

Waste Credit Governance Committee**Wednesday, 2 March 2022, 10.00 am, County Hall, Worcester****Agenda**

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WASTE CREDIT GOVERNANCE COMMITTEE (WCGC)

2 MARCH 2022

TECHNICAL UPDATE – ENERGY FROM WASTE (EFW) PLANT REPORTING REQUIREMENTS

Recommendation

1. The Chief Financial Officer recommends that the Committee note and comment on the main categories of reports or information that the Borrower must regularly produce

- **Appendix 1 - The Historic Annual Debt Service Cover Ratio (“ADSCR”)**
- **Appendix 2 - Ratio compliance certificate**
- **The Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council attached as Appendix 3, and**
- **The Mercia Waste Management Budget for 2022 attached as Appendix 4.**

Introduction and Background

1. As background, in 1998 under a partnership agreement, Worcestershire County Council and Herefordshire District Council (the “Councils”) signed the Contract, which was one of the first joint waste PFI contracts within the UK.

2. In May 2014, the Council’s as Lenders, provided a total of £163.50m split across two facilities (Facility A £35.45m and Facility B £128.05m), to the Borrower for the purposes of constructing a new Energy from Waste Project in Hartlebury. Facility A is fully amortising, scheduled to be repaid in full by December 2022. Facility B is to be repaid with a single bullet payment from the Councils in December 2023.

3. As is standard with Facility Agreements of this nature, the Borrower is required to report periodically to Lenders on their compliance with certain requirements. One particular requirement is the ratios required to be measured under the STLFA at each calculation date (30 June / 31 December).

4. Ratios are a financial covenant imposed by Lenders (in this case the Council’s as 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.

Reporting Requirements post completion

5. 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.

6. 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 From Waste (EFW) period, as set out in the Senior Term Loan Facility Agreement

7. 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

8. The Ratio calculations report was undertaken by KPMG in March 2020 to assess the position as at the end of December 2019 to meet the terms set out in the STFLA. KPMG found that all the ratios had been met and the report was circulated to all members of the Committee on the 24 March 2020.

9. The Historic Annual Debt Service Cover Ratio ("ADSCR") Appendix 1: A historic periodic measure used to assess the project's ability to service its current debt obligation over the preceding 12-month period as at the end of December 2021 is 1.75 which is better than the target 1.35 and is attached along with the signed Ratio compliance certificate Appendix 2.

10. Also provided within Appendix 1 is the 'cash flow after debt servicing' (CFADS) over the last 4 quarters, within the current base financial model compared to the 'actual 'cash flow after debt servicing'. This also showed a positive picture apart from June 2021 which would have been due to the loan repayments, where the actual cash flow has been more than the financial model at the end of each quarter.

Budget for 2022

11. In line with the loan agreement the company have provided a forecast 2022 budget, and is attached as Appendix 4.

Assurance Statement

12. 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 3). Given the Committee has new members an assurance statement has been provided as part of this report. 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.

Extension of contract with MWM

13. On the 9 December 2021, a report was provided to Cabinet seeking negotiation to enter into a Variation with Mercia to put into effect their proposals for extending the duration of the Waste Management Services Contract for a period of five years until 11 January 2029. This is currently ongoing and updates as to progress and any implications on the loan agreement will be provided at the next Committee.

Contact Points

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

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Supporting Information

Appendix 1 - The Historic Annual Debt Service Cover Ratio ("ADSCR")

Appendix 2 - Ratio compliance certificate

Appendix 3 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement
Mercia

Appendix 4 – Mercia Waste Management Budget 2022

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.

