

Cheltenham Borough Council

Cabinet

9 December 2014

Recycling Materials Bulking and Sales

Accountable member	Councillor Chris Coleman, Cabinet Member Clean and Green Environment
Accountable officer	Pat Pratley, Deputy Chief Executive
Ward(s) affected	All
Key Decision	Yes
Executive summary	<p>Cheltenham Borough Council (CBC) has a contract in place with Printwaste Ltd for the bulking of recycling material collected from the kerbside, bring sites and through the Swindon Road Household Recycling Centre. The contractor also carries out the sale of the recycled materials. The current contract extension is due to expire in April 2015.</p> <p>The Gloucestershire 'Joint Waste Committee' (JWC) included in its 2014-17 business plan a project "tendering of a new contract for the sale of recyclable material with consideration of associated bulking and transfer operations" on behalf of CBC. The Joint Waste Team (JWT) acting on behalf of the JWC, considered two options, firstly a procurement process through a service concession contract and secondly an option whereby Ubico Ltd would take on dry recyclable material bulking and the JWT having responsibility for marketing and sales of the dry recyclable materials.</p> <p>The recommendations, if supported by Cabinet, are expected to achieve a net income to the General Fund of £92K per annum assuming the purchase of capital equipment.</p>
Recommendations	<p>It is recommended that</p> <ol style="list-style-type: none">1. CBC agree a further extension of the Printwaste Ltd contract and Ubico take on the dry recyclable material bulking operation thereafter2. A project team, sponsored by the Managing Director of Ubico be established to oversee the transition to the new service delivery for both materials recycling and materials marketing and sales3. Cabinet recommends to Council, in the framework of the budget cycle, that up to £390K of capital expenditure in the 2015-16 capital budget is allocated to the project4. CBC takes back responsibility for the sale of the dry recyclable material and make arrangements for the day to day management of

material sales to be undertaken by the JWT.

Financial implications

Attached at **Appendix 3 – (confidential under paragraph 3, section 12A Local Government Act 1972)** is a financial summary.

In summary, allowing for capital financing cost, the proposal delivers a net surplus of £26,000 in 2015/16 rising to £52,000 per annum in a full year.

Given the MTFS budget gap, if the council were to finance the equipment acquisition up front through either prudential borrowing or capital receipts, the net surplus would increase to £46,000 in 2015/16 rising to £92,000 per annum in a full year.

The cost of procuring the expert advice is estimated to be not more than £5,000 and it is proposed that this be met from one off sources in 2015/16 to be outlined in the budget proposals for 2015/16.

The decision on financing the project will be made in line with the impending review of the Asset Management Plan and Capital Financing Strategy and final budget proposals for 2015/16.

The income figures shown in this report are based on the mid-range scenario for recyclable sales as projected in the Eunomia report.

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<p>Legal implications</p>	<p>The Council's refuse collection contract with Ubico can be varied to allow Ubico to collect and bulk dry recyclables taking this back 'in house' from Printwaste if so desired.</p> <p>Ubico are a local authority wholly owned 'Teckal' company and thus there is no EU requirement for the Council to go out to tender. The Council therefore may give the work to Ubico without going through any formal procurement process.</p> <p>The current position is that there is a contractual relationship between the Council and Printwaste for them to receive recycling material, then bulk and sell to the market. The first two elements can be dealt with by Ubico but the Council will need to arrange for the sale of the materials, which this report recommends be undertaken by the JWT. There will need to be a market testing exercise by the JWT to ensure that the best price is obtained for the disposal of the material and the contract for sale will be between the Council and a third party/parties re-processor, for which the Council will receive the associated income directly.</p> <p>An extension of the Printwaste contract will be necessary whether the Council is to take back the function or to retender, given the timescales involved as the original contract has time expired but did contain a provision allowing an extension. Printwaste will need to agree to this and this will be documented.</p> <p>If the contractual relationship with Printwaste is ended then it will be necessary to consider whether the Transfer of Undertakings (Protection of Employment) regulation apply to any of the operatives involved in the operation.</p> <p>The operation is currently undertaken at the Swindon Road depot and it is intended that this will continue and would be included in the formal lease the Council has in place with Ubico.</p> <p>Contact officer: Gary Spencer, Solicitor One Legal Gary.Spencer@tewkesbury.gov.uk 01684 272691</p>
<p>HR implications (including learning and organisational development)</p>	<p>It is unclear at this stage if there will be TUPE implications for existing Printwaste employees. The project team, when established, will have representation from the GO Shared Service HR team. The HR representative will work closely with the Ubico MD to ensure all HR implications are captured and actioned.</p> <p>Contact officer: Julie McCarthy, GO Shared Services HR Manager – West julie.mccarthy@cheltenham.gov.uk 01242 264355</p>

