and the supply chain both benefit from the proposed approach to self-deliver the remaining elements of the project as noted below.

IHE recognise that, while minimising delay and disruption is essential, it is not appropriate that this is achieved ‘at any cost’. The principles of ensuring value for money and high-quality assets will be maintained throughout the re-engagement process.

For the purposes of this section the term ‘supplier’ is used to include all contractors, consultants, suppliers, installers and designers that may be required to complete the Bellozanne STW project.

In re-engaging with the existing supply chain, IHE will utilise and refer to the original due diligence checks carried out by nmcn and Doosan Enpure Limited, as these are available, in conjunction with pre-selected suppliers by IHE and the initial reviews that IHE carried out as a baseline to accepting suppliers proposed by nmcn. Where work has already been carried out on site or plant and materials supplied, the performance of those suppliers will be considered before re-engagement discussions begin.  
[REDACTED].

Where a supplier is considered suitable for re-engagement, IHE will take the following steps to complete due diligence checks, noting that some may be simultaneous:

- Carry out the standard Commercial Services financial stability checks. These must be repeated as circumstances change and some suppliers may have been significantly impacted by nmcn’s insolvency.
- Confirm the supplier wishes to return to the project. It is possible that suppliers will decide that

they are too exposed by outstanding payments from nmcn, not have capacity or consider that the risk profile of returning to Jersey is unacceptable.

- Insurances, technical capability and HSEQ (Health, Safety, Environmental & Quality) competence will be assessed as usual. This is expected to be a formality as an update to the original review. However, it is essential to confirm that certification has not lapsed, in-house skills or resources have been retained or upgraded, and new references for other projects that will indicate ongoing performance issues.
- Confirm price and programme to complete. Suppliers will be asked to confirm their price to complete the relevant scope, their availability and programme of work. Where the scope has not yet started costs may include some increase to reflect post pandemic cost change such as transport, inflation and availability. Where work is already underway, suppliers may also seek to recoup outstanding payments as well as take account of any perceived change in the risk profile. [REDACTED].
- Agree Form of Contract. It is intended to adopt the same form of contract as nmcn have used for each supplier, subject to review by the IHE Project Team. This ensures continuity of responsibilities and liabilities and should avoid the need for negotiation of specific terms and conditions. If agreeable to both parties, the standard GoJ Terms and Conditions or the current Framework Terms and Conditions may be adopted as appropriate.

Should a supplier be unwilling or deemed unsuitable to re-engage, then IHE will approach either a new supplier or another member of the supply chain who offer similar services and/or plant and materials. If a new supplier is required, then the same process will be followed but their price will be compared with the equivalent original contract value to assess value for money, in addition to any associated benefits (continuity of work, increased collaboration or coordination of site activities) or risks (programme delays or resource availability).

Adopting the above methodology will ensure that the best possible suppliers are engaged on the project and that, as far as practicable, there is continuity and consistency to the supply chain. This will protect GoJ from unnecessary costs and delay while also ensuring delivery of the project to the required standards.

- **Evidence of how settlement clauses can be used to pay contractors.**

Based on the past experience on payment to the Island based supply chain by UK based contractors managing major projects in Jersey, the standard NEC3 Engineering and Construction Contract (April 2013) was modified at the time tender for the New Bellozanne STW Project in 2017 in order to minimise the risk of non-payment to local supply chain. An extract of some of the additional clauses introduced are noted below.

[REDACTED].

The amended and new clauses are designed to provide IHE with a mechanism to deal with any non-payments to the local supply chain (contractors, suppliers, designers, consultants, etc.) under the Contract. Prior to issuing the Employer's Certificate for payment each month, nmcn were required to confirm and/ or provide evidence that payments have been made to the local supply chain for the previous period. Failure to do so, or a claim by an Island based company that a payment is overdue would trigger the Secondary Option Clause Z11.6.

nmcn's terms and conditions with the local supply chain generally incorporated 30-day payment terms from the receipt of a payment application or invoice from contractors or suppliers at the end of each calendar month. In accordance with the contract administration procedures the IHE project management team investigated and followed up the payment to local subcontractors and suppliers on a regular basis and ensured that payments were made to the local supply chain by nmcn prior to issuing the monthly payment certificate. nmcn's payments to the local supply chain were up to date at the end of August 2021 (for works completed in July 2021), other than various minor outstanding payments. However, at the time of administrator's appointment nmcn should have paid the local supply chain for works completed in August 2021 by the end of September 2021. As expected, nmcn's payments to the local supply chain at the date of administrator's appointment were late and subsequently not completed, and no payments were made following the administrator's appointment (06 October 2021) and contract termination (12 October 2021).

IHE's payment application for works completed by nmcn in September 2021 was not processed as the contract was terminated (12 October 2021). [REDACTED].

The Termination Process does not allow IHE to invoke clause Z11.6. [REDACTED].

- **Explanation of how 'double payment' to subcontractors from September will be avoided.**

[REDACTED].

- **Due diligence record.**

**Pre-Qualification Questionnaire (June 2017):** nmcn PLC (formerly North Midlands Construction PLC) Pre-Qualification Questionnaire (PQQ) submission was received in June 2017 with details of the company's experience, case studies and capability which include queries specific to delivering projects in Jersey (or other island environments) and sewage treatment design and build contracts. Furthermore, the PQQ also included queries and requests for documentation relating to the financial status (including details of assets, liabilities, net profit after tax and overall turnover for the previous three years of trading); legitimacy and insurances so that GoJ could complete independent financial checks of the information submitted. The PQQ also captured more general company information of the organisation's structure; declarations & conflicts of interest; and, governance procedures which included quality, health & safety and environmental protection management systems. All PQQ submissions were scored and a PQQ Evaluation and Shortlisting Report, including a recommendation of suitable companies invited to tender, was submitted for approval on 26 June 2017. nmcn scored the highest of the three submissions received by IHE.

**Tender Submission (October 2017):** Tenders were invited on 20 July 2017 and submissions were received on 19 October 2017. The Invitation to Tender (ITT) required documents to be returned for review and assessment by IHE which included an ITT Questionnaire and supporting documentation. The information submitted supplemented the PQQ submission and included details specific to the

project – including, team organisational structure (including CVs); previous collaborations with the supply chain; project delivery programme; quality, health & safety and environmental protection procedures; alternate proposals; and, technical proposals.

**Contract Award and Project Delivery (September 2018 onwards):** Project progress and nmcn performance has been closely monitored and reported following contract award on 07 September 2018. Project concerns and issues were reported to nmcn through the standard contract administration procedures and more significant concerns or issues were escalated and reported by IHE senior officers to nmcn’s senior management team (including nmcn’s Executive Chairman, Chief Executive, Chief Financial Officer, Chief Operating Officer and Managing Director of the Water Business). The financial status of nmcn has been subject to close scrutiny and monitored regularly by the IHE Department and Government of Jersey Procurement Services for any actions required as appropriate.

**Financial Status and Announcements (September 2020 onwards):** Regulatory News Service (RNS) announcements by nmcn advising of financial distress within the group were first reported on 15 October 2020. However, IHE had been tracking indications of financial concerns and monitoring developments since September 2020 following the resignation of nmcn’s Chief Executive. IHE had also been monitoring nmcn’s project financial exposure towards the supply chain and have queried potential concerns or additional/ abortive costs from the mismanagement of the supply chain, lack of decision making and quality issues. IHE adopted and encouraged a collaborative approach with nmcn to develop and implement mitigation measures to minimise further delays and resolve issues.

nmcn & IHE Project Commercial Review Meeting (08 March 2021 and onwards): A meeting held between nmcn Chief Financial Officer and GoJ (IHE, T&E and Commercial Services) on 08 March 2021 to understand the current financial position of nmcn PLC and their plan to recover. Refinancing option and timescale were presented by nmcn and discussed with GoJ. nmcn’s financial situation and concerns were reported to the IHE Senior Leadership Team and senior officers. A series of regular meeting were hosted by IHE, T&R and Commercial Services with the nmcn CFO until nmcn appointed administrators on 06 October 2021.

- **Procurement and contract strategy.**

Please refer to the copy of the Procurement Strategy report. In relation to the Contracts Strategy, it is intended to adopt the same form of NEC contract as nmcn have used for each supplier, subject to review by the IHE Project Team. This ensures continuity of responsibilities and liabilities and should avoid the need for negotiation of specific terms and conditions. If agreeable to both parties, the standard GoJ Terms and Conditions or the current Framework Terms and Conditions may be adopted as appropriate.

