

RISKS AND BENEFITS

Risk Category	Risk	Impact	Mitigation - commentary	Likelihood	Likelihood	Option 1 - Do Nothing		Option 2 - JV		Option 3 - WOC		Option 3 - WOC		Comment	RISK ALLOCATION		
						Impact	Total	Impact	Total	Impact	Total	Impact	Total		Public	Private	Shared
Business Risks - risks to BCC that cannot be transferred to a 3rd party	Change in Council housing strategy or policy	Conflicts with objectives the vehicle established for and either stalls supply of sites, delivery or support. Vehicle is therefore either ineffective or redundant	Focus vehicle on key long term housing challenge and arms length to protect from day to day lower level political / organisational changes	Low	1	50%	50	75%	75	25%	25	25%	25	Do nothing option is highly influenced by day to day changes in council strategy or policy and JV could become redundant if changes are a significant departure from the business plan and Members Agreement whereas the WOC options are more insulated due to the greater ability to adapt to future changes.	X		
	Reputational risk of non delivery	Council seen to spend public money and not deliver on objectives	Communication strategy	Medium	3	50%	150	50%	150	50%	150	25%	75	Do nothing option is more likely to not deliver on the council housing outputs than other options and therefore high impact. The JV option has a higher impact due to the increased set up costs relative to the WOC.	X		
	Risk of conflicting Council objectives stall delivery e.g. Quality vs. Financial returns vs. Affordability	Stalled delivery, higher operational and pre-development costs, mixed outcomes	Focus on key outcomes and negotiate approach in advance, approach only updated through periodic business planning process and can only impact future sites prior to transfer from the Council	High	5	50%	250	25%	125	25%	125	25%	125	Do nothing option is challenged in terms of being able to balance conflicting council objectives whereas JV and WOC options are at arm's length from the council and will have a clear focus on agreed objectives.	X		
	Private sector is not attracted to either partnership or site opportunities	Supply chain not available to establish preferred vehicle and therefore nothing comes forward	Mitigated through soft market testing and structuring of clear, simple proposition	Low	1	50%	50	50%	50	25%	25	25%	25	Do nothing option is likely to be less attractive to the private sector if the development agreements are sought on a site by site basis, the joint venture option will be dependent on the size of the pipeline that will be channelled through it whereas the WOC option is council owned and therefore a partnership is not required in the first instance - partnerships sought where appropriate on a site by site or area basis	X		
	Change in local authority funding / financing rules	Impacts supply or sites, availability or cost of council finance, viability of schemes, reduction in housing outputs	Vehicle has flexible source of funding and can be financially sustainable, value taken regularly by the Council as shareholder, fixed rate borrowing	Low	1	25%	25	25%	25	75%	75	50%	50	Do nothing option can progress if local authority funding rules change. The JV option is less impacted due to the ability of the JV to raise finance from a variety of sources, the WOC option is more exposed to changes in funding financing rules because whilst flexibility is available from alternative funding solutions these are likely to be more restricted than on lending from the council, particularly in debt to equity ratios.	X		
	Complexity of vehicle established takes a long time to establish	Delay in first sites coming forward, limiting market interest	Respond to short term supply constraints through wider council housing delivery programme	Medium	3	50%	150	75%	225	25%	75	25%	75	The WOC scores best due to the straight forward set up time followed by site by site disposals with the development agreements which are more complicated and resource intensive. The JV is likely to be more complex and therefore scores the worst	X		
	Non performance of partner / developer / contractor	Non delivery of housing outputs, cost of aborted processes, need for Council step-in or repurchase	Rigorous due diligence at partner selection, panel approach to create options, termination clauses in contract	Medium	3	50%	150	75%	225	25%	75	25%	75	Site by site disposals with development agreement can be mitigated due to the partner being on a site by site basis and the ability to include step in rights within any agreement. The WOC also has flexibility to appoint partners on a site by site basis with DA has additional development capability whereas there is increased risk in the joint venture option due to a single partner being procured across the programme	X		
Service Risks - risks focused on design, development and operational phases which can be shared between BCC and a partner	Vehicle established becomes unfit for purpose in resource terms over time and operational quality not upheld	Delay in sites progressed, reduction in quality of works, risk of repayment of any financing, ineffective spend and likely increase in operational costs	Mitigated through business planning and role of Council influence	Low	1	0%	0	50%	50	25%	25	25%	25	The WOC and do nothing options have the ability to flex over time and therefore are less likely to be unfit for purpose. The JV option is higher risk because priorities and objectives could change substantially within the council which could result in site delivery through alternative routes.			X
	Planning permission on sites is delayed or not forthcoming	Delay in sites progressed, increase in pre-development costs	Mitigated through strong resourcing and quality of work pre-development	Medium	3	50%	150	25%	75	25%	75	25%	75	The JV and WOC score the best due to the additional ability to draw in resource and finance at pre-development stage. Under the do nothing option the cost and resources associated with this will be borne by the council and have to be balanced against other spending objectives			X
