

# Agenda

## Waste Credit Governance Committee

**Friday, 17 July 2015, 10.00 am**  
**County Hall, Worcester**

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كوردی سۆزانی. ننگر ناتوانی تێبگدی له نامۆرۆکی نهم بێلگهیه و دستت به ههچ کس ناگات که و بیهێگریتوه بۆت، تکایه تهلخون بکه بۆ ژمارهی 01905 765765 و داوای رهنۆینی بکه. (Kurdish)

ਪੰਜਾਬੀ। ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਮਸ਼ਹੂਰ ਸਮਝ ਨਹੀਂ ਸਕਦੇ ਅਤੇ ਕਿਸੇ ਅਜਿਹੇ ਵਿਅਕਤੀ ਤੱਕ ਪਹੁੰਚ ਨਹੀਂ ਹੈ, ਜੋ ਇਸਦਾ ਤੁਹਾਡੇ ਲਈ ਅਨੁਵਾਦ ਕਰ ਸਕੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਮਦਦ ਲਈ 01905 765765 'ਤੇ ਫ਼ੋਨ ਕਰੋ। (Punjabi)

# DISCLOSING INTERESTS

There are now 2 types of interests:  
**'Disclosable pecuniary interests'** and **'other disclosable interests'**

## WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3<sup>rd</sup> party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

**NB Your DPIs include the interests of your spouse/partner as well as you**

## WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

**NB It is a criminal offence to participate in matters in which you have a DPI**

## WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:  
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

## WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

## DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

## DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

**Waste Credit Governance Committee**  
**Friday, 17 July 2015, 10.00 am, County Hall, Worcester**

**Membership:** Mr W P Gretton (Chairman), Mr L C R Mallett (Vice Chairman),  
Mr R C Adams, Mrs S Askin, Mr R W Banks, Mr M H Broomfield,  
Mr P Denham, Mr J W Parish and Mr P A Tuthill

**Agenda**

<b>Item No</b>	<b>Subject</b>	<b>Page No</b>
1	<b>Named Substitutes</b>	
2	<b>Apologies/Declarations of Interest</b>	
3	<b>Public Participation</b> Members of the public wishing to take part should notify the Director of Resources in writing or by email indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 16 July 2015). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail below.	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 23 February 2015. (previously circulated)	
5	<b>Actual construction period cash flow test</b>	1 - 14
6	<b>Progress summary for technical advisors</b>	To follow.
7	<b>Risk Register</b>	15 - 20
8	<b>Waivers/Consents</b>	21 - 22

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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 8 July 2015

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**Waste Credit Governance Committee**  
**17 July 2015****5. ACTUAL CONSTRUCTION PERIOD CASH FLOW TEST****Recommendation**

1. **The Chief Financial Officer recommends that the result Actual Construction Period Cash Flow Test be noted.**

**Introduction**

2. The Actual Construction Period Cash Flow Test (ACPCFT) is prepared by Mercia Waste Management on a quarterly basis and reviewed by Deloitte, acting in the capacity as Financial Advisers to the Councils in relation to the Senior Term Loan Facilities Agreement (STFLA), to determine whether:

“Actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds... the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model.”

3. It was agreed, during negotiations, as Mercia Waste Management is an existing operating entity, the cashflow it generates will be set aside during the construction phase and qualifies as Mercia's contribution on Equity Capital. Therefore the test confirms that Mercia have achieved their required contribution of Equity Capital to the Project that takes risk ahead of the Councils' STLFA.

**Review performed by Deloitte**

4. In performing the review Deloitte have agreed the terms of the calculation to the STLFA as follows:
  - Agreed the “model” Operating Cash generated during the period to the Base Case Financial Model
  - Agreed the actual Operating Cash generated during the period to management information
  - Re-performed the calculation of the ACPCFT, and
  - Compared the senior term loan facility drawdowns against those forecast in the Base Case Financial Model.

