

Waste Credit Committee Risk Register - Open Risks

May 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)
a	Default of loan repayments by borrower to lenders due to SPV (Mercia) or HZI falling into administration.	Critical	Medium	15 (A)	Risk transferred	Due to the security package negotiated by the Councils a fall away analysis indicated that Mercia, its Shareholders and HZI would need to have entered administration at the same time to put a repayment at risk during the construction phase. The maximum exposure to the Councils has been calculated and included within the sufficiency assessment of the Council's reserves. All press articles are scanned regularly for indications of financial strength issues and followed up to ensure counterparty risk is not increased. An example is where ACS Construction and Services S.A., through its subsidiary ACS Services y Concessions S.L., executed the sale recently of its total interest in URBASER S.A. To Firion Investments S.L.U, a company controlled by a Chinese group. The Councils then obtained legal advice that reassured lenders that no action was required by any parties arising from this change in ownership, as there were no changes to the Shareholder (Urbaser Limited). More recently as per an article on the 8th June 2021 Platinum Equity an American firm has acquired Urbaser.	Substantial	Very Low	6 (G)	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default and Deloitte had monitored Mercia's actual quarterly cash flow tests and cover ratios that have to be maintained by Mercia. KPMG conducted a review of the ratios as at the 31st December and all passed
	Impact of extension of contract with Mercia Waste Services by the County on the ability of company to repay the loan	Substantial	Low	6 (G)	Risk treated	KPMG will conduct an analysis of the ratios used for the ability of Mercia Waste Services to repay the loan on the basis of the extension and reduction in payments. It is likely that the ratios will be changed to reflect the renegotiations but should not impact on the company's ability to repay the loan. Also the loan is not being extended so will still be repaid in 18 months time.	Substantial	Low	6 (G)	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors and KPMG in terms of modelling
f	Mercia loan principal and / or interest repayments are below the required values as per the rates agreed in the STFLA .	Substantial	Very Low	6 (G)	Risk treated	The Council's treasury team maintain a spreadsheet detailing drawdowns to date and expected future principal and interest payments. This is reconciled to Mercia's repayment spreadsheet and will be matched to principal and interest repayments received from Mercia during the post construction period. Mitigating actions have continued to be taken by Mercia to combat the effects of COVID-19 and the latest assurance statement within the Committee Report of the 02nd March 2022 reflect the actions taken.	Substantial	Almost Impossible	5 (G)	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

Key

High 19 – 24	Unacceptable Risk: Immediate control/improvement required
Medium 8 – 18	Acceptable Risk: Close monitoring and cost effective control

	improvements sought.
Low 1-7	Acceptable Risk: 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