

## Waste Credit Governance Committee

### Friday, 17 July 2015, County Hall, Worcester - 10.00 am

		Minutes
<b>Present:</b>		Mr W P Gretton (Chairman), Mr L C R Mallett (Vice Chairman), Mr R C Adams, Mrs S Askin, Mr R W Banks, Mr P Denham and Mr J W Parish
<b>Available papers</b>		The Members had before them:  A. The Agenda papers (previously circulated); and  B. The Minutes of the meeting held on 23 February 2015 (previously circulated).  A copy document A will be attached to the signed Minutes.
<b>25</b>	<b>Named Substitutes (Agenda item 1)</b>	None.
<b>26</b>	<b>Apologies/ Declarations of Interest (Agenda item 2)</b>	Apologies were received from Mr M H Broomfield and Mr P A Tuthill.
<b>27</b>	<b>Public Participation (Agenda item 3)</b>	Mr Sheridan Tranter addressed the Committee. He asked questions in relation to Agenda item 6 – progress report from technical advisors. The Chairman thanked Mr Tranter for his questions and promised that he would receive a written response in due course.
<b>28</b>	<b>Confirmation of Minutes (Agenda item 4)</b>	<b>RESOLVED</b> that the Minutes of the meeting held on 23 February 2015 be confirmed as a correct record and signed by the Chairman.
<b>29</b>	<b>Actual construction period cash flow test (Agenda item 5)</b>	The Committee considered the result of the Actual Construction Period Cash Flow Test.  The report set out details of the review performed by Deloitte and a summary of the results.  The Chief Financial Officer introduced the report and commented that:

**30 Progress  
summary for  
technical  
advisors  
(Agenda item 6)**

- As agreed at the last meeting, the Committee meeting dates had been rescheduled to ensure that members received the latest possible financial and technical information
- It had been agreed during negotiations, that the cash flow Mercia generated would be set aside during the construction phase and qualified as Mercia's contribution on Equity Capital. The test confirmed that Mercia had achieved their required contribution of Equity Capital to the Project that took risk ahead of the Councils' Senior Term Loan Facilities Agreement
- The result of the cash flow test performed by Mercia for the period under review was an Excess Cash Flow amount as at 31 March 2015 of £1.299k
- There was a small difference (c£6.5k) between Deloitte's and Mercia's variance against model numbers on gross revenue and operating costs
- Dates for future planned cash flow tests had been set out in the timetable (attached as an appendix to the report). A test was due to take place on 12 August and Mercia had confirmed that this was on track.

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

- In response to a query, the Chief Financial Officer explained that the result of the test was in line with cash flow plans. Under the terms of the contract, Mercia were required to keep all cash within the project. The Council as lender could prevent Mercia from taking cash out
- The Chief Financial Officer confirmed that all the regular auditing checks had been carried out during the cash flow test process.

**RESOLVED that the result of the Actual Construction Period Cash Flow Test be noted.**

The Committee considered the summary report from Fichtner Consulting Engineers – Technical Advisors.

The Chief Financial Officer introduced the report and commented that:

- As lender, the County Council's contractual relationship was with Mercia. Mercia had sub-contracted the work to HZI (Hitachi Zosen Inova). HZI had then sub-contracted the civil engineering aspects of the work to a company called Interserve Construction Limited (Interserve). A decision had

been made by HZI on Monday this week to terminate their contract with Interserve. The decision was made too late to update the report to Committee. HZI had now taken direct control of the civil engineering contract