**Summary of results**

5. The result of the ACPCFT performed by Mercia for the period under review is an Excess Cash Flow amount as at 31 March 2015 of £1.3 million. The result shows that in the period from 1 May 2014 to 31 March 2015, the operations have produced £1.3 million more than was forecast for this period in the Base Case Financial Model. Based on this result the ACPCFT for the period under review is satisfied.

## **Supporting information**

- Appendix 1 – Actual Construction Period Cash Flow Test.
- Appendix 2 – Timetable for the production and review of the Actual Construction Period Cash Flow Test.

## **Contact Points**

### **County Council Contact Points**

Sean Pearce – Chief Financial Officer

01905 766268. [spearce@worcestershire.gov.uk](mailto:spearce@worcestershire.gov.uk)

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to this report.

## Senior Term Loan Facility Agreement

### Actual Construction Period Cash Flow Test

Page 3

For the period:  
1 January 2015 to 31 March 2015



# Important notice

Deloitte LLP (“Deloitte”) is acting for Worcestershire County Council (“WCC”) and the County of Herefordshire Council (“CoHC”) (together “the Councils” or the “Clients”) on the terms set out in the engagement letter dated 13 November 2014 (the “Engagement Letter”) in connection with the financial advisory services in relation to the Senior Term Loan Facility Agreement (“STLFA” or “Agreement”) with Mercia Waste Management Limited (“MWM” or “Mercia”) (in total, the “Project”) and no one else and will not be responsible to anyone other than the Clients for providing advice in relation to the Project.

This document, which has been prepared by Deloitte, comprises the written materials/slides for the purpose of providing a presentation to the Clients envisaged in the Engagement Letter.

Page 4 The information contained in this document has been compiled by Deloitte and includes material obtained from information provided by the Councils and by Mercia but has not been verified. This document also contains confidential material proprietary to Deloitte. In particular, it should be noted that the financial information contained in this document is preliminary and not audited.

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# Actual Construction Period Cash Flow Test

## Background

Mercia has a Waste Management Services Contract (“WMSC”) with the Councils. Mercia secured planning consent for a new facility and re-negotiated the WMSC for the design, construction and operation of a Waste to Energy (“WtE”) plant over the remainder of the WMSC, due to expire in 2023. Financial close was reached in May 2014.

In order to ensure the funding solution demonstrated VfM, the Councils used their prudential borrowing powers to debt fund Mercia’s WtE Plant.

Based on a capital structure of 85% debt and 15% equity, the Councils issued a senior loan facility.

Within the Senior Term Loan Facility Agreement (“STLFA”), the Councils included an Actual Construction Period Cash Flow Test (“ACPCFT”). This test is carried out on a quarterly basis following financial close (the first quarter ending 30 September 2014) and is used to determine whether:

*“Actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds... the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model.”*

Should a shortfall occur, Mercia will be required to remedy this shortfall by means of an equity injection equal to the amount of the shortfall in accordance with the contractual documentation.

## Scope of review

Deloitte has reviewed the calculation provided by Mercia for the ACPCFT. In doing so Deloitte has:

- Agreed the terms of the calculation to the STLFA;
- Agreed the “model” Operating Cash generated during the period to the Base Case Financial Model;
- Agreed the actual Operating Cash generated during the period to management information;
- Re-performed the calculation of the ACPCFT;
- Compared the senior term loan facility draw downs against those forecast in the Base Case Financial Model.

We have not been provided with any technical reports to review for the period to 31 March 2015.

## Summary of results

The result of the ACPCFT performed by Mercia for the period under review is an Excess Cash Flow amount as at 31 March 2015 is £1,299k.

This shows that in the period from 1 May 2014 to 31 March 2015, the operations have produced £1,299k more than was forecast for this period in the Base Case Financial Model.

Based on the above, the ACPCFT for the period under review would be satisfied. In completing our work set out above, we have not identified any inconsistencies between Mercia’s calculation and the underlying information.

