

WASTE CREDIT GOVERNANCE COMMITTEE 2 JULY 2021

TECHNICAL UPDATE – ENERGY FROM WASTE (EFW) PLANT REPORTING REQUIREMENTS

Recommendation

1. The Chief Financial Officer recommends that the Committee note and comment on the main categories of reports or information that the Borrower must regularly produce:

- **Appendix 1 - The Historic Annual Debt Service Cover Ratio (“ADSCR”)**
- **Appendix 2 - Ratio compliance certificate and the**
- **Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council and operating update attached as Appendix 3 be noted.**

Introduction and Background

2. As background, in 1998 under a partnership agreement, Worcestershire County Council and Herefordshire District Council (the “Councils”) signed the Contract, which was one of the first joint waste PFI contracts within the UK.

3. In May 2014, the Council’s as Lenders, provided a total of £163.50m split across two facilities (Facility A £35.45m and Facility B £128.05m), to the Borrower for the purposes of constructing a new Energy from Waste Project in Hartlebury. Facility A is fully amortising, scheduled to be repaid in full by December 2022. Facility B is to be repaid with a single bullet payment from the Councils in December 2023.

4. As is standard with Facility Agreements of this nature, the Borrower is required to report periodically to Lenders on their compliance with certain requirements. One particular requirement is the ratios required to be measured under the STLFA at each calculation date (30 June / 31 December).

5. Ratios are a financial covenant imposed by Lenders (in this case the Council’s as Lenders) as a monitoring mechanism to provide early warning of project distress and potential Borrower default on their repayment obligations. The ratios provide a measure of the project’s historic and future performance in relation to its ability to service current and upcoming debt liabilities.

Reporting Requirements post completion

6. 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.

7. 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 From Waste (EFW) period, as set out in the Senior Term Loan Facility Agreement

8. 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

9. The Ratio calculations report was undertaken by KPMG in March 2020 to assess the position as at the end of December 2019 to meet the terms set out in the STFLA. KPMG found that all the ratios had been met and the report was circulated to all members of the Committee on the 24 March 2020.

10. The Historic Annual Debt Service Cover Ratio ("ADSCR") Appendix 1: An historic periodic measure used to assess the project's ability to service its current debt obligation over the preceding 12-month period as at the end of December 2020 is 1.80 which is better than the target 1.35 and is attached along with the signed Ratio compliance certificate Appendix 2.

11. Also provided is the 'cash flow after debt servicing' (CFADS) within the current base financial model compared to the 'actual' cash flow after debt servicing'. This also showed a positive picture apart from March which would have been due to the impact of COVID-19 where the actual cash flow has been more than the financial model at the end of each quarter and has seen a good recovery in the quarter to December 2020.

Financial Accounts as at the end of December 2020

12. In line with the agreement the company must provide a set of audited Financial accounts for review and were received at the beginning of November 2020. The external auditors are Deloitte LLP and independent opinion states that the information given in the strategic report and the directors report for the financial year for which the financial statements are prepared are consistent with the financial statements and have been prepared in accordance with applicable legal requirements.

Assurance Statement

13. 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 3). Given the Committee has new members an assurance statement has been provided as part of this report. 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.

Contact Points

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: RWilson2@worcestershire.gov.uk

Supporting Information

Appendix 1 - The Historic Annual Debt Service Cover Ratio (“ADSCR”)

Appendix 2 - Ratio compliance certificate

Appendix 3 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement –
To follow

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.