

WASTE CREDIT GOVERNANCE COMMITTEE (WCGC)

28 FEBRUARY 2024

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 (“HADSCR”).**
 - **The Projected Annual Debt Service Cover Ratio (“PADSCR”).**
 - **Loan Life Cover Ratio before distributions (LLCR)**
- **Appendix 2 - Ratio Compliance Certificate**
- **Appendix 3 - Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council.**

b) The update on the agreed contract extension with Mercia Waste Management (MWM).

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 Councils 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 now fully amortised and repaid with the last payment received in full on the 31 December 2022.

3. The repayment for the loan relating to Facility B has been extended for a further 5 years and the final repayment will be made on the 11 January 2029. This is then to be repaid with a single bullet payment from the Councils.

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. The required ratios are:-

- **Historic Annual Debt Service Cover Ratio ("ADSCR"):** A historic periodic measure used to assess the projects ability to service its current debt obligation over the preceding 12-month period, based on actual cash flows.
- **Projected ADSCR:** A forecasted periodic measure used to assess the projects ability to service its upcoming debt obligations of the proceeding 12-month period, based on forecast cash flows.
- **Loan Life Cover Ratio ("LLCR"):** A forecasted measure used to assess the projects ability to repay the outstanding loan from future cash flows over the remaining life of the loan, based on longer term forecast cash flows

Extension of contract with MWM

6. 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 involved extending the existing loan by a further 5 years.

7. As part of the due diligence undertaken for the extension proposal, KPMG reviewed the ability of MWM to meet the financial ratios on the basis of the additional 5-year loan period. The final KPMG report concluded that the ratios were forecast to be higher than the default, lock-up and minimum resulting in compliant levels of performance and was circulated to Committee members on the 11 January 2023. As a result, Committee were given sufficient comfort of MWM to fulfil their loan repayment obligations.

8. The Lenders and Borrower agreed that the first official semi-annual Ratio Testing Date would be 31 December 2022, on which date the Projected ADSCR and LLCR covenants must be met. The Historic ADSCR became an STLFA covenant on the 30 June 2023.

Reporting Requirements post completion and loan extension

9. 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.

10. 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.

11. The main categories of reports or information that the Borrower has to regularly produce going are:

- the Ratio Calculations report.
- the Ratio Compliance Certificate.
- reports in relation to financial and project information; and reports during the operating period.

12. The Historic Annual Debt Service Cover Ratio (“ADSCR”) is **1.55** as shown in Appendix 1. The Projected ADSCR is **2.28** which is better than the target 1.35 and the Loan Life Cover Ratio (“LLCR”) is **8.42** as at 31 December 2023. Appendix 2 provides the signed Ratio compliance certificate.

Assurance Statement

13. In order to reassure the Lender (the Councils) that there are no material matters which would impair MWM’s ability to repay the Loan in accordance with the Financial Model, Committee agreed that MWM will produce a short, high level assurance statement. This is included at Appendix 3.

Contact Points

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Supporting Information

Appendix 1

- The Historic Annual Debt Service Cover Ratio (“ADSCR”)
- The Projected Annual Debt Service Cover Ratio (“PADSCR”)
- The Loan Life Cover Ratio before distributions (LLCR)

Appendix 2 - Ratio Compliance Certificate

Appendix 3 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement
Mercia

Background Papers

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

KPMG Report on loan extension sent to Committee members on the 11 January 2023