# Calculation

## Actual Construction Period Cash Flow Test

Metric (£000)	May – Sep 14	Oct – Dec 14	Jan - Mar 15
<b>Base case financial model</b>			
<i>b/f cash attributable to Ops</i>	4,254	4,793	7,051
Gross revenue	18,603	10,448	10,847
Operating costs	-14,893	-8,111	-8,320
Changes in working capital	-1,212	320	-18
Cell preparation assets	-612	0	0
Corporation tax	-1,346	-400	-437
<b>Total change</b>	<b>539</b>	<b>2,258</b>	<b>2,072</b>
<b>Actuals</b>			
<i>b/f cash attributable to Ops</i>	4,637	6,480	11,674
Gross revenue	19,688	13,341	10,578
Operating costs	-15,557	-8,588	-8,509
Changes in working capital	-1,392	1,363	-3,018
Cell preparation assets	-333	-286	0
Corporation tax	-563	-636	-302
<b>Total change</b>	<b>1,843</b>	<b>5,194</b>	<b>-1,252</b>
<b>Difference</b>	<b>1,304</b>	<b>2,936</b>	<b>-3,324</b>
Excess cash flow a/c b/f	383	1,687	4,624
<b>Excess cash flow a/c c/f</b>	<b>1,687</b>	<b>4,624</b>	<b>1,299</b>

Source: Mercia; Financial Model; Senior Term Loan Facility Agreement. <sup>1</sup> Includes the January 2015 Unitary Payment.

# Commentary

## Commentary

- The calculation is the result of a methodology agreed between parties (the Councils and Mercia) which accords with the STLFA signed on 21 May 2014.
- Mercia explained that the gross cash received by Mercia from the Councils for the period to 31 December 2014 was more than expected due to the early payment (by a couple of days) of the Unitary Charge (£3.4m, in late December 2014).
- Mercia contended that *“this is not “extra” cash, but normal operating cash received a few days early. The Council payments usually arrive in the first few days of the month, but in December the payment arrived on 31 December. If the definitions are to be followed strictly, we would be denied access to this cash until such time as the next Cash Flow Test is due”*.
- The calculation shown on page 4 follows the Senior Term Facility Loan Agreement and as a result of this, does not discount this additional payment and the test showed a large positive difference in the December 2014 test.
- Since the subsequent payments were received as normal, the test shows a large negative difference for the period to 31 March 2015 (of £3.3m).
- The net result still leaves an excess cash flow balance of £1,299k as at 31 March 2015. In line with the stipulations of the STFLA, this is the balance in the Excess Cash Flow Account.
- There are small differences (c£6.5k) between Deloitte’s and Mercia’s variance against model numbers on gross revenue and operating costs.

Variance against model (£k)	Deloitte <sup>1</sup>	Mercia <sup>2</sup>	Difference
Gross revenue	-269	-276	-7
Operating costs	-189	-182	7

The differences are reflective of a differing treatment of interest received – the Deloitte calculation includes the number in gross revenue whereas Mercia’s calculation nets it against operating costs.

The differences are equal and opposite (allowing for rounding) and do not affect the overall cash flow position.

- In discussions between Deloitte, the Councils and Mercia on the May 2014 to September 2014 ACPCFT, Deloitte suggested that Mercia perform a reconciliation of the carried forward cash attributable to operations to the actual total cash balance in bank. Mercia now performs this as part of their test.

Notes: {1} Difference between the actuals and model numbers for the quarter to 31 March 2015 (see slide 4); {2} From Mercia’s cash flow notice (see slide 7).

# Senior Term Facility Loan draw downs

## Actuals vs Forecast in the Financial Model

The table below shows the actual Senior Term Facility Loan draw downs against those forecast in the financial model.

Model	May - Sep 14	Oct - Dec 14	Jan - Mar 15
<b>Model</b>			
Facility A	5,241	2,341	1,725
Facility B	18,898	8,426	6,190
<b>Total</b>	<b>24,139</b>	<b>10,767</b>	<b>7,916</b>
<b>Actual</b>			
Facility A	4,576	-	1,713
Facility B	16,532	-	6,187
<b>Total</b>	<b>21,108</b>	<b>-</b>	<b>7,900</b>
<b>Difference</b>	<b>-3,031</b>	<b>-10,767</b>	<b>-16</b>

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Facility A is the amortising loan. Capital repayment begins in the quarter ended 30 June 2017 following the end of the construction period.

