

**REPORT TO THE SOUTH TYNE AND WEAR WASTE MANAGEMENT
PARTNERSHIP JOINT EXECUTIVE COMMITTEE**

16 March 2018

REPORT OF: Tony Alder, Project Director, South Tyne and Wear Waste Management Partnership

SUBJECT: Qualifying Refinancing Exercise

1. PURPOSE OF REPORT

- 1.1 To advise the Joint Executive Committee of the progress of the Residual Waste Treatment Contract refinancing exercise.

2. BACKGROUND

- 2.1 STWWMP signed a £727m contract to provide a high quality, efficient solution for waste treatment and disposal, and successfully secured Private Finance Initiative (PFI) credits of £73.525m (which equates to £137.5 million over the life of the contract) to support the investment required for the solution.
- 2.2 The technological solution chosen enabled the construction of the partnership's own energy-from-waste facility, supported by three waste transfer facilities and a visitor and education centre.
- 2.3 The 25-year Residual Waste Treatment Contract (RWTC) commenced service on 22 April 2014.

3. REFINANCING

- 3.1 The current contract documentation accommodates Qualifying Refinancing exercises, which is defined as "any Refinancing that will give rise to a Refinancing Gain greater than zero that is not an Exempt Refinancing".
- 3.2 The Contract stipulates that the Contractor shall obtain the Authority's prior written consent to any Qualifying Refinancing and both the Authority and the Contractor shall at all times act in good faith with respect to any Refinancing or any potential or proposed Refinancing.

- 3.3 STWWMP was approached by South Tyne and Wear Energy Recovery (STWER) during 2017 for them to progress a Refinancing exercise as they had identified a significant opportunity to renegotiate the Contract however the issues experienced with the EfW facility turbine led to the exercise being postponed.
- 3.4 STWER have now asked us if they can resume the exercise and their approach offers the partnership a real opportunity to achieve significant savings. We have entered into initial discussions with STWER and their lenders and we have engaged Local Partnerships and Pinsent Masons LLP as our financial and legal advisors to ensure that any proposals submitted for consideration are in our best interests.
- 3.5 Initial discussions with Defra indicated there will be no need to change to the PFI credits received as a simple refinancing exercise does change the projects risk profile significantly. We are involving Defra throughout the exercise to ensure there remains no impact upon the Partnership's Waste Infrastructure Credits.
- 3.6 The contractual terms ensure that benefits of any re-financing exercise are shared between the Partnership and STWER. This is calculated by considering the impact of the re-financing exercise on the Net Present Value (NPV) of the projected distributions over the term of the contract.
- 3.7 Eligible professional fees associated with the progression of the exercise are deducted as part of the calculation of the potential gain and the Council will be reimbursed for any costs incurred relating to its advisor team within 20 business days of the re-financing exercise being finalised.
- 3.8 The Partnership would benefit from a share of the following:
- 50% of a re-financing gain of up to £1m;
 - 60% of a re-financing gain of up to £3m;
 - 70% of a gain exceeding £3m.
- 3.9 There are a number of options permitted regarding how the Partnership receives its share of any re-financing gain, which will need complex analysis from both a Contractor and Partnership perspective to determine the optimum approach, including:
- A single payment, provided this sum is less than the previous distributions to shareholders;
 - A reduction in the unitary charge payment over the remainder of the Contract Period;
 - A combination of both of the above.
- 3.10 At this stage, it has been suggested that the existing funders will need to be maintained to ensure we do not have to pay any early termination or

compensation fees, as the cost associated with moving away from the current financiers is likely to be prohibitive when compared to other options.

- 3.11 The process is likely to involve three stages, the first was completed by STWER to ensure the terms of a refinancing would be possible within the current financial market and beneficial, the second of which will provide an outline of the potential terms considered to be available, an understanding of the potential re-financing benefits and key risks. The third stage will involve the development of a detailed programme and financial modelling, market engagement and a consideration of tax and accounting treatment implications.
- 3.12 We are expecting to be provided with a detailed proposal in the near future and at that stage if the results prove acceptable to the Council, the re-financing exercise and detailed negotiations will formally commence in earnest and move to financial close.
- 3.13 The exercise is likely to take up to 12 months to complete but it is hoped it will be completed within 2018.

4. **RECOMMENDATION**

- 4.1 The Joint Executive Committee is requested to:
- (i) Note the contents of this report and agree to the progression of the exercise to release the financial benefits.
 - (ii) Agree to receive further updates during the exercise

Contacts:

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