Briefing Note: The Public Spending Code and overview of sectoral applications

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1. Background

The revised Public Spending Code – *A Guide to Evaluating, Planning and Managing Public Investment* – came into effect on January 1st 2020. Building on capital appraisal guidance which has been in place since 1994, the Code is designed to assist Ministers and Public Servants in prioritising the best investment options in order to deliver critical public policy objectives. The Code supports improved value for money through detailed evaluation of options and careful management of delivery.

A number of developments framed the backdrop to the update of the Public Spending Code including:

- Infrastructure investment planned to grow to record levels, including €90 billion of Exchequer funding over the 2018-2027 period.
- The need to better manage risk and apply lessons learned from areas of good practice in the delivery of major public investment projects (e.g. transport and water infrastructure) and from areas where difficulties have been encountered (e.g. the National Children's Hospital).
- The opportunity to learn from leading international practice in this field in order to maximise the economic, social and environmental return on public investment in Ireland.

This note sets out

- The key, over-arching provisions of the Public Spending Code
- An overview of how it is currently applied in different sectors
- An outline of a new governance regime, currently in development, for major projects (>€100m).

2. Key provisions of the Public Spending Code

2.1 The Project Lifecycle

The Code describes the Project Lifecycle - the series of steps and activities which are necessary to take a proposal from concept to completion and evaluation. The updated Code reflects a revised lifecycle which will aid the project's Sponsoring Agency by better aligning with the realities of project delivery. Projects vary in size and complexity but all projects can be mapped to the following project lifecycle structure. Figure 1 on page 3 of this note illustrates the lifecycle. There are six stages:

- Strategic Assessment
- Preliminary Business Case
- Final Business Case (including design, procurement strategy and tendering)
- Implementation
- Review
- Ex-Post Evaluation.

The Code maintains a focus on appraisal but also highlights broader issues including the importance of rigorous project preparation, earlier engagement with aspects of design and delivery, more informed approaches to costing and fuller consideration of risk.

2.2 Appraisal and proportionality

All projects are required to undergo some form of appraisal; however proportionality is a core principle underpinning the Code. The resources and time to be spent on appraisal or evaluation should be commensurate with the likely range of cost, the nature of the investment, and the degree of complexity of the issues involved. All the evidence shows that the greatest impact on improving project outcomes comes from careful project preparation. More work on planning and design in the earlier stages leads to more considered decisions and more effective delivery of projects.

At the same time, there is a need to balance project preparation with the imperative of timely delivery of necessary infrastructure. Accordingly the process for smaller projects has been streamlined, with a view to speeding up project delivery. In addition, the Code specifically refers to sectors (such as housing and urban regeneration) whereby policy interventions can be appraised on a programme-wide basis without the need to assess every single project or scheme individually.

For larger projects, the revised project lifecycle will support better consideration of options, costs, risks, and deliverability and support strategic alignment with core Government policies. For major infrastructure investments (over €100 million), there will be more structured scrutiny of risks, costs, and deliverability with the introduction of a new external review process harnessing independent expertise. Section 4 below provides more details in this regard.

Finally, it should be noted that cost benefit analysis is not always the most useful form of appraisal. Where the case for investment has been well established, the focus of the analysis should be on *how* to achieve the relevant public policy objectives, rather than *whether* to achieve them. In these cases methods such as cost effectiveness analysis and multi-criteria analysis will be more useful to assist decision-makers. The revised Code builds in flexibility on this issue.