Facility B is the bullet loan which is forecast to be repaid in the quarter ended 31 December 2023.

From discussion with Mercia management, the lack of draw down in October 2014 to December 2014 period reflects both a delay in the WtE build (meaning less cash was required for the WtE build) and the lower than expected capital expenditure in non-WtE build (meaning that more cash can be used on the WtE build).

Source: Mercia; Financial Model

# Appendix 1

## Mercia's calculation (£000)

### Cash Flow Test Calculation

	1 Jan 15 to 31 Mar 15 ACTUAL	1 Jan 15 to 31 Mar 15 MODEL
<b>Profit Before Depreciation and Tax</b>	<b>2,069</b>	<b>2,527</b>
<b>Working Capital Movement (Operating)</b>	<b>-3,018</b>	<b>-18</b>
Cell Preparation Assets	-	-
Corporation Tax (Cash)	-302	-437
<b>Operating Cash Flow</b>	<b>-1,252</b>	<b>2,072</b>

### Excess Cash Flow

	1 January to 31 March 2015		
	Actual	Model	Var
Operating Cash Opening Balance	11,674	7,051	4,624
Operating Cash Flow (as above)	-1,252	2,072	(3,324)
<b>Operating Cash Closing Balance</b>	<b>10,423</b>	<b>9,123</b>	<b>1,299</b>

## Mercia's cash flow notice

<i>Excess Cash – Opening Balance (Dec 2014)</i>	4,624
<i>Gross Revenue</i>	-276
<i>Operating Costs</i>	-182
<i>Changes in Working Capital</i>	-3001
<i>Corporation Tax</i>	+134
<i>Total</i>	-3,325
<i>Excess Cash – Closing Balance (Mar 2015)</i>	1,299

# Appendix 2

## Extracts from Senior Term Loan Facility Agreement

**"Actual Construction Period Cashflow Test"** means the quarterly test to be carried out on each Actual Construction Period Cashflow Testing Date, in relation to the preceding quarter period to determine whether:

- (a) actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds;
- (b) the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model;

**"Actual Construction Period Cashflow Testing Date"** means each Quarter Date following Financial Close, up to and including Completion;

**"Actual Construction Period Cashflow Shortfall"** has the meaning given to it in clause 15.9 (Actual Construction Period Cashflow Test);

**"Actual Construction Period Cashflow Remedy Amount"** means the minimum amount necessary following a failure by the Borrower of the Actual Construction Period Cashflow Test, to pass such test;

**"Actual Construction Period Excess Cashflow Amount"** means the amount of Operating Cash generated in any quarter during the Construction Period which is greater than the amount required to satisfy the Actual Construction Period Cashflow Test;

**"Base Case Financial Model"** means the computer model, agreed between the Lenders and the Borrower at Financial Close, as amended from time to time by agreement between the Lenders and the Borrower and delivered pursuant to paragraph 11.1 (Part I – Initial Conditions Precedent) of schedule 3;

**"Current Assets"** means:

- (a) cash held by the Borrower;
- (b) any balance on the Debt Service Reserve Account;
- (c) any balance on the Maintenance Reserve Account;
- (d) any prepayments received;
- (e) amounts owed to the Borrower and/or the amounts of any accounts receivable (in each case from trade debtors or HMRC in respect of VAT);
- (f) amounts in respect of deferred taxes;
- (g) inventory; and
- (h) any cell preparation assets;

**"Current Liabilities"** means:

- (a) amounts owed by the Borrower and/or the amounts of any accounts payable (in each case to trade creditors or HMRC in respect of National Insurance and VAT);
- (b) the amount of any accruals or provisions made;
- (c) the amount of any deferred tax liability;
- (d) any cell restoration liabilities;
- (e) any aftercare liabilities; and
- (f) liabilities in respect of Corporation Tax;

