

Agenda

Waste Credit Governance Committee

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

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کردی سۆزانی. ننگەر ناتوانی تێبگدی له ناوهرۆکی نهم بێلگهیه و دستت به ههچ کس ناگات که و بیهێگریتوه بۆت، تکایه تهلپۆن 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 3rd 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
Monday, 14 December 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 and Mr P A Tuthill

Agenda

Item No	Subject	Page No
1	Named Substitutes	
2	Apologies/Declarations of Interest	
3	Public Participation Members of the public wishing to take part should notify the Head of Legal and Democratic Services 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 11 December 2015). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail below.	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 28 October 2015 (previously circulated).	
5	Actual construction period cash flow test	1 - 16
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8	Waivers/consents	31 - 32

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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 766621, slewis@worcestershire.gov.uk

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

Date of Issue: Friday, 4 December 2015

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**WASTE CREDIT GOVERNANCE COMMITTEE
14 DECEMBER 2015****ACTUAL CONSTRUCTION PERIOD CASH FLOW TEST**

Recommendation

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

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.”

Review performed by Deloitte

3. In performing the review Deloitte have 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 drawdowns against those forecast in the Base Case Financial Model.

Summary of Results

4. The result of the ACPCFT performed by Mercia for the period under review is an Excess Cash Flow amount as at 30 September 2015 of £1,015k. The result shows that in the period from 1 May 2014 to 30 September 2015, the operations have produced £1,015k more than was forecast for this period in the Base Case Financial Model.
5. Based on this result the ACPCFT for the period under review is satisfied.

Contact Points

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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.

Background Papers

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

Senior Term Loan Facility Agreement

Actual Construction Period Cash Flow Test

Page 3

For the period:
1 July 2015 to 30 September 2015



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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 received any technical reports for the period to 30 September 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 30 September 2015 of £1,015k.

This shows that from 1 May 2014 to 30 September 2015, the operations have produced £1,015k 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	Apr - Jun 15	Jul - Sep 15
Base case financial model					
<i>b/f cash attributable to Ops</i>	4,254	4,793	7,051	9,123	11,246
Gross revenue	18,603	10,448	10,847	11,813	12,374
Operating costs	(14,893)	(8,111)	(8,320)	(8,961)	(9,253)
Changes in working capital	(1,212)	320	(18)	(252)	(37)
Cell preparation assets	(612)	0	0	0	(632)
Corporation tax	(1,346)	(400)	(437)	(477)	(494)
Total change	539	2,258	2,072	2,122	1,957
Actuals					
<i>b/f cash attributable to Ops</i>	4,637	6,480	11,674	10,423	12,333
Gross revenue	19,688	13,341	10,578	11,929	12,091
Operating costs	(15,557)	(8,588)	(8,509)	(9,372)	(9,682)
Changes in working capital	(1,392)	1,363	(3,018)	(171)	(131)
Cell preparation assets	(333)	(286)	0	0	(189)
Corporation tax	(563)	(636)	(302)	(476)	(204)
Total change	1,843	5,194	(1,252)	1,910	1,885
Variance	1,304	2,936	(3,324)	(212)	(72)
Excess cash flow a/c b/f	383	1,687	4,624	1,299	1,087
Excess cash flow a/c c/f	1,687	4,624	1,299	1,087	1,015

Source: Mercia; Financial Model; Senior Term Loan Facility Agreement.

Commentary

Summary

- The calculation is the result of a methodology agreed between parties (the Councils and Mercia) as per the STLFA signed on 21 May 2014.
- The outcome of the ACPCFT performed by Mercia for the period under review is an Excess Cash Flow amount of £1,015k.
- This means that in the period from 1 May 2014 to 30 September 2015, the operations have produced £1,015k more than was forecast for this period in the Base Case Financial Model.
- Based on the above, the ACPCFT for the period under review is satisfied. We have not identified any inconsistencies between Mercia's calculation and the underlying information.
- We note that despite the Excess Cash Flow amount at £1,015k, there have now been three consecutive periods of under-performance against the modelled forecast.
- We have questioned Mercia on this and provide the response in this report.

