

**LEEDS CITY COUNCIL
RESIDUAL WASTE MANAGEMENT PFI PROJECT
CONTRACT RISK ALLOCATION REGISTER**

Contract Risk allocation register including quantification for Treasury model Post FBC OB inputs

1 Design and Planning Risks

Capex	12.70%
Opex & Lifecycle	14.71%
Lifecycle	4.50%

No	Risk Heading	Details	Allocation under PFI option			Assessment of risk under PSC option, where transferred under PFI option (risks retained in public sector under PFI are Enil since there is no transfer)					
			Public sector	Private sector	Shared	COST BASE (as used in Treasury model)	Rationale for cost impact	COST IMPACT	Probability of occurrence (set in risk workshop)	Proportion added to PSC (where shared, default 50% but can be overwritten)	Risk % to be included as Post FBC OB (calculated)
1.1	Failure to design to brief	Failure to translate the requirements of the Council into the design		Y		Capex	Design well established by final approval. Design fees % of Capex	5%	5%	100%	0.25%
1.2	Continuing development of design	Design 'creep' post approval. The PFI process itself ties down design more quickly than may be possible under PSC and this should be included in quantification.		Y		Capex	Design fees as % of capex	5%	5%	100%	0.25%
1.3	Planning failure	4Ps guidance is for 'no fault' termination, which pays out contractor in full for funding costs	Y			N/A	N/A	0%	0%	0%	0.00%
1.4	Planning delay -impact on diversion/ performance	4Ps guidance provides relief to contractor on achieving performance while waiting for planning	Y			N/A	N/A	0%	0%	0%	0.00%
1.5	Planning delay -impact on project costs	4Ps guidance that the contractor bears risk of delays on its own cost base		Y		Capex	Council would pay indexation cost under conventional procurement	5%	90%	100%	4.50%
1.6	Planning -costs of planning determination	4Ps guidance is that contractor bears 10% of additional costs beyond their bid contingency			Y	Capex	Planning costs as % of capex	0.05%	50%	10%	0.00%
1.7	Obtaining necessary licences and consents			Y		Capex	Not expected following planning	0%	0%	100%	0.00%
1.8	Change in design required by operator	The operator would be the public sector under PSC option.		Y		Capex	Both Design and Construction impact	0.05%	20%	100%	0.01%
1.9	Design impact on operating efficiency	There is a risk that poor design will lead to higher operating costs		Y		Opex	Prior experience of similar plants	5%	20%	100%	1.00%
2	Failure to build to design	Misinterpretation of design or failure to build to specification		Y		Capex	Reflecting direct council experience	5%	20%	100%	1.00%

2 Construction and Development Risks

No	Risk Heading	Details	Allocation under PFI option			Assessment of risk under PSC option, where transferred under PFI option (risks retained in public sector under PFI are Enil since there is no transfer)					
			Public sector	Private sector	Shared	COST BASE (per Treasury model)	Rationale for cost impact	COST IMPACT	Probability of occurrence (set in risk workshop)	Proportion added to PSC (where shared, default 50% but can be overwritten)	Risk % to be included as Post FBC OB (calculated)
2.1	Incorrect time and cost estimate	Classic building overrun problems		Y		Capex	Previous experience	2%	50%	100%	1.00%
2.2	Unforeseen ground/site conditions	Unforeseen ground/site conditions despite surveys having been performed		Y		Capex	Assumption that full surveys conducted to bidders satisfaction	1%	10%	100%	0.10%
2.3	Delay in gaining access to the site	A delay in gaining access to the site may put back the entire project.			Y	Capex	Considered as manageable	0%	0%	50%	0.00%
2.4	Responsibility for maintaining on-site security and safety			Y		Capex	Assumed as included within price	0%	0%	100%	0.00%
2.5	Third party claims	This risk refers to the costs associated with third party claims due to loss of amenity and ground subsidence on adjacent properties.		Y		Capex	Due to location of sites, minimal impact	0.05%	20%	100%	0.01%
2.6	Access to services connections	Particularly important for Energy Recovery		Y		Capex	Unable to agree connection until commencement of build	2%	10%	100%	0.20%
2.7	Relief event, eg flood, fire	Contract bears the risk on underlying project cost, Council bears risk of performance			Y	Capex	Delay effect, prior frequency of events	1%	10%	50%	0.05%