# Appendix 2 (continued)

## Extracts from Senior Term Loan Facility Agreement

**"Gross Revenue"** means, at any Ratio Testing Date and without double counting, the sum of:

- (a) operating revenue including the Unitary Payment, any interim service payments (if applicable) and any actual or guaranteed third party income, but excluding, for the avoidance of doubt, the Bullet Payment; plus
- (b) interest earned on all cash accounts (other than the Distribution Account); plus
- (c) Damages;
- (d) Insurance Proceeds to the extent received as compensation for loss of revenue;
- (e) income earned on Authorised Investments (other than any Authorised Investments in respect of the Distribution Account (if any));
- (f) rebates of Tax actually received or projected to be received in the latest Approved Budget; and
- (g) all other income or proceeds of a revenue nature from whatever source;

assumed in the Approved Financial Model to be receivable by the Borrower in the period commencing with such Ratio Testing Date and terminating on the Final Repayment Date or, in respect of any Ratio Testing Period ended on that Ratio Testing Date, all such revenues actually received during such Ratio Testing Period;

**"Operating Cash"** means:

- (a) Gross Revenue; less
- (b) Operating Costs; plus or minus
- (c) changes in Working Capital; less
- (d) Corporation Tax.

in each case, in respect of that Financial Year, as reflected in the operating cashflow calculation in the Approved Financial Model;

**"Working Capital"** means Current Assets minus Current Liabilities.

Source: Senior Term Loan Facility Agreement

**"Operating Costs"** means, without double counting any of those costs, and including any VAT thereon, costs identified as, or as the case may be, falling within the category of:

- (a) costs and expenses of administering, maintaining and operating the Borrower, SWSL and BWL and the Project including, without limitation, all operating costs accrued prior to, or arising after Financial Close relating to the Borrower's, SWSL's and BWL's existing operations under, or related to, the Waste Management Services Contract all costs relating to Environmental Matters and the costs of complying with the requirements of Environmental Laws and the terms and conditions of Environmental Authorisations (together in all cases with any applicable VAT thereon which is irrecoverable VAT);
  - (b) the cost of insurance premia (other than in relation to insurances covering the construction and commissioning of the Plant) and all property and occupation charges and rates to which the Project may be subject (together in each case with any applicable VAT thereon which is irrecoverable VAT);
  - (c) sums payable by the Borrower under the terms of the Project Documents to which it is a party, other than in relation to construction and commissioning of the Plant (together with any applicable VAT thereon which is irrecoverable VAT);
  - (d) Taxes payable (excluding VAT other than "output tax" within the meaning of Section 24(2) of the Value Added Tax Act 1994) other than in relation to the construction and commissioning of the Plant; and
  - (e) development costs,
- and in all cases, the equivalent lines thereafter in each Approved Budget and each Approved Financial Model;

- (b) The Borrower may only withdraw sums from the Excess Cash Flow Account:
  - (i) to meet Project Costs at any time on or after the Take-Over Date, but prior to Completion; or
  - (ii) to transfer any amount standing to the credit of Excess Cash Flow Account on Completion to the Distribution Account, provided that no Event of Default is continuing.



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Quarter End Date	MWM to send test and back up	Deloitte questions on test	Deloitte report ready	Report to Credit Committee	Credit Committee Meeting
	<i>Quarter End + 6 weeks</i>	<i>Quarter End + 7 weeks</i>	<i>Quarter End + 8 weeks</i>	<i>CC Meeting – 2 weeks</i>	<i>CC Meeting</i>
30/06/2015	By 12/08/2015	By 19/08/2015	By 26/08/2015	By 14/10/2015	28/10/2015
30/09/2015	By 12/11/2015	By 19/11/2015	By 26/11/2015	By 30/11/2015	14/12/2015
31/12/2015	By 12/02/2016	By 19/02/2016	By 26/02/2016	By TBC	TBC
30/06/2016	By 11/08/2016	By 18/08/2016	By 25/08/2016	By TBC	TBC
30/09/2016	By 11/11/2016	By 18/11/2016	By 25/11/2016	By TBC	TBC
31/12/2016	By 10/02/2017	By 17/02/2017	By 24/02/2017	By TBC	TBC

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**Waste Credit Governance Committee**  
**17 July 2015****7. RISK REGISTER****Recommendation**

1. **The Chief Financial Officer recommends that the unmitigated and mitigated risks set out in the Risk Register be noted.**

**Introduction**

2. As set out in its Terms of Reference, the Committee will need to review the risks being borne as a result of the funding provided by the Council to Mercia and consider whether the risks being borne by the Council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice.

