



6 March 2019

Deputy Sean Fleming  
Chairman  
Committee of Public Accounts  
Leinster House  
Dublin 2

Dear Deputy

Further to my letter earlier today attaching a briefing note for the information of the Committee of Public Accounts, I now attach a copy of my Opening Statement for my meeting with the Committee tomorrow at 9.00am.

The officials of the Department who will attend the meeting with me are as follows:

- David O'Brien, Principal Officer, Office of Government Procurement
- David Feeney, Principal Officer, Corporate Office
- Helen Codd, Assistant Principal Officer, Corporate Office
- Ciara Morgan, Assistant Principal Officer, Investment Projects and Programmes Office

Yours sincerely



Robert Watt  
Secretary General

# **Opening Statement to the Public Accounts Committee on Oversight and Implementation of Capital Projects**

**Robert Watt, Secretary General of the Department of Public Expenditure and Reform**

**7<sup>th</sup> March 2019**

## **Introduction**

Thank you for inviting me here today to discuss the oversight and implementation of capital projects. There is compelling international evidence that efficient capital public investment is central to long term economic wellbeing. Efficient public capital investment allows the economy to grow faster on a sustainable basis by raising productivity and supply capacity. This has an important role to play in alleviating capacity constraints that might otherwise restrict economic and social progress.

Value for money is the key policy objective and policy seeks to support efficient and sustainable public investment.

The selection, appraisal, and delivery of individual public sector capital projects is the responsibility of each relevant Department. My Department is responsible for overseeing the implementation of the National Development Plan within Project Ireland 2040, supporting value for money and protecting sustainable capital investment.

In that context, I would like to discuss:

- Project Ireland 2040;
- Progress in relation to the roll out of capital investment plan as part of Project Ireland 2040, looking at progress in both projects and reforms;
- the existing processes for selection, appraisal and delivery of public sector capital projects including governance; and
- the plans in place to strengthen those processes.

### **Project Ireland 2040**

Project Ireland 2040 was launched just over one year ago. As Deputies are aware, Project Ireland 2040 seeks to achieve ten strategic outcomes building around the overarching themes of well-being, equality and opportunity. It consists of the National Development Plan and the National Planning Framework and seeks the alignment of investment with the spatial outcomes set out in the planning framework.

Project Ireland 2040 moves beyond the approach of the past which saw public investment spread too thinly and investment decisions which did not align with a spatial strategy. These practices contributed to some of the major issues that we face today as a country, particularly the predominance of Dublin in terms of economic growth, alongside the challenges facing rural communities.

Project Ireland 2040 seeks to develop Cork, Galway, Limerick and Waterford as viable cities of scale which can act as alternatives and a counterbalance to the continued growth of Dublin and its surrounding region. These cities will act as drivers of growth for their wider regions and rural areas.

Over the first ten years of Project Ireland 2040, €116 billion will be invested through the National Development Plan. Investment will reach 3.5% of national income this year and over 4% of national income by 2027. This significant acceleration in investment is in line with national and international analysis that Ireland's public capital infrastructure needs to be substantially strengthened to support the resilience of our economy in response to risks such as Brexit. As Deputies are aware, public capital spending was necessarily impacted as Government sought to restore the public finances during the recession. This plan seeks to accelerate the necessary catch up in public capital infrastructure.

### **Progress on Public Capital Investment - Projects**

There has been a lot of recent commentary on the delivery of large scale capital investment projects. However, in that commentary we can lose sight of the significant progress that is being made.

Project Ireland 2040 is already delivering better transport links, facilitating better health and environmental outcomes and delivering more housing:

- National roads are being upgraded. The M11 Gorey-Enniscorthy Motorway will open to traffic later this year. It is the largest project underway in the State at present and is currently scheduled to be completed on time and on budget. Works will be started on key arteries in 2019 such as the N4 Collooney to Castlebaldwin, the Ardee Bypass and N22 Ballyvourney to Macroom and many more projects across the country;
- To bolster our international connectivity, works commenced on the new runway at Dublin Airport last month which is due to be operational by 2021;
- There will be over 90 new school building projects in construction this year and over 300 schools will benefit from minor works improvements;
- 2019 will see the completion of the National Forensic Mental Hospital and the opening of 18 primary care centres throughout the country;

- 6,500 social housing units will be developed in 2019 and when acquisitions and leased units are added, that figure will be reach 10,000;
- Bandon flood relief scheme will be completed this year while flood relief schemes in Blackpool and Glashaboy will commence construction; and
- The projects upgrading the water supply in Drogheda and Dundalk will be completed this year. Projects to address water quality and capacity issues in Skibbereen, Shanakiel, Ballyshannon, Kilkenny and Cork cities will also begin in 2019. Sewerage schemes in Blanchardstown, Athlone and Liffey Valley will commence this year.