Revenue down and operating costs up against modelled forecast

- We note that for the period under consideration, revenue actuals were 2% below the modelled forecast, but operating costs were 5% above the modelled forecast.
- From discussion with Mercia, this is due to a fall in the sales value of recyclable materials, which accounts for a £0.5m shortfall in revenue compared to the Base Case Financial Model.

- The difference on costs relates to the delay in the installation of glass-breaking equipment, due to delivery lead times being longer than anticipated.
- The glass-breakers were assumed in the Base Case Financial Model to be installed during 2014, but are actually being installed during Q4 2015. This has resulted in additional sub-contract services being required in the meantime.

Cell preparation asset spend

- Cell preparation asset spend was 70% below the modelled forecast. From discussion with Mercia, this is a timing difference, as the cell preparation works have occurred later than usual in the current year.
- The work has now been completed (in November) and the balance of expenditure will therefore be included in Q4 2015 ACPCFT.

ACPCFT trend

- We note that whilst the Excess Cash Flow amount is still positive (at c.£1m), there have now been three consecutive periods of under-performance against the modelled forecast (i.e. an in period negative variance of actuals against the model).
- From discussion with Mercia, the key differences have been the drop in prices for recyclable materials and the additional costs relating to the delay to the installation of the glass-breaking equipment.
- Feedback from Mercia's recyclable material off-takers is that prices will remain at current lower levels "for the next few months, and then start to pick up".

See over page

Commentary (continued)

- Although this means Mercia expects “to stay below the modelled revenues for recyclable materials” for the next quarter, Mercia expects a “reduction in operating costs following the installation of the glass-breakers that will reduce its third-party processing costs”.
- Overall, in the context of the £72k underperformance in the latest quarter, the Excess Cash Flow amount of £1,015k remains relatively large.

Page 8 **Next ACPCFT**

- Furthermore, the installation of the glass-breakers during Q4 2015 will adversely affect the next ACPCFT (for the period to 31 December 2015) as there will be a 4 weeks shut-down for installation, and therefore no third party recycling revenue during this period. However, once installed, Mercia anticipate a significant reduction in sub-contracted costs compared to the previous quarters.

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	Apr - Jun 15	Jul - Sep 15
Model					
Facility A	5,241	2,341	1,725	5,633	3,205
Facility B	18,898	8,426	6,190	20,288	11,490
Total	24,139	10,767	7,916	25,921	14,695
Actual					
Facility A	4,576	0	1,713	2,375	3,289
Facility B	16,532	0	6,187	8,581	11,883
Total	21,108	0	7,900	10,957	15,172
Difference	(3,031)	(10,767)	(16)	(14,965)	477

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).

In the quarter to 30 June 2015, the draw down was also significantly below the modelled expectation. From discussion with Mercia management, the lower than forecast draw downs are due to the fact that, in general, there have been delays in the timing of some of the EPC milestone payments and the asset replacement programme has been a little behind due to the lead times for delivery / installation. These are delays in the timing of capital expenditure payments, and Mercia anticipate catching up with the model drawdowns later this year. The draw downs in the quarter ending 30 September 2015 were in line with the model forecast.

Source: Mercia; Financial Model

Appendix 1

Mercia's calculation (£000)

Cash Flow Test Calculation

	1 Jul 15 to 30 Sep 15 ACTUAL	1 Jul 15 to 30 Sep 15 MODEL
Profit Before Depreciation and Tax	2,409	3,120
Working Capital Movement (Operating)	-131	-37
Cell Preparation Assets	-189	-632
Corporation Tax (Cash)	-204	-494
Operating Cash Flow	1,885	1,957

Excess Cash Flow

	1 Jul to 30 Sep 2015		
	Actual	Model	Var
Operating Cash Opening Balance	12,333	11,246	1,087
Operating Cash Flow (as above)	1,885	1,957	(72)
Operating Cash Closing Balance	14,218	13,203	1,015

Mercia's cash flow notice

<i>Excess Cash – Opening Balance (Jun 2015)</i>	1,087
<i>Gross Revenue</i>	-283
<i>Operating Costs</i>	-428
<i>Changes in Working Capital</i>	+349
<i>Corporation Tax</i>	+290
<i>Total</i>	-72
<i>Excess Cash – Closing Balance (Sept 2015)</i>	1,015

Source: Mercia; Mercia also provided the workings behind this calculation so that the calculation could be reconciled to the company's trial balance and so it could be presented in a manner mapping to the description in the Senior Term Loan Facilities Agreement (see page 4).

