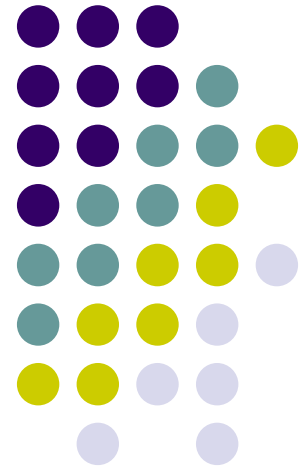


# Efficiency Enhancement in Public Investment Management

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“Delivering Better Public Investment  
Projects – The Irish Experience”

**Tom Ferris**  
**World Bank/KDI Conference**  
**Seoul, Korea**  
**20-21 November, 2008**



# Content of Presentation \*



1. **Background to Irish Economy**
2. **Addressing Deficit in Infrastructure**
3. **Planning/ Appraisal of Projects (ex-ante)**
4. **Some Outcomes**
5. **Some Conclusions**

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\* This Presentation is accompanied by a Hand-out, consisting of three parts (1) Note on Compliance-checks on Irish Infrastructure Projects; (2) Background References', and (3) "Light at the end of the Tunnel", Article from CILTWorld, March/April 2007.



# Some Key Statistics on “Celtic Tiger”

- Population 4.3 million (2007)
- Independence 1922
- EU member since 1973
- Real GDP growth 5.7 % (2006)  
- 1.3% decline in 2008
- Unemployment 5.8% (2008)
- Exports \* 80 % of GDP (2006)
- Imports\* 69 % of GDP (2006)
- *Exports and imports of goods and services*



# Ireland's Rapid Growth\* – not a “Silver Bullet”



- Policy-driven:
  - embracing openness = most important factor
  - industrial policy...attract Foreign Direct Investment
  - education policy...1967/1996 (2<sup>nd</sup> and 3<sup>rd</sup> level ‘free fees’)
  - fiscal policy...eventually
  - incomes policy
- “Enabling” factors:
  - US economy
  - high technology boom
  - responsive labour supply
- Role of the EU:
  - governance
  - funding-----

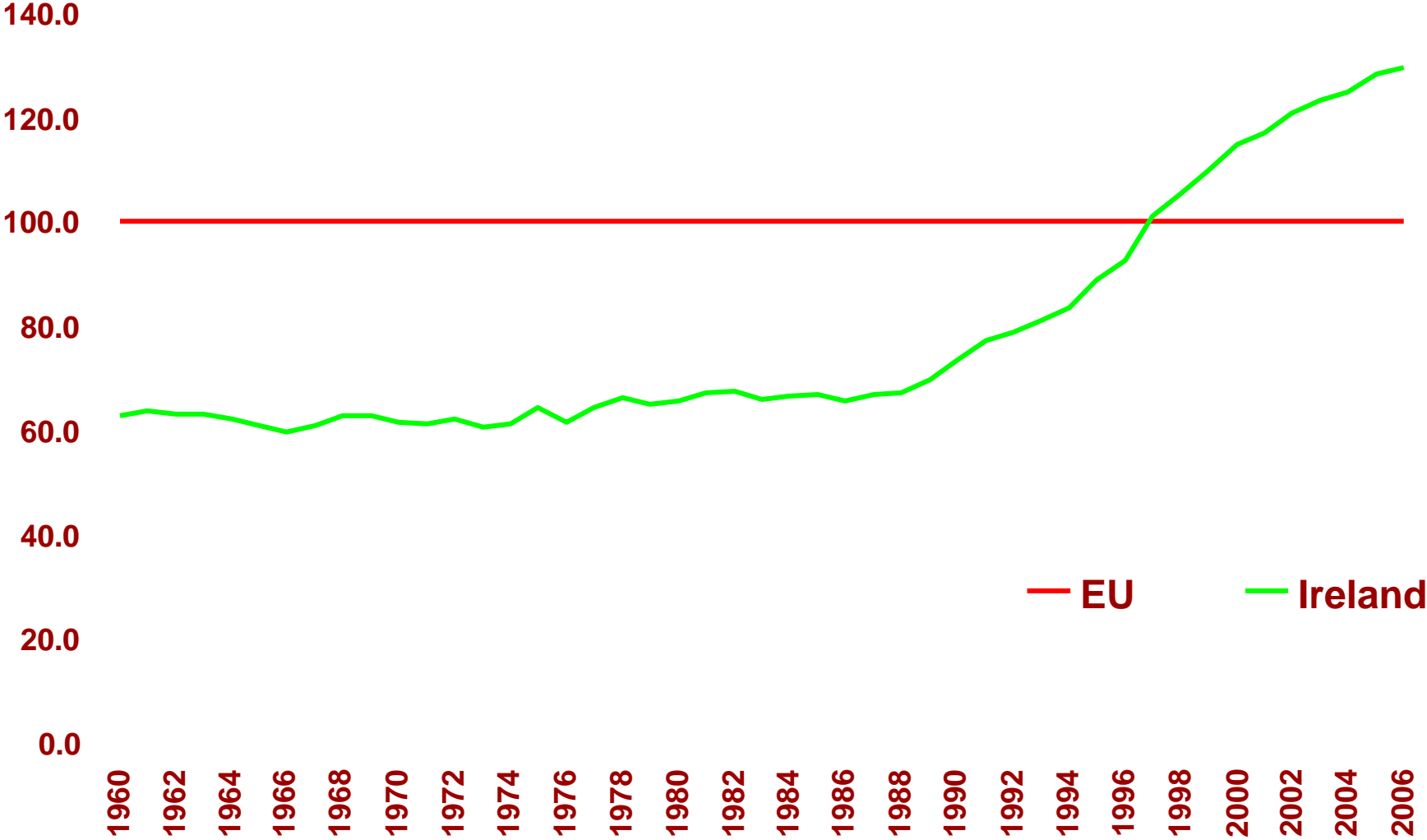
\* See Reference 2: Honohan/Walsh – ‘*Catching up with the Leaders: The Irish Hare*’

