

**Waste Credit Governance Committee**  
**Wednesday, 11 December 2019, County Hall, Worcester -**  
**10.00 am**

**Present:**

**Minutes**

Mr P Grove (Chairman), Mr R C Adams, Mr A I Hardman, Dr C Hotham, 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 18 October 2019 (previously circulated).

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

None.

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

Apologies were received from Mr R W Banks and Mr P A Tuthill.

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

None.

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

**RESOLVED** that the Minutes of the meeting held on 18 October 2019 be confirmed as a correct record and signed by the Chairman.

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

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

In the ensuing debate, the following points were raised:

- Jim Heywood, a representative from Mercia Waste Management (MWM) reported that the company had met all the targets that formed part of the contract with the Council and there were no matters of concern to report to the Committee in relation to the repayment of the loan
- Did the delay to the agreement of the revised

financial model have an impact on the fee negotiated with KPMG? Rob Wilson, Finance Manager – Pensions and Treasury Management responded that this work would be included in the contract fee agreed between the County Council and KPMG

- When would KPMG provide their assessment of the validity of the financial model? Rob Wilson commented that KPMG would only undertake their analysis when the revised financial model had been agreed. Negotiations were taking place and it was anticipated that these negotiations would conclude in January. KPMG would also be undertaking a ratio test on the ability of the MWM to repay the loan
- The lack of certainty about the conclusion of the negotiations was disconcerting and perhaps the Committee's concerns should be reported to Council. Rob Wilson responded that every effort was being made to draw the negotiations to a conclusion as the financial model was in need of updating to reflect current prices. The Chairman indicated that this was a more appropriate as part of the consideration of the Risk register
- In response to a query about the down turn in the recycled paper market, Jim Heywood explained that the market had reduced to the extent that it now cost the company to recycle paper. He could give no assurance as to when market conditions would improve. This highlighted the risks facing the company as it entered into the contract negotiations. At present the increased income from electricity production was offsetting these costs. Despite these difficulties, every effort was made to recycle materials because sending materials to landfill would impact on the company's performance against the contract terms
- In response to a concern about the increase in throughput of the EfW plant and the enforced plant shut downs and how this related to maintenance levels agreed in the contract, Jim Heywood explained that when the furnace was burning at 350 degrees, it was difficult to predict exactly what technical issues might occur. Every 3 years, there was an agreed longer period of maintenance. With the recent issues experienced with the plant, it had been agreed to bring some of this maintenance work forward. The revised permission to increase the throughput should not have an impact on the agreed level of

maintenance

- It was concluded that there were no matters of concern that needed to be reported to Council.

**RESOLVED:** that

- a) the main categories of reports or information that the Borrower must regularly produce and the Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council and operating update attached as Appendix 1 to the report be noted;**
- b) the update on the financial model and ratio analysis be noted; and**
- c) there were no matters of concern to report to Council.**

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

The Committee considered the Risk Register.

In the ensuing debate, the following points were made:

- Was it anticipated that the contract negotiations would be concluded soon? Jim Heywood responded that the County Council had requested that the finance teams of both councils and MWM meet to discuss amendments to the existing offer and consider any necessary legal changes to the original contract. The Council had requested a response by 20 January 2020 and he had drafted a proposal for consideration by the shareholders of MWM. A meeting would then take place in early February 2020 between shareholders and representatives of the County Council to agree a way forward. There was pressure to conclude negotiations whether contract was amended or not
- If a deal was agreed, what impact would it have on the ability of MWM to be able to repay the loan? Jim Heywood indicated that if MWM were required to put more funds into the contract, there would be an impact on the overall funding available to the company. It was a matter for this Committee and KPMG to determine whether there was an impact on the loan repayments
- Would there be a risk to repayments if the Council began a re-procurement exercise at this point? Jim Heywood advised that in that event, the current contract would remain in place until it ended in 2023 and the ratio analysis would be

unchanged as it would not be impacted by ongoing savings

- In response to a query, Rob Wilson explained that KPMG had been requested to examine the impact on the ratio test and the financial model of the revised contract and it was hoped that this would be achieved before the end of January
- In response to a query, Rob Wilson commented that due to the fact that the updated financial model had not been agreed, it was not possible to complete the ratio analysis. There was a duty to review the ratio analysis and hence a risk had been included on the risk register if the requirements of the contract were not met
- The issue of the payment of dividends as referred to in the KPMG report was not a matter relevant to the Committee's consideration
- The Chairman suggested that the Committee inform Council that it had been unable to complete a number of financial ratio calculations required as part of the contractual Senior Term Loan Facility agreement between the Council (the lender) and MWM (the borrower). This was because of not having an updated Financial Model due to ongoing savings negotiations between the client (the Council) and MWM which had been continuing for some time. He added that the Committee should ask the Council to look to complete and finalise these negotiations as soon as possible in order that the Committee could request an updated financial model and assess the implications on the ability of MWM to repay the existing loan. This suggestion was discussed by the Committee but it was felt premature given that the negotiations between the client and contractor were expected to be completed by the end of January. It was therefore concluded that there were no matters of concern to report to Council.

**RESOLVED: that**

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

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

The Committee considered its work plan.

**RESOLVED that the work plan be noted.**

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The meeting ended at 10.40am.

Chairman .....