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>
31/12/2015	By 12/02/2016	By 19/02/2016	By 26/02/2016	By 18/03/2016	01/04/2016
31/03/2015	By 13/05/2016	By 20/05/2016	By 27/05/2016	By 24/06/2016	08/07/2016
30/06/2016	By 11/08/2016	By 18/08/2016	By 25/08/2016	By 15/09/2016	29/09/2016
30/09/2016	By 11/11/2016	By 18/11/2016	By 25/11/2016	By 30/11/2016	14/12/2016
31/12/2016	By 10/02/2017	By 17/02/2017	By 24/02/2017	TBC	TBC

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**WASTE CREDIT GOVERNANCE COMMITTEE
14 DECEMBER 2015****PROGRESS SUMMARY FROM TECHNICAL ADVISORS**

Recommendation

- 1. The Chief Financial Officer recommends that the summary report from Fichtner Consulting Engineers – Technical Advisors be noted.**

Introduction

2. As set out in its Terms of Reference, the Committee will be advised by external financial, technical and legal advisers on behalf of the Council's Section 151 Officer.
3. Fichtner Consulting Engineers have been appointed as technical advisor to the lender during the construction phase of the Energy from Waste plant. The company has produced a summary report up to 26 November 2015 for consideration by the Committee and this is attached as an Appendix.

Contact PointsCounty Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix – Summary reports from Fichtner Consulting Engineers – up to 26 November 2015

Background Papers

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

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MEMORANDUM

To:	Mark Forrester	Organisation:	Worcestershire County Council
cc:	Simon Lewis	Organisation:	Worcestershire County Council
From:	Kerry Booth	Our Ref:	S1291-2300-0005KSB
Date:	26 th November 2015	No. of Pages:	3
Subject:	Mercia LTA Construction Progress Summary – November 2015		

1 INTRODUCTION

Mercia Waste Management Limited ("Mercia") is constructing the 200,000 tonnes/year, 18 MWe Mercia EnviRecover EfW Plant in Kidderminster, Worcestershire. Fichtner Consulting Engineers Ltd (Fichtner) has been appointed as lender's technical advisor (LTA) for the construction phase of the plant. This summary memo covers relevant activities and progress based on review of latest available reports from the Owner's Engineer (OE) and Mercia (covering 1st – 30th September 2015). The report also covers discussion of the civil engineering progress on site through 26th November 2015. We are not aware of any issues which have developed since the latest available reports which the Committee should be aware of.

2 PROJECT PROGRESS

Overall, progress in September was generally in line with the latest programme, which shows a target Take Over date of 31st March 2017, one month after the contractual Take Over date of 28th February 2017. HZI maintain that they will endeavour to improve on this date.

The majority of civil subcontractors have now been appointed or retained following the termination of Interserve's contract. The outstanding subcontractor appointment is the building services subcontractor. HZI are currently negotiating this subcontract and the building services designer, who has been appointed under a separate contract, is completing the design so the works can commence.

The other civil design work is substantially complete. There has been a greater level of civil construction progress compared to the previous reporting period. There has, however, been some delay in the progress of the waste bunker and the subsequent commencement of the tipping hall. Whilst there is some remaining float in these programme activities there is a risk that there will be a slight overall delay as progress of the work is slower than expected.

The status of activities on site as of 30th September are summarised below.