# EU Membership has been very important for Ireland

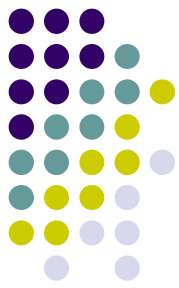


- Market access:
  - greater trading opportunities
  - trade diversification
  - reduced dependence on UK economy
- Completion of Single Market
- EMU and Euro
- EU structural reforms
- Access to EU funding and Capacity-building

# Ireland's Economic Transformation: GDP per capita, EU15=100 PPP exchange rates



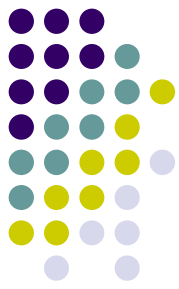
## 2. Addressing Deficit in Infrastructure



*Significant Public Infrastructure Deficit in Ireland in the 1980s, as a result of –*

- Decades of under-investment due to weak position of public finance
- Doubling in size of Irish economy -- requiring public investment in social and physical infrastructure

# Strengthening of Capacity



- Little infrastructure investment in 1980s and early 1990s (and rapid economic growth in 2000s), put serious pressure on infrastructure
- There was need to build-up technical, financial and managerial capacity to cope with “growth”
- EU funds provided capital. Under EU regulations, a better planning and evaluation culture and capacity introduced
- Some “problems” at start of EU-funded projects – erroneous initial estimates; construction cost inflation; design changes and project management weaknesses\*

\* See ESRI Reports (Reference 1, Reference 3 and Reference 6)

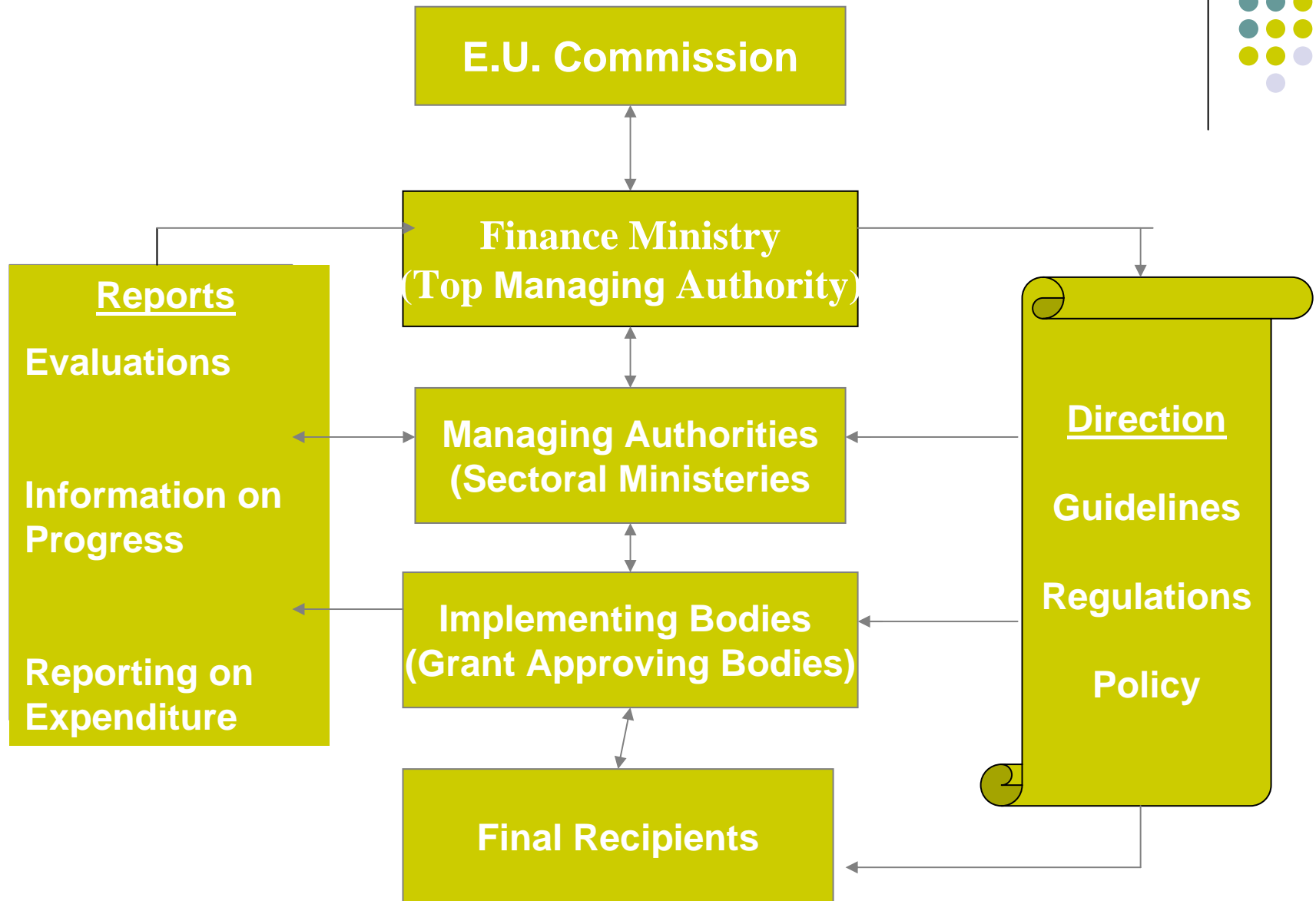
# Consolidating learning....