<p>Key risks</p>	<p>The key risks associated with the recommendations are outlined below and the assessment and mitigating actions are described in Appendix 1:</p> <ol style="list-style-type: none"> 1. Implementation of new operational arrangements (bulking operation and material sales) following the completion of the Printwaste Ltd further contract extension 2. Fluctuations in material prices as a result of market conditions 3. Inability of the JWT to secure the best value for materials sold thereby impacting CBC income 4. The need for Ubico to have adequate contingency plans in place in the event that the service is disrupted for some reason, e.g. equipment failure 5. The cost of the plant necessary for the operation of the bulking facility is too high and thereby impacts the business case 6. The potential for the JWT not considering the material marketing sales from an environmental impact as well as monetary best value perspective 7. The potential for Ubico to cause negative environmental impact if it expands the material bulking service
<p>Corporate and community plan Implications</p>	<p>The proposal contained in this report supports the following strategic outcomes:</p> <ol style="list-style-type: none"> 1. Cheltenham is a place with a clean and well-maintained environment where waste is minimised and recycling, reusing and composting is promoted. In particular the proposal supports delivery of milestone ENV03 which relates to driving out efficiency and maximising income from our waste and recycling. 2. We will meet our Bridging the Gap targets for cashable savings and increased income.

<p>Environmental and climate change implications</p>	<p>The recycling collection vehicles currently empty their loads into the materials bulking facility at Swindon Road so there will be no increase in vehicular movements compared to the current operation as long as the facility continues to be used. However, if the recommendations are endorsed then there may be environmental benefits in Ubico being able to closely monitor the quality of recycling material being collected by its operatives and therefore reduce the levels of contamination which goes to the re-processors. This would have the added benefit of reducing the amount of waste from contaminants generated by the re-processors once the recycling material has been processed, which then go off to be landfilled.</p> <p>The environmental impact of the sale of recycling materials is influenced by what happens to the material when it leaves the bulking facility, e.g. how far is it being shipped for re-processing. The JWT will need to ensure that best value is obtained from an environmental perspective as well as a monetary perspective from the sale of materials. How this is being achieved should ideally be demonstrated as part of the performance management process.</p> <p>Expanding the operation to take recycling from other partner areas of the JWC may have a negative impact if facilities are available more locally and vehicles are travelling further to deposit loads. However, there may be a positive impact if expanding the operation enables materials to be recycled that would otherwise not be, either because a bulking operation for that type of materials does not exist locally or insufficient local bulking facilities exist for the volume of material being collected.</p> <p>Contact officer: Gill Morris; Climate Change and Sustainability Officer Gill.Morris@Cheltenham.gov.uk; 01242 264229</p>
<p>Property/Asset Implications</p>	<p>The creation of a lease to UBICO Ltd for Building 7 at the Depot, Swindon Road will clarify roles and responsibilities in terms of management, repairing obligations and rates relating to the premises, thereby reducing the Council's exposure to these costs.</p> <p>Contact officer: Chris Finch; Senior Estates Surveyor Chris.Finch@cheltenham.gov.uk; 01242 264109</p>

1. Background

- 1.1 Cheltenham Borough Council (CBC) has a contract in place with Printwaste Ltd for the bulking of recycling material collected from the kerbside, bring sites and through the Swindon Road Household Recycling Centre. The current contractor also carries out the marketing and sale of the recycled materials. The current contract extension is due to expire in April 2015.
- 1.2 The Joint Waste Committee (JWC) included in its 2014-17 business plan a project “tendering of a new contract for the sale of recyclable material with consideration of associated bulking and transfer operations”. The Joint Waste Team (JWT) which works on behalf of the JWC considered two options, firstly a procurement process through a service concession contract and secondly an option whereby Ubico Ltd would take on dry recyclable material bulking with the JWT having responsibility for the marketing and sale of the recycled materials.

