

**To:** Cabinet

**Date:** 11 November 2020

**Report of:** Finance and Performance Panel (Panel of the Scrutiny Committee)

**Title of Report:** Integrated Performance Report 2020/21 Q1

<b>Summary and recommendations</b>	
<b>Purpose of report:</b>	To present Finance and Performance Panel recommendations concerning the Integrated Performance Report 2020/21 Q1
<b>Key decision:</b>	No
<b>Scrutiny Lead Member:</b>	Councillor James Fry, Chair of the Finance and Performance Panel
<b>Cabinet Member:</b>	Councillor Ed Turner, Cabinet Member for Finance and Asset Management
<b>Corporate Priority:</b>	All
<b>Policy Framework:</b>	Council Strategy 2020 - 24
<b>Recommendation: That Cabinet states whether it agrees or disagrees with the recommendations made in the body of this report.</b>	

<b>Appendices</b>
None

### **Introduction and overview**

1. At its meeting on 29 September 2020, the Finance and Performance Panel considered the Integrated Performance Report 2020/21 Q1, detailing the Council's results against its financial, performance and risk measures. This report had been considered by Cabinet on 12 August 2020, meaning that due to the timing of the Finance and Performance Panel the item was subjected to post-decision scrutiny, rather than the standard pre-decision scrutiny.
2. The Panel would like to thank Nigel Kennedy, Head of Financial Services, and Helen Bishop, Head of Business Improvement, for compiling the report and

supporting the meeting, and Anna Winship, Management Accountancy Manager, for presenting the report and answering questions.

## **Summary**

3. The Panel was introduced to the Cabinet report by Anna Winship, Management Accountancy Manager. The main financial, risk and performance headlines were outlined to the Panel with explanations provided for the main causes. The main focus of discussion was in relation to the Council's finances, with attention given to the major areas of reduced income and increased expenditure.
4. The Panel makes two recommendations concerning the treatment and presentation of the Council's capital budget, particularly in relation to the application of an 'optimism bias'.

## **Treatment and Presentation of Capital Budget**

5. The Panel discussed in detail paragraph 16, particularly the section on 'optimism bias', a mechanism to offset the optimism of project managers regarding the delivery of projects. The effect of the optimism bias as applied to the Council's budget was stated in the Cabinet report to reduce the forecast outturn of the capital programme from £96.27 million to £81.169 million.
6. The Panel expressed some scepticism about the inclusion of optimism bias into the capital programme especially as it was not allocated to specific capital projects (though it was noted that individual projects did have amounts included for slippage in addition to this). The Panel wondered whether the optimism bias could be allocated to individual projects and whether it was in fact a netted down amount for not only slippage but project overruns and sought further information on how the amount was calculated. It was also questioned whether the term was just another word for 'slippage' and simply a replacement for project manager accountability for the spend on and delivery of their projects. The Head of Financial Services advised that the amount included for optimism bias was generally a downward adjustment rather than allowing for increases in costs, this was an industry practice and was an attempt to overcome the tendency of project managers to be overly optimistic in how their projects were performing. In the past the Council had experienced significant slippage in the capital projects and the inclusion of an amount for optimism bias was simply a means of adjusting for the 'overly optimistic' views of project managers of how much they would spend and consequently how much of the whole capital programme would be spent by year end.
7. The suggestion of the Panel is that as currently presented, with the capital programme outturn incorporating a reduction on the basis of the optimism bias, the application of the optimism bias may provide a misleading picture. Instead, a clearer way of presenting it would be to present the Council's forecast outturn for the capital programme without reductions, and subsequently to highlight the proportion at risk of non-delivery due to over-optimism by project managers. The Panel suggests one way to draw out this level of risk is through the aggregation

of the risk levels assigned to each project in the budget. Doing so would mean that the Council’s budgeted figure for capital spending was not interfered with in any way, but that there was also a way for the Council to be transparent regarding the extent of its uncertainty over delivery for the projects within its capital programme.

***Recommendation 1: That the Council ceases to net off uncertainty over its capital programme through the use of an optimism bias, and instead uses an aggregation of the level of risks given to each project in the budget to present the proportion of that figure over which the Council is uncertain of delivery.***

8. Whilst it is recognised by the Panel that optimism bias primarily focuses on over-optimism regarding delivery speed, resulting in reduced capital spend in any given year, cost increases in specific projects – such as the Seacourt Park and Ride – show a different form of project manager optimism.<sup>1</sup> Because the effect of the two pulls projected outturn figures in opposite directions, a project which is subject to both would see its variance netted off. The smaller variance resulting from this offsetting of one action against another would give a more positive impression than the real world experience of a project which has been subject to the dual problems of both delay and overspend. Indeed, if overspend and delay were to be equal, the forecast outturn would appear to be precisely on target. As a consequence, the Panel suggests that overspends and delays are delineated in the treatment of projected capital outturns so that the presence and effects of the two problems are clearer and do not offset one another.

***Recommendation 2: That in its treatment of variance from budgeted capital spends the Council delineates the impact of increased costs and slippage.***

### Further Consideration

9. The Scrutiny Committee has agreed to consideration of quarterly Integrated Performance Reports for the remainder of the civic year.

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<sup>1</sup> Other presentations of variance may also be subject to this issue.

**Cabinet response to recommendations of the Finance and Performance Panel made on 29/09/2020 concerning the Integrated Performance Report 2020/21 Q1 report**

**Provided by Cabinet Member for Finance and Asset Management, Councillor Ed Turner**

<b>Recommendation</b>	<b>Agree?</b>	<b>Comment</b>
<b>1) That the Council ceases to net off uncertainty over its capital programme through the use of an optimism bias, and instead uses an aggregation of the level of risks given to each project in the budget to present the proportion of that figure over which the Council is uncertain of delivery.</b>	Yes	The Council will in future cease to make use of optimism bias calculations in its capital monitoring reporting and look to introduce a risk rating assessment of each project.
<b>2) That in its treatment of variance from budgeted capital spends the Council delineates the impact of increased costs and slippage.</b>	Yes	Generally slippage will be reported as a 'favourable variance' i.e reduced budget against the original budget in year because the budget is 'slipped' into the following year. On some occasions the budget is brought forward from future years if spend is in advance of the amount budgeted in year. This appears as increased budget or an 'adverse variance'. In some instances the in-year budget is increased due to overspends and in future these will be differentiated from budget that is simply brought forward.