



<u>Committee and Date</u>
West Mercia Energy Joint Committee
27 <sup>th</sup> September 2022

<u>Item</u>
<u>Public</u>

**EXEMPT - NOT FOR PUBLICATION BY VIRTUE OF CATEGORY 3 PARAGRAPH 10.4.3 OF THE COUNCIL'S ACCESS TO INFORMATION PROCEDURE RULES**

**RISK MANAGEMENT UPDATE**

**Responsible Officer** Nigel Evans  
e-mail: [nevens@westmerciaenergy.co.uk](mailto:nevens@westmerciaenergy.co.uk) Tel: 0333101 4353

**1. Summary**

1.1 The purpose of this report is for the Joint Committee to receive details of all medium and high risks in accordance with the WME Risk Management Strategy.

**2. Recommendations**

2.1 The Joint Committee are asked to consider and endorse, with appropriate comment the medium and high risks presented.

**REPORT**

**3. Risk Assessment and Opportunities Appraisal**

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

**4. Financial Implications**

4.1 The financial implications of each risk are considered when the impact of the risk is assessed.

## 5. Background

- 5.1 The WME Risk Management Strategy is reviewed and presented to the Joint Committee on an annual basis. This was presented and endorsed by the Joint Committee in March. WME Risk Management Strategy states that the Joint Committee are to receive details of all medium and high risks at each meeting.
- 5.2 The risk register is kept under constant review and is formally reviewed by the management of WME twice a year. The current risk register comprises of eighty-three highlighted risks.
- 5.3 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level.
- 5.4 The table below identifies the seven current high and medium risks as well as three medium and high risks from the last meeting where the risk status has reduced.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change & comment
<b>Current High and Medium Risks</b>							
1	Market conditions pre-pricing leading to less competitive prices / high year on year price rises	Lee Tucker	4	3	12	Medium	No Change
2	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	2	10	Medium	Decrease (impact score reduced)
3	Breach of trading risk levels.	Lee Tucker	2	5	10	High	No Change (likelihood score reduced)
4	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No Change
5	Loss of key staff	Nigel Evans	2	4	8	Medium	No Change (likelihood score reduced)
6	Bad debts / delayed payment	Nigel Evans	3	4	12	Medium	No Change (likelihood score increased)
7	Dealing with suppliers that have ownership or investments within Russia or Belarus	Nigel Evans	5	2	10	Medium	No Change (impact score reduced)

<b>Previous medium and high risks now decreased:</b>								
1	Market conditions within year leading to less competitive prices and lost opportunities	Lee Tucker	2	3	6	Low	Decrease	
2	Breach of product tolerance levels	Lee Tucker	Risk removed					
3	Member Authority contracting energy outside of WME arrangements	Nigel Evans / Gavin Owen	2	2	4	Low	Decrease	

L – likelihood of the risk

I – impact of the risk

- 5.5 As is being reported in the press on a daily basis, the energy markets have continued to be extreme and volatile since our last meeting in March. As an example since this last meeting gas and power prices for the 23/24 delivery period increased by some 390% and 330% respectively to the end of August and this is on top of the large rises seen up to 15<sup>th</sup> March.

- 5.6 Through our trading strategy we have locked out our volumes/positions to the end of March 2024 and at the time of writing this report have a significant advantage against the market but despite this advantage, customers are looking at large rises for 23/24. These rises are likely to be much more substantial where customers have not yet renewed their contracts from April 23 unless the recent government announcement of support gets extended to this period in the coming months. These comments link to Risk Ref 1 and 2 in the table above.
- 5.7 Risk Ref 3 relates breaching trading risk levels. For the current financial year our volumes are fully locked so the only exposure here is if our supplier proposes a reforecast to volumes for the back end of the year which results in us having to procure additional volumes at the inflated market rates. There has been no suggestion of a reforecast to date. In addition we are closely monitoring our consumed volumes and based on current data do not envisage the need for an upward reforecast.
- 5.8 The risk relating to the loss of key staff has been decreased in terms of its overall status, but rank remains at medium. A restructure of the business has been completed and four new posts have been created to help mitigate this risk, build in greater resilience, support the current challenges faced within the landscape in which we operate and to strengthen for further growth. Three of these posts have been filled with the fourth one close to being so also.
- 5.9 Risk Ref 6 relates to the concerns around delayed or non-payment of bills by WME customers. With the conversion of two large customers from our Procurement Only service to Fully Managed this risk was increased prior to the last Joint Committee meeting. Since this conversion/last meeting, one of these customers has paid effectively within term but some issues/delays have been experienced with the other. Whilst this has not significantly affected our cash flows to date, this has been problematic and this is being escalated with the client in question.
- 5.10 Furthermore, linked to the price rises which are likely to be seen from April 23 despite our significant market advantage, customer budgets will be squeezed even more. As a consequence we have increased the likelihood score for this risk. This area has been recently discussed with the s151 Officers of the Member Authorities and an action plan has been agreed in order to mitigate this risk even further.
- 5.11 This regards our fixed price DPS framework, Gazprom have now been removed from our supplier list.
- 5.12 With regards the three risks presented at the last meeting which have been now decreased to below a medium level:
1. Given our current advantage against the market within the year, this risk has been decreased to low.
  2. With a new gas product effective from April 23, this risk has been removed.
  3. Both the likelihood and impact of this risk has been reduced resulting in rank of low.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Joint Committee 15<sup>th</sup> March 2023 – Risk Management Update

**Member**

Councillor L Harvey of Herefordshire Council (Chair of the Joint Committee)

**Appendices**

None