2. Dry Recyclable Materials Bulking and Sales Operation

2.1 Current Arrangements with Printwaste Ltd

- 2.1.1 Dry recyclable materials (paper, card, mixed glass, mixed plastic bottles and mixed cans) are collected from the kerbside and from bring sites and the Household Recycling Centre by Ubico and are bulked at the Swindon Road bulking facility by Printwaste. Food waste is outside the scope of this review. Printwaste is responsible for offloading stillage vehicles, sorting materials, baling the materials that are collected, liaising with hauliers for transport of materials to re-processors, loading haulage vehicles and the material marketing.
- 2.1.2 Printwaste pay a fee per tonne for each material stream. The tonnage fee payable per commodity is reviewed every 3 months. In addition, a per-tonne charge is made for bulking paper and glass which is charged to Ubico as a handling fee.
- 2.1.3 Dry recyclable materials are transported to a variety of destinations depending on the material being recycled with the costs being borne by the re-processors and as such they are classed as ‘ex-works’.

2.2 Proposed Arrangements

2.2.1 Ubico’s Responsibilities

1. Under the revised governance arrangements for Ubico, the Managing Director has delegated authority to approve contracts up to £250,000, but in this case it would be a variation to the existing contract which would not normally be referred to the Board. The Board are however aware of Ubico’s plans to expand in this area and support the proposal.
2. Ubico would be responsible for receiving recycling vehicles into the Swindon Road Depot, weighing in and offloading the vehicles. Ubico would then sort and or/bale or bulk up the materials as necessary ready for sale to the market and would keep accurate records of goods received and loaded on to bulk transport vehicles.
3. The new operation whilst not exactly the same as currently performed by Ubico on site, does share a large number of processes concerning safe material handling and health & safety, so if Printwaste was not willing for the existing staff to transfer to Ubico under TUPE, then Ubico could employ replacement operatives who could be trained to the required standard without the need for significant additional expenditure.
4. For recycling materials that have been sold ‘ex-works’ the buyer will send bulk transportation to collect the materials. Ubico will receive and weigh these vehicles, load them accordingly

and weigh them on departure, keeping accurate records of goods out. Ubico will also be responsible for other ancillary services such as the transfer and transport to a local bulking/reprocessing facility of food waste.

2.2.2 Gloucestershire Joint Waste Team's Responsibilities

1. The constitution of the Joint Waste Committee (JWC) delegates the Councils waste, recycling and street cleansing 'client' functions to the JWT.
2. The JWT would be responsible for the marketing and sales of dry recyclable materials through procurement contracts. It is anticipated that the contracts would be let over time periods of 6 months to 2 years and include a floor and ceiling price for the particular commodity to mitigate any shortfall in the Councils income if the market crashed. The only down side of such an agreement is that potential additional revenue might not be realised if the commodity value increased dramatically. Through the expertise of the material marketing advisor, the contract terms will be carefully scrutinised by the JWT to ensure that a good balance between protection for CBC and maximising income is found. For the avoidance of doubt selling to the market includes the haulage of materials from the bulking facility to its ultimate destination and is what's known in the industry as 'ex-works'.
3. As the JWT is not a legal entity it cannot enter into contracts directly itself. For the purposes of this arrangement therefore it is proposed that CBC would be the contracting authority for procurement purposes and would receive the associated income directly.
4. The JWT will need to demonstrate best value through its procurement process not just from a monetary perspective but also an environmental perspective.

