

WASTE CREDIT GOVERNANCE COMMITTEE (WCGC)

9 DECEMBER 2022

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

Recommendation

- 1. The Chief Financial Officer recommends that the Committee note and comment on:**
 - a) 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**
 - Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council attached as Appendix 3 be noted.**
 - b) The update on the contract extension with Mercia Waste Management and the attached KPMG Report attached as Appendix 4 (To follow).**

Introduction and Background

1. 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.
2. 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.
3. 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).
4. 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

5. 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.

6. 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

7. 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.

8. 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.

9. The Historic Annual Debt Service Cover Ratio ("ADSCR") Appendix 1: A 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 June 2022 (next one due end of December 2022) is 1.57 which is better than the target 1.35 and is attached along with the signed Ratio compliance certificate Appendix 2.

10. Also provided within Appendix 1 is the 'cash flow after debt servicing' (CFADS) over the last 4 quarters, within the current base financial model compared to the 'actual 'cash flow after debt servicing'. This also showed a positive picture apart from March 2022.

Final Accounts Budget for 2022

11. As part of the loan agreement MWM have to provide annual audited accounts. The County received the audited accounts on the 29 June 2022 relating to the financial year ending the 31 December 2021. The external auditors Deloitte LLP gave the accounts a clean bill of Health. We have also received the half yearly unaudited accounts for June 2022 which has shown an increase in net profit of £1.5m and a £4m increase in net assets compared to June 2021.

Assurance Statement

12. It has been agreed that for Committee, Mercia Waste Management (MWM) will produce a short, high level assurance statement (Appendix 3). 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.

Extension of contract with MWM

13. On the 9 December 2021, a report was provided to Cabinet seeking negotiation to enter into a Variation with Mercia to put into effect their proposals for extending the duration of the Waste Management Services Contract for a period of five years until 11 January 2029 which also involves extending the existing loan by a further 5 years. KPMG have undertaken a review on the ability of MWM to meet the financial ratio's on the basis the 5 year loan is agreed. A summary report from KPMG on the findings is to follow and will be provided as Appendix 4 for consideration by Committee.

14. However, from meetings and verbal updates with KPMG they have highlighted that there are no adverse impacts on the ability of the company to meet the financial ratio's agreed as part of the loan extension and the key findings will be discussed at Committee.

Contact Points

Rob Wilson
Pensions Investment, Treasury Management & Capital strategy manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

Appendix 1 – the Senior Term Loan Facility Agreement (STFLA) Assurance Statement Mercia
Appendix 2 - Ratio compliance certificate
Appendix 3 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement Mercia
Appendix 4 – KPMG review summary update report (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.