3. A Risk Register has been established which sets out the unmitigated and mitigated risks associated with the loan arrangements.

4. Members will recall that at the meeting of the Committee on 15 December 2014, it was agreed that a report on the Risk Register would be brought to each meeting of the Committee. An updated version of the Risk Register has therefore been produced and is attached as Appendix 1. (Minute no. 15 refers) Members are asked to consider the risks set out in the Register.

5. From an overall perspective, the construction project has just moved past its first anniversary. The main elements of the civil engineering works are complete with the excavation of the bunker largely delivered on budget, although slightly behind forecast timescales. There has been some reordering of the remaining civil engineering programme to allow the mechanical and engineering programme to commence and keep the construction project on track.

6. Members should note that the construction plan set out at Financial Close achieved a Takeover date some three months in advance of the contractual Planned Takeover Date. Whilst some of this 'float' has now been eaten into, the construction team are still planning to achieve the Planned Takeover Date which is the more important and relevant date when considering risks presented to the Councils as the provider of the Senior Term Loan Facility.

7. Whilst recognising that a significant part of the construction scheme remains, Members should take some comfort from the fact that the project is 'out of the ground' as typically the tendency for project risks to materialise is higher where significant excavation work is undertaken.

8. The construction focus is now on building the superstructure of the Plant, including the concrete based Bunker and Tipping Hall and the Steel superstructure that houses the Boiler Hall and Administrative buildings.

9. To support the Risk Management process outlined in the Appendices, a site visit has been undertaken by the Chief Financial Officer, meeting with the Mercia Project Director and Owners Engineer, that included a detailed discussion on contractor and sub-contractor management, changes proposed and made to the construction programme plan and the confirm and challenge process undertaken by Mercia and its main contractors that provides assurance that the project remains on track. These site visits will continue on a quarterly basis to complement the work of the Councils' Technical Advisor and Financial Advisor.

10. A copy of the Mercia Waste Loan Facility Drawdown Analysis is attached as Appendix 2. Drawdowns remain at approximately 2-3 months behind the Base Case Financial Model and are consistent with the delay of 2 months that is being reported by Mercia due to overruns on civil engineering works. This delay presently is not resulting in any change to the Planned Takeover date.

- Appendix 1 – Risk Register
- Appendix 2 - Mercia Waste Loan Facility Drawdown Analysis

## Supporting information

## Contact Points

### County Council Contact Points

Sean Pearce – Chief Financial Officer  
01905 766268. [spearce@worcestershire.gov.uk](mailto:spearce@worcestershire.gov.uk)

## Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to this report:

Agenda papers and Minutes of the meeting of the Waste Credit Governance Committee held on 15 December 2014.