The majority of recent projects have been delivered on time and on budget. I would like to highlight a small number:

- The N22 Tralee bypass was completed on time and at a cost of €73.4 million, which is over €20 million under budget;
- Similarly, the N25 Cork South Ring Road Interchanges Upgrade was completed on time and a cost of €81.5 million, generating savings of just over €16 million;

- The North Docklands Sewerage Scheme cost just over €16 million and was under budget;
- The Waterford Towns and Villages Wastewater project was completed on budget at just under €26 million; and
- Phase 2 of the National Indoor Arena is expected to be completed ahead of schedule this March at a total cost of €26 million.

This highlights the professionalism across many sectors in delivering public capital projects.

### **Progress on Public Capital Investment - Reforms**

To support Departments as they work to achieve value for money in investment in capital infrastructure, a suite of key reforms have been introduced to support the efficient implementation of Project Ireland 2040 and its objectives:

- The Land Development Agency has been set up by the Department of Housing, Planning and Local Government to ensure optimal use of State land;
- Four new funds have been set up focused on urban and rural investment, climate action and disruptive technology to prioritise

funding to the best projects. They are being managed by the relevant line Department;

- A Construction Sector Group has been established to ensure regular and open dialogue between Government and the construction sector;
- A Project Ireland 2040 Delivery Board of Secretaries General meets regularly to ensure effective leadership of the implementation process;
- The Investment Projects and Programmes Office (or IPPO) has been established in my Department to coordinate reporting on Project Ireland 2040 and drive reforms including strengthened business case and project appraisal;
- A Capital Projects Tracker is published on the DPER website to inform citizens of the variety of projects being rolled out in their area and to give a greater overview to the construction and infrastructure sectors. The tracker is currently being updated;
- A Capacity and Capability review of public sector bodies is being commenced by DPER to ensure that the State's delivery practices are to the highest standard; and



- As part of the ongoing reform of Ireland's capital management systems, the Office of Government Procurement is conducting a review of construction procurement strategy and we are reviewing the Public Spending Code. The purpose of these reviews is to strengthen the existing guidance to better align with the realities of project delivery and with a particular focus on improved financial appraisal, cost estimation and management.

### **Existing Processes for Capital Projects**

I would like to touch on the processes that are currently in place to ensure the effective selection, appraisal, delivery, and oversight of capital projects.

Firstly, let me stress that the management, delivery and oversight of individual investment projects and public services within the agreed allocations is a **key responsibility of every Department and Minister**. Government receives regular reports informing them of actual expenditure and my own Department is in regular contact with all other Departments and Offices to ensure that actual expenditure is being managed within the overall fiscal parameters. In addition, the drawdown of funds from the Exchequer is monitored and reported on against profile on a monthly basis in the Exchequer Statement.

There are a range of processes and guidance in place to support Departments and Ministers in securing value for money. I would like to discuss the key issues for the selection, appraisal, delivery, and oversight of capital projects, namely the Public Spending Code and public procurement rules.

### **Public Spending Code**

The Public Spending Code is the set of rules, procedures, and guidance to ensure Value for Money in public expenditure across the Irish Public Service. The Public Spending Code encompasses guidance on a variety of issues related to the management of expenditure at each stage of the expenditure lifecycle. This includes central guidance on the application of appraisal and evaluation methodologies including cost benefit analysis.

The Public Spending Code sets out the oversight and approval process for public expenditure proposals including capital projects. Governance and clear lines of responsibility are key to successful public capital investment. The Public Spending Code supports this by clearly setting out the **responsibilities which lie with different roles**. These main roles are the Sponsoring Agency and the Sanctioning Authority.

The Department or agency proposing and implementing a project is the Sponsoring Agency. It is responsible for appraisal, planning, implementation, management and post project review of the project. The Sponsoring Agency is responsible for developing a project proposal which is then submitted to the Sanctioning Authority for decision on approval at key designated gates in the project life cycle.

The Department or body funding the project and who is responsible for project approval is the Sanctioning Authority. It is responsible for approval in principle at the key designated gates in the project lifecycle namely following appraisal (preparation of the business case), approval to proceed to tender, and approval to accept a tender if the project has significantly changed such as an increase in costs.

The Sponsoring Agency is responsible for managing and monitoring the implementation of the project. The Sanctioning Authority must be satisfied that the Sponsoring Agency has appropriate systems to ensure the project is delivered in line with what has been approved. If adverse developments occur which affect the desirability or viability of the project, the Sponsoring Agency must report to the Sanctioning Authority.

Sponsoring Agency and Sanctioning Authority roles can lie within separate public sector bodies. For example, for a regeneration social housing project, typically, the relevant local authority will be Sponsoring Agency and the Department of Housing, Planning and Local Government will be the Sanctioning Authority. Sponsoring Agency and Sanctioning Authorities roles can also be within one public sector body. For example, for maintenance projects funded by local authorities, the local authority may be both the Sponsoring Agency and the Sanctioning Authority. For projects costing over €100 million, the Government is the Sanctioning Authority. For practical purposes, the relevant Department will of course lead on that project.