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2.8	Legislative/regulatory change: Local Authority, PFI or waste specific	A change in Local Authority specific legislation/regulations during the construction phase	Y			N/A	N/A	0%	0%	0%	0.00%
2.9	Legislative/regulatory change: general	Contractor bears risk of general law change during construction phase		Y		Capex	Expected to be foreseen	0%	0%	100%	0.00%
2.10	Capacity in the construction market	Capacity issues may be easier for the PFI contractor to manage than under and PSC option.		Y		Capex	Expected high activity levels within proposed construction period	5%	80%	100%	4.00%
2.11	Contractor /Subcontractor default	Conventional procurement transfers risk of replacement but rarely the delay impact		Y		Capex		1%	40%	100%	0.40%
2.12	Poor project management	Poor management of subcontractors		Y		Capex		1%	40%	100%	0.40%
2.13	Contractor/sub-contractor industrial action	Industrial action may cause the construction to be delayed, as well as incurring additional management costs.		Y		Capex		0.5%	20%	100%	0.10%
2.14	Protester action	4Ps suggests protester action is relief event, ie contractor bears project cost but not performance risk			Y	Capex		0.05%	20%	50%	0.01%
2.15	Incorrect time and cost estimates for commissioning	A key risk for technology based investment.		Y		Capex	Include penalties for failure to divert	2%	20%	100%	0.40%

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3 Performance Risks and Variability of Revenue

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3.1	Remedy of installation defects	Defects from construction period		Y		Capex	Previous experience	0.05%	50%	100%	0.03%
3.2	Demand -variations in volume	Subject to minimum and maximum, the Council can vary tonnage according to need and the Contractor has the risk of not filling capacity or not achieving required price		Y		Opex	Neutral due to upside as well as downside	0%	0%	100%	0.00%
3.3	Failure to meet diversion performance	A key risk is defective technology including downtime during initial operating period		Y		Opex	Consider additional landfill costs, tax and LATs - 1 week per year downtime on average	5%	30%	100%	1.50%
3.4	Availability of facilities	The facility may not be open or processing waste. There may be costs involved in making the facility available.		Y		Opex	Consider rectification costs and 'tipping away' payments. Assumes back-up collection costs, and take to another landfill site.	10%	30%	100%	3.00%
3.5	Failure to meet performance standards	Reduced quality of services, eg turnaround times, which are costly to correct reflected in contractor penalties.		Y		Opex	Negligible	0%	0%	100%	0.00%
3.6	Poor performance or default by sub-contractors	SPV may need to replace subcontractors. However, in waste, subcontractors have typically been service arms of prime contractor		Y		Opex	Quantified within other risks	0%	0%	100%	0.00%
3.7	Industrial action	Industrial action by the staff involved in providing facilities services would lead to higher costs and/or performance failures.		Y		Opex	Considered manageable	0%	0%	100%	0.00%
3.8	Guaranteed third party income	Risk of not achieving the base income levels for sale of spare capacity and energy plus ROCs -Guaranteed TPI will have been factored into a lower price from the Councils		Y		Opex	Income as % of Opex	10%	1%	100%	0.10%
3.9	Changes to Waste Composition	Biomass and CV content prevents effective operation and energy income			Y	Opex	Change in householder habits/producer responsibilities	10%	50%	50%	2.50%
3.1	Compliance with regulations for discharges	Key risk for public perception		Y		Opex	Considered manageable due to basic requirements	0%	0%	100%	0.00%
3.11	Relief Events	Contract bears the risk on underlying project cost. Council bears risk of performance			Y	Opex	Fully insured, don't need to quantify	0%	0%	50%	0.00%
3.12	Force Majeure	In the event of Force Majeure additional costs will be incurred. Facilities may also be unavailable.			Y	Opex	Risk is not quantifiable	0%	0%	50%	0.00%
3.13	Termination due to force Majeure	There is a risk that an event of force Majeure will mean the parties are no longer able to perform the contract.			Y	Opex	Risk is not quantifiable	0%	0%	50%	0.00%