- Drainage – Drainage installation has been progressed local to the bottom ash building.
- Access ramps – Concrete pouring of the east access ramp is ongoing.
- Tipping hall and bunker area – Pouring of the south crane beam is ongoing. Falsework preparation to the north crane beam is ongoing. Installation of pre cast concrete planks to the east side intermediate floors has continued. Installation of the deep wells in the bunker area has commenced. These wells are required to reduce the ground water level prior to excavation, which is planned to commence in the next period.
- Boiler and Flue Gas Treatment (FGT) hall area – The majority of boiler parts have been lifted into place. Welding of the boiler membrane walls is ongoing. Erection of the FGT steelwork modules is ongoing, with the bag filter compartments and reactor being lifted into place in September. The electrical switch room 'E-houses' were delivered to site in September and were due to be lifted into position in the next period.
- Admin building area – Fire wall cladding is progressing. Erection of the phase 3 steelwork and precast concrete flooring is ongoing.
- Turbine hall – Cladding of the roof has started. Perimeter blockwork and brickwork has started.

- Air Cooled Condenser (ACC) – There is currently no work progressing on the ACC. The ACC foundations were used to site the stack sections so that platform installation work could be carried out closer to the ground.
- Substation and 66kV transformer area – Cable trenches were completed. Earthing conductor installation is ongoing. Installation of the 66kV cable ductwork to the site boundary is ongoing.

3 KEY PROJECT RISKS AND OBSERVATIONS

Following termination of the Interserve civil works subcontract on 7th July 2015, the majority of replacement subcontractors have now been appointed or a preferred supplier indicated. The key risk is considered to be placement of the building services contract and subsequent production of detailed design drawings to allow on site installation works. Building services is particularly critical as if it is late, it can delay commissioning and prevent waste being delivered to the facility. HZI has made good progress in selecting a building services contractor, and we expect the contract to be signed in the near future.

Fichtner will continue to monitor the situation and provide updates accordingly.

4 FINANCIAL AND COMMERCIAL

Payments have now been made for seventeen milestone events. These include seven process milestones and ten civil milestones. The cumulative amount which has been certified to date is £58,942,859.90. The LTA has issued six payment certificates to allow drawdown on the senior loan.

Applications for milestone 18 – Flue gas treatment reactor in position and milestone 24 – boiler drum in position were received in September. Applications for milestone 16 – foundation slab to bottom ash handling system complete and milestone 27 – boiler horizontal pass bundles all in position were received in November.

To date thirty five Variation Orders have been issued. To date the net reduction to the contract price is £38,192. There has been no extension of time for any Variation Orders issued to date.

5 HEALTH AND SAFETY

There were no injuries reported in September. Three yellow cards were issued, all in relation to use of an incomplete scaffold for access. Three red cards were also issued: one for unauthorised work on an electrical system; one for use of a mobile phone and threatening behaviour; and one for unsafe work at height.

The Health and Safety Executive completed an unannounced inspection of the site in September. The inspection was successful, with the HSE only making minor observations relating to the selection and wearing of PPE.

Fichtner consider that there remains a good health and safety culture on site, and that the organisation of the site and the level of attention given to health and safety continues to be good. The number and category of site safety observation reports raised are in line with what might be expected at this stage of construction. HZI are remaining firm when dealing with any transgressions of the site rules, which should help maintain the current standards.

6 PLANNED ACTIVITIES NEXT PERIOD

The following activities are planned from October 2015:

- Detailed engineering of remaining packages (including turbine control system, refractory lining, waste bunker and tipping hall steelwork, below ground mechanical, electrical and drainage details, etc);
- Placement of purchase orders for a number of process and civil items, including weighbridges, general piping, cabling and cable trays, fire protection and detection, external doors, blockwork and low level waste bunker reinforced concrete works;

- Continued manufacture of items currently in work, including intermediate and final inspections where required;
- Continued work on civil packages including drainage, perimeter retaining wall and access ramp, waste bunker, fuel oil storage, ash storage building, admin building, demineralised water building, hydrated lime and powdered activated carbon silos, turbine hall, high voltage transformer compound, high voltage substation, and DNO control room; and
- Continued work on process packages including boiler assembly, boiler hall balance of plant and steelwork installation, installation of FGT E-containers and ducts, and lifting in of the pipe spools and skids to the turbine hall.