- HZI were committed to finding a replacement sub-contractor by 27 July 2015 and negotiations were underway with a number of potential subcontracting companies
- Mercia had provided a verbal assurance to the Council that, because the majority of the civil engineering work had been completed, there would be no cost impact, no impact on the planned completion date, and there would be no impact on the critical path of the project as a result of the change of sub-contractor. A written assurance from Mercia was awaited and he would share a copy of this correspondence with the Chairman and Vice-Chairman of the Committee on receipt and discuss with them any possible issues arising
- There remained some outstanding actions on the site including: further excavation in the bunker; work on making the ramps permanent; and work on the turbine hall
- He was satisfied that the technical report was positive in nature. 27 of the 28 contracts had been let and this had been supported by a factory inspection. Mechanical and electrical construction had commenced three days earlier than projected. Considerable work had taken place on site and he would arrange a visit if members so wished
- The construction of the turbine hall had been sub-contracted to Dawnus prior to the Interserve termination
- In the absence of an accurate Approved Programme, progress was currently being tracked against the site based 4 week look ahead which was issued on a weekly basis. The Approved Programme was a risk borne by HZI and they had given an assurance that the 4 week look ahead would not impact upon it
- The Committee needed assurance that the loan would be paid back. If the project went beyond the takeover date, then HZI would pay liquidated damages to Mercia who would then reimburse the Council as lender. The Strategic Commissioner Major Projects and the Cabinet Member with Responsibility for the Environment had responsibility for examining the detail of the project works. The Chief Financial Officer's role was to examine the impact on the takeover date and loan repayments and he confirmed that there would be no impact at this stage.

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

- Had the termination of the contract with Interserve led to the increase in the number of hours worked on site from 12 to 20 hours? The Chief Financial Officer commented that the civil engineering work on the site had been behind schedule for some time before the termination of the contract
- What were the grounds for the termination of the contract with Interserve? The Chief Financial Officer commented that written confirmation of the grounds for the termination of the contract had not yet been received from Mercia. However, HZI had expressed concern about the time taken on the civil engineering works and they believed that to ensure that the contract remained on time and to budget, Interserve should be replaced. The termination was a matter for HZI and Interserve and the risk rested with HZI, not with the Council
- There did not appear to be any comment in the technical report about the quality of the work completed to date. What assurances had the Council received about the quality of work? The Chief Financial Officer commented that there were a series of approvals to be granted before the civil engineering work could be signed-off. HZI gave initial approval followed by Mercia and then the Council's technical advisors. The draw down would only be authorised by the Council as lender if the quality certificate was received following this process, this would include the advisors assessment of meeting the output specification. A verbal assurance that no impact would result from the change of contractor had been received from Mercia and written confirmation was awaited.
- The termination of the civil engineering contract with Interserve was a serious matter, was the Council satisfied that a replacement contractor would be found quickly? The Chief Financial Officer stated that it was not possible to share the details of the negotiations taking place with the replacement contractor due to commercial sensitivity. Although it was a big decision, the risk rested with HZI and the Council just needed to ensure that assurances were received from Mercia. He was comfortable that Mercia had a plan of action but awaited confirmation in writing
- Was Interserve in a position to negatively affect the work on site? The Chief Financial Officer indicated

that Interserve were now off-site. An assurance had been received from Mercia that it had not been a distraction to the work undertaken on site by HZI

- In response to a query about the Approved Programme, the Chief Financial Officer confirmed that at this stage, the Approved Programme needed to be accepted by Mercia. However HZI had assured the Council that there would not be any impact on the take-over date as a result
- What would be the impact on the project should Western Power Distribution not be satisfied with the earthing grid being installed? The Chief Financial Officer stated that this matter was at the consent and approval stage and the risks associated with this would be discussed and reported to a future meeting.

**RESOLVED that the summary report from Fichtner Consulting Engineers – Technical Advisors be noted.**

**31 Risk Register  
(Agenda item 7)**

The Committee considered the mitigated and unmitigated risks set out in the Risk Register.

The Chief Financial Officer introduced the report and commented that:

- The risk associated with the termination of the Interserve contract needed to be reflected in the Risk Register. In the interim, he would provide an update of the Risk Register to the Chairman and Vice-Chairman of the Committee
- The objection to the 2014 Statement of Accounts in relation to the waste contract had been resolved and the external auditor had not upheld the objection. There would be no impact on the value for money project risk
- There were no changes from the previous report to the risks set out in the Register.

In the ensuing debate, in response to a query, the Chief Financial Officer intimated that the risk associated with the termination of the Interserve contract was likely to be green because of the mitigation measures that had been put in place.

**RESOLVED that the unmitigated and mitigated risks set out in the Risk Register be noted.**

**32 Waivers/  
Consents  
(Agenda item 8)**

The Chief Financial Officer confirmed that no waivers or consents had been granted over the last quarter.

**The Committee noted that no waivers/consents were granted by the Chief Financial Officer in the last quarter.**

The meeting ended at 10.38am.

Chairman .....