

## Annex 3 – Principal Business Risks

Risk	Risk Description	Mitigation
Impact of Inflation – PFI School operational phase	The proportion of costs payable by the Authority to the PFI contractor which is subject to inflation adjustment is not matched by equivalent inflation adjustment in the Authority's revenue	<ul style="list-style-type: none"> <li>School contributions are indexed and may also be adjusted to reflect benchmarking / market testing provisions partially offsetting the risk.</li> </ul>
Impact of Inflation – Build contracts	BSF grant is awarded at a point in time and 'frozen' at that point. The actual movement in construction indices during the design development and construction phases may differ (adversely) from the indexation assumption on which the grant is based	<ul style="list-style-type: none"> <li>Work with Partnerships for Schools to better reflect this risk in the funding model.</li> <li>Assume a greater proportion of contingency within the allocated BSF funding to set against this risk. <u>This risk relates principally to the Non Sample Schools</u></li> </ul>
Authority Capital programme	Future reductions in (non-BSF) capital allocations to the Authority and/or unavoidable calls on capital reduce the Authority's ability to support future lifecycle costs in BSF schools	<ul style="list-style-type: none"> <li>Ensure appropriate level of school contributions to future lifecycle costs from Devolved Formula Capital and the Dedicated Schools Grant</li> <li>Ensure proper attention to lifecycle issues during the design process</li> <li>Sweat assets</li> </ul>
Scope creep – design phase	Changes to design compromise affordability	<ul style="list-style-type: none"> <li>Inclusive design development process</li> <li>Robust "adds and omits" process <u>rigidly applied during the design development and Reviewable Design Data (RDD) stages</u></li> </ul>
Scope creep – operational phase	Excessive charges levied by the LEP for minor changes, equipment replacement etc	<ul style="list-style-type: none"> <li>Enforce benchmarking and market testing provisions</li> <li>Non-PFI FM contract has a works ordering process which requires competitive quotes above a de minimis threshold</li> </ul>
Furniture, Fittings & Equipment	Unrealistic expectations and/or inadequate budget for FFE	<ul style="list-style-type: none"> <li>Maximise use of existing equipment</li> <li>Greater proportion of BSF funding allocation to be used for FFE <u>to</u></li> </ul>

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		<u>ensure that an appropriate proportion of the total project spend is applied to FFE</u>
'Demand Risk' at the PFI school	Student numbers on roll do not match the forecasts on which the fixed PFI costs are based	<ul style="list-style-type: none"> <li>Schools Forum has agreed that demand risk can be managed through a call on the secondary quantum of the DSG</li> </ul>
LEP performance	Poor performance of the LEP	<ul style="list-style-type: none"> <li>Enforce contractual safeguards which culminate in loss of exclusivity</li> </ul>
Future BSF policy	Government does not continue with BSF	<ul style="list-style-type: none"> <li>Re-negotiate contract with LEP to mothball the LEP or terminate early</li> <li>Consider delivering non-BSF projects through the LEP</li> </ul>