- **Business case for variation of contract in July (and any others).**

[REDACTED].

- **Supplementary agreement.**

[REDACTED].

- **If there are any other suppliers in the supply chain for this project you are concerned about?**

The supply chain may have been affected by the level of exposure that they had with nmcn on other projects in the UK. Prior to the re-engagement of the supply chain, their exposure will be checked against the Administrator's Report to Creditors. The initial phase of engaging the existing supply chain will also identify any areas of particular concern.

- **What are you doing corporately to manage the supply base?**

These risks can all be mitigated through effective project management and governance. In particular, all expenditure will be monitored and managed in accordance with the Public Finance Manual and Procurement best practice toolkit, together with the associated documents and guidance. Commercial Services will provide guidance to the Project and Contracts Management Teams and act in an advisory capacity throughout the process. The initial phase of engaging the existing supply chain will also identify any areas of particular concern.

- **What percentage of materials were pre-paid and how much of that is on-island? (Confidential Information)**

[REDACTED].

- **How have you considered the context of the overheated labour market and effect on subcontractors?**

The capacity and availability of the local and off-Island construction sector is being tracked; however, this concern has not been identified as an issue with the re-engagement of the local and UK based supply chain.

- **Your confidence in delivering the project on time and on budget**

The progress of the project has been impeded by Covid-19 pandemic since March 2020 as well as by the lack of adequate management and missed opportunities by nmcn. The appointment of administrators by nmcn has had a further impact on the programme and there is still a risk of delay posed by abandoned tunnelling operations for the storm overflow pipework. Efforts are still ongoing by IHE to mitigate and minimise the risks posed for the delivery of the New Bellozanne STW Project by the end of 2023.

The out-turn cost estimate is currently considered to be a risk. The Residual Value of Works is subject to a forensic audit as part of the Contract Termination process to arrive at the final account at termination of the contract with nmcn within a 13-week period (i.e. by 11th January 2022). However, the initial indication of the total out-turn cost estimate for the Project is expected to be available by the end of November 2021. [REDACTED].

## Appendix A

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>nmcn Trading Update</b>	15 October 2020	nmcn issued profit warning for year ending 31 December 2020 – nmcn now expecting to report a loss before tax of between £13.5 million and £15.0 million for the year.	Commercial Services (CS) informed and assumed watching brief offering support to the Project Team if required. Confirmation and evidence that the local supply chain had been paid up to date was received by CS on 22/10/20.
<b>nmcn &amp; IHE Project Review Meeting</b>	16 October 2020	<p>Meeting was held at the nmcn offices to discuss the 'Strategy Paper' and nmcn's internal deliberations in relation to the new Bellozanne STW contract.</p> <p>Attendance:</p> <ul style="list-style-type: none"><li>- nmcn: Andy Langman (Chief Operating Officer), Paul Green (MD Water), Andy Keast (Project Manager in Jersey) and John Mahon (Contracts Manager).</li><li>- IHE: Selva SelvaKumaran (Project Manager), Simon Mort (Technical Consultant, Sweco).</li></ul> <p>nmcn's 'Special Measures for 60 days' was concluded on 12 October 2020. It was noted at the meeting that nmcn would now be reporting a 'worst case scenario' loss of circa £4.7m under the Bellozanne STW Contract, including but not necessarily limited to:</p> <ol style="list-style-type: none"><li>1. Delay claims from DEL (MEICA Works Sub-contractor) based on the Unmitigated Programme (completion by end of 2023);</li><li>2. Compensation Events (CE's) claimed by DEL against nmcn;</li><li>3. Liquidated Damages to be applied by IHE under the Contract; and,</li><li>4. Additional costs associated with Covid-19 pandemic restrictions.</li></ol>	IHE to work in collaboration with nmcn to help develop a fully mitigated programme, and engage with the supply chain where appropriate.

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>nmcn &amp; IHE Project Review Meeting</b>	16 October 2020	Regular meetings and calls were arranged between nmcn (Andy Langman, COO) and Selva Selvakumaran (Project Manager, IHE) to review the status of the project, ongoing or new issues and resolve any escalated concerns/decisions required.	IHE and nmcn committed to attend regular meetings and sustain dialogue for resolving concerns.
		*** Please note that regular meetings and weekly calls were arranged between nmcn (AL) and IHE (SS) following the meeting on 16 October 2020 through to October 2021 ***	
<b>Perform Update (November 2020)</b>	04 November 2020	IHE are reviewing and investigating the benefits of a Supplementary Agreement, executed between IHE and nmcn, to reflect the revised process commissioning strategy (following acceptance by the Regulator) with an incentive mechanism for each commissioning stage.	Updated construction programme was received in October 2020. However, further mitigation measures are being finalised as part of a mitigated programme for acceptance by IHE.
<b>CS Support</b>	06 January 2021	CS met with IHE Project Manager to discuss ongoing contractor performance issues and offer advice and support if needed.	N/A
<b>CS Support</b>	12 January 2021	IHE Project Manager shares information relating to nmcn shares decreasing in value.	N/A
<b>CS Support</b>	13 January 2021	CS undertook D&B checks on nmcn and main sub-contractor DEL. The report on nmcn gave cause for concern.	CS advised IHE Project Manager that contingency plans be drawn up in case of nmcn being unable to fulfil the contract. CS requested to be kept up to date with developments.
<b>Project Risk Register (v3.2)</b>	14 January 2021	nmcn have delayed key subcontractors due to poor planning and execution of the Contract resulting in significant undue delays to the Contract Completion. <ul style="list-style-type: none"> <li>- Early warnings have been issued by IHE.</li> <li>- nmcn have missed opportunities and are unable to recover from their own delays.</li> </ul>	IHE reviewing existing STW operational issues and allocating funding under STW Asset Replacement Programme as required.

Event	Date	Event Details	Outcome & Actions
<b>Project Risk Register (v3.2)</b>	14 January 2021	nmcn have reported significant losses in 2019 / 2020 on a number of projects. nmcn share prices on London Stock Exchange are volatile and the share prices have dropped more than 60% since January 2020.	GoJ Commercial Services and Legal Consultant kept informed of developments for any appropriate action as there is potential for the company to go into Administration. IHE preparing contingency plans and reviewing options for procuring a new contractor to manage the supply chain, or consider self-delivering the project.
<b>Project Board (January 2021)</b>	22 January 2021	Due to the ongoing issues between nmcn and the MEICA Works Subcontractor (DEL) as well as the delays to the Civil Works and the remedial works required to address defects, the Key Dates under the Contract will not be met. The Key Date for the TIF (18 January 2020) has not been achieved and the Liquidated Damages are currently being applied. The completion date for Phase 1A (21 October 2021) is now delayed until 02 August 2022 and will be subject to the impact of the Covid-19 Pandemic and the Contractor's liabilities.	Project Board report - not applicable.

Event	Date	Event Details	Outcome & Actions
<b>Project Board (January 2021)</b>	22 January 2021	<p>nmcn's financial exposure towards the sub-contractors have increased significantly during the Contract. Regular meetings are held with GoJ Commercial Services and the Legal Consultant to seek advice and to keep them informed of developments for any appropriate action.</p> <p>In view of the potential concerns related to the Key Drivers for IHE (Time, Cost and Quality), discussions were held with the nmcn Directors and the Chief Executive with a view to implementing an agreed Recovery/ Mitigation Plan. As agreed with the Project Board, a draft 'Strategy Paper' prepared in consultation with the Legal Consultant as a potential way forward was issued to nmcn on 16 October 2020 for consideration. However, this was withdrawn on 25 November 2020 as the conditions and performance were not conducive to progress it further. Despite IHE's efforts to encourage a collaborative effort by all stakeholders in the interest of the project, it was to no avail.</p>	Project Board report - not applicable.
<b>Project Board (January 2021)</b>	22 January 2021	<p>The current position of IHE on any incentive payment for Covid-19 related costs and relief on Liquidated Damages (LD) has been outlined to the nmcn Directors. Ultimately, these would need to be linked to achieving contract completion to ensure that IHE receives an actual benefit from making any such additional payment at an appropriate time. Such arrangement will need to be captured in a formal side agreement and will require a firm commitment at the highest level at nmcn.</p>	Project Board report - not applicable.

