Opening Statement

Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach: Public Spending Code – 12 July 2023

Thank you for this opportunity to discuss the changes to the Public Spending Code which were announced on the 29th of March 2023. My name is John Conlon and I am an Assistant Secretary in the Department of Public Expenditure, NDP Delivery and Reform. I am accompanied by my colleagues Kevin Meaney, Principal Officer in the National Investment Office and Frank Newman, Assistant Principal Officer in the same unit.

The Public Spending Code and its value in capital project development

The Public Spending Code (PSC)/Infrastructure Guidelines set out the value for money requirements and guidance for evaluating, planning and managing Exchequer-funded capital projects. I should emphasise that management and delivery of investment projects and public services and the appropriate national frameworks is a key responsibility of every Department and Minister.

The Code is underpinned by the following principles:

- Given that many large infrastructure projects can have a high degree of complexity, improved decision making throughout the lifecycle of a capital project is required.
- Proportionality is core to the Public Spending Code with additional rigour applied to projects as they increase in cost and complexity.
- It provides a focus on cost competitiveness.
- It provides for accountability and transparency.
- It provides for enhanced project governance and management.

The Public Spending Code as a tool can help ensure that projects can be set up for successful delivery.

Investment in capital projects has grown substantially in recent years from €4.6 billion in 2017 to over €12 billion this year. The NDP is providing for ambitious plans to enhance public transport infrastructure, provide a greatly enhanced estate for school and education facilities, more homes and better healthcare. In the public transport sector, for example, good practice is in place where the sponsoring agency, the Transport Infrastructure Ireland (TII), has a well-defined responsibility evaluating, planning and managing capital projects. The Approval Authority, the Department of Transport, has the ultimate responsibility for the project and assesses the business cases at the appropriate stages.

Major investment projects require rigorous appraisal and the scale and detail of evaluating, planning and managing projects should be commensurate with the scale of the proposal. Ireland has had challenges in terms of capital delivery across recent decades and with some major projects in recent years. The Public Spending Code seeks to rigorously appraise projects early in the development stage to ensure that likely risks and costs have been fully considered prior to approval. It should be noted that cost overruns on major projects are not unique to public sector, as private projects are as prone to cost and time overruns which can arise for many reasons. The issue of successfully managing the delivery of major projects remains a key business requirement.

The Department considers that good governance in capital projects is beneficial for effective delivery. The Code provides processes for risk management, solid controls and clarity in objectives by bringing a rigour to decision making noting that the development of capital projects is essentially grounded on a series of decisions.

Factors such as scope creep, which are deviations from the original design, and delays due to the planning process and in some cases subsequent judicial review, are often provided as reasons for overruns on cost or time. Other causes can often be derived from various biases including optimism bias. The PSC protects owners, and the taxpayer, from these biases through more rigorous appraisal and the consideration of appropriate cost forecasting/benchmarking, including external perspectives and experience from previous projects.

Effectively using the Code provides for a sound approach to addressing issues that arise in project development in the right way and in a timely way. It provides, through the lifecycle stages, for opportunities to re-evaluate and update projects. Therefore, project agility can be provided so adjustments can be made to current conditions.

The evolution and reform of the Code

Capital Appraisal Guidelines were initially introduced in the mid-1990s, alongside criteria for the drawdown of EU structural funds, which focussed on value for money appraisal. In 2013, the first Public Spending Code was published which clarified the minimum standards of appraisal to apply to capital project development across all sectors. The latest Public Spending Code was agreed by the Government in 2019. This guidance was the product of a programme of analysis and validated by stakeholder engagement with Departments and Agencies.

The 2019 Public Spending Code sharpened the focus on risk and cost management, reduced the compliance burden on low-risk projects and brought Ireland into line with leading international approaches to major project delivery.