3. Evaluation of Material Bulking and Marketing Arrangements

- 3.1 The JWT, on behalf of CBC, commissioned a study from Eunomia Consulting (**Appendix 2 - confidential under paragraph 3, section 12A Local Government Act 1972**) to
 - 3.1.1 Review the historic prices paid under the Printwaste contact and to compare to high, medium and low prices that could have been obtained by direct selling to the market over the same period.
 - 3.1.2 Review the financial and non-financial benefits and risks associated with taking the service in-house versus renewing the current contractual arrangements.
 - 3.1.3 Give due consideration to the potential for additional material (household and commercial) to be received from partner authorities.
- 3.2 The report analysed material income by commodity type over the period April 2011 to June 2014 and used 2012-13 annual tonnages for kerbside and bring site collections.
- 3.3 Whilst not used in the study, the recycling material tonnages collected in 2013-14 were on par with those collected in 2012-13 and this year (2014/15) Ubico looks set to again collect a comparable total amount of recycling material. This shows that the recycling material quantities being collected are stable within the borough.

4. Review of Dry Recyclable Materials Historic Pricing

- 4.1.1 The Eunomia study used the Materials Pricing Report (MPR) compiled by WRAP (Waste and Resources Action Programme) which gives an indication of changes in the market across grades of recyclables. The MPR lists a low and high price for each material per week. The consultants used their experience of the material grade expected from kerbside sorted collections and whether it could be expected to be marked for the MPR high or low price.

4.1.2 The study models the comparison between the MPR price and the Printwaste price paid for each commodity over the study period (April 2011 to June 2014). The study describes a range of sensitivities which compares the central assumption of prices for each commodity over the period against a low and high end price range.

4.1.3 It is considered that the central range assumption is a prudent one to take for the purposes of appraising the business case. Attached at **Appendix 3 – (confidential under paragraph 3, section 12A Local Government Act 1972)** is a financial summary which provides further detail.

5. Financial Implications

5.1.1 Attached at **Appendix 3 – (confidential under paragraph 3, section 12A Local Government Act 1972)** is a financial summary which sets out the financial appraisal for this proposal.

6. Printwaste Ltd Contract

6.1.1 Discussions have been taking place with Printwaste Ltd regarding the Council's wish to further extend the current contract. In addition discussions are also taking place with regard to the value of the capital inventory that Printwaste uses to operate the bulking facility and which CBC may wish to procure at a market value price.

6.1.2 At the time of writing this report these discussions are still on-going and there are no indications that either of these matters should prove a difficulty to the implementation of the recommendations within this report. If however that situation changes, and depending on the severity of the issue, a further report may need to be brought back to Cabinet.

7. Ubico Management of Dry Recyclable Materials Bulking Operation

7.1.1 Ubico management and its Board of Directors have been keen to consider and develop their business case for the delivery of the materials bulking operation. The company operates out of the same depot site and currently sub-leases the bulking premises to Printwaste Ltd. Ubico is therefore already on site and its vehicles will continue to deliver dry recyclable materials to the same location thereby avoiding additional transport costs.

7.1.2 Ubico has staff on site who manage the yard operations and the bulking facility operates along similar lines with the need to operate in line with safe working practices for safe vehicular movements, unloading, loading of material and other health and safety considerations.

7.1.3 Printwaste currently operate the bulking facility from a designated area within the Swindon Road Depot. With the exception of Tewkesbury BC, the other partners who are known to be interested in joining Ubico will require their own operating depot therefore this will have no impact on space available at Swindon Road. Tewkesbury BC has leased space at Swindon Road for several years for its collection operations and this has had, and will continue to have, no impact on the area designated for the operation of the recycling materials bulking facility.

7.1.4 Ubico Ltd will make suitable contingency plans to allow for the continued acceptance and bulking of materials collected should there be any significant breakdown or failure of equipment or plant or unavailability of operatives.

7.1.5 To mitigate any risks associated with the Swindon Road site not being able to accept material for an extended period of time, Ubico will also identify alternative bulking facilities in the Cheltenham area.

7.1.6 The new operation whilst not exactly the same as that currently performed by Ubico on the Swindon Road site does share a large number of processes concerning material handling and health & safety, so if the existing staff did not TUPE to Ubico from Printwaste, then replacement operatives could be relatively easily employed and trained to the required standard, without the need for significant additional expenditure.