	Build risk - timing and quality	Delay in delivery of homes against projections, higher long term maintenance costs	Due diligence, managing risk by site	Medium	3	50%	150	25%	75	25%	75	25%	75	The do nothing option scores worst because the council is having a passive involvement in the development process whereas JV options and the WOC option score better due to the active involvement with the WOC scoring best due to the council being sole owner of the WOC and therefore having the most influence.			X
	Risk of cost inflation for construction and skills	Reduces viability of schemes and financial or affordable housing outcomes	Robust sensitivity analysis to consider headroom, regular forecasting as part of business plan process, more control and expertise provides choices for value engineering	High	5	75%	375	50%	250	75%	375	25%	125	Cost inflation is a risk across all options however this will be felt most significantly in the do nothing option, followed by the JV option where a partner will have minimum profit requirements. The WOC option is able to take an internal view subject to business plan in terms of the ability to still progress the schemes but taking lower surplus whereas both the do nothing and JV options will require a return to private sector before schemes can viably progress.			X
	Risk in movement of market values	Poor performance of residential market	Sale of units to HRA or change affordability, hold for income at market or affordable rates rather than sell, robust sensitivity analysis. Put in place pre-completion sales agreements	Medium	3	75%	225	50%	150	75%	225	25%	75	Logic as per cost inflation			X
	Increasing finance rates or changing funding conditions - public or private sector	Reduces viability of schemes and financial or affordable housing outcomes	Flexibility of sources for finance to ensure best rates can be accessed, robust sensitivity modelling, fixed rate borrowing	High	5	50%	250	25%	125	50%	250	25%	125	The do nothing option is highly exposed to the market and delivery will not progress if finance rates mean that a developer cannot extract an appropriate return from the scheme. The WOC option and JV are more flexible in that the WOC can reduce the surplus to a lower amount and still progress schemes and the JV option can still involve an active involvement from the council to influence the scheme viability and the source of finance.			X
	Sites put through the vehicle are complex and fundamentally challenged in technical and/or viability terms and therefore costly and have long term timetables	Reduces viability of schemes and financial or affordable housing outcomes, limits market interest, higher financing rates to reflect pre-development risks, delays housing delivery	Due diligence to understand risks on sites to ensure expectations are not unrealistic, more prominent role of the Council to de-risk. Support through other infrastructure funding eg HCA	High	5	75%	375	50%	250	75%	375	50%	250	The do nothing option is highly influenced by the site in question and complex sites may be challenged in terms of agreeing DAs for a site by site basis. The JV option still has challenges in this respect due to the requirement of the private sector to extract a profit whereas the WOC can progress challenging sites subject to a viable business plan by reducing the surplus requirement and not passing a profit to the private sector			X
	Securing vacant possession of sites	Increase costs and delay of housing delivery	Due diligence and appropriate expertise	Medium	3	50%	150	25%	75	25%	75	25%	75	The WOC and JV options can provide additional resource vacant possession of sites whereas the do nothing option may be more challenged given constrained financial resources			X
	Vehicle established does not operate effectively e.g. Complex contractual arrangements, partnership, objectives	Stalled delivery, costly dispute resolution, poor working relationships either between partners or with shareholders	Establish clear objectives upfront that are mutually acceptable and process of dispute resolution	Medium	3	0%	0	50%	150	25%	75	25%	75	The WOC scores best because it is a very simple structure within which to operate. The do nothing option, whilst simple, the development agreement could produce complexities. The JV scores the worst due to the complex contractual arrangements and the need to balance different party's objectives.			X
	Higher operational costs of vehicle than envisaged	Impacts viability of business model and returns to the Council	Benchmarking against resource requirements and other examples, robust sensitivity analysis of business model, robust business planning processes	Medium	3	0%	0	25%	75	50%	150	50%	150	The do nothing option does not have operational costs and therefore it is not a risk. The WOC scores the worst compared to the JV because the business model is driven entirely by operational costs of the vehicle and as a new vehicle the WOC is more likely to underestimate these compared to a joint venture with an experienced private sector partner.	X		
	Risk of product not meeting market needs	Slower sales rates increase financing costs and delay receipts which may be targeted for reinvestment in the programme	Market facing input from experts at design stage. Build in tenure flexibility to respond to changing market conditions.	Medium	3	0%	0	0%	0	50%	150	25%	75	The do nothing option will be highly focused on meeting market needs and the JV will bring development experience. The WOC scores worse due because whilst it can secure expertise this will be balance against a new organisation and need to balance against housing needs and wider priorities.			X

