

Risk and Opportunities Assessment – Termination of Aviva Transaction

Risk opportunity				Likelihood				Risk threat
4	4	3	3	A Very high 1:2 probability	3	3	4	4
4	4	3	2	B High 1:10 possible	2	3	4	4
4	3	3	2	C Significant 1:50 possible	2	3	3	4
3	3	2	1	D Low 1:80 possible	1	2	3	3
3	2	1	1	E Very low 1:100 possible	1	1	2	3
2	2	1	1	F Almost impossible 1:1000 possible	1	1	2	2
Transformative	Major	Moderate	Minor		Minor	Moderate	Major	Catastrophic
Positive impact				Negative impact				
Multiple objectives exceeded	Objectives delivered significantly early, better or cheaper	Objective delivered moderately early, better or cheaper	Objective delivered early, better or cheaper	Objective driven (Customer, people, society or key performance)	Slippage and minor deviation	Failure to meet an objective	Failure to meet several objectives	Severe damage to the Council and its services
Saving				100% £500m	Unforeseen expenditure			
25%	10%	2.50%	0.25%	Budget driven (income, expenditure, contractors and budget allocation)	0.25%	2.50%	10%	25%
£125m	£50m	£12.5m	£1.25m		£1.25m	£12.5m	£50m	£125m

Risk and Opportunities Assessment:

Ref.	Type	Description of Risk/Opportunity	Assessment of risk/opportunity	Likelihood	Impact
1.1	R	Actual inflation differs from core modelling assumptions.	<p>This is of greater relevance to the current Aviva deal, given annual payments by the council are linked to RPI.</p> <p>Modelling has been undertaken to assess the likely impact on different inflation scenarios.</p> <p>Borrowing undertaken by the council will be at a fixed rate, and therefore will not be directly influenced by inflationary movements over the loan term.</p>	Very High	Moderate
1.2	R	Actual interest rates are higher than forecasted.	<p>This is of greater relevance to borrowing undertaken by the council.</p> <p>Modelling has been undertaken to assess the likely impact on different inflation scenarios.</p> <p>Advice will be sought from Treasury Advisors, ArlingClose, as to likely direction of rates and alternative loan structures to inform borrowing decisions.</p>	High	Moderate
1.3	R	Accounting Treatment is challenged by the External Auditor.	<p>Technical assessment of the proposed termination and loan has been completed and shared with Grant Thornton, who have accepted in principle the accounting treatment proposed.</p>	Significant	Moderate

Ref.	Type	Description of Risk/Opportunity	Assessment of risk/opportunity	Likelihood	Impact
1.4	R	The council is unable to manage its external borrowing against the Capital Financing Requirement (CFR) in the short term.	<p>An overborrowed position exposes the council to credit and refinancing risk.</p> <p>The Treasury Management Strategy will need to be updated to explain how the council intends to manage this position over the coming years. The Finance & Audit Committee will provide oversight of this through its financial governance role and receive updates on progress in managing this position.</p> <p>All future capital investment decisions will formally include an assessment of impact on the CFR and other Prudential Indicators.</p>	Significant	Moderate
1.5	R	Settlement Sum is significantly different to that assumed for the purpose of the decision report to Members.	<p>Treasury Advice and negotiations led by ArlingClose has proposed a settlement methodology that reduces the volatility in the settlement sum.</p> <p>Decision Paper includes various modelling scenarios to assist Members in understanding the impact of a change in settlement sum.</p> <p>Delegated authority will help to ensure transparency in the decision making process, with a decision notice published when the final decision to proceed is made.</p>	Low	Minor
1.6	R	Refinancing risk – future interest rate projections are overly-optimistic.	Exposure to this risk will be dependent on the final decision, informed by Treasury Advisors ArlingClose, on the loan portfolio taken, the extent of any short term loans taken and refinancing periods.	Significant	Moderate

Ref.	Type	Description of Risk/Opportunity	Assessment of risk/opportunity	Likelihood	Impact
1.7	O	The surrender will provide the council with unencumbered freehold of the Centre.	Provides greater opportunity for the council to manage and consider the future purpose of the shopping centre or make adjustments to the centre.	Very High	Major
1.8	R	The Aviva Board do not wish to proceed with the surrender.	The matter has been considered by the Aviva Board, who have agreed that the surrender should take place.	Almost Impossible	Major