



**Executive**  
16 September 2013

**Report from the Deputy Director of  
Finance**

For information

Wards affected:  
ALL

**West London Waste Authority – Capital Contribution  
Update**

**Not for publication**

Appendix 1 is not for publication

**1.0 Summary**

1.1 On 15 July 2013 the Executive agreed in principle to a capital contribution of up to £15million to the West London Waste Authority (WLWA) in respect of a waste treatment facility being built, in return for an annual interest payment from the WLWA. This report provides an update on the loan agreement being developed.

**2.0 Recommendations**

2.1 The Executive is asked to note the latest position.

**3.0 Detail**

3.1 In addition to Brent, three of the constituent boroughs have agreed in principle to make a capital contribution to the WLWA – Ealing, Harrow and Richmond.

3.2 The respective legal teams from each council have reviewed the initial draft loan agreement which will form part of the overall financial closure of the contract being negotiated between the WLWA and SITA. It is anticipated that this will be completed in October.

3.3 It is planned that each council will contribute £15million, providing £60million of capital in total. In return each council will receive an annual repayment of

principal and interest over a period of 25 years. Further detail on the repayment and anticipated returns is set out in Appendix 1.

#### **4.0 Financial Implications**

- 4.1 The proposal is for each of the boroughs to invest £15m in this project via a loan to WLWA that they subsequently provide as funding for the SITA project. WLWA would then repay this loan over the life of the SITA agreement together with an interest rate based on the savings achieved from removing part of the equity or commercial debt currently assumed. As the project has yet to reach financial close the exact interest payable cannot currently be provided. However, the confidential section of this report provides an estimate based on a prudent set of assumptions. These figures are commercially sensitive and hence must remain confidential at this stage.
- 4.2 Irrespective on whether this investment is financed from cashflow (by reducing external investments) or through borrowing, the investment offers a significant net financial benefit for the Council.
- 4.3 Clearly in making this (or any) investment there is a risk. However, the risk has both been reviewed by the WLWA advisors (PwC) and independently on behalf of all the Boroughs by Treasury Advisors (Sector). The view from both is that the major risk to WLWA (and therefore the Boroughs) is contained in the commitment to the overall procurement deal and is only marginally increased by the decision to provide direct investment (such risk being largely associated with the potential delay in realising the benefits if the contractor were to fail in its obligations). The advisors have stressed the importance of ensuring that the WLWA contract with SITA contains appropriate conditions to maintain this position. Officers are working with WLWA to ensure that the contract contains appropriate conditions and safeguards.
- 4.4 Each of the other constituent boroughs is currently considering their position on this issue and it is likely to require the majority to contribute in order to provide sufficient funding for SITA to progress with this offer.

#### **5.0 Legal Implications**

- 5.1 Under section 12 Local Government Act 2003 a local authority has power to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs.
- 5.2 The loan to WLWA would involve a formal, legally binding loan agreement to be drawn up at financial close of the procurement. WLWA would then similarly enter into a legally binding commitment with SITA to provide project funding.
- 5.3 The form of the loan agreement is under review by the Council's legal team. Although the loan will not be formally agreed until financial close it should be recognised that if the constituent boroughs agree to this proposal now, WLWA and SITA will begin finalising the project funding on this basis. Should, for any reason, the boroughs decide subsequently not to sign the final loan

agreement, this will involve additional cost for WLWA which would have to be met by the constituent boroughs.

**6.0 Diversity Implications**

6.1 None identified.

**7.0 Staffing/Accommodation Implications**

7.1 None identified.

**Background Papers**

Report to Executive on 15 July 2013

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