

COUNCIL
8 NOVEMBER 2018**REPORTS OF COMMITTEES****(e) SUMMARY OF DECISIONS TAKEN BY THE WASTE
CREDIT GOVERNANCE COMMITTEE**

Senior Term Loan Facility Agreement (STLFA) ratio calculation

1. The Council commissioned KPMG (external auditors) to review the STLFA ratio calculation. Ratios are a financial covenant imposed by lenders as a monitoring mechanism to provide early warning of project distress and potential borrower default on their repayment obligations. The ratios provide a measure of the project's historic and future performance in relation to its ability to service current and upcoming debt liabilities.
2. The KPMG have provided an overall red rating for the Loan Life Cover Ratio (LLCR) and projected Annual Debt Service Cover Ratio (ADSCR) and amber for historic ADSCR. KPMG has stated the reason is due to the absence of an updated financial model. However, both the Council and Mercia Waste Management (MWM) were aware of this and the likely impact that this may have on the report outcome before requesting KPMG to conduct the ratio analysis.
3. Although the overall KPMG outcome is red, the Council has gained assurance on the financial performance of the MWM from its annual accounts as well as the assurance statements they provided. This together with the evidence that MWM have continued to meet their repayment obligation in full and on time provides sufficient assurance from a Council perspective.
4. Without an updated financial model, the Base Case is a valid Model as per the Loan Facility (STLFA) and the Council has been in agreement with this approach taken by MWM and worked with MWM over several months on this basis.
5. The next ratio review is as at the 31 December 2018. Therefore based on the fact that MWM will provide the information after 40 working days and the Council will then need to have this externally verified, it is likely that the outcome would be around April 2019 on the basis that there has been an agreed updated financial model between both parties.
6. The Committee has asked that Council's attention be drawn to the need for an updated financial model to be an agreed between both parties as a matter of urgency to form the basis of the next ratio review to ensure that future ratio calculations are based on the most up to date financial model.

Mr P Grove

Chairman

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Waste Credit Governance Committee held on 12 October 2018.