## Waste Credit Committee Risk Register - Closed Risks

## January 2022 - Corporate Scoring Terms

| Risk Ref | Description of risk | Gross Impact | Gross Likelihood | Gross Risk Score | Risk control approach | Mitigating Actions | Residual Impact | Residual Likelihood | Residual Risk Score | Assigned to (Risk Owners) | Reason why risk is closed |
|---|---|---|---|---|---|---|---|---|---|---|---|
| b | Construction completion date of EFW is delayed and delays repayment of loan to lenders. | Substantial | Medium | 11 | Risk transferred | Under the contract terms agreed with Mercia, Mercia take all material risk on EFW construction delay and repayment of the loans commenced on planned takeover date 28th February 2017, as set out in the SLFLA and agreed final financial model. Repayments are not tied to the actual construction completion date of 2nd March 2017, rather the planned date. The Council as lender also had the right to call the loan into default if construction was not completed by a long stop date. | Substantial | Almost Impossible | 5 | The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default. | Takeover took place on 2nd March 2017. |
| c | PWLB borrowing rates increase more than estimated in the Councils' prudential borrowing model. Higher rates would reduce the surplus generated on the loan arrangements with Mercia. | Substantial | Low | 10 | Risk treated | The cost of purchasing a financial product to remove this risk (a swaption) from an investment bank was quoted at £20m. The Councils decided to manage the risk through forecasting the forward price for its debt draw downs over the construction period and hold in reserve monies to mitigate this risk where required. The rates accessible by the Councils were lower than the estimate as the low gilt rate environment. | Substantial | Almost Impossible | 5 | The risk owners are the Section 151 Officers supported by Treasury and Financing Teams. | Takeover took place on 2nd March 2017. All loan payments have been made to Mercia Waste and the rates gained from PWLB were below those estimated in the prudential model. |
| d | Loan drawdowns are slower than set out in the STFLA. Delayed drawdowns would result in reduced interest payments to the Councils and potentially reduced surplus if PWLB loan rates increase between the expected draw date and actual. | Negligible | Medium | 4 | Risk treated | The Councils borrowed from PWLB at dates in line with drawdown requests from Mercia. Therefore although the Councils will receive reduced interest receipts, less interest will also be paid to PWLB. The Councils monitored market gilt rates actively and had the option to borrow from PWLB up to a year in advance of expected drawdown requests. Regular progress reports were reviewed to ensure the construction programme and the loan drawdowns are requested in line with the plan. | Negligible | Almost Impossible | 1 | The risk owners are the Section 151 Officers supported by Treasury and Financing Teams. | Takeover took place on 2nd March 2017. All loan payments have been made to Mercia Waste. |
| e | Drawdown requests from Mercia are not actioned by the Councils or not actioned within the required contracted time period. | Substantial | Low | 10 | Risk treated | The Council's treasury teams were fully briefed on the actions required to fulfil drawdown requests, checks required and the contracted timeline by the Section 151 Officer and their teams. Drawdowns were all actioned inline with requirements. Since the last Committee, two further drawdowns have been provided and there is a separate analysis available for the Committee outlining planned vs actual drawdowns made. | Substantial | Almost Impossible | 5 | The risk owners are the Section 151 Officers supported by Treasury and Financing Teams. | Takeover took place on 2nd March 2017. All loan payments have been made to Mercia Waste within the required contracted time period. |

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| g | Default of loan repayments by borrower to lenders due to HZI termination of Interserve Construction Limited (ICL) delaying project completion to after long stop date. | Critical | Medium | 15 | Risk treated | Sponsors provided assurance that they believe HZI undertook the right processes to replace the final ICL work packages and that there was no financial risk to the Sponsors. Sponsors confirmed that their Due Diligence on HZI had not raised any concerns around the company's viability or going concern. The Council as lender had the right to call the loan into default if construction was completed by a long stop date, at which point the negotiated security package, set out in section 'a' above, would have taken effect. | Substantial | Almost Impossible | 5 | The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default. | The final ICL work packages were replaced and takeover took place on 2nd March 2017. |
| h | HZI termination of ICL may weaken negotiated security package due to no single new supplier exceeding £10 million contract value, and therefore triggering EPC Contract Schedule 7 requirements for Collateral Warranty and professional indemnity insurance requirements. The risk is that the Council as lender does not receive the same security package as it had when ICL was in place. | Substantial | High | 12 | Risk treated | In terms of Collateral Warranty, the HZI Collateral Warranty remained in place. Due Diligence was undertaken by Sponsors and the Council as Lender (with the Financial Advisor) confirmed the financial strength of HZI in light of events. There was no issues arising from these reviews. Sponsors agreed to review on a case by case basis the requirement for additional security protections and advised the Council as to its rational for its decision. The Council as Lender had sign off rights and requests were made to the Councils prospectively for Schedule 7 services and retrospectively (based on Sponsor Assurance) for non-Schedule 7 services. Meetings were held for sign off and Council advisors were retained to provide advice. The Councils clearly articulated to Sponsors that there should not be any weakening on the Security Package in place with regard to the Civil Engineering Work. All ICL work packages were replaced and there was no financial impact on Sponsors and therefore no financial impact on the Council as Lenders. | Substantial | Almost Impossible | 5 | The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default. | The final ICL work packages were replaced and takeover took place on 2nd March 2017. |
| g | The impact on the ratio analysis testing of the availability of an updated financial model | Substantial | Medium | 15 | Risk treated | The Council's treasury team are seeking KPMG to assess any impact on the ability of MWM to repay the loan regarding an updated financial model. This will also assess the impact on the ratio analysis required. | Substantial | Very Low | 5 | The risk owners are the Section 151 Officers supported by Treasury and Financing Teams. | Completed by KPMG in March 2020 as at the 31st December 2019 and all the ratios were found to be compliant with the Senior Term Loan Facility arrangement |

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**Key**

| | |
|---|---|
| High<br>19 – 24 | Unacceptable Risk:<br>Immediate control/improvement required |
| Medium<br>8 – 18 | Acceptable Risk:<br>Close monitoring and cost effective control improvements sought. |
| Low<br>1 – 7 | Acceptable Risk:<br>Need periodic review, low cost control improvements sought if possible. |

**Scoring Matrix**

Likelihood

| | | | | |
|---|---|---|---|---|
| Very High | 9 | 19 | 21 | 24 |
| High | 8 | 12 | 20 | 23 |
| Medium | 4 | 11 | 15 | 22 |
| Low | 3 | 10 | 14 | 18 |
| Very Low | 2 | 6 | 13 | 17 |
| Almost Impossible | 1 | 5 | 7 | 16 |
| | Negligible | Substantial | Critical | Extreme |

Impact