

The extract below will be incorporated into Appendix I (Finance) as a new section 5 within that Appendix.

## 5. Analysis of Financial Risk

Local authorities within Devon and elsewhere face a number of financial risks – the issues of escalating demands in social care and SEND services are well documented. Local authorities in all areas that are undergoing Local Government Reorganisation will face a further set of risks. We have identified the key financial risks, alongside mitigation plans, in the table below. These risks will be common to any proposal for Local Government Reorganisation in Devon and are not specific to Plymouth’s proposals. The mitigations shown will be incorporated into detailed transition planning.

Risk to new authorities	Risk description	Risk mitigation
New councils inherit unaffordable contractual commitments	Unexpected construction or service contract commitments inherited by new authorities may create budgetary pressures.	Early and ongoing engagement across predecessor councils to ensure councils work together to maintain balanced budgets and consult on significant new contractual commitments. Section 24 directions during implementation period.
Sub-optimal or poor value asset acquisitions and disposals	Assets acquisitions create unaffordable debt for new councils; assets are disposed of by predecessor councils for less than best value.	Early and ongoing engagement between predecessor councils as noted above. Section 24 directions during implementation period.
New councils inherit unsustainable budget positions.	Current authorities may utilise one-off reserves to fund ongoing expenditure or may not be able to deliver planned savings or contain costs within budget. This would leave new authorities inheriting an unbalanced budget position.	Early and ongoing engagement between predecessor councils to ensure councils commit to maintaining balanced budget positions in the run up to reorganisation. Provision of adequate reserves and contingencies within initial budget setting for new councils.

Risk to new authorities	Risk description	Risk mitigation
Cumulative Dedicated Schools Grant (DSG) deficit	Within the wider risk around budgets, there is an acute risk in Devon regarding the level of DSG deficit that, on current trends, would be inherited by new councils. The statutory override ends on 31st March 2028, the day before new councils would be created, and this is therefore considered a significant risk.	Projected levels of DSG deficit in Devon are likely to be unmanageable locally without support from central government. Engagement with government to agree a solution will be key to ensuring viability of new councils in relation to this acute issue.
Depletion of reserves	Predecessor councils utilising reserves to fund transition costs or to balance the budget could leave inadequate levels of reserves for new councils.	Early and ongoing engagement between predecessor councils to ensure councils commit to maintaining balanced budget positions and adequate levels of reserves.
Transition costs are higher than estimated.	The cost for separating services previously delivered by a top tier authority may be higher than anticipated, in particular due to higher IT or redundancy costs.	Contingencies are built in to estimates and should be funded within financial plans. Implementation plans could be adjusted, e.g. by phasing or the use of shared service agreements to defer / spread transition costs.
Estimated savings are not achievable.	The savings estimated are based on historic costs and a high level, desktop analysis. They may not materialise as expected, which could impact on the financial sustainability of new councils.	Implementation executives, continuing and shadow authorities will need to review savings assumptions and revise if necessary, as more information becomes available; establishing benefits tracking systems to ensure that the projected savings are closely monitored and delivered will be key to realising financial benefits. Financial plans and budgets should take a zero-based approach, improving the accuracy of initial estimates.

Risk to new authorities	Risk description	Risk mitigation
Legacy debts and liabilities may create disproportionate, unaffordable capital financing pressures.	We anticipate that, generally, debt liabilities would be apportioned to new councils on an equitable basis; however, there is risk that for specific debt-financed assets this general approach could lead to 'stranded' debt liabilities, disassociated from income streams or assets.	Conduct review of assets and liabilities ahead of transition. Early and ongoing engagement between predecessor councils to ensure potential 'stranded debt' issues are identified and resolved at an early stage.