

Property Investment Strategy - Risk Analysis

The Property Investment Strategy risks are detailed below. The impact and likelihood of each risk are first assessed gross (without existing controls in place) and then re-assessed following the identification of key controls (net). The net ratings are shown in the following table:

Likelihood	Very Likely (5)					
	Likely (4)					6
	Possible (3)			14		
	Unlikely (2)			4,9		1,11
	Very Unlikely (1)		3		2a	2b,5,7,8,10,12,13
		Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Critical (5)
Impact						

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy Lead Officer: Adrian Rowbotham & Detlev Munster								
1) Downturn in property market	<ul style="list-style-type: none"> Poor Return on Investment (ROI) on selling/rental 	3	5	15	<ul style="list-style-type: none"> Contracts to have rent review, break clauses etc. Investments are credit secure and can be retained through any market downturn; No requirement by SDC to liquidate investments in medium term; No requirement from SDC to minimise or contain reported mark to market variability 	2	5	10
2) a. Poor quality construction/management	<ul style="list-style-type: none"> Repairs Defects remedial work, customer dissatisfaction loss of reputation legal action 	3	5	15	<ul style="list-style-type: none"> Robust contracting process. Pre-purchase surveys High quality spec Quality assurance clauses Warranties Procurement processes 	1	4	4

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	<ul style="list-style-type: none"> additional costs not built into financial plan 				<ul style="list-style-type: none"> Clauses for liquidated damages Build relationships with contractors - understand their quality ethos Do not work with contractors who have a record issues or no track record Ensure contractor has sufficient covenant to stand behind their commitments 			
b. Poor quality construction/management	<ul style="list-style-type: none"> Risks to personal health and safety - defects, gas, electricity, legionella, etc. 	2	5	10	<ul style="list-style-type: none"> Surveys; risk assessment techniques; CDM (Construction, Design & Mgt Regs); using registered suppliers and installers 	1	5	5

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3) Possibility of challenge re: state aid	<ul style="list-style-type: none"> Legal challenge to Quercus 7. 	2	2	4	<ul style="list-style-type: none"> Full cost recovery. Loans obtained at commercial lending rates Charging Directors and others' time to the Company. Legal due diligence pre contractual commitment 	1	2	2
4) Inability to attract and retain suitable purchasers/tenants	<ul style="list-style-type: none"> Poor ROI void periods loss of rental income 	3	4	12	<ul style="list-style-type: none"> Demand for residential property remains high. Taking up references Early engagement with potential buyers/tenants Quality product to attract purchasers/tenants Standby working capital facility to support downturn in market for tenants i.e. finance voids or rent shortfalls 	2	3	6

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5) Failure to fully assess sites and conditions	<ul style="list-style-type: none"> • Defects • remedial action • costs • failure to attract purchasers/tenants • void periods • poor ROI 	3	5	15	<ul style="list-style-type: none"> • Robust appraisals and surveys to be undertaken before progressing. • Pre-application planning advice. • Knowledge of location/market • Extensive due diligence process. 	1	5	5
6) Insufficient financial resources to progress projects	<ul style="list-style-type: none"> • Cannot close deals because of inability to achieve purchase price • Lack of progress in the market 	4	5	20	<ul style="list-style-type: none"> • Borrowing permissions in place (note new PWLB restrictions). • Investment strategy in place. • Sound business case/plan. • Due diligence exercises, • Develop alternatives to SDC funding for Quercus 7 	4	5	20