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>Project Board (January 2021)</b>	22 January 2021	Efforts are still ongoing by IHE in order to mitigate and minimise the risks posed for the delivery of the New STW Project. Regular high level weekly meetings are being held with nmcn from 21st January 2021 to review nmcn's Action Plan. In order to resolve the impasse between nmcn and DEL, 2 additional escalation levels have been established for resolution of the current issues before end of February 2021.	Project Board report - not applicable.
<b>Early Warning Notification No. 004 (IHE)</b>	01 February 2021	IHE formally notified nmcn of issues and concerns relating to the programme which continues to slip significantly on a weekly basis. nmcn warned that they will not be able to meet any of the Key Dates under the Contract and that delay damages will apply. The lack of an accepted updated project programme, in accordance with the revised Process Commissioning Strategy, and associated construction sequence continues to affect progress and the ability to monitor and review progress.	Risk reduction meeting to be attended by IHE and nmcn to investigate programme issues with the intention of submitting an updated Clause 32 programme which identifies all Key Dates and implemented mitigation measures to meet the Key Dates under the Contract.
<b>nmcn Trading Update</b>	23 February 2021	Financial Update issued by nmcn indicating additional £5m losses in 2020 and a delay in releasing preliminary results.	CS met IHE Project Manager and IHE HFBP 05/03 for an update and to request meeting with nmcn CFO.
<b>CS Support</b>	08 March 2021	Meeting held between nmcn CFO, CS IHE Project Manager and IHE HFBP to better understand current financial position and plan to retrieve the situation. Refinancing option and timescale discussed.	N/A
<b>CS Support</b>	11 March 2021	CS raised nmcn financial situation at IHE SLT Monthly meeting - Finance, Procurement, Policy and Risk updates.	N/A
<b>CS Support</b>	19 March 2021	CS met IHE Director General to brief him on current status.	N/A
<b>nmcn Trading Update</b>	31 March 2021	nmcn announces refinancing intentions.	N/A
<b>CS Support</b>	31 March 2021	CS provides update to IHE Director General and advises that preparations for 'Plan B' should be prepared.	N/A

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>Perform Update (March 2021)</b>	31 March 2021	Updated project programme shows delays beyond the Contract Key Dates. The programme recovery is now unlikely, despite the ongoing mitigation measures.	A Supplementary Agreement with incentives and revised Sectional Completions for IHE's benefit is under consideration to mitigate the ongoing delays. This will involve a Contract reset.
<b>nmcn Trading Update</b>	06 April 2021	nmcn announces that they have secured additional overdraft facility with Lloyds Bank (£12m).	N/A
<b>nmcn Trading Update</b>	16 April 2021	nmcn announces conclusion of a finance package ("Facility") of up to £8.9 million with the Reflex Bridging Limited.	CS requests that IHE Project Manager arrange another meeting with nmcn CFO.
<b>Project Risk Register (v3.3)</b>	23 April 2021	nmcn have delayed key subcontractors due to poor planning and execution of the Contract resulting in significant undue delays to the Contract Completion. <ul style="list-style-type: none"> <li>- Project delays will lead to potential additional costs to complete, operational issues with existing STW and risk to reputation.</li> </ul>	IHE Project Team involved in developing a collaborative programme with nmcn.
<b>CS Support</b>	27 April 2021	CS requests details of key nmcn supply chain sub-contractors in order to conduct D&B checks in preparation for contingency measures.	IHE Project Manager provided details.
<b>Project Board (April 2021)</b>	27 April 2021	Significant delays have been encountered by nmcn PLC due to poor planning and execution of the Contract but, as of March 2020, it was still programmed to deliver the project on time with mitigation measures. Subsequently, these initial delays were then compounded by ongoing delays due to Covid-19 restrictions with minimal opportunity for recovery. Demands by the main MEICA Subcontractor, Doosan Enpure Limited (DEL), for additional payment for nmcn's delays and refusal to collaborate with the contractor has made the situation worse. This caused further delays from November 2020 due to DEL demobilising from the site at that time, with minimal works on site by them since then.	Project Board report - not applicable.

Event	Date	Event Details	Outcome & Actions
<b>Project Board (April 2021)</b>	27 April 2021	<p>nmcn PLC have reported significant losses in the order of £22m in 2020 (updated 23 February 2021) on a number of contracts, including the Bellozanne STW contract and a major contract with Severn Trent. nmcn have secured a £12.5m overdraft facility with their bank as notified on 06 April 2021 to facilitate their cashflow. nmcn have recently secured a finance package of £8.9m against the Company's property development projects (updated on 16 April 2021) and are in the process of conducting due diligence on the main refinance for conclusion by the end of June 2021.</p> <p>A high-level Roadmap to Recovery was presented by the Contractor on 12 April 2021 and currently being implemented, together with a Performance Improvement Plan and a Site Quality Improvement Plan, to provide some confidence to IHE on delivery of the New STW Project.</p>	Project Board report - not applicable.
<b>Project Board (April 2021)</b>	27 April 2021	<p>The additional cost incurred by nmcn due to the Covid-19 restrictions as of 31 December 2020 has been established as £817,000 and the estimated additional costs in 2021 currently stands at £710,000. The Covid-19 costs are likely to increase further if the restrictions remain in place for longer duration with an estimated total additional costs of £2.5m, including Contract Management costs. It is intended to reimburse some of these costs, together with waiving any liquidated damages payable by the Contractor, as incentives linked to identifiable benefits for IHE to minimise further project delays.</p>	Project Board report - not applicable.

Event	Date	Event Details	Outcome & Actions
<b>Project Board (April 2021)</b>	27 April 2021	Efforts are still ongoing by IHE to mitigate and minimise the risks posed for the delivery of the New Bellozanne STW Project. The IHE Project Team are working collaboratively with nmcn to resolve some the underlying issues to bring the project to a successful conclusion. Regular high level weekly meetings are being held with nmcn's Senior Management Team. Issues between nmcn and their main subcontractor (DEL) are expected to be resolved imminently. Further updates will be provided to the Project Board on an ongoing basis.	Project Board report - not applicable.
<b>Perform Update (April 2021)</b>	30 April 2021	Updated project programme shows delays beyond the Contract Key Dates. Delays as a result of Covid-19 restrictions and nmcn's own delays are not recoverable. However, Supplementary Agreement (SA) approach approved by the Project Board and Commercial Services will cover potential incentive payments with a view to mitigate ongoing delays and setting out conditions which must be satisfied based upon measurable outputs. The SA with incentives for nmcn and new Sectional Completions for IHE's benefit is being prepared by the Legal Consultant for execution by end of June 2021.	Covid-19 costs to be tied in with the SA need to be allocated in the Government Plan 2022-25 for 2022. A Business Case has been prepared for the increase in budget and discussions are ongoing with T&E.
<b>CS Support</b>	07 May 2021	Meeting with nmcn CFO to discuss ongoing situation and recovery plan and timescale.	N/A
<b>DEL Subcontract</b>	14 May 2021	DEL's subcontract has been 'Terminated for Convenience' by nmcn due to performance issues. IHE's contract with nmcn remains unaffected and the contract requirements have not changed. nmcn are in the process of determining the status of subcontractors in an attempt to novate DEL's supply chain to nmcn following the decision to terminate the contract. However, in parallel, nmcn are also investigating opportunities to maintain progress and production by engaging with alternative subcontractors or suppliers which will be subject to acceptance by IHE.	N/A

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>nmcn Trading Update</b>	17 May 2021	New Chief Executive Officer and a Director of the Company appointed at nmcn.	N/A
<b>nmcn Trading Update</b>	28 May 2021	nmcn report overall underlying losses before tax of £24m.	N/A
<b>nmcn Trading Update</b>	14 June 2021	nmcn announce it is close to securing a refinancing package.	N/A
<b>nmcn Trading Update</b>	21 June 2021	nmcn announce it has secured a £24.0 million refinancing package, with Svella plc ("Svella") and an additional £5.0m through an open offer to existing shareholders.	N/A
<b>nmcn Trading Update</b>	29 June 2021	nmcn announced that its financial statements for 2020 were delayed.	N/A
<b>Perform Update (June 2021)</b>	30 June 2021	A Supplementary Agreement (SA) with new Sectional Completion Dates and incentives for nmcn to advance the programme was issued to nmcn on 10/06/2021 for review and expected to be executed by end of July 2021. Additional Sectional Completions will benefit IHE.	nmcn to review and advise any concerns or acceptance.
<b>Project Board (July 2021)</b>	30 June 2021	The ongoing disputes between the main MEICA Subcontractor, Doosan Enpure Limited (DEL), and nmcn were brought to an end with the termination of subcontract for convenience on 14 May 2021. DEL confirmed the Assignment of Benefits on 28 May 2021 and nmcn began the process of reaching out to the incumbent supply chain to seek confirmation of their willingness to re-engage under a revised subcontract with nmcn. As a contingency measure and a means of securing/ optimising successful project delivery, nmcn are in discussions with at least three alternative suppliers for each of the installation delivery scopes. The process is expected to be completed by mid-July 2021.	Project Board report - not applicable.
<b>CS Support</b>	04 May 2021	CS meets IHE Project Manager to discuss the on-going performance issues of the contractor and reviews the mitigation measures and incentivisation's tabled by the IHE Project Manager to ensure viability and mitigate commercial exposure.	N/A

