

WASTE CREDIT GOVERNANCE COMMITTEE 11 DECEMBER 2019

TECHNICAL UPDATE – EFW PLANT REPORTING REQUIREMENTS

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) The main categories of reports or information that the Borrower must regularly produce and the Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council and operating update attached as Appendix 1 be noted;**
 - b) The update on the financial model and ratio analysis be noted; and**
 - c) The Committee consider whether to report any matters to Council.**

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. This report covers the reporting requirements post completion.**
- 3. The Council commissioned Ashurst LLP to identify the Borrower's Regular Reporting Obligations under the Herefordshire and Worcestershire Waste Facility Agreement for the post construction Energy For Waste (EFW) period, as set out in the STLFA**
- 4. The main categories of reports or information that the Borrower has to regularly produce going forward are:**
 - the Ratio Calculations report;**
 - the Ratio Compliance Certificate;**
 - reports in relation to financial and project information; and reports during the operating period**
- 5. The Committee have consistently been informed that the ratio review is overdue (due as at the 31 December 2018) and that the financial model on which the ratio testing is conducted will not be updated until the ongoing savings negotiations and the contract extension between the Council and MWM are concluded.**

6. It was hoped that this would have been finalised as part of the Councils 2020/21 Budget report that is going to Cabinet on the 20th December 2020. As part of this budget report KPMG are supporting the Council in understanding the updated financial model in terms of savings delivery and also any implications that this may have on the affordability of the future loan repayments. The Committee would then be able to assess and report any comments they felt necessary to Council.

7. Unfortunately, this still has not been concluded and at the moment no clear deadline for resolution. Until this is the case and an updated financial model agreed the ratio analysis required cannot be completed.

8. The Historic Annual Debt Service Cover Ratio (“ADSCR”): A historic periodic measure used to assess the project’s ability to service its current debt obligation over the preceding 12-month period was presented at the October Committee along with the signed Ratio compliance certificate.

9. Also provided at the last Committee was the 'cash flow after debt servicing' within the current base financial model compared to the 'actual 'cash flow after debt servicing'. This also showed a positive picture where the actual cash flow has been more than the financial model at the end of each quarter.

10. These are not due until the next Committee

Assurance Statement

11. It has been agreed that twice a year, for the March and September Committees, Mercia Waste Management (MWM) would produce a short, high level assurance statement (Appendix 1). The aim being to reassure the Lender (the Council) that there is no material matters which would impair MWM’s ability to repay the Loan in accordance with the Financial Model in the coming period. Another purpose of the statement is to cover the deficiency of the Loan Agreement Reporting in respect of the “Non – EFW” part of the MWM business. Although this is not due an update has been provided for Committee. This now includes also an update on the operations which was previously reported separately

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Supporting Information

Appendix 1 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement and Operating update

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.