- 7.1.7** Ubico is seeking not only to grow its customer base but also to enter into associated waste service markets. The materials bulking operation provides an opportunity to do that whilst leaving the marketing and sales, which it is less well placed to deliver, to the JWT on behalf of the Council.
- 7.1.8** Ubico is growing its business with a number of neighbouring authorities having already joined or which are expressing an interest in joining the company. As the business grows there is the opportunity for further growth of the materials bulking operation. Whilst not considered as part of the Eunomia report, any additional material bulking which Ubico could undertake would be of indirect financial benefit to the shareholders through a contribution to Ubico overheads thereby increasing any annual surplus payable to the shareholding councils.
- 7.1.9** Ubico has a strong track record with its shareholding Councils for going through a significant period of change and at the same time delivering services to a very high standard. However, with the potential for new joiners in the spring of 2015 it is felt that to implement the materials bulking operation at the same time will not be achievable. The proposal contained within this report is therefore that the current contract with Printwaste Ltd is extended to build in the necessary time for delivery of this project.
- 7.1.10** It is also proposed that a small project team, sponsored by the Ubico Managing Director, will be set up to oversee the transition from the current arrangements to the new service delivery of both materials recycling and materials marketing and sales. Project management resource is available within Ubico to undertake the detailed project management that will be necessary to ensure the successful transition.

8. Gloucestershire 'Joint Waste Team' – Dry Recyclable Materials Marketing and Sales

- 8.1** The Eunomia report outlines a number benefits associated with Ubico carrying out the materials bulking operation and the JWT carrying out the materials marketing and sales operation, these include;
1. The potential to develop the expertise in the JWT and to market materials for other areas or other material streams from partners within the JWC;
 2. Potential to maximise revenue by eliminating third party margins whilst still obtaining best prices
 3. The potential to extend operations to take further recycled materials without the need for varying a contract;
 4. Easier to control the quality of recyclable material collected at the kerbside because of the greater feedback loop from Ubico bulking staff to Ubico collection crews
- 8.2** The members of the JWT, including the Head of Service, have a good overview but not comprehensive direct experience of selling into the recycling materials market. The JWT Head of Service is therefore very aware of the need to access more direct experience and his proposal is to augment the team's existing experience with advice and training from a materials marketing expert.
- 8.3** The role of the marketing expert will be to support the JWT to set up contracts and be a source of expert advice during at least the first 6 months of the new operation. The JWT is currently undergoing a structural review and it is proposed that a material's marketing project team of 2-3 people will be created within it to ensure that all contracts, knowledge and experience gained is not vested in just one person. The expert adviser will be shadowed by, and will train, the staff within the project team.
- 8.4** The type of contracts that will be entered into will generally be long term, accommodating market

price variations through a banding process with floors and ceilings to mitigate against risk. In terms of JWT capacity to undertake the work, the Head of Service has proposed that the materials marketing and sales work will be subsumed into the existing JWT with no additional cost implications at this time.

8.5 The cost of procuring the expert advice is estimated to be not more than £5,000 and will be funded from the anticipated additional income the CBC will receive.

9. Reasons for recommendations

9.1 As outlined within the body of the report and in Appendix 2 & 3 – (confidential under paragraph 3, section 12A Local Government Act 1972).

10. Alternative options considered

10.1 The alternative option is to go out to procurement for a new contract for the bulking and sale of dry recyclable materials. The Eunomia report and the work undertaken by Ubico has established that it would be more financially beneficial for CBC that Ubico undertake the materials bulking operation and the JWT carry out the marketing and sales.

11. Consultation and feedback

11.1 The JWC action to review material recycling and sales was included in its own action plan and in CBC’s 2014-15 corporate plan. The JWC itself has debated its action plan and considered it at its public meetings. The Leader and the Cabinet Member for Clean and Green Environment have been engaged throughout as members of the JWC.

12. Performance management – monitoring and review

12.1 Income from the sale of dry recyclable materials will be reported to CBC on a monthly basis by way of the normal budget monitoring process and to the JWC on a quarterly basis through the finance monitoring reports prepared by GCC finance.

12.2 A site inspection to assess the Health & Safety and working practices will be completed monthly by the JWT and will be reported to the Council as part of the quarterly H&S reports.