Event	Date	Event Details	Outcome & Actions
<b>Project Board (July 2021)</b>	30 June 2021	Efforts are still ongoing by IHE to mitigate and minimise the risks posed for the delivery of the New Bellozanne STW Project. The IHE Project Team are working collaboratively with nmcn to resolve some of the underlying issues to bring the project to a successful conclusion. Regular high level weekly meetings are being held with nmcn's Senior Management Team and further updates will be provided to the Project Board on an ongoing basis.	Project Board report - not applicable.
<b>Project Board (July 2021)</b>	30 June 2021	<p>It is proposed to gain additional benefits from reimbursing genuine expenditure due to Covid-19 delays by imposing different ways of working and a potential saving against the potential additional costs by further negotiations with nmcn. Discussions have been held with nmcn to introduce further phased completions with a new Commissioning Strategy to secure additional key benefits for IHE.</p> <p>A Supplemental Agreement with nmcn for the reimbursement of some of the additional Covid-19 costs as an incentive while gaining benefits to IHE and mitigating any further programme slippage has been agreed.</p> <p>nmcn accepted the final Incentive Mechanism on 29 April 2021 with the Incentive set at £1.5m as it relates to Covid-19 costs. This will be split on the basis of importance for IHE between the new Sub-Phases, in steps of 60-45-15 days earlier than the Incentivisation Dates.</p>	Project Board report - not applicable.

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>Project Board (July 2021)</b>	30 June 2021	In relation to nmcn's financial issues and their options for refinancing, a second meeting was held with nmcn's Chief Finance Officer (CFO) and GoJ on 07 May 2021. Further meetings will be arranged as required with nmcn's CFO to discuss the financial stability of nmcn. nmcn have announced the conclusion of their refinancing process on 26 June 2021 by securing the long-term future of nmcn PLC through £29m of new equity investment to recapitalise the Group. The transaction already has the support of nmcn shareholders, as 64% of the shareholder register have agreed to approve these arrangements.	Project Board report - not applicable.
<b>Perform Update (July 2021)</b>	30 July 2021	A Deed of Variation was executed on 29 July 2021 with Covid-19 costs and Delay Damages as incentives to advance the programme and the forecast completion dates for new Sub-Phases with added benefits to IHE.	IHE and nmcn to monitor the forecast programme against the revised SA dates in collaboration and identify / mitigate any issues or risks.
<b>Project Risk Register (v3.4)</b>	27 August 2021	nmcn have delayed key subcontractors due to poor planning and execution of the Contract resulting in significant undue delays to the Contract Completion. <ul style="list-style-type: none"> <li>- nmcn have committed to establish a competent and collaborative environment for successful delivery of the project with access to more resources.</li> </ul>	nmcn to establish a project team with business support and access to sufficient resources to achieve the programme.
<b>Project Risk Register (v3.4)</b>	27 August 2021	nmcn to complete refinancing by mid-November 2021. A Contingency Plan (Plan B) is re-reviewed in the event that nmcn become insolvent. Benefits of the Vested Plant and Materials are now assigned to IHE.	IHE to finalise the Contingency Plan in the event that nmcn become insolvent. IHE to complete a field inspection and verify the ownership of the Vested Plant and Materials.
<b>nmcn Trading Update</b>	02 August 2021	nmcn announce that they are now expecting to report £43m of aggregate losses identified since the position reported in the 2019 financial statements.	N/A
<b>CS Support</b>	04 August 2021	CS requests the IHE Project Manager schedule a meeting with nmcn CFO.	N/A

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>CS Support</b>	09 August 2021	Meeting held with nmcn CFO to discuss current situation and timeline for recovery.	N/A
<b>Info</b>	12 August 2021	IHE Project Manager confirms that they are now actively working on a recovery plan in the event that nmcn goes into administration.	N/A
<b>CS Support</b>	23 August 2021	Meeting held with nmcn CEO and CFO nmcn are still expecting the full audit process to be completed by the end of September 2021 with additional resources in order to complete the 2020 Report. This will allow them to issue the prospectus for the Investors (Svella PLC and other new subscribers) by Mid October 2021 with a 2 weeks' notice. In the meantime, they will be arranging any Bridging Finance required from Svella PLC and Lloyds Bank as they have done before.	N/A
<b>nmcn Trading Update</b>	25 August 2021	nmcn announce it has agreed an extension to the £10.0 million convertible Bridging Facility to allow for the completion of the annual report and accounts by 27 September 2021 to enable the subsequent publication of the prospectus.	N/A
<b>Perform Update (August 2021)</b>	31 August 2021	Refinancing for the nmcn PLC by Svella PLC and other new subscribers are expected to be in place by mid-October 2021. Contingency Plan has been reviewed by IHE in the event of any unforeseen developments.	IHE to finalise the Contingency Plan in the event that nmcn become insolvent.
<b>Perform Update (August 2021)</b>	31 August 2021	The New Bellozanne STW Project budget is reset at £81.794m. Completion Sub-Phases are increased from 3 to 5 with the Project Completion reset for 10 October 2023.	nmcn and IHE to continue to develop the commissioning strategy programme for delivering the project in the agreed timescales.
<b>Info</b>	24 August 2021	IHE Project Manager verified IHE ownership of most of the Vested Plant and Materials with only minor exceptions.	N/A

<b>Event</b>	<b>Date</b>	<b>Event Details</b>	<b>Outcome &amp; Actions</b>
<b>nmcn Trading Update</b>	24 September 2021	nmcn announce Svella have extended their respective commitments under the Equity Subscription to 01 November 2021 in order to allow for the completion of the annual report.	N/A
<b>Perform Update (September 2021)</b>	30 September 2021	Refinancing for nmcn PLC by Svella PLC and other new subscribers are now expected to be in place by 19 November 2021. Contingency Plan has been reviewed and revised by IHE in the event of any unforeseen developments.	Contingency Plans to be updated in accordance with revised details.
<b>Perform Update (September 2021)</b>	30 September 2021	A new Bellozanne Leadership was appointed by nmcn on 17 September 2021 to establish a competent and collaborative environment for successful delivery of the project with access to sufficient resources required by the project scope.	IHE Project Team continuing to review and develop a collaborative programme with nmcn, and identify resource requirements for successful delivery.
<b>nmcn Trading Update</b>	01 October 2021	nmcn announce they will be unable to approve the audited financial statements within the extension period.	N/A
<b>nmcn Trading Update</b>	04 October 2021	nmcn announce that the company is no longer able to continue trading as a going concern. nmcn announce notice of intention to appoint administrators (Helen Dale, Nigel Morrison and Jonathan Roden of Grant Thornton UK LLP).	N/A
<b>nmcn Trading Update</b>	06 October 2021	nmcn announce appointment of administrators.	N/A

## 1. Current Arrangements

Construction of the new sewage treatment works (STW) at Bellozanne progressed well despite the challenges posed by the Covid-19 pandemic, but with ongoing delays. However, the main contractor for the New Bellozanne STW project, nmcn PLC, appointed Grant Thornton UK LLP as Administrators on the basis that they were no longer able to continue trading as a going concern. Subsequently, the contract with nmcn PLC was terminated on 12 October 2021 for insolvency.

nmcn PLC were in partnership with Doosan Enpure Ltd (DEL) when the contract was originally executed on 7 September 2018, with the split of responsibilities being broadly that nmcn covered civil construction and DEL covered the Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) works by subcontract. This arrangement deteriorated in 2020 and finally broke down earlier in 2021 with nmcn terminating the subcontract on 14 May 2021 and DEL subsequently left the project. There was, therefore, no natural suitable replacement for nmcn PLC within the contract arrangement at the appointment of Administrators by nmcn PLC.

