Appendix B

Property Investment Strategy – Risk Analysis

Risk	Risk Areas	Likelihood 1(low)-5(High)	Impact 1(low)-5(High)	Total Score	Controls
Downturn in property market	Capital value and income potential reduce for purchased assets	2	3	6	Continued monitoring of markets. Sale of Assets at a benchmarked threshold. Annual Valuation
Upturn in property market	Purchase cost of potential assets increases	4	4	16	Continued monitoring of markets. Adjusting purchase criteria to reflect market movement. Consider sales of assets for capital gain. Annual Valuation
Increase in interest rates (borrowing)	Cost of borrowing increases with detrimental impact on income	4	3	12	Ensure most competitive rate achieved if borrowing, fixed term if possible. Consider increased use of reserves to ensure loan to value ratios are acceptable.
Increase in interest rates (investment)	Lower rate of return when compared to other potential treasury management income	4	1	4	Consider revising income return criteria upwards. Consider disposal of assets for re-investment
Restrictions on borrowing	Potential changes to the Prudential Code regarding what borrowing can be used for	4	3	12	Variety of funding sources. Amend property search criteria.
Available opportunities	Market opportunities meeting investment criteria not available.	4	4	16	Identify opportunities early and move swiftly to acquire

Changes in Tenant Demand	Certain types of property may become less favourable with tenants.	3	3	9	Construct a varied portfolio by use, i.e. mixture of shops, offices, industrial, residential etc.
Obsolescence of Asset	Physical obsolesce in terms of building fabric and fit out	3	4	12	Ensure Full Repairing and Insuring Leases are in place via pre-purchase due diligence. Have building surveys undertaken to establish condition of building.
Tenant default	Loss of rental income, increased costs incurred	2	4	8	Undertake financial due diligence of tenants pre-purchase, obtain the best possible tenant covenants. Look for guarantors or cash deposits where covenants are considered weak. Consider multi-tenanted properties in order to diversify risk. Ensure robust credit control procedures in place. Monitor tenant company performance.
Void periods	Loss of rental income, holding costs incurred – rates, utilities etc. Costs of re-letting	2	4	8	Monitoring tenancies as described above. Move quickly to appoint letting agents should a void period appear likely. Act expediently in concluding legal process of letting.
Government Legislation - Energy Performance (Minimum Energy Efficiency Standards , MEES)	From 1st April 2018 it will be illegal for a landlord to grant a new letting of a commercial property that has an EPC of below E.	4	4	16	Undertake appropriate pre purchase due diligence to establish what the EPC rating of a property is and purchase accordingly. Identify if opportunities exist to increase the EPC rating appropriately.

Illiquidity of Property Assets	Asset identified for disposal to raise capital receipt or for reinvestment	2	4	8	Ensure that assets are kept "sale ready" in terms of documentation and information.
Staff Resources	Lack of suitably professionally qualified staff	2	3	6	Ensure that appropriately professionally qualified staff, with experience in Property Investment, are available to act on the Council's behalf.
Residential Properties – generally all of the above plus greater landlord input, more management intensive	Residential Properties generally require a more active landlord involvement, maintaining the structure and services of a property – maintenance costs and management costs are therefore higher.	3	3	9	Ensure that increased holding costs are factored into purchase valuations Appoint external professionals to manage landlord and tenant processes Ensure that tenant deposits are taken

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Strategic Risk Register Item – Agreed by Audit Committee 26 September 2017

ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likely hood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likely hood	Net Impact	Net Risk Rating
SR 02	**Property Investment Strategy** The appetite and ability to invest in appropriate opportunities in accordance with the Council's Property Investment Strategy Lead Officer: Adrian Rowbotham	- 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	- 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	- Ability to deliver Value for Money - Ability to provide high quality services - Ability to support and grow the local economy	4 Likely	4 Serious	16 High	- 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 FAC, Cabinet, Audit Committee and Scrutiny Committee	3 Possible	3 Significant	9 Medium

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ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likely hood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likely hood	Net Impact	Net Risk Rating
		opportunities being missed or being ineffectively scrutinised - Ineffective use of Quercus 7 to support the Council's investment strategy						- Regular Quercus 7 Board and Trading Board meetings			

Assessing and quantifying threats and opportunities

How likely is it to happen? What would the impact be? Likelihood x Impact = Risk Rating

Low Risk: Risk rating of 1 to 6 **Medium Risk:** Risk rating of 8 to 12 **High Risk:** Risk rating of 15 to 25

Likelihood						
	Very Likely (5)	Low (5)	Medium (10)	High (15)	High (20)	High (25)
	Likely (4)	Low (4)	Medium (8)	Medium (12)	High (16)	High (20)
	Possible (3)	Low (4)	Low (6)	Medium (9)	Medium (12)	High (15)
	Unlikely (2)	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	Very Unlikely (1)	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
		No Impact (1)	**Minor (2)**	**Significant (3)**	**Serious (4)**	**Breakdown of Services (5)**
		Impact				