**Waste Credit Committee Risk Register**  
**July 2015 - Corporate Scoring Terms**

Risk Reference	Description of risk	Gross Impact	Gross Likelihood	Gross Risk Score	Risk control approach	Mitigating Actions	Residual Impact	Residual Likelihood	Residual Risk Score	Assigned to (Risk Owners)
a	Default of loan repayments by borrower to lenders due to SPV (Mercia) or HZI falling into administration.	Critical	Medium	15	Risk transferred	Due to the security package negotiated by the Councils a fall away analysis indicated that Mercia, its Shareholders and HZI would need to enter administration at the same time to put at repayment at risk during the construction phase. The maximum exposure to the Councils has been calculated and included within the sufficiency assessment of the Council's reserves. All press articles are scanned regularly for indications of financial strength issues and followed up to ensure counterparty risk is not increased.	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default and Deloitte to monitor Mercia's actual quarterly cash flow tests and cover ratios that have to be maintained by Mercia.
b	Construction completion date of EFW is delayed and delays repayment of loan to lenders.	Substantial	Medium	11	Risk transferred	Under the contract terms agreed with Mercia, Mercia take all material risk on EFW construction delay and repayment of loan will commence around February 2017, as set out in the SLFLA and agreed final financial model. Repayments are not tied to the actual construction completion date, rather the planned date. The Council as lender has the right to call the loan into default if construction is not completed by a long stop date. The Lender's Technical Advisor has confirmed that the Planned Takeover Date is still achievable	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default.
c	PWLB borrowing rates increase more than estimated in the Councils' prudential borrowing model. Higher rates would reduce the surplus generated on the loan arrangements with Mercia.	Substantial	Low	10	Risk treated	The cost of purchasing a financial product to remove this risk (a swaption) from an investment bank was quoted at £20m. The Councils decided to manage the risk through forecasting the forward price for its debt draw downs over the construction period and hold in reserve monies to mitigate this risk where required. Currently the rates accessible by the Councils are lower than this estimate as the continued low gilt rate environment pervades.	Substantial	Very Low	6	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
d	Loan drawdowns are slower than set out in the STFLA. Delayed drawdowns would result in reduced interest payments to the Councils and potentially reduced surplus if PWLB loan rates increase between the expected draw date and actual.	Negligible	Medium	4	Risk treated	The Councils plan to borrow from PWLB at dates inline with drawdown requests from Mercia. Therefore although the Councils would receive reduced interest receipts, less interest would also be paid to PWLB. The Councils are monitoring market gilt rates actively and have the option to borrow from PWLB up to a year in advance of expected drawdown requests. Regular progress reports are being reviewed to ensure the construction programme and the loan drawdowns are requested in line with the plan	Negligible	Very Low	2	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
e	Drawdown requests from Mercia are not actioned by the Councils or not actioned within the required contracted time period.	Substantial	Low	10	Risk treated	The Council's treasury teams have been fully briefed on the actions required to fulfil drawdown requests, checks required and the contracted timeline by the Section 151 Officer and their teams. Drawdowns to date have been actioned inline with requirements. Since the last Committee, one further drawdown has been provided and there is a separate analysis available for the Committee outlining planned vs actual drawdowns made to date.	Substantial	Very Low	6	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
f	Mercia loan principal and / or interest repayments are below the required values as per the rates agreed in the STFLA .	Substantial	Very Low	6	Risk treated	The Council's treasury team maintain a spreadsheet detailing drawdowns to date and expected future principal and interest payments. This is reconciled to Mercia's repayment spreadsheet and will be matched to principal and interest repayments received from Mercia during the post construction period.	Substantial	Almost Impossible	5	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

**Key**

High 19 – 24	Unacceptable Risk: Immediate control/improvement required
Medium 8 – 18	Acceptable Risk: Close monitoring and cost effective control improvements sought.
Low 1 – 7	Acceptable Risk: Need periodic review, low cost control improvements sought if possible.

**Scoring Matrix**

Likelihood	Negligible	Substantial	Critical	Extreme
Very High	9	19	21	24
High	8	12	20	23
Medium	4	11	15	22
Low	3	10	14	18
Very Low	2	6	13	17
Almost Impossible	1	5	7	16
	Negligible	Substantial	Critical	Extreme

