The Contingent Liability Checklist

The contingent liability checklist is designed to allow Treasury and departmental officials to discuss the details of a proposed contingent liability. The checklist will also form the basis of any advice to Treasury ministers. Treasury would encourage departments to share checklists in draft form to enable joint policy discussions ahead of any final decision.

If a business case is required, a pragmatic approach should be taken to the checklist given the significant overlap. It is usually best to discuss the checklist with HMT first as it will contain the key information needed which the business case will then further detail.

The Contingent Liability Central Capability (CLCC) (CLCC@UKGI.org.uk) are available to support departments in the design of contingent liabilities and to ensure best practice is met across government. As part of that process, they will be able to assist your department in the completion of this checklist.

When sending a checklist to Treasury please include a contact email for the relevant policy official, the commercial sensitivity of the proposed contingent liability and group or team responsible for the proposal.

1. Summary

1.1: Please set out details of the contingent liability/liabilities for which you are seeking Treasury consent.

1.2: Please complete the following table summarising the financial impacts of this contingent liability. If you have used an alternate method to calculate expected cost, please adjust the table accordingly.

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| --- | --- |
| ***Contingent Liability Summary Table***  |  |
| **(1) Start and end dates of risk exposure** [the dates between which an event could occur causing the liability to crystallise] |  |
| **(2) Start and end dates of liability exposure** [the dates between which a claim could be paid] |  |
| **(3) Maximum exposure** (£ millions) |  |
| **(4) Reasonable worst case exposure** (£ millions) |  |
| **(5) Average cost per crystallisation** (£ millions) |  |
| **(6) Probability of crystallisation** [if only one crystallisation can occur] *or* **Expected number of crystallisations** [if more than one crystallisation is possible] (%/number) |  |
| **(7) Lifetime expected gross cost** [average cost per crystallisation (5) multiplied by probability of/expected number of crystallisations (6)] (£ millions) |  |
| **(8) Lifetime expected** **income** (£ millions) |  |
| **(9) Lifetime expected net cost** [Lifetime expected gross cost (7) minus Lifetime expected income (8)] (£ millions) |  |
| **(10) Probability of any costs arising** [for single event CLs this would be the same as the probability above, for portfolios this will be higher – perhaps even 100%] (%) |  |

1.3: Why is it beneficial for government to take on this contingent liability?

1.4: Please provide an options analysis demonstrating what alternatives have been considered.

2. Evidence and Rationale

2.1: Please provide evidence to support the maximum possible and reasonable worst case estimates in the summary table, including an assessment of uncertainty.

2.2: Why is this size necessary? If there is no explicit maximum, please explain why.

2.3: Why is the risk and liability exposure of this contingent liability necessary? If the contingent liability exists in perpetuity, please explain why.

2.4: Will there be any review points where parameters of the liability can be changed and are there options to exit the liability before the maturity?

2.5: Please provide evidence to support the “Average Cost per Crystallisation” in the summary table, including an assessment of uncertainty?

2.6: Please provide evidence to support the “Probability of Crystallisation/Expected Number of Crystallisations” in the summary table, including an assessment of uncertainty.

2.7: Please provide evidence to support the income received estimate in the summary table, including an assessment of uncertainty.

2.8: Why is this level of income received appropriate? In particular, if your department does not intend to charge, please explain why.

2.9: If the liability crystallises, what is the impact on future crystallisations of this liability?

3. Risk management

3.1: What are the triggers for this contingent liability crystallising?

3.2: How does your department plan to monitor and report risks once the CL is approved, both to Treasury and internally?

3.3: What risk mitigation tools will be applied to reduce the risk of this liability crystallising and the quantum of any crystallisation?

3.4: Will the liability be funded in advance by, for example, holding assets against the liability? As set out in Box 4 of the contingent liability approval framework, this is rarely good VfM.

4. Affordability

4.1: If the contingent liability crystallised, how will your department meet the required payment (reasonable worst-case cost) from your department's existing budget?

4.2: What other liabilities are held by your department have similar triggers? If this liability crystallises what is your assessment of the impact on the likelihood of crystallisation of other liabilities – would this be affordable within existing budgets?