Socio-Economic Risk Guide

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What is Socio-Economic Risk?

Socio-economic risks are those that have a material impact on the welfare, affordability, health, well-being and financial position of a Community Scheme, its owners, residents, employees, customers/visitors and the broader community in a specific geography or location.

Socio-economic risk management starts with a review of the prevailing and possible socio-political environments and their likely impact on the Community Scheme, its owners, residents, customers, service providers or visitors.

The awareness and management of socio-economic risks will ensure that the Community Scheme is better equipped and prepared to take proactive decisions to deal with the impact of ever-changing economic and socio-political changes in the market/economy, and their likely impact on the Community Scheme. This extends from finances, ability to manage, continued provision of facilities and maintenance, values of properties, the reputation of the scheme, occupancy levels, general sustainability etc.

The Office bearers of the Community Scheme also need to be continually aware of the potential impact and vulnerability of the Community Scheme to the prevailing socio-economic environment, specifically on owners/lessees and tenants/visitors i.e. the level of economic growth, state of the local economy, volatility in interest rates, tourism, travel and movement restrictions, border closures, pandemic impacts, emigration, the level of employment/unemployment, affordability of levies/services, age of owners/tenants/visitors/ customers, reliance/dependence on a single major employer in the area, disposable income levels of owners/tenants/visitors, volatility in key commodity prices, inflation level, crime levels, breakdown in the rule of law, social/civil unrest, war and political risk.

These can all have an impact of varying degrees on the sustainability, profitability/viability of certain facilities provided, property values and the financial well-being of the Community Scheme, and the affordability of levies and services by its owners/lessees, visitors, or tenants.

Managing the Impact of Socio-Economic Risk

One of the key requirements of risk management is the ability to manage and be prepared to deal with socio-economic risks and their impact. The Office bearers and Estate Management of the Community Scheme need to be continually aware of the potential impact of the prevailing socio-economic environment on the Community Scheme, owners/lessees, and tenants/visitors. While there is not much that can be done to alter the prevailing socio-economic conditions, being prepared for the impact on the Community Scheme is essential.

Socio-economic events as covered above can manifest themselves in several ways to varying degrees. These can take place suddenly or be of effect over time.

An adverse economic environment can quickly manifest itself into unpaid/large outstanding levies and in turn, bad debts, unpaid utility accounts, low or no rental demand, or low services demand.

The demand for products or services in any market or locality is almost totally dependent on the socio-economic conditions that prevail. These can all impact in varying degrees on the profitability, viability, safety, property/investment values, and financial well-being of the Community Scheme. This can be felt directly as a result of the change in personal financial positions of owners/lessees/potential buyers, and indirectly through the affordability of rental or hire charges to tenants, the affordability of services to residents and visitors to the Community Scheme, the locality of the Community Scheme and the nature of its operations and the services it offers and relies on for income generation.

Position of Local Authority/Municipality and key Service Providers

The "economic position" of the local authority/municipality responsible for the provision of key utility services e.g. water, electricity (reliable power), sewerage and waste removal are critical to the functioning of the Community Scheme. The financial stability of the local authority/municipality is critical to its sustainability and its ability to continue with the provision of services. The prevailing socio-economic situation has a huge bearing on the stability of the local authority.

Infrastructure requirements can be a specific challenge depending on where the Community Scheme is located. These can extend from road access, reliable power, fuel and diesel availability, telecommunications infrastructure, lighting, bandwidth, access to banking/financial services, health and medical services and availability of clean drinking water. In some areas, it may become essential to explore alternative sources of power, water, and communication e.g. boreholes, use of solar/wind energy, satellite data connectivity and increased use of technology.

People and Labour Reliance

In a world of people mobility, you need to also assess the Community Schemes' vulnerability to being able to attract owners, lessees, tenants, potential buyers etc. and retain quality skilled staff and scarce resources, particularly in the case where broader Estate Management resources are critical.

Where the Community Scheme is heavily reliant on organised labour and subject to recognised union representation and collective bargaining, you are highly vulnerable to the effects of prolonged strike action and related labour unrest. This can extend to violence and sabotage. All the assets and property of the Community Scheme need to be protected and secured during times of labour unrest.

Reliance on and vulnerability of owners/tenants/lessees and customers/visitors to a single major employer and/or industry in the area e.g. a mining company, minerals, fishing, or tourist attraction, can represent a major potential risk to a Community Scheme, particularly in the event of closure or major scale back of companies/employers.

At a facility and service level offering level, you may need to assess the vulnerability to affordability, seasonality, changing tastes and fashion, age demographics of owners/residents/ tenants/visitors, technology changes, potential mechanisation, new competition or newer competing services/facilities and price offerings e.g. frail care services, solar infrastructure.

Adjoining Properties

The state of surrounding and adjoining properties or areas has a very big bearing on the Community Scheme, degradation or deterioration of suburbs and adjoining properties can have a major bearing on health/safety/security, and most importantly, the values, rentability and the saleability of properties or units. The presence of high-risk, insecure, degrading or abandoned properties adjoining a Community Scheme can have a major impact.

Supply Chain

The sustainability of the supply chain for spares, raw materials or resources and products from restricted/limited/endangered/ vulnerable sources (e.g., technology components, critical spare parts, specialised finishes or furniture, kinds of seafood, woods) where relevant to the Community Scheme, need an assessment as to the degree of vulnerability.

Environmental

Global pressure around environmental impact and damage to non-sustainable scarce resources will increase, forcing changes in the regulatory environment and forcing many consumers, including Community Schemes and their suppliers, to then adapt or face fines.

Protection of green belt areas, removal of alien/non-water wise vegetation, meeting global/local emission regulations and the use of clean/alternative energy will become "normalised" requirements and are likely to have an increasing impact. These, along with the impact of climate change and the need to preserve increasingly scarce water resources will require planning and specific focus by Community Schemes.