

Waste Credit Governance Committee

Monday, 14 December 2015, County Hall, Worcester - 10.00 am

		Minutes
Present:		Mr W P Gretton (Chairman), Mr R C Adams, Mr R W Banks (for items 6-8), Mr M H Broomfield, Mr P Denham and Mr P A Tuthill.
Available papers		The Members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 28 October 2015 (previously circulated). A copy of document A will be attached to the signed Minutes.
41	Named Substitutes (Agenda item 1)	Mrs F M Oborski substituted for Mrs S A Askin.
42	Apologies/ Declarations of Interest (Agenda item 2)	Apologies were received from Mrs S A Askin and Mr L C R Mallett.
43	Public Participation (Agenda item 3)	Mr Sheridan Tranter addressed the Committee. He asked a question in relation to Agenda item 6 – Progress summary from technical advisors. The Chairman thanked Mr Tranter for his question and promised that he would receive a written response in due course. Mr Rob Wilden addressed the Committee. He asked questions in relation to Agenda item 6 – Progress summary from technical advisors. The Chairman thanked Mr Wilden for his questions and promised that he would receive a written response in due course.
44	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meeting held on 28 October 2015 be confirmed as a correct record and signed by the Chairman.
45	Actual construction	The Committee considered the result Actual Construction Period Cash Flow Test.

**period cash
flow test
(Agenda item 5)**

The Chief Financial Officer introduced the report and made the following comments:

- Deloitte had not identified any inconsistencies with Mercia's cash flow calculations which was a positive outcome for the Council
- There were three periods where Mercia's cash flow had reduced. This was due partly to a reduction in revenue as a result of a fall in recyclable value and partly due to the delayed installation of a glass breaker at the site which had meant that Mercia staff had had to continue to service the EnviroSort facility. He considered that these explanations were reasonable
- He anticipated that the cash flow test would be satisfied in the next quarter.

In the ensuing debate, the Chief Financial Officer explained that the reference in the report to "cell preparation" related to different sections of the local landfill site.

RESOLVED that the result Actual Construction Period Cash Flow Test be accepted.

**46 Progress
summary from
technical
advisors
(Agenda item 6)**

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

The Chief Financial Officer introduced the report and made the following comments:

- The key risk identified in the report related to the award of the Building Services contract. All the due diligence checks were being carried out on prospective contractors and it was anticipated that the contract would be awarded before Christmas
- To date there had been net variations to the contract totally £38,192. These variations were a matter between Mercia and HZI
- A number of red and yellow cards had been issued to staff on site for breaches of health and safety regulations. The Health and Safety Executive had completed an unannounced inspection of the site in September and they had reported that the visit had been successful. In addition, Fichter considered the health and safety practices on site to be good which gave the Council reassurance about the quality of these practices

- He remained satisfied that the outcome of the technical report met the requirements of this Committee.

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

- Was it possible that the takeover date could be further delayed post 31 March 2017? The Chief Financial Officer advised that he was not aware of any further potential delay to the takeover date. He would be visiting the site in the next few days and if any new issues arose, he would inform members accordingly
- In response to a query, the Chief Financial Officer undertook to provide members with details on the timing of the civil design work. From a loan perspective, all the issues relating to the civil design work had been addressed in the technical report
- In response to a query, the Chief Financial Officer explained that the building services contract had been divided in order to allow the project to continue on its critical path
- In response to a query, the Chief Financial Officer explained that he personally visited the site on a quarterly basis and met a number of officers on site including the Programme Director and Site Director from Mercia, representatives of the technical advisors and a representative of HZI. On the visit, he would discuss the latest developments on site with officers and walk round the site
- What activities did Building Services relate to and what control mechanisms were in place? The Chief Financial Officer stated that he relied on the technical advisors for advice on the nature of the work on site but he would provide an explanation for members. From the Committee's point of view, his role was to ensure that the site was met within timescale and that the loan repayments were protected
- The appointment of a Building Services contractor had taken six months to complete. Was the delay as a result of a shortage of skilled people to undertake the work, a general reluctance to undertake the work, or companies having difficulty responding at short notice? The Chief Financial Officer indicated that neither the technical report nor discussions with officers on site had given an indication that there was a particular difficulty in

attracting companies to fulfil the Building Services contract. A number of organisations were on the short list and Mercia had indicated that they were happy with the contractor that it was proposed to be appointed

- Future technical reports should be amended to take out reference to the site being in Kidderminster.

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

**47 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 made the following comments:

- None of the security package elements had been required and therefore the risk of a default of the loan repayments by the borrower was considered to be a low risk
- The loan repayments were due by the end of February 2017 and the Council would be due liquidated damages from Mercia should the plant be delivered late therefore the risk of this delay was considered to be low
- The cost of borrowing was monitored on a daily basis. Currently the rates accessible by the Councils was lower than the estimates as the continued low gilt rate environment pervaded
- The rate of loan drawdown was slower than expected however because of the lower cost of borrowing, the business case remained in tact
- All the drawdowns to date had been completed in the required timescale
- It was not anticipated that there would be a difficulty with repayments. However Mercia were contractually bound to repay the loan therefore the risk was considered low
- In relation to the risk associated with the default of the loan repayment as a result of the termination of the Interserve contract, the Council had worked closely with Mercia to ensure that new contracts were in place to replace Interserve. The Council had received appropriate legal and technical advice to confirm that the right plans were in place
- The Building Services contract had yet to be signed so at present the risk was rated as low. However he expected to report the signing off of

this contract shortly and the risk would then be rated very low.

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

- In response to a query, the Chief Financial Officer explained that the rate that the Council lent at was commercially sensitive information. The Council lent to Mercia at a fixed rate but the Council's own rate of borrowing was subject to fluctuation
- In response to a query, the Chief Financial Officer stated that the long stop date would be 18 months after the planned takeover date
- Why was the gross impact of the risk associated with the borrowing rates increasing more than the Council's prudential borrowing model considered to be substantial? The Chief Financial Officer stated if the Council could not meet its obligations in this regard, Mercia could claim against the Council for default on the loan agreement
- What would happen if Herefordshire Council defaulted on the loan agreement? The Chief Financial Officer commented that this Council would also default as a result
- What impact would the testing period at the plant have on the amenity of local residents? The Chief Financial Officer stated that this was a matter for local residents to take up at the Community Liaison Group
- Would the planned testing period continue despite the alteration to the takeover date? The Chief Financial Officer indicated that he had not received any indication that there were any issues with the planned testing programme.

RESOLVED that

- a) the mitigated and unmitigated risks set out in the Risk Register be accepted; and**
- b) Council be informed that the Committee is satisfied so far that the risks associated with the loan being borne by the Council, as lender, are reasonable and appropriate**

**48 Waivers/
consents
(Agenda item 8)**

The Chief Financial Officer introduced the report and explained that it was anticipated that the Building Services contract would be signed off shortly.

RESOLVED that the waivers/consents granted during the period under review be noted.

The meeting ended at 10.45am

Chairman