Opening Statement to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

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

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Introduction

Thank you for inviting me here today to discuss the role of the Department of Public Expenditure and Reform in relation to the National Paediatric Hospital. The Committee is aware that my Department is not the Sponsoring Agency or Sanctioning Authority for this project. In addition, I am not the Accounting Officer for this project.

The Committee will also be aware that I have submitted a detailed document addressing the matters raised in the letter of invitation. I do not propose to go through that document in detail but I would like to take the opportunity of this opening statement to set out:

i. my Department's role in respect of capital projects in general;
ii. my Department's role in respect of the National Paediatric Hospital; and
iii. the role of the Office of Government Procurement in relation to the issues being discussed here today.

DPER's Role in respect of Capital Projects

Overview

The Department of Public Expenditure and Reform's (DPER) responsibility in overseeing the effective implementation of the National Development Plan and in respect of capital projects is to:

- Set the overall five year multi annual capital expenditure ceilings for each Ministerial Vote Group;
- Settle with each Department how these multi annual ceilings are reflected and refined in the annual Estimates, which are voted annually by the Dáil; it should be noted that decisions on how and where these allocations are invested is a matter in the first instance for the relevant Minister and Department, in line with the conditions of the "delegated sanction" (i.e. formal approval to spend Voted moneys) which they receive via the relevant Vote section in DPER;
- Monitor actual spend against monthly expenditure profiles based on information submitted by Departments to DPER's relevant Vote section, so as to keep track of aggregate spend by each Department compared to planned spend. Note that DPER does not approve expenditure at the individual project level; and
- Maintain the national frameworks within which Departments operate to ensure appropriate accounting for, and value for

money in, public expenditure such as the Public Financial Procedures and the Public Spending Code.

The National Development Plan (NDP) 2018-2027 and Project Ireland 2040 do not change the long-established arrangements for oversight, monitoring and management of voted Exchequer resources. Exchequer funding continues to be managed through the normal systems for control of voted funds. Departments and Agencies are still responsible for delivering their projects within their budget allocations.

Capital Expenditure Monitoring

Two features of capital expenditure are monitored each month:

- Aggregate capital and carryover spend in the year to date, and compared to profile and spend in the previous year; and
- Departments which are significantly ahead of or behind profile (typically by €10 million or more) and the reasons for the variance.

Departments must provide an explanation for variances. Where necessary, DPER liaises with Departments, through Vote Sections, to ensure that significant variances are addressed and overall expenditure stays on track over the course of the year.

End year monitoring for December reviews the annual position, including comparing the percentage of the REV capital allocation spent compared to the previous 10 years. Any capital unspent by each Department is identified, along with the amount of carryover into the following year. The focus is on budgetary aggregates – and not performance on individual projects, which is the responsibility of individual Departments and Accounting Officers.

Public Spending Code

My Department has responsibility for the Public Spending Code, which is the set of rules, procedures and guidance to ensure value for money in current and capital public expenditure. It sets out the rules and guidance on the oversight and management of public expenditure at each stage of the capital project life cycle including:

- setting out the responsibilities which lie with different capital expenditure project roles;
- setting out appraisal requirements where differing levels of public expenditure will be incurred, including guidance on appraisal and evaluation methodologies; and
- setting out approval requirements at different project stages.

The main roles in the context of responsibility for capital expenditure projects 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 stages in the project life cycle;
- The Department or body funding the project and which is responsible for project approval is the Sanctioning Authority. The Sanctioning Authority must satisfy itself that the Sponsoring Agency has the appropriate systems to ensure the project is delivered in line with the approval it has given. The Sanctioning Authority is responsible for approval in principle at the key designated stages 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;
- For projects costing over €100 million, the Government is the Sanctioning Authority. The day to day oversight functions in those instances are the responsibility of the relevant Department which is funding the project; and
- DPER is not the Sanctioning Authority for the majority of capital projects. DPER is only the Sanctioning Authority for the capital

projects funded directly by its Vote Group, which account for less than 3% of total voted capital expenditure.

Project Ireland 2040 and the NDP

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;
- 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 my Department is 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.

DPER's Role in respect of the National Paediatric Hospital

In line with the Public Spending Code provisions already set out, the Government is the Sanctioning Authority for the National Paediatric Hospital; and the day to day oversight functions of the Sanctioning Authority are the responsibility of the Department of Health.

My Department's role in that project involves:

- Setting the overall five year multi annual capital expenditure ceilings for the Health Vote Group, and settle on an annual basis how these multi annual ceilings are to be reflected and refined in the annual Estimates submitted to the Dáil for its approval. Decisions on which projects to invest in is the responsibility of the Minister for Health and the Department of Health, in line with its "delegated sanction" for overall capital expenditure. DPER does not have responsibility for approving individual projects;
- Monitoring actual spend against monthly expenditure profiles based on information submitted by Departments to DPER's Vote section so as to keep track of aggregate spend by each Department compared to planned spend. DPER does not monitor expenditure at the individual project level; and
- Maintain the national frameworks within which Departments operate to ensure appropriate accounting for, and value for money in, public expenditure such as the Public Financial Procedures and the Public Spending Code. Responsibility for compliance with the national frameworks is a matter for the relevant Accounting Officer, who is the Secretary General of the Department of Health for this project.

Office of Government Procurement

The Committee will be aware that the Office of Government Procurement is a Division of my Department. The OGP leads on the implementation of the Government's procurement reform programme.

It provides procurement solutions, advice, guidance and systems for public bodies, promoting good practice and proactive engagement with our sourcing partners in the Health, Education, Defence and Local Government Sectors through the Procurement Executive.

It also has responsibility for developing and setting out the overarching policy framework for public procurement in Ireland. This framework enables a more strategic, consistent and co-ordinated approach to public procurement across the public sector by setting out the procurement procedures to be followed by public bodies.

The reform has seen the introduction of a centralised approach for common goods and services. The OGP and its sector sourcing partners in health, education, defence and local government put in place central procurement arrangements for common goods and services.

Public works procurement is covered by the Capital Works Management Framework ("CWMF"). This consists of a suite of best practice guidance, standard contracts and generic template documents. It is mandatory for use on all projects delivered under the

Exchequer-funded element of the public capital programme. The CWMF is maintained by the Construction Policy Unit of the OGP, in consultation with the Government Contracts Committee for Construction ("GCCC").

The OGP has no direct involvement in works procurement, with the exception of the framework arrangements for rapid-build social housing. Capital works are procured directly by the many public bodies tasked with delivery of the public capital programme.

In relation to the National Paediatric Hospital, the responsibility for the day-to-day oversight functions are the responsibility of the Department of Health as already noted. The role of the Government Contracts Committee for Construction in this instance was to consider a request for a derogation by the National Paediatric Hospital Development Board from the use of the standard forms of contract. This request for a derogation may be used for complex or large projects which have specific requirements which do not naturally fit with the standard 'lump sum' contracts.

The derogation acknowledges that the particular circumstances warrant a different approach. It does not approve the approach or strategy and the responsibility for the public procurement process rests with the contracting authority.

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;

    - 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

In these opening remarks, I have sought to clearly set out the role of the Department in respect of the matters in question. As I stated at the outset, further detail is set out in the briefing note submitted to the Committee. I will be happy to reply to the Committee's questions in this regard.

ENDS