

WASTE CREDIT GOVERNANCE COMMITTEE

8 MARCH 2019

TECHNICAL UPDATE – EFW PLANT REPORTING REQUIREMENTS

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) The main categories of reports or information that the Borrower has to regularly produce and the Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council attached as Appendix 1 be noted;**
 - b) The Performance operating report attached as Appendix 2 be noted;**
 - c) The Committee note and comment on the STFLA ratio calculation provided by Mercia Waste Management as per Appendix 3 together with the signed ratio compliance certificate at Appendix 4; and**
 - d) The Committee consider whether to report any matters to Council.**

Introduction

2. As set out in its Terms of Reference, the Committee will be advised by external financial, technical and legal advisers on behalf of the Council's Section 151 Officer. This report covers the reporting requirements post completion.
3. The Council commissioned Ashurst LLP to identify the Borrower's Regular Reporting Obligations under the Herefordshire and Worcestershire Waste Facility Agreement for the post construction Energy For Waste (EFW) period, as set out in the STLFA
4. The main categories of reports or information that the Borrower has to regularly produce going forward are:
 - the Ratio Calculations report;
 - the Ratio Compliance Certificate;
 - reports in relation to financial and project information; and reports during the operating period
5. At the last meeting of the Committee in October 2018, members were informed of the first ratio testing results as at the 30 June 2018 and the report from KPMG

6. The Committee were informed at the last meeting that the next ratio review was due as at the 31 December 2018 and given that the Council was in negotiation with MWM as regards savings and the contract extension, this was likely to impact on the availability of an updated financial model in time for the next required ratio analysis testing.

7. This continues to be the case and therefore it was discussed by Committee that it would be better to wait until an approved financial model has been approved by the Council before seeking further external verification on the ratio analysis. This would then allow a more robust ratio analysis report to be brought back to Committee in future.

8. Appendix 3 details the **Historic Annual Debt Service Cover Ratio ("ADSCR")**: A historic periodic measure used to assess the project's ability to service its current debt obligation over the preceding 12 month period. This ratio is currently 1.73 which positively exceeds the target of 1.35 and default of 1.05. Attached is the signed Ratio compliance certificate at Appendix 4

9. Also provided is the 'cash flow after debt servicing' within the current base financial model compared to the 'actual 'cash flow after debt servicing'. This also shows a positive picture where the actual cash flow has been in excess of the financial model at the end of each quarter for 2018.

Assurance Statement

10. It has been agreed that twice a year, for the March and September Committees, Mercia Waste Management (MWM) would produce a short, high level assurance statement (Appendix 1). The aim being to reassure the Lender (the Council) that there is no material matters which would impair MWM's ability to repay the Loan in accordance with the Financial Model in the coming period. Another purpose of the statement is to cover the deficiency of the Loan Agreement Reporting in respect of the "Non – EFW" part of the MWM business.

11. Also as part of the contract post completion a performance operating report is required quarterly. This is attached as Appendix 2 to this report.

Contact Points

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Supporting Information

Appendix 1 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement

Appendix 2 - Performance Operating Report to November 2017

Appendix 3 - STLFA ratio calculation review conducted by KPMG
Appendix 4 – Ratio Compliance Certificate

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.