The Public Spending Code is supplemented in some instances by *sectoral specific appraisal guidance*. These are developed by the relevant Department and set out additional requirements and parameters specific to the sector, while remaining in line with the Public Spending Code.

### **Public Procurement Rules**

Public procurement rules cover the acquisition of works, supplies and services by public bodies. National rules governing public procurement must comply with the relevant EU, WTO and national legal requirements and obligations. The aim of European and national

rules is to promote an open, competitive and non-discriminatory public procurement regime.

The high level review and reporting structures set out in the Public Spending Code are key to better project management and form the basis of the guidance material on project management that is set out in the Capital Works Management Framework which was first published in 2007.

All public works projects that are delivered under the Exchequer-funded element of the Government's capital plan must be procured in accordance with the provisions laid down in the Capital Works Management Framework. The Framework is mandated by circular and was developed to provide an integrated set of contractual provisions, guidance material, technical templates and procedures which cover all aspects of the delivery process of a public works project from inception to final project delivery and review to assist contracting authorities in meeting their ongoing procurement requirements. The public works contract is a key component of the Framework and is a lump sum, fixed-price contract which is to be used on most public works projects.

The Framework is maintained by the Office of Government Procurement in conjunction with the Government Contracts Committee for Construction, which has representatives from all the major sanctioning authorities.

It is possible for public bodies to seek a derogation from the use of the standard forms of contract from the Government Contracts Committee. This process may be used for complex or large projects which have specific requirements which do not naturally fit with the standard 'lump sum' contracts and has been availed of by a number of sanctioning authorities.

A derogation, if agreed, does not approve the approach or strategy of the contracting authority, but simply acknowledges that the circumstances are such as to warrant a different approach than the standard. It is a matter for the contracting authority and the sanctioning authority to satisfy themselves as to the adequacy of the approach with regards to compliance with procurement rules and project appraisal in accordance with the Public Spending Code.

### **Plans to Strengthen Processes for Capital Projects**

Reform is part and parcel of Project Ireland 2040. But we also have to learn from experiences, both good and bad. There is no doubt that the experience of delivering capital works in recent years highlights

the need to step up the pace of reform still further. The delivery of large complex multi-year capital projects in a construction market which is impacted by the shortened economic cycles brings many challenges in terms of tender price volatility, skills shortages, etc.

That is why the Minister for Public Expenditure and Reform has recently set out a further suite of reforms.

- We need more certainty on project costs:
  - Government will no longer pre-commit to major bespoke projects until there is one hundred per cent clarity on tendered costs. The Government will approve major projects to be evaluated and designed, but there will be no final commitment until after the tendering process is complete; and
  - It is not possible to know the price of a capital project with a high level of certainty until there is a full design spec, planning if necessary has been achieved, and the project has been competitively tendered. Government will not commit to projects until the design and price are clear. This could delay projects but will ensure greater cost certainty.

- We need more realistic costs and a better understanding of costs in capital projects:
  - In future, the budgets of large bespoke projects will include a significant premium for risks so that cost estimates are more realistic. As risk is managed through the project lifecycle, the risk premium should reduce. For example, a project on a brownfield site with a high degree of complexity which has not been fully designed would have a very high risk premium incorporated into its budget. As the risk is managed, the premium should reduce;
  - The revised Capital Works Management Framework will require Departments and their agencies to improve the quality of information on projects as they are rolled out. This will improve decisions on projects and allow projects to use digital technologies such as Building Information Modelling to improve how efficiently they are delivered; and
  - As part of the reviews of Ireland's capital management systems, my Department will conduct a full assessment of how cost estimation for capital projects could be improved. This



will include exploring the potential of external peer review of cost estimates for projects over a certain size.

- We need to strengthen our capital management systems:
  - As I mentioned, we are reviewing Ireland's capital management systems. The Office of Government Procurement is conducting a review of construction procurement strategy and we are reviewing the Public Spending Code; and
  - The purpose of these reviews is to examine how capital projects are currently selected, designed and delivered and to strengthen these processes taking into account lessons learned from the range of projects that have been completed. The reviews will result in a range of changes. Two key changes to flag at this point:
    - One will be earlier identification of projects. At present, Departments are typically presented with projects which are fully formed and where the delivery method and project roles and responsibilities have been set. Departments will engage at an earlier stage to have more input into project roles and responsibilities, delivery method, identification of risks and discussion on costs; and

- Secondly, a number of high profile projects have highlighted issues with the performance of advisory firms. We will link payments to advisory firms to clear performance standards. We will bring in performance standards linked to payments in future contracts with those firms.

### **Conclusion**

I look forward to engaging with you today on these key issues which are vital for ensuring efficient public capital investment.

**ENDS**