

APPENDIX E
Risk Assessment

12 October 2012

WELLAND INTERNAL AUDIT CONSORTIUM

Harborough District Council

EVALUATING KEY RISKS



When considering a significant decision to invest Capital in a building (either purchase or significant redevelopment), the risks and rewards of the possible actions should be carefully reviewed.

This report already includes the detailed financial implications of Capital investment in the Market Hall building (see Section 7 of the Market Hall report). The following table (Table 1) looks more generally at the likely risks and rewards of this Capital investment, and scores the impact and likelihood in terms of the Council's Risk Management Model, where any score of 12 or above exceeds the Council's risk appetite. The impact and likelihood descriptions are on the pages following Table 1. Note that reward impacts are scored by applying some of the opposite of the listed impacts for risk.

For the **risks**, a **high score** is **negative**, because it = high risk

For the **rewards**, a **high score** is **positive**, because it = high rewards

Table 1 Market Hall investment risks & rewards

Risk	Consequences	Impact	Likelihood	score	Comments/Mitigation
Rent income levels assumed for income are too high	Reduction in forecast income leaves greater burden on Council tax payers to meet loan repayment costs for Market Hall redevelopment.	Marginal	Significant	8	Rent levels in the financial modelling have been assessed and externally quality assured through the use of Quarterbridge, through market intelligence and anecdotal knowledge of the performance of other UK markets.
Rent levels are not achieved as a result of failure to let market stalls/units.	Strain on General Revenue Fund budget and eventual impact on Council Tax	Marginal	Low	6	The occupancy levels applied in the modelling; the "Central Case", use a conservative estimate of 80% in year 1, never rising above 92% occupancy over the 25 years of modelling. Sensitivity testing in the Financial Overview report shows that even at 75% of the above levels, the business case will still deliver a return on investment.
Capital cost estimate too low	Increased borrowing adds to revenue burden of project	Marginal	Significant	8	The assumptions and exclusions in the options development appendix (Appendix B) show that there could be some additional capital costs incurred if the Council vary from the prescriptive design and build approach

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					discussed in the options cost plan. However, the sensitivity test are encouraging in terms of this being a robust business case that will still achieve a return even if costs rise.
Construction activity impacts upon delivery of market services	Temporary short-term loss of service provision to public	Marginal	Very High	12	Quarterbridge are clear about the interim impacts, and that a construction project will in some way affect trading.
Rewards	Consequences	Impact	Likelihood	score	Comments
Market retained in the Market Hall on an increased (7 day) trading basis.	Economic stimulus to Market Harborough.	Marginal	Very High	12	Public consultation has supported this approach from the general public.
Improved revenue subsidy to general fund from Market activities.	Reduced risk that significant Council tax increased will be necessary. Reduced risk that loss making will occur.	Marginal	High	6	Financial modelling strongly indicative of improved position.
Increased asset value.	Increased future flexibility for Council; potential disposal as a going concern possible	Critical	High	15	As a market, the Market Hall asset value must be addressed, given demonstrable freehold value with market service operating from April 2012.

The risks and rewards of not making the investment in the Market Hall site are largely the inverse of the above and therefore have not been repeated.

Impact and likelihood definitions are as follows:

Basis for Impact score	As per Harborough DC RM strategy below
Basis for Likelihood score	As per Harborough DC RM strategy below

IMPACT DEFINITIONS:

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Catastrophic <i>Examples:</i> <ul style="list-style-type: none"> • Death • Medium term loss of service capability • Adverse national publicity • More than 50 people involved • Litigation almost certain and difficult to defend • Financial loss in excess of £1m • Breaches of law punishable by imprisonment 	Critical <i>Examples:</i> <ul style="list-style-type: none"> • Extensive, permanent injuries, long term sick • Short term loss of service capability • Adverse local publicity • Up to 50 people involved • Litigation to be expected • Financial loss between £250,000 and £1m • Breaches of the law punishable by fines only
Marginal <i>Examples:</i> <ul style="list-style-type: none"> • Medical treatment required – long term injury • Short term disruption to service capability • Needs careful public relations • No more than 10 people involved • High potential for complaint, litigation possible • Financial loss between £50,000 and £250,000 • Breaches of regulations/standards 	Negligible <i>Examples:</i> <ul style="list-style-type: none"> • No injuries beyond first aid level • No significant disruption to service capability • Unlikely to cause any adverse publicity • No more than 3 people involved • Unlikely to cause complaint/litigation • Financial loss below £50,000 • Breaches of local procedures/standards

LIKELIHOOD DEFINITIONS AND SCORING MATRIX:

LIKELIHOOD				
Very High Is expected to occur in most circumstances	6	12	18	24
High Will probably occur in most circumstances	5	10	15	20
Significant Might occur in most circumstances	4		12	16
Low Could occur in most circumstances	3	6	9	12
Very Low May occur only in exceptional circumstances	2	4	6	8
Almost Impossible Is never likely to occur	1	2	3	4
	Negligible	Marginal	Critical	Catastrophic

Scores in the red shaded area exceed risk appetite

IMPACT