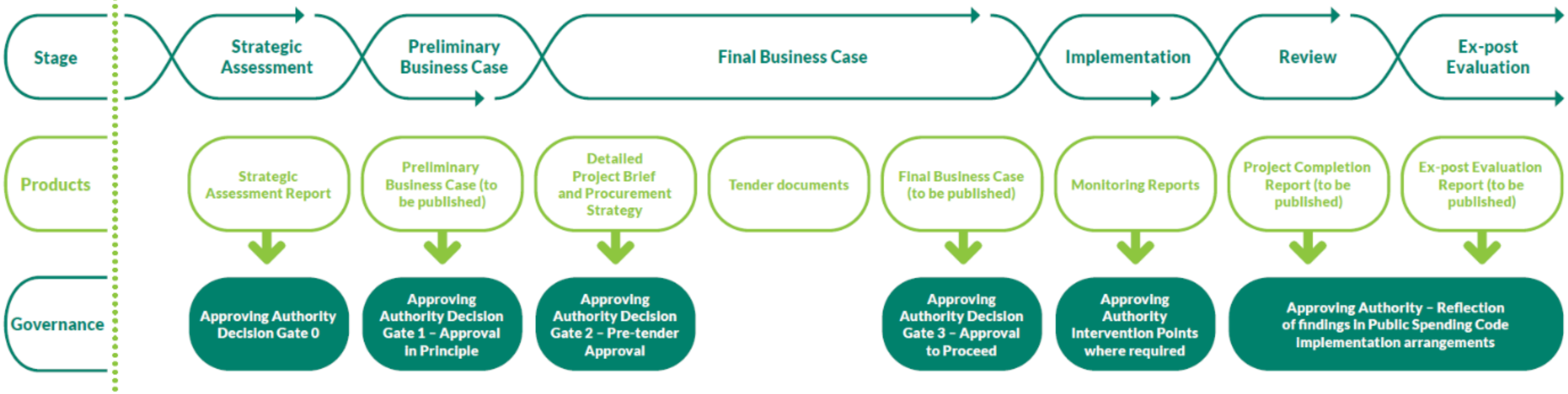
2.3 Roles and responsibilities

The Public Spending Code sets out the requirements for the organisations involved in public investment projects.

- The **Sponsoring Agency** has primary responsibility for evaluating, planning and managing public investment projects within the parameters of the Public Spending Code. The Sponsoring Agency will often be a State Agency or other public body.
- The **Approving Authority** (formerly referred to as the Sanctioning Authority) has ultimate responsibility for the project – it is the decision-maker at each of the Decision Gates in the process. The Approving Authority will often be the relevant Government Department.
- It is the responsibility of the relevant **Accounting Officer/Accountable person** to ensure compliance with the relevant requirements of the Public Spending Code.
- **Government approval** is required for proposals with an estimated cost over €100 million.
- In addition to its wider role in public expenditure management, the Public Spending Code sets out a further role for the **DPER** in the conduct of technical reviews of Strategic Assessment Reports and Business Cases for projects estimated to cost over €100 million.

Figure 1 The project lifecycle, proportionality and sectoral approaches

Project lifecycle



Proportionality

Value	Proportionality adjustments
<€10 million	▪ No need to conduct Strategic Assessment Report ▪ Consideration if need for economic appraisal ▪ Ex Post Evaluation on *sample* of projects, not all
<€100 million	▪ Technical review of Strategic Assessment Reports and Business Cases by Approving Authority (no need to send to DPER)
>€100 million	▪ Technical review of Strategic Assessment Reports and Business Cases by DPER ▪ Government as the Approving Authority ▪ New External Review Process at Key Decision Gates

Sectoral economic appraisal

Economic appraisal methodologies and investment sectors	
Sectors for which CBA <u>may</u> be more suitable:	Sectors for which CEA and/or MCA <u>may</u> be more suitable
▪ Energy ▪ Transport ▪ Enterprise & Innovation ▪ Health (new capacity) ▪ Environmental infrastructure (including flood defence) ▪ Agri-food ▪ Communications ▪ Tourism ▪ Higher Education	▪ Housing ▪ Health (replacement and refurbishment) ▪ Urban and regional development ▪ Public Buildings ▪ Culture ▪ Schools

3. Sectoral Applications

While the Public Spending Code sets out standard and over-arching rules, it is the responsibility of each Accounting Officer to ensure that their organisation and bodies under its aegis are operating in compliance with the Code's provisions. In many cases, this involves agreeing sector-specific arrangements which operate under the umbrella of the Code but which are tailored to the particular issues of the sector or of project characteristics of relevance.

This can afford individual sectors latitude to take account of specific issues but still support value for money in spending decisions. While the latest revision of the Code is stronger than predecessor guidance, it requires less recourse to DPER on smaller projects, has fewer financial thresholds and allows appraisal approaches to be appropriately fitted to sectoral characteristics. In similar vein, the revised Code states that "Where programmes of investment are composed of a high number of similar or replicable schemes – for instance social housing or urban regeneration – it may be appropriate to undertake strategic assessment for the programme as a whole".

In some sectors there are long-standing appraisal arrangements which have been agreed with DPER and work well. Other sectors are in the process of establishing new arrangements that are in line with the revised Code. These will be agreed with DPER. The experience is that strong sectoral guidance can speed up project and programme-level appraisal, allow more Departmental autonomy and facilitate efficient appraisal of individual schemes.

The sections below provide an overview of sectoral practices at present.

3.1 Transport

There is long standing sectoral guidance in the Transport sector. The Department of Transport, Tourism & Sport's *Common Appraisal Framework* sets the overall guidance for the sector facilitating the conduct of robust and comparable business cases which ensure alignment of interventions with national and regional transport strategy. Both Transport Infrastructure Ireland and the National Transport Authority have detailed sectoral guidance which sits under the Common Appraisal Framework. This guidance incorporates the lessons learned from delivering roads and public transport projects and allows for robust forecasting of costs and benefits to ensure appropriate targeting of public investment and effective management of risk. This supports efficient delivery of projects.