IHE replaced nmcn PLC as the Principal Contractor in order to continue the remaining works to minimise delay and ensure continuity of work. This was considered the most appropriate solution when re-tendering the whole of the remaining works would incur significant delay and cost. The Bellozanne STW Completion Procurement Strategy, approved by GoJ Commercial Services on 24 November 2021, set out how the remainder of the work packages would be procured with the re-engagement of the supply chain and administered by IHE.

The major treatment process structures and associated civil engineering works have been completed and the remaining work is considered to be well within the established skills and experience of the delivery team retained by IHE to continue with the project. The treatment process is broadly similar to the existing plant and is well understood so there is no exceptional risk in proceeding with the established team.

The forensic audit of the nmcn PLC's contract account, in accordance with the contract termination procedures, has been completed and the Final Payment Certificate was issued on 7 January 2022 to close out the contract termination process.

The scope of works and programme are under ongoing review with the project expected to be delivered before the end of 2023 as planned and in line with the budget allocation in the Government Plan 2022-2025.

## 2. Construction Progress

Construction has progressed steadily since nmcn PLC's contract was terminated on 12 October 2021 and IHE took on the role of the Principal Contractor. Terminating the contract allowed IHE to engage with the established supply chain through a variety of possible mechanisms and thus securing continuity and consistency of design, construction and installation.

IHE's have supplemented the existing Project Management Team with additional resources with previous experience on the Bellozanne STW project and established a Contracts Management Team in order to fulfil the role and responsibilities of a Principal Contractor and manage, administer and supervise the various contracts. The Contracts Management Team consist of predominantly agency or self-employed staff and some former nmcn staff in order to retain and utilise their knowledge and experience from the project. The mechanism for appointing the Contracts Management Team is via Matchtech as Engineering Recruitment Specialists in the UK. Additional site-based staff have also been re-engaged and appointed through IB Civils Ltd as a Construction Specialists.

The primary focus for the appointment of the supply chain has been to minimise any disruption to the project and to prepare for Commissioning Stage 1 (Inlet Works, Primary Settlement Tanks (PST) 2 & 3, Odour Control

Unit and PST 1 as a temporary storm tank), planned to commence in Q1 2022. The various Construction Phases and Commissioning Stages are summarised in table 1 below.

<b>Proposed Construction Phases and Commissioning Stages</b>		
<b>Construction Phase</b>	<b>Commissioning Stage</b>	<b>Scope</b>
Phase 1A(a)	<b>Commissioning Stage 1a</b>	Inlet Works 2 No. PSTs (PST's 2 & 3) Odour Control Unit Temp. FFT Overland Pipeline
	<b>Commissioning Stage 1b</b>	1 No. PST as Storm Tank Storm Overflow
Phase 1A(b)	<b>Commissioning Stage 2</b>	4 No. ASP lanes 4 No. FSTs (1-4) Final Effluent UV Disinfection Plant
Phase 1B(a)	<b>Commissioning Stage 3</b>	Additional 2 No. FSTs (5&6)
Phase 1B(b)	<b>Commissioning Stage 4</b>	Sludge Storage Tank(s) Storm Tanks Storm UV Disinfection
Phase 1C	<b>Completion</b>	Remaining Demolition, Landscaping and Miscellaneous Site Works (Whole of the Works – Completion)

Table 1

Key suppliers and contractors have been re-engaged and notable recent appointments include: A-Consult (pre-cast concrete supplier), Blackburn Starling (motor control centres supplier), DS Construction (civil construction contractor), JB Fabrications (mechanical installation contractor), Purac (mechanical process equipment supplier), STAM (in-situ concrete contractor) and Tycon (software and system integration supplier). Furthermore, the local supply chain has also been re-engaged for small discreet packages of works or services with the resolution of outstanding issues.

Construction and installation work for Commissioning Stage 1 have continued in parallel with other activities required for Commissioning Stage 2; and include: Activated Sludge Plant (ASP); Final Settlement Tanks (FSTs) 1-4; Final Effluent UV Plant and associated infrastructure or assets in preparation for the commissioning of these assets which is planned to commence in Q3 2022. Progress to date following termination of nmcn's contract include:

- Design and commencement of temporary flow diversions for Commissioning Stage 1;
- The remedial repairs to the Inlet Works and PST 1 base slab (ongoing);
- Construction of the 4<sup>th</sup> Final Settlement Tank (FST) 3 base slab;
- Preparation works for the receipt of pre-cast concrete wall panels for FST 3 which is due to be installed in January 2022;
- Process pipework, surface and foul drainage, ducting, and general earthworks; and,
- Delivery and installation of the Motor Control Centre panels MCC3A & 3B (November 2021).

Further negotiations are ongoing with the supply chain through the re-engagement process for the remobilisation of the civil, mechanical, electrical and ICA installation contractors and recommence activities to complete the project. The delivery strategy continues with the approach of progressing the design in parallel with construction, installation and commissioning activities.

### 3. Procurement Exemption and Strategy

On 24 November 2021, Exemption BE-373014091 was approved by Commercial Services which enabled IHE to replace nmcn as the Principal Contractor on the new Bellozanne STW project on an interim basis, in order to minimise delay and ensure continuity of work. The replacement of nmcn by IHE as the Principal Contractor was considered the most appropriate solution when re-tendering the whole of the remaining works would incur significant delay and cost. The Bellozanne STW Completion Procurement Strategy approved by Commercial Services on 24 November 2021 sets out how the remainder of the work packages will be procured and administered by IHE.

As outlined in BE-373014091, the value of the exemption was up to £5,000,000 and was granted for those works that had to be committed to before the end of January 2022 in order to maintain project progress. At the time of the exemption approval, it was anticipated that a further exemption request would be submitted in mid-January 2022 to extend Exemption BE-373014091 for the remaining work packages to complete the Bellozanne STW, once nmcn PLC's final account had been established and the new out-turn cost had been derived. The final valuation of the works by nmcn PLC has been completed and the Final Payment Certificate was issued on 07 January 2022 to close out contract termination process and the request for the extension of the Exemption has been issued on the basis of the approved Procurement Strategy.

The current total out-turn cost for the STW Project [REDACTED] is determined to be within the funds available in the Government Plan 2022-25 as demonstrated below. The final cost to complete the outstanding works at the time of the contract termination is anticipated to be [REDACTED] based on further Value Engineering review completed since then. The final cost to complete includes the £5,000,000 covered by Exemption BE-373014091.

The process for re-engaging with the agreed supply chain is described in the approved Procurement Strategy, but it is based on the basic principle that there is no need to return to the market at this stage unless a supplier is unwilling or unable to continue with the project. All necessary due diligence has already been completed once and the reengagement process is intended to confirm that the original assessment remains valid.

Hence, a simplified exemption request has been submitted for confirmation that IHE can continue to procure the remaining work packages to complete the Bellozanne STW project in its role as Principal Contractor, in accordance with the approved Bellozanne STW Completion Procurement Strategy.

### 4. Contracts

The procedures for the appointment of the contractors, suppliers, management resources and designers through the re-engagement process are as outlined in the Bellozanne STW Completion Procurement Strategy as approved on 24 November 2021 by Commercial Services.

Additional Dun & Bradstreet (D&B) financial check has been completed and confirmed satisfactory by Commercial Services on 07 January 2022 on the UK supply chain with potential contract values >£250k as follows:

- 1) Capital Reinforcing (Ireland) Limited
- 2) DS Construction Services Limited
- 3) Field Systems Designs Limited
- 4) J B Fabrication (Wrexham) Limited
- 5) Purac AG (Sweden)
- 6) Saint-Gobain – PAM UK
- 7) STAM Construction Limited
- 8) Sulzer Pumps Wastewater UK Limited
- 9) Wolseley UK Limited
- 10) Xylem Water Solutions UK Limited.

The Due Diligence Questionnaire (DDQ) is completed as appropriate for each appointment of the suppliers and contractors and a formal Award Report is submitted based on the evaluation and recommendation by the Project Team to the Group Director for Operations and Transport; and, the Director General of Infrastructure, Housing and Environment for approval.

The compliance with the approved Procurement Strategy, including the DDQ, Evaluation, Recommendation and Approval procedures are documented and available for audit purposes. These include technical assessment, risk assessments, price negotiations, programme review and budget comparison for affordability.

It is recognised that the re-priced packages of works are also subject to recent industry changes and substantial cost increases associated with labour, product and construction material price inflation which are not necessarily accounted for in the Retail Priced Index calculation. The prices received and accepted are in line with or lower than the estimated prices included within the estimated Cost to Complete for the project.