Yours sincerely
FICHTNER Consulting Engineers Limited



Kerry Booth
Consultant



Phin Eddy
Commercial Director

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WASTE CREDIT GOVERNANCE COMMITTEE

14 DECEMBER 2015

RISK REGISTER

Recommendation

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

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 (Minute no. 15 refers). An updated version of the Risk Register has therefore been produced and is attached as Appendix 1. Members are asked to consider the risks set out in the Register.
5. A copy of the Mercia Waste Loan Facility Drawdown Analysis is attached as Appendix 2.

Contact Points

County Council Contact Points

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Email: worcestershirehub@worcestershire.gov.uk

Specific Contact Points for this report

Sean Pearce – Chief Financial Officer

Tel: 01905 766268

Email: spearce@worcestershire.gov.uk

Supporting Information

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

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of 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
December 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 expected Takeover Date is now the Planned Take Over date plus one month, 31st March 2015.	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 in line 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.
g	Default of loan repayments by borrower to lenders due to HZI termination of Interserve Construction Limited (ICL) delaying project completion to after long stop date.	Critical	Medium	15	Risk treated	Sponsors have provided assurance that they believe HZI are undertaking the right processes to replace the ICL work packages and that there is no financial risk to the Sponsors from the work underway. Sponsors confirmed that their Due Diligence on HZI had not raised any concerns around the company's viability or going concern. The Council as lender has the right to call the loan into default if construction is not completed by a long stop date, at which point the negotiated security package, set out in section 'a' above, would take effect.	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.
Page 26	HZI termination of ICL may weaken negotiated security package due to no single new supplier exceeding £10 million contract value, and therefore triggering EPC Contract Schedule 7 requirements for Collateral Warranty and professional indemnity insurance requirements. The risk is that the Council as lender does not receive the same security package as it had when ICL was in place.	Substantial	High	12	Risk treated	In terms of Collateral Warranty, the HZI Collateral Warranty is in place and remains in place. Due Diligence has been undertaken by Sponsors and the Council as Lender(with the Financial Advisor) to confirm the financial strength of HZI in light of events. There are no issues arising from these reviews. Sponsors have agreed to review on a case by case basis the requirement for additional security protections and will advise the Council as to its rational for its decision. The Council as Lender has sign off rights and requests have and will continue to be made to the Councils prospectively for Schedule 7 services and retrospectively (based on Sponsor Assurance) for non-Schedule 7 services. Planned meetings have been held and will continue to be arranged for sign off and Council advisors have been retained to provide advice. The Councils have clearly articulated to Sponsors that there should not be any weakening on the Security Package in place with regard to the Civil Engineering Work. There is no financial impact on Sponsors from events to date and therefore no financial impact on the Council as Lenders.	Substantial	Low	10	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default.

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	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
December 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	15,172,237	11,500,556	Drawdown 23/07/2015
31-May-15	2,400,673	31-May-15	8,672,622	11,073,295	11,073,295	8,393,558	Drawdown 21/10/2015
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	10,817,410	8,199,597	Drawdown 25/11/2015
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			
Total	35,445,365	Total	128,049,165	163,494,530	77,029,181	58,388,119	

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WASTE CREDIT GOVERNANCE COMMITTEE

14 DECEMBER 2015

WAIVERS/CONSENTS

Recommendation

1. **The Chief Financial Officer recommends that the waivers/consents granted during the period under review be noted.**

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 has delegated authority for the day to day management of the waste management contract including waivers and consents that are not material to the STLFA to the Section 151 Officers.

Waivers/Consents requests

4. For the period under review the following waivers/consents were requested by the Sponsors and approved by the Councils:
 - The Councils received a waiver/consent request for building services on 25 November 2015 following the HZI termination of Interserve. A verbal update will be provided to the Committee.

Contact Points

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Specific Contact Points for this report

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Background Papers

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

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