3.2 Housing

The Department of Housing, Planning and Local Government, in consultation with the County and City Management Association (CCMA), has established approval processes for social housing capital investment projects. The processes are tailored for small, medium and large projects and the variety of housing funding programmes. The processes provide a varying level of autonomy to local authorities in the decision-making process proportionate to project size and value. DHPLG intends to revise the existing approval processes with a view to ensuring alignment with the revised Public Spending Code.

In certain sectors, standard cost-benefit analysis (CBA) is less applicable. Where the case for investment has been well established, the focus of the analysis should be on *how* to achieve the relevant public policy objectives, rather than *whether* to achieve them: this type of analysis is referred to as cost-effectiveness analysis (CEA) as distinct from CBA. Subject to programme-level analysis establishing the overall case for proposed forms of investment, housing would potentially fall into this category. The DHPLG is currently developing guidance on CEA for social housing, which would allow for the flexibility that exists within the revised Public Spending Code to be availed of, once the overall case for investment has been made.

3.3 Climate

The updated Code has put in place arrangements to capture elements of the economic and social impacts of climate change. DPER has updated the *Shadow Price of Carbon* which is a technical adjustment to take account of Ireland's climate targets. Under the updated Code, the shadow price of carbon will rise to €32 a tonne in 2020, €100 a tonne by 2030 and €265 a tonne by 2050. This means that projects which have a positive climate impact – for instance through reduced emissions over time – are favoured in the appraisal process.

All Government investment decisions will be required to take these new values into account in investment appraisals. Furthermore, DPER is undertaking a general review of the climate-related aspects of the Public Spending Code during 2020 to establish if further reforms to the guidance are required to support the implementation of the Climate Action Plan and to strengthen the linkage between the National Development Plan and the National Planning Framework.

3.4 Enterprise and innovation

IDA Ireland and Enterprise Ireland use an economic appraisal model to aid decision-making for grants to industry. The model was agreed with DPER and is consistent with the Code. The use of the model in evaluating grant applications ensures objective targeting of grant support in line with national and regional enterprise strategy. It supports the establishment of benefits from interventions in difficulty to quantify areas such as research & development. It allows for the consideration of potential deadweight in investment decisions (the risk that an investment would go ahead anyway, without the grant) and targets interventions which maximise additionality from public investment.

3.5 Health

The Health Services Executive published sector specific guidance in 2018 setting out the process for the initiation, appraisal, management and administration of capital projects in the health sector such as primary care centres. It does not cover bespoke projects such as the National Children's Hospital. It sets out the requirements and approvals for capital projects of all sizes ranging from projects under €0.5 million to projects over €20 million.

3.6 Culture

The Department of Culture, Heritage and the Gaeltacht is developing sectoral guidance for the appraisal and management of capital projects in excess of €5 million under its remit. This sector-specific approach will use harmonised sets of objectives and criteria to ensure that the appraisal is a reliable guide to decision making and supports the project selection mechanism in the Department.

3.7 Education

The Department of Education and Skills is piloting a new appraisal model for capital projects in the Higher Education sector. The purpose of the guidance is to standardise the approach to appraising proposals for Higher Education interventions. This will allow greater comparison of interventions and support prioritisation of investment. The draft guidance provides a template setting out the standard treatment of costs and benefits to be used. Initial feedback from Higher Education Institutes is that this has streamlined their approach to appraising projects and supported them in developing robust business cases for proposed interventions.

4. Governance of major investment projects

The review of the Code highlighted the need for more structured and rigorous scrutiny of major public investment projects, i.e. those costing over €100 million. Project and programme management assurance is not undertaken in a consistent way across sectors in Ireland. A review of international approaches across Europe and the OECD has demonstrated the need for project and programme management assurance, i.e. assessing the robustness of planned delivery, accuracy of cost forecasts, consideration of risk, appropriateness of delivery programmes, procurement strategies and commercial negotiation and management, in addition to business assurance.

Analysis of the approaches in UK, Norway, Denmark, Canada, the Netherlands, and New Zealand has informed the developing process for the governance and assurance of major public investment projects in Ireland. This process will involve two external reviews within the project lifecycle for major investment projects estimated to cost over €100 million:

- The first review will take place upon completion of the Preliminary Business Case and will assess the robustness of project costing, financial appraisal, the outline procurement strategy, treatment of risk and allowance for 'optimism bias'

- The second review will take place later in the process, either after detailed design but before tendering, or after tendering but before contract award. The Investment Projects and Programmes Office in DPER is currently working through options for this process. The second review will assess the robustness of the updated project costs, financial appraisal, delivery programme, risks and scenarios, arrangements for commercial delivery, and plans for benefit realisation.

The reviews will be conducted by panels of international experts in infrastructure delivery. The delivery of the review would be time bound and could be done in parallel with other tasks so as not to cause undue delay in the delivery of important projects. The new assurance process will mean that Government will receive the business case from the Sponsoring Agency and the report from the external reviews to inform its decision as to whether or not to approve the project to proceed to the next stage in the project lifecycle.