

## VII Assessment of Risk and Adjustment for Optimism Bias

### Programme Risk Register (initial)

7.1 As may be anticipated in a programme of this scale and nature, a number of areas of risk have been identified that could potentially affect successful implementation defined in terms of securing the maximum potential benefits. The higher weighted risks are set out initially in a risk register in Table 7.1, below and then discussed with possible mitigating factors.

**Table 7.1 – Programme Risk Register (initial)**

Programme Risk	Probability	Impact	Overall
1. Desired outcomes for citizens and communities are not realised	Medium	High	High
2. Cost of reform programme is in excess of budget set out in this Economic Appraisal	Medium	High	High
3. Financial benefits are less than the estimates set out in this Economic Appraisal	Medium	High	High
4. Programme milestones (including establishment of new councils in May 2011) are not achieved	Low	High	High
5. Benefits are not spread evenly across region	High	Medium	Medium
6. Failure to secure adequate funding	Medium	High	High

7.2 Each of these risks is explored in further detail below.

1. Desired outcomes for citizens and communities are not realised

This risk relates to the possibility of the reform programme not delivering the anticipated benefits for individual citizens and communities. One of the key objectives of the overarching RPA reform is to make a positive difference to the people of Northern Ireland through the localism of public service delivery. There is a risk that the reform programme, as with many previous public sector change initiatives, could lose sight of this objective in the midst of the complex transformation that it has to deal with internally. The programme must always remember that it is simply a means to an end and not the end in itself.

Causes	Mitigating Actions
Focus on process rather than outcomes; Complexity of internal change deflects external focus; and Benefits realisation process not effective.	<ul style="list-style-type: none"> <li>✓ Formal programme structures with benefits management as central focus;</li> <li>✓ Programme Delivery Support Unit responsible for enabling benefits realisation;</li> <li>✓ Benefits management key elements of each sub-programme, project and</li> </ul>

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	<ul style="list-style-type: none"> <li>initiative; and</li> <li>✓ Independent programme assurance.</li> </ul>
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2. Cost of reform programme is in excess of budget set out in this Economic Appraisal  
This risk relates to the possibility that the finalised costs of implementing the operational vision for the local government sector in Northern Ireland is significantly in excess of the level of costs set out in this Economic Appraisal.

Causes	Mitigating Actions
Costs under-estimated in Economic Appraisal; and Costs not properly controlled within implementation phase.	<ul style="list-style-type: none"> <li>✓ Prudent and conservative assumptions used to underpin costing assumptions in Economic Appraisal;</li> <li>✓ We have performed sensitivity analyses to determine the impact of (a) transition costs being higher than expected (b) transformation costs being higher than expected. The preferred option did not change;</li> <li>✓ Programme Delivery Support Unit providing challenge to and assurance of programme expenditure; and</li> <li>✓ Funding released to sub-programmes against achievement of milestones.</li> </ul>

3. Financial benefits are less than the estimates set out in this Economic Appraisal  
This risk relates to the possibility that the finalised benefits associated with the 'steady state' operational vision set for the local government sector in Northern Ireland is significantly beneath the level of benefits set out in this Economic Appraisal.

Causes	Mitigating Actions
Benefits over-estimated in Economic Appraisal; and Benefits not properly managed within implementation phase.	<ul style="list-style-type: none"> <li>✓ Prudent and conservative assumptions used to underpin benefit assumptions in Economic Appraisal;</li> <li>✓ We have performed sensitivity analyses, for example we ran a test to determine the impact of transformation benefits being lower than expected. The preferred option did not change;</li> <li>✓ Notional costs have been fully identified within the current cost of service delivery and the need to focus on realising these benefits within central government has been emphasised;</li> <li>✓ Formal benefits realisation approach utilised as standard approach across all areas of the programme;</li> <li>✓ Programme Delivery Support Unit</li> </ul>

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	<p>providing challenge to and assurance of programme benefits management; and</p> <p>✓ Funding released to sub-programmes against achievement of benefit milestones.</p>
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4. Timescales are not achieved

This risk relates to the possibility of the key timescale milestones for the programme not being achieved. The underlying assumptions for all options are that the 11 new councils will be established in May 2011 with transformation complete by May 2012. For the more transformational options, the timescales for completion are extended to May 2015.