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7) Insufficient resources, capacity, skills to plan and manage projects	<ul style="list-style-type: none"> Inability to close deals as insufficient due diligence Loss of reputation 	3	5	15	<ul style="list-style-type: none"> Procurement of specialist resources not available in-house. Appointment of staff with adequate skills for purpose. 	1	5	5
8) Inability to secure development opportunities to cover overheads and develop profits	<ul style="list-style-type: none"> Quercus 7 loss making company Business plan not executed Shareholder dissatisfaction Dissolution of company 	2	5	10	<ul style="list-style-type: none"> Continue to develop pipeline of opportunities. Links with agents. Proactive approach to identify opportunities. Procurement of sufficient resources. Divert development resources to management responsibilities during prolonged downturn? 	1	5	5
9) Increase in voids/and void turn-around time/re-let times	<ul style="list-style-type: none"> Income from rent is reduced and cash flow compromised 	3	3	9	<ul style="list-style-type: none"> Employment of experienced agents to manage lettings. 	2	3	6

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Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy Lead Officer: Adrian Rowbotham & Detlev Munster								
					<ul style="list-style-type: none"> • Sale of property an option. • Reconsideration of operating model • Standby working capital facility to support downturn in market for tenants i.e. finance voids or rent shortfalls • Option of selling assets to provide working capital bridge 			
10) Purchase not supported by red book valuation	<ul style="list-style-type: none"> • Unable to secure purchase 	4	5	20	<ul style="list-style-type: none"> • Red book valuation obtained prior to offer. 	1	5	5
11) Financial risks	<ul style="list-style-type: none"> • Rents not achieved • Values reduce • Property market falls • Operational costs higher than budget 	3	5	15	<ul style="list-style-type: none"> • Due Diligence measures • Pre purchase surveys 	2	5	10

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Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy Lead Officer: Adrian Rowbotham & Detlev Munster								
	<ul style="list-style-type: none"> Defects arising that affect let ability / income 							
12) Failure to comply with taxation issues, Corporation tax and VAT	<ul style="list-style-type: none"> Legal challenges 	2	5	10	<ul style="list-style-type: none"> Internal and/or external advice sought in relation to taxation to ensure compliance. 	1	5	5
13) Poor management of property	<ul style="list-style-type: none"> Risk to tenants Health and Safety Defects, gas, electricity etc. 	2	5	10	<ul style="list-style-type: none"> Engage experienced and qualified management agents 	1	5	5
14) Impact of COVID-19 - Increase in voids/market changes/bad debts	Income from rent is reduced and cash flow compromised.	4	3	12	<ul style="list-style-type: none"> Employment of experienced agents to manage lettings. Sale of property an option. Reconsideration of operating model 	3	3	9

Strategic Risk Register Item - Agreed by Audit Committee 24 November 2020								
Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
SR02: Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy								
Lead Officer: Adrian Rowbotham & Detlev Munster								
<ul style="list-style-type: none"> Ability to seek appropriate investment opportunities Appetite for risk within investment strategy to enable the Council to generate target returns Ability to deliver sufficient funds to maximise the opportunities presented through the Property Investment Strategy Appetite to prudentially borrow over the medium to long term The cost of interest payments Lack of capacity or skilled professionals to advise on investment and borrowing strategies Ineffective governance processes that could result in opportunities being missed or being ineffectively scrutinised Ineffective use of Quercus 7 to support the Council's investment strategy Ability to borrow funds including the effect of government legislation changes 	<ul style="list-style-type: none"> Lack of diversity in investments Cost of interest payments Negative impact on budgets, reserves and the ability to deliver Council projects Poor financial health Unable to maintain low increases in council tax levels Reputational damage Poor outcome for the Audit of Accounts or Value for Money assessment and potential for increased intervention 	4	4	16	<ul style="list-style-type: none"> Council approved Property Investment Strategy, with defined rates of return demonstrating risk appetite Governance arrangements defined with appropriate delegations agreed Qualified and experienced officers in post Professional, external advisers engaged to support the development of strategies and fill skills gaps Effective budget setting and financial monitoring processes embedded Effective financial governance including reports to FIAC, Cabinet, Audit Committee and Scrutiny Committee Regular Quercus 7 Board and Trading Board meetings - including regular review of investment parameters to monitor market fluctuations 	3	3	9