Major capital project assurance in Ireland had previously focused, pre-2019, on business assurance; looking at whether proposals align with strategic policy goals, have creditable objectives, are supported by robust demand analysis, and whether sufficient financial and economic options analysis have been conducted. However, project and programme assurance including looking at the robustness of planned delivery, the accuracy of cost forecasts, the consideration of risk, and the appropriateness of procurement strategies, had not been undertaken in a consistent way.

The introduction of the External Assurance Process (EAP) and the establishment of the Major Projects Advisory Group (MPAG) in late 2021 further improved the governance and oversight arrangements for major projects by providing a standardised vehicle to support both business and project and programme assurance. This has been seen in the scrutiny that has been afforded by these processes in advance of significant NDP projects such as Metrolink, BusConnects and the Elective Care Centres in Cork and Galway being approved by Government.

We consider that the process since 2019 has bedded in well. There is solid engagement on the application of the Code and a range of Departments and agencies have developed sector-specific arrangements within the parameters of the overall Code, for example in the health sector.

A high-level review among Secretaries Generals in key capital spending departments was commenced in April 2022 to review the requirements of the Code. This review had a particular focus on: i) whether the additional review processes introduced in 2019 were causing unnecessary delays in project implementation; and ii) whether the Code fully reflected the role of Accounting Officers in assessing risk and project implementation.

This group set out a series of six key principles – which are appended to this opening statement - which were referred to a practitioner group of experienced public servants across Government departments to consider with a view to amending the processes in the Code.

In March of this year, recommended amendments were considered and approved, which were published as part of Circular 06/23 (included in the supplementary provided). It is expected that these changes will reduce the administrative burden for Departments delivering capital projects while allowing them greater autonomy to pursue the delivery of their priority projects, while still complying with overall value for money principles.

The particular process changes that are expected to reduce the length of time taken to achieve project approval are:

1) The removal of the formal approval gate and technical review by DPENDR on completion of the Strategic Assessment Report. Departments have indicated to us that the process of gaining approval at this point was taking 3 to 4 months based on internal approval processes and the 4-6 week turnaround timeline for the DPENDR technical review.
2) The removal of the External Assurance review and Major Project Advisory Group review at Pre-Tender stage. The timeline expected for an External Assurance review is in the region of 6 to 8 weeks, and the Major Project Advisory Group typically takes a further 6 weeks to review and return its report. Therefore, the removal of these reviews at the Pre-Tender stage should reduce the time taken to gain approval by a minimum of a further 3 to 4 months.

The reforms set out above, the 2019 update to the Public Spending Code, the introduction of the External Assurance Process and the Major Projects Advisory Group and the most recent updates outlined by the Minister in March 2023, were informed by a number of different factors. These included: recommendations arising from a number of different reports including the 2017 IMF report 'Technical Assistance Report – Public Investment Management Assessment'; the Independent review of escalation in costs at the New Children's Hospital; and a consultation process involving key stakeholders.

Finally, the Department is finalising a set of Infrastructure Guidelines which will replace the Public Spending Code. As I indicated, Circular 06/2023 outlines the updates to the Code on the requirements for evaluating, planning and managing public investment proposals.

I hope this provided a helpful summary of the reforms. We look forward to discussing these in further detail and answering any questions the group may have.

Thank you.

Appendix 1:

<u>Six key principles referred to a practitioner group of experienced public servants across Government departments to consider with a view to amending the processes in the Code</u>

1. Clarifying the legal responsibility of the Accounting Officer in approving capital expenditure within their remit and ensuring greater alignment in the Code to the legal remit.

2. Reviewing the stages at which business cases, particularly for major projects, come to DPER for technical review.

3. Ensuring there remains a role for the External Assurance Process and the Major Projects Advisory Group in advising Approving Authorities and Government at key decision gates in the process.

4. Consideration of steamlining processes for earlier stages in the process for programmes that consist of multiple projects or are cross-Departmental in nature.

5. Consideration of the appropriate thresholds for classification as a major project.

6. Consider the specific requirements for legacy projects that have been subject to political approval for a period of time.