**Impact**

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LOAN DRAWDOWNS

**Mercia Waste Loan Facility Drawdown Analysis  
July 2015**

Key	
	Planned drawdown paid to Mercia
	Planned drawdown overdue

Planned Drawdown Date	Planned Facility A Loan Drawdown (£) £	Planned Drawdown Date	Planned Facility B Loan Drawdown (£) £	Planned Total £	Actual Drawdowns £	Actual WCC share £	Actual Drawdown Dates
22-May-14	3,437,681	22-Apr-14	12,418,893	15,856,574	15,858,574	12,020,799	Drawdown 21/05/2014
31-May-14	1,138,388	31-May-14	4,112,516	5,250,904	5,250,904	3,980,185	Drawdown 05/06/2014
30-Jun-14	-	30-Jun-14	-				
31-Jul-14	-	31-Jul-14	-				
31-Aug-14	471,567	31-Aug-14	1,703,572	2,175,139			
30-Sep-14	284,368	30-Sep-14	1,027,302	1,311,670			
31-Oct-14	-	31-Oct-14	-				
30-Nov-14	956,758	30-Nov-14	3,456,362	4,413,120	7,899,929	5,988,146	Drawdown 11/02/2015
31-Dec-14	1,462,041	31-Dec-14	5,281,740	6,743,781			
31-Jan-15	425,251	31-Jan-15	1,536,253	1,961,504			
28-Feb-15	488,132	28-Feb-15	1,763,415	2,251,547	10,956,832	8,305,279	Drawdown 17/06/2015
31-Mar-15	922,698	31-Mar-15	3,333,319	4,256,017			
30-Apr-15	2,366,620	30-Apr-15	8,549,600	10,916,220			
31-May-15	2,400,673	31-May-15	8,672,622	11,073,295			
30-Jun-15	1,029,449	30-Jun-15	3,718,966	4,748,415			
31-Jul-15	1,315,749	31-Jul-15	4,753,246	6,068,995			
31-Aug-15	908,118	31-Aug-15	3,280,647	4,188,765			
30-Sep-15	1,209,552	30-Sep-15	4,369,603	5,579,155			
31-Oct-15	1,511,878	31-Oct-15	5,461,779	6,973,657			
30-Nov-15	1,550,833	30-Nov-15	5,602,507	7,153,340			
31-Dec-15	1,466,965	31-Dec-15	5,299,526	6,766,491			
31-Jan-16	567,125	31-Jan-16	2,048,785	2,615,910			
29-Feb-16	1,094,791	29-Feb-16	3,955,019	5,049,810			
31-Mar-16	1,021,353	31-Mar-16	3,689,717	4,711,070			
30-Apr-16	1,475,647	30-Apr-16	5,330,890	6,806,537			
31-May-16	1,197,470	31-May-16	4,325,954	5,523,424			
30-Jun-16	147,926	30-Jun-16	534,393	682,319			
31-Jul-16	139,033	31-Jul-16	502,267	641,300			
31-Aug-16	536,246	31-Aug-16	1,937,231	2,473,477			
30-Sep-16	586,749	30-Sep-16	2,119,676	2,706,425			
31-Oct-16	347,437	31-Oct-16	1,255,142	1,602,579			
30-Nov-16	166,670	30-Nov-16	602,109	768,779			
31-Dec-16	456,064	31-Dec-16	1,647,566	2,103,630			
31-Jan-17	1,002,431	31-Jan-17	3,621,359	4,623,790			
28-Feb-17	3,359,702	28-Feb-17	12,137,189	15,496,891			
<b>Total</b>	<b>35,445,365</b>	<b>Total</b>	<b>128,049,165</b>	<b>163,494,530</b>	<b>39,966,239</b>	<b>30,294,409</b>	

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**Waste Credit Governance Committee**  
**17 July 2015****8. WAIVERS / CONSENTS****Recommendation**

1. **The Chief Financial Officer recommends that the Committee note that no waivers/consents were requested or granted during the period under review.**

**Introduction**

2. As set out in its Terms of Reference, the Committee will need to monitor and administer the loan to the waste project in line with best banking practice, including the terms of any waivers or amendments which might be required or are desirable.

3. The Chief Financial Officer had delegated authority for the day to day management of the waste management contract in the Council's role as Lender including waivers and consents that were not material to the STLFA to the Section 151 Officers.

**Waivers/consents requests**

4. For the period under review there were no waivers/consents requested by Mercia Waste Management.

**Contact Points****County Council Contact Points**

Sean Pearce – Chief Financial Officer  
01905 766268. [spearce@worcestershire.gov.uk](mailto:spearce@worcestershire.gov.uk)

**Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are no background papers relating to this report.

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