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'cash flow after debt servicing' (CFADS)

Appendix 1

	<u>12 Month Period</u>			
	Qtr End Mar-21	Qtr End Jun-21	Qtr End Sep-21	Qtr End Dec-21
CFADS				
FM Cash Flow Before Transfers (incl interest)	5,405	5,471	2,265	4,695
FM MRA Transfer	164	435	2,882	204
FM CFADS^	5,569	5,906	5,147	4,899
Actual Cash Flow Before Transfers	8,524	2,519	8,306	4,837
Actual MRA Transfer	164	436	2,881	204
Actual CFADS	8,688	2,955	11,187	5,041
	3,119	-2,951	6,040	142

Historic Annual Debt Service Cover Ratio

FM CFADS	21,521
FM DSR	15,941
FM Cover Ratio	1.35x

FM CFADS
FM DSR
FM Cover Ratio

Actual CFADS	27,871
FM DSR	15,941
Actual Cover Ratio	1.75x

Pass

Ratio is better than target of
1.35 and default of 1.05

Actual CFADS
FM DSR
Actual Cover Ratio

^ Note CFADS in FM used for Ratio Test is "CFADS after MMRA" as per line 32 of the "Ratios&Returns" tab. Flows to Line 151 and then the Ratio calculation.

Default

1.05x As per STLFA 19.1 (u) (i) (B)

All figs except ratios are £000

DSR = Debt Service Requirement

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Ratio Compliance Certificate

To: Worcestershire County Council and The County of Herefordshire District Council ("The Lenders").

Attention: Rob Wilson

From: Mercia Waste Management Limited

A senior term loan facilities agreement dated 21st May 2014 between, among others, Mercia Waste Management and the Lenders (the "Senior Term Loan Facilities Agreement")

We refer to the Senior Term Loan Facilities Agreement. Terms defined in the Senior Term Loan Facilities Agreement have the same meaning in this notice.

Pursuant to clause 15.8 (Ratio Compliance Certificate) of the Senior Term Loan Facilities Agreement we confirm that:

(a)

- (i) the Historic Annual Debt Service Cover Ratio on 31 December 2021 was 1.75:1;
- (ii) the Projected Annual Debt Service Cover Ratio on 31 December 2021 was 1.35:1; and
- (iii) the Loan Life Cover Ratio on 31 December 2021 was 3.61 : 1; and

(b) so far as the Borrower is aware:

- (i) no Default has occurred other than any previously notified to the Lenders or waived in accordance with clause 21.3 (Remedies, Waivers, Amendments and Consents) of the Senior Term Loan Facilities Agreement

Date: 22ND FEBRUARY 2022

By: 

Director

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Senior Term Loan Facility Agreement

Assurance Statement for Lenders

Statement from Mercia Waste Management

1. Financial Performance

The Company performed well in 2021 assisted by higher recycling prices and a recovery in commercial waste tonnages. The Company has dealt with the impact of the national shortage of drivers and the temporary impact of the restricted availability of carbon dioxide on third party recycling operations.

The start of the new financial year has been satisfactory.

2. Loan Repayment

The payments due to the Councils at the end of December were made in full and on time. As at the date of this statement, the Company anticipates being able to continue to make payments as per the Loan Agreement. The Repayments of Capital and Interest for the period ending 30th June 2022 are planned in the Company's forward - looking projections and will be made on or before that date.

3. Buildings, Plant and other Infrastructure

No material problems exist which would require the Lenders attention at any of the Company's Facilities.

4. Compliance with Environmental Conditions and Permits

There are no material issues at any sites.

5. Insurance

The Company's annual insurance renewal process for the Sites other than the Energy from Waste Plant (EfW) has been completed. As noted previously, the renewal was difficult as a result of losses elsewhere in the industry. To maintain the same level of cover and deductibles, cost increases were experienced but at a manageable level, somewhat less than feared. The Company expects to receive terms for the EfW Plant's shortly, in time for the renewal at the end of the month.

6. Key Staff

As reported previously the EfW's Operations Manager is continuing to recover from a serious cycling accident and has just recommenced working full time. Other key staff remain in place.

Appropriate measures are in place in respect of Covid 19 and are where relevant are monitored and updated by the Company's internal Health and Safety Officers.

J W Haywood - Mercia Waste Management. 07.02.2022

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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