Where the prices from the supply chain are not justifiable, other delivery options are considered and accepted within the budget estimates. For example, ERG (Air Pollution Control) Ltd will not be re-engaged on the basis of unacceptable prices to complete the remaining works on the Odour Control Unit and this will now be delivered by existing appointments and resources, in conjunction with the local supply chain. A similar approach is being considered for the construction of the Final Settlement Tanks 5 & 6 in Q4 2022 as the prices received from 2 out of 7 companies invited are not acceptable.

The DDQ Award Reports for the following UK contractors have been actioned to date:

- 1) J B Fabrication (Wrexham) Limited – Approved
- 2) STAM Construction Limited – Approved
- 3) Wolseley UK Limited – Approved
- 4) A-Consult Limited – Approved
- 5) Blackburn Starling & Company Limited – Approved
- 6) IB Civils Limited – In Progress
- 7) Matchtech Limited – In Progress
- 8) M&N Mechanical and Electrical Services Limited – Approved
- 9) Pick Everard (Designer) – In Progress
- 10) Purac AG (Sweden) – In Progress.

## 5. Budget and Costs

The initial approved budget for the STW project was £79,502,000 and the current budget allocation is £75,502,000, as identified on page 131 of the Government Plan 2022-25 [GP 22-25], table 19. The remaining £4,000,000 shortfall in funding is due to be allocated in 2023 to meet the project cashflow requirements.

Of the previously approved and allocated budget at the end of 2020, £7,990,000 was not allocated to the project by Treasury and Resources Minister in 2021, but was ring fenced in reserves to make it available in 2022 for the STW project. This is included in the GP 22-25 for 2022 under 'Capital – Major Projects' but is effectively a reallocation of funding already agreed in prior years not carried forward into 2021 under the Public Finances Law.

A Business Case has been approved for the increase in budget of £1,850,000 in 2022 and is included in the GP 22-25 Capital Allocations on page 136 (table 20). The increase in funding is for costs incurred by the project as a result of the Covid-19 pandemic. The current total funding for the STW project is therefore £81,352,000.

It should be noted that there are other items not included in the current total funding required (£81,352,000) but packaged under the STW portfolio in the GP 22-25 as they relate to Liquid Waste projects allied to the STW. These include:

- Biosolids Storage Facilities £2,383,000;
- STW Odour Mitigation (States of Jersey Proposition No. P.115/2017) £1,500,000; and,
- Bellozanne STW Outfall Rehabilitation £1,000,000.

The revised total value of the STW portfolio is therefore £86,235,000 as identified in table 19 of GP22-25 and table 1 below.

<b>Sub-Total</b> of previous project approvals	<b>£75,502,000</b>
Funding not reallocated to 2021 from 2020 by T&R Minister	(£7,990,000)
2022 Allocation in Government Plan (GP) 2022-2025 (includes the £7,990k already approved, but not reallocated in 2021)	£10,740,000
2023 Allocation in Government Plan (GP) 2022-2025	£4,550,000
2024 Allocation in Government Plan (GP) 2022-2025	£2,733,000
2025 Allocation in Government Plan (GP) 2022-2025	£700,000
<b>Grand total</b> as per GP 22-25 Major Projects envelope page 131	<b>£86,235,000</b>

Table 1

[REDACTED].

Furthermore, any additional inflation funding could be sought in the Government Plan 2023-26 as the inflation is far above the norm at present.

## 6. Implications and Programme

Programme mitigation measures have been undertaken swiftly and the mitigated overall programme is currently in place. The new staged completion to deliver the project and secure additional benefits to IHE will see the commissioning the new Inlet Works and Primary Settlement Tanks, together with odour control facilities, in April 2022.

The first main phase of the project (Phase 1A) is expected to be completed by November 2022 with the decommissioning of the existing STW. The construction works associated with Phase 1B is expected to overlap with Phase 1B with a view to commissioning the FSTs 5 & 6 earlier than planned. The overall Project Completion is also expected earlier than the planned completion at the end of 2023.

The anticipated programme dates are summarised in the table 2 below.

Revised Commissioning Strategy and Sub-Phase Completion Dates				
Construction Phase	Commissioning Stage	Scope	Forecast Completion Date	Programme Completion Date
Phase 1A(a)	Commissioning Stage 1a	Inlet Works	28/02/2022	28/02/2022
		2 No. PSTs (PST's 2 & 3) Odour Control Unit Temp. FFT Overland Pipeline		
	Commissioning Stage 1b	1 No. PST as Storm Tank Storm Overflow	31/03/2022	31/03/2022
Phase 1A(b)	Commissioning Stage 2	4 No. ASP lanes	Refer to latest Programme	11/11/2022
		4 No. FSTs (1-4)		
		Final Effluent UV Disinfection Plant		

Revised Commissioning Strategy and Sub-Phase Completion Dates					
Construction Phase	Commissioning Stage	Scope	Forecast Completion Date	Programme Completion Date	
Phase 1B(a)	<b>Commissioning Stage 3</b>	Additional 2 No. FSTs (5&6)		01/05/2023	
Phase 1B(b)	<b>Commissioning Stage 4</b>	Sludge Storage Tank(s)			30/10/2023
		Storm Tanks			
		Storm UV Disinfection			
Phase 1C	<b>Completion</b>	Remaining Demolition, Landscaping and Miscellaneous Site Works (Whole of the Works – Completion)		End 2023	

Table 2

## 7. Other Areas of Concern relevant to the Project

The impact of the Covid-19 Pandemic together with GoJ and UK government restrictions are under regular review with risk assessments and mitigations measures in place to minimise the impact on the delivery of the project. For example, procedures are in place to maintain operations by remote working, if required. Furthermore, access to external resources are available to the IHE Project and Contracts Management Teams if a member or members of the project team test positive for Covid-19 or exposed to someone who tests positive.

The Retail Priced Index calculation provides as indication of the Inflation assessment. However, the repriced packages of works are subject to recent industry changes and substantial cost increases associated with labour, product and construction material (notably concrete and reinforcement). Therefore, additional inflation funding may have to be sought in the Government Plan 2023-26 as the inflation is far above the norm at present.

## 8. Summary

In summary, the update of the New Bellozanne STW project being submitted to the Public Account Committee to highlight the progress since the initial report was issued in November 2021 and demonstrate that the IHE project team can continue to procure and manage the remaining necessary work packages to complete the New Bellozanne STW project in its role as Principal Contractor, in accordance with the approved Bellozanne STW Completion Procurement Strategy.

The current total funding allocated for the project is £81,352,000 [REDACTED]. In the event of any potential shortfall, the additional funding could be underwritten by the funding available in the Government Plan 2022-25 (£86,235,000), together with any further allowance for inflation in the Government Plan 2023-26.

The overall Project Completion is expected to be earlier than the planned completion at the end of 2023.

## 1. What due diligence processes have been put in place for the new contractors and please can you explain how these differ from the previous processes?

Appointment of contractors has been on the basis of a formal competitive tender process and managed in accordance with the Public Finance Manual and Procurement best practice toolkit, together with the associated documents. An exemption from a formal tender process for IHE to continue to procure the remaining work packages to complete the Bellozanne STW project in its role as Principal Contractor has been approved by Commercial Services. The procedures for the appointment of the contractors through the re-engagement process are as outlined in the approved Bellozanne STW Completion Procurement Strategy.

The core principles for re-engaging with nmcn's supply chain (contractors and suppliers) is described in the approved Procurement Strategy. It is based on the fundamental principle that IHE will enter directly into contracts with the previous nmcn supply chain; each package of work will be reviewed. Unless the Project Team assess a commercial or operational tension or, a supplier is unwilling or unable to continue with the project leading to their exclusion, a contract may be awarded directly. This will remain subject to the same form of due diligence that would be applied in a competitive approach and acknowledged performance under the contract with nmcn (e.g., capability, capacity, health & safety performance, environmental protection and commercial terms).

In re-engaging with the existing supply chain, IHE use the original due diligence checks carried out by nmcn and Doosan Enpure Limited, as these are available on site, in conjunction with the initial reviews that IHE carried out as a baseline to accepting those suppliers. Where work has already been carried out on site or plant and materials supplied, the performance of those suppliers are considered before the start of the re-engagement discussions. This is clearly an opportunity to end the involvement of unsatisfactory suppliers, where appropriate, while also supporting and protecting those that have performed well to date.

