

12 RISK AND OPTIMISM BIAS

12.1 Introduction

Since any appraisal involves making assumptions about various elements of the programme or project in question, a degree of risk and uncertainty is always involved.

This section considers the probability of occurrence and potential impact of areas of non-monetary risk. Risk mitigation strategies are also highlighted.

The treatment of any potential monetary risk and uncertainty is generally best dealt with using sensitivity analysis, which involves varying the value or number of key project inputs which are likely to be subject to the greatest degree of uncertainty. These issues are explored in greater detail in Section 14 (Net Present Values and Sensitivities).

12.2 Non-Monetary Risks

The issue of programme risk has been assessed by:

- Identifying key programme risks;
- Profiling the identified risks in terms of their probability and likely impact; and
- Considering the measures necessary to mitigate the programme risks identified.

Key areas of non-monetary risk are presented in Table 12.1 below

Table 12.1:
Non-Monetary Risk Assessment

Risk	OPTION 2 – ENHANCED NITHC		OPTION 4 - AGENCY		Mitigation Strategies
	Probability of Occurrence	Potential Impact	Probability of Occurrence	Potential Impact	
<p>Skills risk – Planning: The middle tier may not have access to a sufficient pool of skills and expertise within Northern Ireland in relation to public transport planning and specification.</p>	High	Medium	High	Medium	<p>In short term, recruit relevant expertise from comparable settings outside Northern Ireland to establish frameworks and best practice guidance for future. In medium term, develop own talent from within middle tier staff. While Translink will currently have skills in relation to network planning and scheduling, we understand that it would be difficult to transfer a separate cohort of staff from Translink to the middle tier, since these functions are carried out as part of depot and area managers' existing roles and responsibilities.</p>

Risk	OPTION 2 – ENHANCED NITHC		OPTION 4 - AGENCY		Mitigation Strategies
	Probability of Occurrence	Potential Impact	Probability of Occurrence	Potential Impact	
<p>Skills risk – Contracting: The middle tier may not have access to a sufficient pool of skills and expertise within Northern Ireland in relation to contract management and monitoring of public transport services.</p>	Medium	High	Medium	High	<p>In short term, recruit relevant expertise from comparable settings outside Northern Ireland to establish frameworks and best practice guidance for future. These advisers could also work alongside contract management specialists recruited from other areas of the public sector here.</p> <p>In medium term, develop own talent from within middle tier staff</p>
<p>Management risk: The middle tier may face challenges in developing service contracts that are sufficiently detailed and robust to incentivise improved performance from operators.</p>	High	High	High	High	<p>As a first step, develop a pro forma service contract after engaging with councils and PTEs in Great Britain and elsewhere on how they structure their own contracts. Update pro forma contracts every three-to-five years to ensure they remain relevant and are fit for purpose.</p>

Risk	OPTION 2 – ENHANCED NITHC		OPTION 4 - AGENCY		Mitigation Strategies
	Probability of Occurrence	Potential Impact	Probability of Occurrence	Potential Impact	
Legal risk: The proposed new structures may create challenges in demonstrating compliance with relevant laws and regulations, specifically EU Regulation 1370/2007.	Medium	High	Low	High	Put in place the contractual and funding mechanisms that will ensure compliance as highlighted in this OBC. Legal consideration of proposed structures and contracts to be considered further as part of proposals for legislative changes and at Full Business Case stage.
Organisational risk: The practical implications of organisational change associated with establishing the middle tier may be greater than anticipated.	Low	Medium	Medium	Medium	Development of detailed, robust plans for implementation and delivery of new arrangements when policy direction is approved. Planning of an Agency structure could proceed in tandem with any legislative changes that would be required.

The results of our work indicate that both 'do-something' options carry a broadly similar overall risk profile.

12.3 Optimism Bias

The Public Transport Reform programme does not contain a significant capital element and it is therefore not appropriate in these circumstances to take account of Optimism Bias for the purposes of the OBC.