

Waste Credit Governance Committee

Friday, 12 October 2018, County Hall, Worcester - 10.00 am

Present:

Minutes

Mr P Grove (Chairman), Mr R W Banks, Dr C Hotham, Mr S J Mackay, Mr L C R Mallett and Mr P Middlebrough

Available papers

The Members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 9 March 2018 (previously circulated).

113 **Named
Substitutes
(Agenda item 1)**

Mr S J Mackay for Mr R C Adams.

114 **Apologies/
Declarations of
Interest
(Agenda item 2)**

Apologies were received from Mr R C Adams Mr A I Hardman and Mr P A Tuthill.

115 **Public
Participation
(Agenda item 3)**

None.

116 **Confirmation of
Minutes
(Agenda item 4)**

RESOLVED that the Minutes of the meeting held on 9 March 2018 be confirmed as a correct record and signed by the Chairman.

117 **Technical
Update - EFW
Plant Reporting
Requirements
(Agenda item 5)**

The Committee considered the Technical Update - EFW Plant Reporting Requirements report.

The Committee received a technical update from Jim Haywood, the Finance Director, Severn Waste Services and Mercia Waste Management (MWM).

In the ensuing debate, the following principal points were raised:

- In response to a query, Jim Haywood explained that the financial advisor to the Lender was Deloitte. Rob Wilson added that KPMG had been commissioned to undertake a specific piece of

work on the STLFA ratio calculation. It had been disappointing that during their work, KPMG had not liaised with MWM

- Whatever the circumstances, the Committee needed to give serious consideration to an independent report, commissioned by the Council, which highlighted some major concerns
- It would have given an element of reassurance if KPMG had liaised with the Council to ascertain how the difference of opinion on the level of assurance had arisen. Rob Wilson responded that the crux of the issue was that there was no updated financial model on which to base the ratio testing. Basically KPMG were inferring that it was difficult to give assurances for the future based on the historical base financial model
- A varied financial model had been presented to the Council by MWM in May 2015 and yet 3 years later it had still not been agreed. Rob Wilson commented that the next ratio review was due on 31 December. MWM would have 40 working days to provide the information. The Council would then need to have this externally verified. It was likely therefore that the outcome would be known around April 2019 however this was dependent on an agreed updated financial model. Jim Haywood added that MWM had acted within the terms of the loan contract by referring back to the base financial model in the absence of an updated model. MWM were liaising with the client side of the Council in relation to the updated financial model. In terms of the variations to controls, to date, only 2 small variations had been identified from the base model which had very little impact on ratios
- It was concerning that the client side had not updated the financial model as a matter of urgency
- There was no reference in the external auditor's opinion on the Accounts to the loan agreement. Was this a matter of sufficient materiality to require the attention of the external auditor. Rob Wilson responded that the Council had garnered sufficient assurance from the financial performance of the MWM from its annual accounts as well as the assurance statements provided by the company. MWM had also continued to meet their repayment obligations in full and on time. In addition, the issue had also been highlighted in the Risk Register. Both the Council and Mercia Waste Management (MWM)

were aware of this issue and the likely impact that this might have on the report outcome before requesting KPMG to conduct the ratio analysis. It was felt therefore that no further action was necessary

- A concern was expressed about the reference in the KPMG report to the need for the Council to consider a waiver regarding the requirement for fully compliant ratio calculations being presented as at 30 June 2018 in the absence of an updated financial model. Rob Wilson explained that as MWM had complied with the terms of the contract, there was no need to seek a waiver especially as the Council had already received their cash flow forecast and Accounts. The Council would take on board KPMG's recommendations and take the necessary action to address them
- Would the issues highlighted in the KPMG report have any impact on the security packages outlined in the Risk Register? Rob Wilson responded that sufficient assurances had been received from MWM and therefore there would be no impact on the security packages
- The Council had received enough assurances from MWM and been informed that there was no adverse impact on the Risk Register and therefore it was important not to give too much credence to the concerns expressed in the KPMG report
- Rob Wilson undertook to seek clarification of the reference in the KPMG recommendations to the Borrower being allowed to make distributions under the waiver arrangements
- Council needed to be made aware that the Committee would wish to see the updated financial model agreed as a matter of urgency to form the basis of the next ratio review.

RESOLVED 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 to the report be noted;**
- b) the Performance operating report attached as Appendix 2 to the report be noted;**
- c) the STFLA ratio calculation review conducted by KPMG as per exempt Appendix 3 be noted with the proviso that the updated financial**

model be agreed as a matter of urgency to form the basis of the next ratio review; and

- d) Council be informed that the Committee would wish to see the updated financial model agreed as a matter of urgency to form the basis of the next ratio review.**

**118 Risk Register
(Agenda item 6)**

The Committee considered the Risk Register.

In the ensuing debate, it was agreed that there were no matters of concern to report to Council.

RESOLVED that:

- a) the open risks set out in the Risk Register be accepted; and**
- b) There were no matters of concern to report to Council.**

**119 Work Plan
(Agenda item 7)**

The Committee considered the Work Plan.

In the ensuing debate, it was agreed that the Committee meeting scheduled on 14 December 2018 be cancelled on the basis that there would be nothing new to report and the proviso that if anything changed, a further meeting could be convened.

RESOLVED: that

- a) the work plan attached as an Appendix to the report be noted; and**
- b) the Committee meeting arranged on 14 December 2018 be cancelled.**

The meeting ended at 11.00am.

Chairman