Where a supplier is considered suitable for re-engagement, IHE take the necessary steps to complete further due diligence checks as required with a questionnaire to verify the information submitted by the supplier. The Due Diligence Questionnaire (DDQ) is completed as appropriate for each appointment of the supplier and a formal Award Report is submitted based on the evaluation and recommendation by the Project Team to the Group Director for Operations and Transport; and, the Director General of Infrastructure, Housing and Environment for approval. Once all necessary due diligence has been completed, the re-engagement process is validated under scrutiny of the Project Team to confirm that the original assessment remains valid and reported accordingly in the due diligence Award Report. Commercial Services act in an advisory capacity throughout the process.

Additional Dun & Bradstreet (D&B) financial checks have been completed and confirmed satisfactory by Treasury on 07 January 2022 on the UK supply chain with potential contract values greater than £250k.

The IHE project team have been taking the following steps to complete due diligence checks for the supply chain considered suitable for re-engagement, noting that some may be simultaneous:

- Carry out standard Commercial Services financial stability checks. These checks have been repeated as circumstances change and in response to contractors or suppliers which have been significantly impacted by nmcn's insolvency.
- Confirm that the contractor or supplier wishes to return to the project. Contractors or suppliers may consider that their financial position is too exposed and have chosen to not return to the project as a result of outstanding payments from nmcn; do not have sufficient capacity or resources; or, the risk profile of returning to Jersey is unacceptable.

- Assess insurances; technical capability; and, Health, Safety, Quality and Environmental (HSQE) competences in accordance with the project requirements and scope of works. IHE use the original due diligence checks carried out by nmcn and Doosan Enpure Limited, as these are available on site, in conjunction with the initial reviews that IHE carried out as a baseline to accepting those suppliers. However, comprehensive checks are carried out for performance certification, qualifications or training (e.g., ISO 9001 and Confined Space training) for any lapsed certificates. Furthermore, new references from other 'non-nmcn' projects will indicate ongoing performance.
- Confirm price and programme to complete are acceptable. Contractors and suppliers are invited to confirm their price to complete the relevant scope, their availability and programme of work. Where the scope has not yet started costs may include some increase to reflect post Covid-19 pandemic cost changes such as transportation, inflation and availability. Furthermore, the repriced packages of works are also subject to recent industry changes and substantial cost increases associated with labour, product and construction material price inflation which are not necessarily accounted for in the Retail Priced Index calculation.

Where work is already underway, suppliers may also seek to recoup or recover outstanding payments as well as take account of any perceived change in the risk profile. Negotiation with the supply chain was anticipated and appropriate risk allocation has been reviewed by IHE with the supply chain in order to minimise capital outlay and offer security to anxious key suppliers.

- Agree Form of Contract. The same form of contract for the reappointment of the supply chain as nmcn have used for each supplier has been utilised, subject to review by the IHE Project Team to meet IHE requirements. This ensures continuity of responsibilities and liabilities and avoids the need for the renegotiation of specific terms and conditions. If agreeable to both parties, the standard GoJ Procurement Terms and Conditions or the current Framework Terms and Conditions are adopted as appropriate.

Notwithstanding the above, the appointment of each contractor and supplier is assessed for their financial stability before being engaged as part of the due diligence process. There is a risk that some will be impacted by nmcn entering administration beyond that directly from the New Bellozanne STW Project. Should a supplier be unwilling or deemed unsuitable to re-engage, then IHE will approach either a new supplier or another member of the nmcn's supply chain who offer similar services with suitable resources and experience or capabilities. If a new supplier is required, then the same process will be followed but their price will be compared with the equivalent original contract value to assess value for money.

Adopting the above methodology will ensure that the best possible suppliers are engaged on the project and that, as far as practicable, there is continuity and consistency to the supply chain. This will protect GoJ from unnecessary costs and delay while also ensuring delivery of the project to the required standards.

It is noted that a large proportion of nmcn's supply chain has already been re-engaged to complete previously commenced and outstanding works and the remaining are expected to be re-engaged in due course to suit the programme.

## 2. In what ways is the department managing risk associated with this project?

IHE's role as the Principal Contractor and the procurement of the remaining work packages to complete the New Bellozanne STW project has been approved by Commercial Services in accordance with the 'Bellozanne STW – Replace of nmcn' qualified exemption request BE-373014091 and the full exemption request BE-394515903 (approvals dated 24 November 2021 and 14 February 2022 respectively).

Terminating the contract allowed IHE to engage with the established supply chain through a variety of possible mechanisms, thus securing continuity and consistency of design, construction and installation. Furthermore, IHE's exposure has been significantly reduced by spreading the risk profile across multiple contracts and appointments which removes the 'single point of failure' from a single main contractor appointment. Critical suppliers are appointed in a phased approach with multiple contracts and/ or purchase orders to minimise commitment but maintain progress and alternative suppliers will be retained and considered, if applicable. The step-by-step approach enables the project team to monitor costs on an ongoing basis and control exposure accordingly.

By adopting this approach IHE are accepting a number of risks, some of which IHE were protected from because they were held by nmcn as the Principal Contractor.

- Insurance and liabilities. IHE have secured the insurance cover required as the Principal Contractor in line with the insurance held by nmcn PLC through the same Agent for continuity. As Principal Contractor IHE will be responsible for correcting errors and other incidents on the site as well as providing welfare and site management facilities. The site is well established and retaining previous facilities and key staff from the nmcn team has provided continuity of services and approach.
- Health & Safety, Environment and Quality (HSEQ). IHE have appointed a dedicated HSEQ Manager to ensure high standards are maintained at the construction site and with responsibility for liaison with IHE Health & Safety Office and Health & Safety Inspectorate (HSI) for compliance.
- Inflation. [REDACTED]  
A proportion of this risk fund is within the residual value of the works, but inflation is currently high and suppliers have taken into account of this when pricing and re-engaging with IHE.
- Re-Engagement of the Supply Chain. It is noted that a large proportion of nmcn's supply chain has already been re-engaged to complete previously commenced and outstanding works and the remaining are expected to be re-engaged in due course to suit the programme. Alternative supply chain from nmcn PLC's database and delivery mechanisms have also been considered to secure value for money.
- Responsible for delivery. IHE will be solely responsible for continuing the project on time and within budget. The scheme is highly visible on the Island and subject to widespread public and political scrutiny. However, none of the required work is unusual and IHE have completed similar installations in the past. The key difference is only the scale in that all the work is simultaneous.
- Pandemic/Brexit. The impacts of both the coronavirus pandemic and Brexit are still developing and create much uncertainty for delivery of the project.
- Procurement costs. Some additional costs have been anticipated from re-engaging the supply chain due to inflation, recent industry changes and substantial cost increases associated with labour, product and construction material. There are also the direct costs associated with administering such a large number

of contracts as noted above, however, these will be offset to some extent through the absence of nmcn's fees on subcontracts.

These risks are mitigated through effective project management and governance. In particular, all expenditure will be run and managed in accordance with the Public Finance Manual and Procurement best practice toolkit, together with the associated documents. Commercial Services will act in an advisory capacity throughout the process. The initial phase of engaging the existing supply chain has not identified any areas of particular concern.

While the above risks must be taken account of, there are also benefits in the approach over and above those with minimising delay and disruption.

- Quality. IHE will manage all construction, installation and commissioning work and be able to ensure high standards are maintained as 'right first time' rather than reacting to completed work.
- The 'Jersey factor'. Many contractors initially struggle with working on the Island in terms of logistics such as transport/deliveries, accommodation, travel, availability of labour, plant and materials. IHE are fully aware of how to account for these variables and so a degree of uncertainty is removed.

The project risks are continuously managed through effective project management with regular monitoring of programme, costs and quality. Work Packages are carefully selected to minimise financial exposure and alternative recovery plans are reviewed regularly as a contingency measure.

### 3. What lessons have been learnt in terms of procurement and managing processes for this project?

The financial status of companies in the Construction Industry has been subject to close scrutiny and monitored regularly by IHE and Government of Jersey Commercial Services for any actions required as appropriate. Notwithstanding any due diligence checks, it is unlikely that any major contractors going into Administration can be prevented.

The key reason for IHE to take on the role of the Principal Contractor stems from lessons learned when Enpure Ltd failed during the project to construct the Sludge Digestion plant at Bellozanne in September 2012. At that time, and due to the complexity of the treatment process involved, the most appropriate approach considered was to procure a new contractor to complete the project as a whole. Ultimately this resulted in approximately twelve months delay in the project and significant additional cost. It was found to be very difficult to find a contractor who was willing to complete the project and accept liability for work that had already been completed.