Causes	Mitigating Actions
<p>Stated programme timescales are unrealistic for each sub-programme, project and initiative;</p> <p>Lack of political will to deliver required changes;</p> <p>Lack of staff-side commitment to transformation process; and</p> <p>Programme, at all levels, is not managed effectively.</p>	<p>✓ Programme timescales for completion extended to 2015 for more “ambitious” transformation options;</p> <p>✓ We have performed sensitivity tests to determine the outcome of transformation benefits being realised 12 months later than expected. The preferred option did not change;</p> <p>✓ Gaining political support at all levels for the reform of local government;</p> <p>✓ Effective leadership at both programme and sub-programme level;</p> <p>✓ Effective communication with staff-side representatives as key programme stakeholder;</p> <p>✓ Each sub-programme, project and initiative to develop own implementation plan (against agreed programme milestones) based on own / available capability and capacity;</p> <p>✓ Programme Management Office providing monitoring and assurance of programme and sub-programme plans; and</p> <p>✓ Programme Delivery Support Unit providing interventions to assist sub-programmes, projects and initiatives that are “behind plan”.</p>

5. Benefits are not spread evenly across region

This risk relates to the possibility of the financial and non-financial benefits not being appropriately spread across the new organisations and, in particular, the 11 new councils. If this risk was realised, there would be a possibility of a significant divergence in the level of service and value for money (in relation to district rate levels) across each of the new council areas.

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Causes	Mitigating Actions
<p>Support interventions not sufficient to address issues around 'different starting points' and 'different capabilities'; and</p> <p>Individual sub-programmes, projects and initiatives not managed as a coherent programme of work.</p>	<ul style="list-style-type: none"> <li>✓ Programme Delivery Support Unit providing challenge and assurance to the plans (and ambitions) of each sub-programme, project and initiative;</li> <li>✓ Benefits realisation as clear performance measure across all reform sub-programme, projects and initiatives; and</li> <li>✓ Programme Delivery Support Unit providing interventions to assist sub-programmes, projects and initiatives.</li> </ul>

6. Failure to secure adequate funding

This risk relates to the possibility that adequate funding will not be made available to support the initial implementation and increased operating costs (relative to the Do Nothing option). This risk increases as the level of transformation within each option increases (and the level of the 'pump prime' funding requirement grows).

Causes	Mitigating Actions
<p>Central Government funding not made available; and</p> <p>Local Government funding not made available.</p>	<ul style="list-style-type: none"> <li>✓ Set out a compelling, yet prudent, case for local government reform which clearly shows improved service delivery and the potential for significant financial savings;</li> <li>✓ Explore different mechanisms for central government funding;</li> <li>✓ Explore additional funding mechanisms within local government;</li> <li>✓ Maximise physical and cash assets within local government at vesting day in May 2009; and</li> <li>✓ Emphasise strategic benefit of reform programme</li> </ul>

7.3 The underlying themes behind the mitigation actions are to reflect the individuality of each project while managing all projects as a single and holistic programme of work. The programme structures of the Programme Management Office and the Programme Delivery Support Unit are designed to enable this approach providing interventions to support and enable change across all areas of the programme.

7.4 Not unsurprisingly the risks associated with this programme increase with the ambition and scope of the options – greater transformation will deliver more benefit (financial and non-financial) but will require greater and more proactive risk management. There is essentially a value judgement to be made around ambition, risk and reward.

## **Adjustment for Optimism Bias**

- 7.5 As detailed in the New Green Book, there is a demonstrated systematic tendency for project appraisals to be overly optimistic. This can be characterised by benefits that are over stated, and timings and costs that are understated. To redress this potential tendency, explicit adjustments to costs are often made. It is recommended in the New Green Book that these adjustments be based on data from past projects, and adjusted for the unique characteristics of the project in hand.
- 7.6 In this instance optimism bias calculations have not been undertaken for the following reasons:
- The overall proportion of capital expenditure is very low;
  - The sensitivity analysis set out in Section 6 considers a range of scenarios including those where costs have been increased and benefits decreased; and
  - The approach taken to estimating the costs and benefits has been extremely prudent and conservative in order to avoid any optimism.