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Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Eunomia Report (CONFIDENTIAL APPENDIX) 3. Financial Summary (CONFIDENTIAL APPENDIX)
Background information	<ol style="list-style-type: none"> 1. Ubico Capital and Revenue Estimates

Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	If Ubico cannot implement the new operational arrangements by the end of the contract then the Council will need to put in contingency arrangements for the bulking and sale of dry recyclable material	Rob Bell	9.12.14	4	3	12	Reduce	1. Project in place and sponsored by Ubico MD to implement changed service within timeframe 2. Current provider aware of contract termination and scope available to further extend temporarily	1.1.15 9.12.14	Rob Bell Scott Williams	
2	If Ubico do not have previous experience in materials bulking and transfer then the quality of dry recyclable materials might be compromised leading to a reduction in sales income achieved	Rob Bell	9.12.14	4	2	8	Reduce	1. Staff TUPE from current provider or training of new employees to required standards 2. Ubico MD has legal responsibility for health and safety of workforce under current contract 3. Project plan will include workforce requirements including operations training and health and safety 4. Regular inspections of material quality to be	October 2015 October 2015 1.1.15 Ongoing	Julie McCarthy Rob Bell Rob Bell Rob Bell	

								completed by Ubico management team			
								5. Monthly H&S inspections to be carried out by qualified member of the JWT	Ongoing	Scott Williams	
3	If the JWT does not have any previous experience in marketing dry recyclable materials or the relationships in place with the material re-processors then the JWT will not secure 'off-take' of the material or achieve best value for the material sold	Pat Pratley	9.12.14	4	3	12	Reduce	<p>1. Expert adviser to support the JWT with setting up marketing and sales operation</p> <p>2. Members of JWT have some experience of the work already</p> <p>3. Resilience will be built within the team by more than one officer being responsible for marketing</p>	1.4.15	Scott Williams	
									Ongoing	Scott Williams	
									Ongoing	Scott Williams	
4	If Ubico were to have a problem with the operation of the bulking material facility then officers would need a contingency plan in place to ensure the bulking operation could recommence as soon as practicable to protect the income stream	Rob Bell	9.12.14	3	2	6	Reduce	<p>1. Ubico will make suitable business continuity plans to allow for the continued acceptance and bulking of materials collected should there be any significant breakdown or failure of equipment or plant or unavailability of operatives</p> <p>2. Ubico will identify alternative material bulking providers in the</p>	October 2015	Rob Bell	
									October 2015	Rob Bell	

								area			
5	If Printwaste Ltd is unwilling to sell the plant and equipment it owns within the material bulking facility then the business case viability could be compromised	Scott Williams	9.12.14	3	3	9	Reduce	<p>1. Conduct independent valuation of the plant and equipment used on site</p> <p>2. Conclude negotiations with Printwaste regarding settlement cost of capital equipment</p> <p>3. Lease arrangements to confirm agreed capital settlement</p> <p>4. Ubico to identify alternative plant and equipment providers</p>	<p>1.1.15</p> <p>1.1.15</p> <p>1.1.15</p> <p>1.4.15</p>	<p>Scott Williams</p> <p>Scott Williams</p> <p>Scott Williams</p> <p>Rob Bell</p>	
6	If the JWT does not consider the material marketing and sales from an environmental as well as monetary perspective then there is a risk that there may be a negative environmental impact	Scott Williams	9.12.14	3	3	9	Reduce	<p>1. JWT Head of Service pioneered the publication of open information regarding marketing and use of materials</p> <p>2. CBC environmental requirements will be fed into the procurement process conducted by the JWT</p>	<p>1.4.15</p> <p>1.4.15</p>	<p>Scott Williams</p> <p>Scott Williams</p>	
7	Market fluctuations in material value might lead to CBC income being affected	Scott Williams	9.12.14	3	2	6	Reduce	Longer term contracts will be sought which include floor and ceiling price constraints to	Ongoing	Scott Williams	

								protect income.			
8	If Ubico decide to take recycling from other partner areas of the JWC and vehicles are travelling further to deposit loads then this may have a negative environmental impact	Rob Bell	9.12.14	3	3	9	Reduce	It is anticipated due to the distances involved that all new partners would have their own bulking arrangements in place as part of their procurement of a suitable operations depot	Ongoing	Rob Bell	

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close