

Title of report: Energy from waste loan update

Meeting: Audit and Governance Committee

Meeting date: 12 October 2022

Report by: Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

All Wards

Purpose

To update the committee on the current status of the energy from waste loan arrangement to enable the committee to fulfil its delegated functions.

Recommendations

That:

- a) The risks to the council, as joint lender, are confirmed as being 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; and**
- b) Arrangements for the administration of the loan are reviewed and confirmed as satisfactory.**

Alternative options

- 1. None; the loan arrangement was contractually agreed in May 2014, no breaches or areas of concern have taken place during this reporting period. This report provides an update on the arrangement to the Audit and Governance Committee in its role as the waste loan governance committee which entails reviewing risks to the lender and monitoring administration of the loan.

Key considerations

2. In 1998 the council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Limited (Mercia) for the provision of an integrated waste management system using the Private Finance Initiative.
3. A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste plant through the use of prudential borrowing. Both councils provided circa 82% of the project finance requirement from their own planned prudential borrowing with the remaining 18% being provided by the equity shareholders of Mercia.
4. A total loan facility was agreed at £163.5m, with the council providing 24.2% of the loan value, this being £40m. The current status of the loan arrangement is considered satisfactory.
5. This report ensures the committee fulfils the functions delegated to it in relation to the governance of the waste loan arrangement; specifically to review the risks to the council as lender and to monitor administration of the loan.
6. Since the last report to the committee in September 2021 the loan arrangement has continued to be repaid in line with expectations. No decisions or courses of action have been identified for recommendation to the committee.

Key loan features and update

7. The council and Worcestershire County Council provided a loan facility of £163.5m in total, with the council providing 24.2% of the loan value, £40m.
8. Total loan interest and fees charged to Mercia are fixed and are representative of commercial bank charges. These total £69m, £17m for the council.
9. During the last year, since the previous report to the committee, loan repayments of £3.8m have been received, representing £1.7m in principal and £2.1m in interest. A summary of repayments received to date is shown in the table below:

Date	Interest (£m)	Principal (£m)	Total (£m)
December 2021	1.1	0.7	1.8
June 2022	1.0	1.0	2.0
Totals	2.1	1.7	3.8
Previous repayments	9.8	6.2	16.0
Total repaid to date	11.9	7.9	19.8

10. At this date Mercia anticipates being able to continue to make payments as per the loan agreement.

Loan Agreement Ratio calculations

11. The ratios are a financial covenant imposed by Lenders (in this case the council and Worcestershire County Council together as Lenders) as a monitoring mechanism to provide early warning of project distress and potential Borrower (in this case Mercia) 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.

12. A Ratio Compliance Certificate which assessed the position as at 31 December 2021 confirms that all relevant ratios are within the levels outlined in the Senior Term Loan Facilities Agreement and therefore there are currently no areas of concern to highlight to the committee.

Community impact

13. In accordance with the adopted code of corporate governance, the council must ensure that it has an effective performance management system that facilitates effective and efficient delivery of planned services. Effective financial management, risk management and internal control are important components of this performance management system. The committee's assurance that any risks associated with the loan arrangement have sufficient mitigation actions applied supports adherence to the code.
14. The loan arrangement supports the continued viability and affordability of the contracted waste disposal arrangement.

Environmental impact

15. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
16. This is a factual update on an existing loan arrangement and will, in isolation, have minimal environmental impacts. However consideration to minimise waste and resource use in line with the council's Environmental Policy is considered as part of the overall waste collection and disposal service provision.

Equality duty

17. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
18. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a factual update we do not believe that it will have an impact on our equality duty.

Resource implications

19. There are no financial implications arising from the recommendations of this report.
20. The loan arrangement is being repaid as expected, the implications of the agreed loan arrangement are reflected in the council's medium term financial strategy and treasury management strategy as agreed by Council in February 2022.

Legal implications

21. The terms and arrangements for this loan agreement are set out in the senior term loan facilities agreement. There are no specific legal implications arising from this report.
22. The function of the committee is set out in the constitution under 3.5.13. This report relates to functions (a) to review risks as lender and (b) to monitor the administration of the loan.

Risk management

23. Attached at Appendix A is the open risks as per the joint risk register with Worcestershire County Council.

Consultees

24. None

Appendices

Appendix A – Joint Risk Register

Background papers

None identified.