4 Operating Cost Risks

No	Risk Heading	Details	Allocation under PFI option			Assessment of risk under PSC option, where transferred under PFI option (risks retained in public sector under PFI are £nil since there is no transfer)					
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4.1	Legislative/regulatory change: Local Authority, waste or PFI specific	Local Authority specific changes to legislation/regulations may lead to additional construction costs, and higher building, maintenance, equipment, or labour costs.	Y			N/A	N/A	0%	0%	0%	0.00%

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4.2	Legislative/regulatory change: general	Contractor bears risk of general law change but contractor share of Capex is capped			Y	Opex	Length of contract and experience of legislative programme	0.5%	40%	80%	0.16%
4.3	Changes in taxation (Corporation, capital allowances and Employers)	The scope and level of taxation will effect the cost of providing services (inc employers cost and pension tax)		Y		Opex	Regular changes	0.5%	40%	100%	0.20%
4.4	Changes in VAT	This may increase the cost of the provision of services to the Council. However, changes in VAT are generally refundable to the Council.	Y			N/A	N/A	0%	0%	0%	0.00%
4.5	Incorrect estimated cost of operating, eg process technology maintenance including breakdowns	The cost of providing services may be different to expected in substance, timing and inflation. These costs include: staffing, equipment, utilities and supplies.		Y		Opex		15%	30%	100%	4.50%
4.6	Incorrect estimated cost of capital lifecycle replacement	The cost and timig of capital replacement including process engineering may be different to the expected costs, including due to inflation		Y		Lifecycle	Scheduling of replacement	15%	30%	100%	4.50%
4.7	Employee or third party claims	Accidents, ill health, etc		Y		Opex	Limited staff levels and manual labour	0%	0%	100%	0.00%
4.8	Site Security			Y		Opex	Included in operating costs - 24/7 security expected	0%	0%	100%	0.00%
4.9	Insurances	The cost of insurances premiums increases may be different to the expected costs.			Y	Opex	Previous experience	10%	30%	50%	1.50%

5 Termination Risks

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5.1	Termination due to default by the procuring entity	The risk that the procuring entity defaults leading to contract termination and compensation for the private sector.	Y			N/A	N/A	0%	0%	0%	0.00%
5.2	Default by the operator leading to step-in by financiers	The risk that the operator or individual service providers default and financiers step-in leading to higher costs than agreed in the contract.		Y		N/A	N/A	N/A	N/A	N/A	N/A
5.3	Termination due to default by the operator	The risk that cost overrun and performance are so bad that the Contactor defaults and not even the financiers can save the project company -a major benefit of PFI is that the Council would be 'kept whole' as compensation would only reflect price from retender		Y		Opex	Has occurred in past, but previous industry experience and lessons learned lowers current probability	5%	5%	100%	0.25%

6 Obsolescence and Residual Value Risks

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6.1	Technological change/asset obsolescence without change to Output Specification or Price	Technical changes may mean the contractor changes its method of meeting the output specification during the contract		Y		Opex	Changes would only be made for improvement, so not a quantified risk	0%	0%	100%	0.00%

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6.2	Technological change/asset obsolescence leading to change to Output Spec or Price	Technical changes which will benefit the parties will be proposed as a Contractor of Council change.			Y	Opex	Only do if financially beneficial	0%	0%	50%	0.00%
6.3	Residual Value	The risk that the Council will have substantial costs to incur to bring the installation up to standard or else wish to vacate the asset at the end of the contract period, and that the operator may need to be paid decommissioning costs.	Y			N/A	Extended life included in contractual requirements	0%	0%	0%	0.00%