Attempting to find a new contractor to complete the whole of the STW works would have inevitably caused significant delay whether it is done via negotiation or re-tender. The need to have the new contractor warrant the project as a whole would also have introduced extra costs which would mean the current remaining project budget would not be sufficient for completion.

By IHE adopting the role of Principal Contractor immediately, most of the nmcn's subcontractors have been secured to complete their own previously completed work. Tendering for each package of work would have had the same overall negative impact as tendering the whole project.

Re-engaging with each subcontractor will still have some programme impact but this has been manageable in comparison with a tendering process. There has been some premium to pay for disruption to subcontractors, for example they had demobilised and have had to return to site, but again this has been manageable and to

represent better value for money than a tender might offer. Furthermore, avoiding any significant delay means that partially completed work will not deteriorate while exposed to the elements.

The main lesson learnt on this project is on how the Government of Jersey can respond effectively to future similar scenarios involving main contractors delivering major engineering projects and the contractual procedures for terminating contracts. The established procedures for procuring a main contractor and engineering services were followed as outlined by GoJ Commercial Services and all necessary due diligence checks and authorisation to proceed were completed. As part of the Contract Administration, GoJ Commercial Services and Finance Business Partnering were consulted before, during and after the contract termination procedures to ensure that the various approvals were obtained in accordance with Public Finance Manual to recover the project, maintain the project programme and appoint the new supply chain. IHE's Legal Consultant, Eversheds Sutherland, provided the essential legal consultation during the monitoring of nmcn PLC's performance and guiding the project team through the contract termination process. Furthermore, effective and competent contract administration procedures, including accurate record keeping, have been followed throughout nmcn PLC's contract which significantly aided the contract termination process and preparation of the contract's final account.

The project team made every effort to minimise cost and delays following termination of nmcn PLC's contract, as well as comply with all the GoJ Commercial Services requirements (e.g., adopting best practice toolkit and procedures; establishment of a new Procurement Strategy and compliance procedures; re-engagement of suppliers in accordance with Exemptions; and, competitive procurement of services to ensure best value for money). However, it is noted that the Public Finance Manual or other GoJ procedural documentation provides limited guidance for the termination of a main contractor delivering a major infrastructure project involving complex engineering services. The approach adopted for the New Bellozanne STW project has identified a procedure and system for managing costs and delays due to the termination of a contract as result a contractor entering into administration procedures; however, this approach may not be suitable or applicable for other projects or scenarios.

#### a. How are these learnings being integrated into the Government of Jersey to improve best practice?

The recovery of the STW project since nmcn PLC went into administration has been attributed to the recovery plan in place and the decision by IHE to take on the role of the Principal Contractor as part of the recovery plan in a timely manner.

On the basis of the lessons learnt, is imperative that a recovery plan is established as part of the due diligence process in the event that the contractor on a major project goes into Administration. Such a plan should be established from the outset as part of the Procurement Strategy. In certain circumstance, the Government of Jersey should be ready, able and willing to take on the Principal Contractor role to minimise the impact of such events.

#### 4. Are there any outstanding litigation matters for this project?

The Contract with nmcn PLC was terminated on 12 October 2021. The final valuation of the works by nmcn PLC has been completed and the Final Payment Certificate was issued on 07 January 2022 to close out the contract termination process. There has not been any responses from nmcn PLC's Administrators since the Final Payment Certificate was issued [REDACTED].

There are no known outstanding litigation matters for this project at this stage and there are no other outstanding matters for IHE to respond to in relation to the Contract with nmcn PLC. IHE are not obliged to assist or help resolve any remaining or outstanding disputes between the nmcn PLC's Administrators and the supply chain.

Resolving and calling on the performance bond from the Bondsman (HCC International Insurance Company PLC) is an independent process and expected to be completed towards the end of project once all costs to complete the project have been established and verified in accordance with the value of the conditional bond.

## 5. Will any costs be written off?

Final Payment Certificate was issued on 07 January 2022, ahead of the deadline of 13 January 2022. A forensic audit of the nmcn contract amount has been completed and the Cost to Complete has been established [REDACTED]. IHE are claiming [REDACTED] from the Administrators to complete the works in accordance with the contract. There is no expectation to receive this money but IHE's position has been established.

The residual value of works to be completed was initially estimated [REDACTED] with reduced risk, scope, insurance and residual value of site establishment, but includes remedial works and defects which had not been addressed by nmcn PLC at the time of contract termination. Based on Value Engineering (VE) opportunities, the Cost to Complete has been set for the Project Team [REDACTED].

Preferential engineering designs or requirements will be assessed (e.g., hard landscaping) and will be scaled back.

[REDACTED].  
The total budget allocation for the STW project is £81,352,000 [REDACTED].

The total budget allocation for the

The scope of works and programme are under ongoing review as part of the re-engagement of the supply chain and the Project Completion is expected earlier than the end 2023 as planned.

The inflation is far above the norm at present as a result of recent industry changes and substantial cost increases associated with labour, product and construction material. Therefore, it is not possible to predict inflation as the procurement of construction materials, equipment and some of the civil works will be delivered much later in the programme and they are particularly susceptible to inflation. Funding for any significant inflation could be sought in the Government Plan 2023-26.

**Bellozanne Sewage Treatment Works**

*Additional information supplied by Andy Scate, Director General, Infrastructure, Housing and Environment on 1 April 2022 in response to an email request by the PAC following an article in the Jersey Evening Post in relation to budget changes.*

Further to your request for an update of the New Bellozanne STW project following the recent JEP Article (dated Wednesday 23 March 2022), I can confirm that there are no changes to the attached update issued to PAC in February 2022. However, our comments on the recent JEP article in relation to the project funding can be summarised as follows:

- There has been no change to the financial status. The current total out-turn forecast for the New Bellozanne STW Project [REDACTED] and the Cost to Complete the works [REDACTED] (at the time of termination of nmcn PLC's contract on 12 October 2021) still remain the same. The total budget allocation for the STW project is £81,352,000 [REDACTED].
- The New Bellozanne STW Project is currently on programme for completion by early October 2023 as planned.
- The scope of works and programme for the New Bellozanne STW project are under ongoing review in relation to the budget. Value Engineering options were agreed by the project team for final consideration by the Project Board to achieve the target Cost to Complete. The Value Engineering exercise has successfully identified [REDACTED] savings as expected from the re-design and rationalised scope of works.
- Project risks and opportunities are reviewed regularly and mitigation measures are implemented to manage the programme and costs. The final decision on the utilisation of funds from the Value Engineering exercise will be made by the end 2022 once the implication of the current risks are known or resolved satisfactorily. Further unallocated contingency funds are available [REDACTED] to cover any potential risks.
- Due to the volatile situation in Eastern Europe and wider economic issues, there has been a significant increase in raw material prices and transport costs associated with the New Bellozanne STW project. However, the prices received to date have been negotiated with the re-engaged supply chain and are either in line with the estimates used or lower, as identified in the Contract Award Reports.
- Potential mitigation measures against significant price escalation have been considered, including early award of contracts and vesting of Plant and Materials in the Employer. Furthermore, Letters of Intent have been issued to the critical supply chain to secure prices prior to formal contract award. Vesting of Plant and Materials in the Employer have also helped to secure programme and cost certainty.
- Purchase Orders have already been issued for some of the critical packages of works, including 3 stainless steel storage tanks, Scraper Bridges for 2 Final Settlement Tanks and reinforcing steel required for concrete construction, in order to minimise the impact of significant rise in raw material prices.
- It is inevitable that there will be expected increase in costs for some of the future unsecured packages of works, including in-situ reinforced concrete construction, miscellaneous

metalwork and the finishing civil works (hardstanding and tarmac). Unfortunately, IHE are not in a position to place these Orders for these works at this stage due to site constraints. Potential mitigation measures against price escalation are under consideration for these packages and there will be further negotiations with the supply chain in due course.

- Cost to Complete and Re-Engagement Trackers are used regularly to monitor all appointments against the project scope and budget availability, and access to the Trackers has been shared with Finance Business Partner(s) for ongoing review.

Processes and procedures identified in the previous updates provided to PAC in January and February 2022 remain unchanged and have been successful in managing the technical, programme and commercial risks associated with the project to date, as noted above. However, continuous improvements will be made based on IHE's experience as the Principal Contractor in managing the risks and opportunities as necessary.