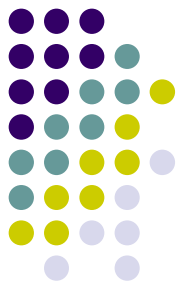
- In 1990, little prior tradition of formal evaluation of public expenditure programmes in the Irish public administrative system\*
- Ireland learned quickly - developed an extensive experience in evaluation for EU structural fund programmes, during three successive programming rounds: -
  - 1989/1993
  - 1994/1999
  - 2000/2006
- Ireland is consolidating evaluation experience with current National Development Plan (2007/2013)

\* see Reference 8 (National Development Plan) and Reference 11 ( Ferris)

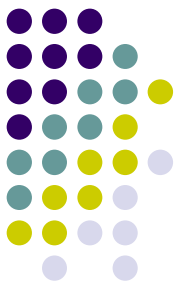
# EU-driven Structure for Project Delivery



# Evaluation Cycle involving...



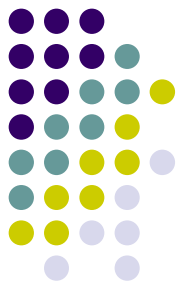
- 5-year Cycle built around EU requirements
  - Ex-ante evaluation
  - Interim evaluation
  - Mid-term evaluation
  - Ex-post evaluation
- Economic & Social Research Institute (ESRI) used to do Ex-ante Evaluations and Mid-term Evaluations for each 5-year National Development Plan (linked-to EU cycles) – **See ESRI Reports @ References 1, 3 and 6**
- Most Sectoral Investment Programmes (*Irish Government + EU backed*) had an ongoing evaluator presence (either an independent internal evaluation unit or external consultancy advice)



# EU co-funded Evaluation Unit

- Main problem in the past
  - No common understanding of purpose or focus of evaluation
- EU-backed Evaluation Unit, under Finance Ministry, set-up in 1996, to:
  - Assist Ministries with performance indicators
  - Responsible for interim evaluation of plans
  - Advisory role on wider evaluation issues
  - Advisory/standard-setting role re Cost Benefit Analysis
- Promoting best practice in evaluation and appraisal, e.g.; *Working Rules on Cost-Benefit Analysis, June 1999*

# Irish Government set-up the National Development Finance Agency (NDFA)



- NDFA (2003) to advise State Authorities on the optimal financing of priority public investment projects, by applying commercial standards in evaluating financial risks and costs
- NDFA's overriding objective is to maximise value for money for the Exchequer
- Especially a Financial and Risk Adviser to Government for all projects greater than €20 million
- Professional staff drawn from Project Finance; Corporate Finance; Project management; Specialist public procurement; Legal profession; Accountancy profession and Economists and Financial Analysts

# Irish Government has set-up a New Unit to drive Compliance...



- Finance Ministry driving the process to ensure compliance with all the “rules and regulations”
- A new Central Expenditure Evaluation Unit (CEEU), at Finance Ministry, has been given this important oversight role
- CEEU’s overall objective is to inculcate best practice in the appraisal and the management of projects and programmes by those delivering investment
- CEEU’s Unit to carry out spot checks at project level to verify compliance with the various rules\*

\* see Note on Compliance Checks and Reference 10, Dept. Finance

# Cascading Financial Control System, Ireland (EU)



ERDF and Cohesion Control Fund Unit  
Control Checks:  
Expenditure and systems

EU Commission  
Commission Control Units

Internal Audit Unit  
System Audits by Internal Audit Units at each level throughout cascade

Certifying Authority  
Department of Finance

OP Managing Authority

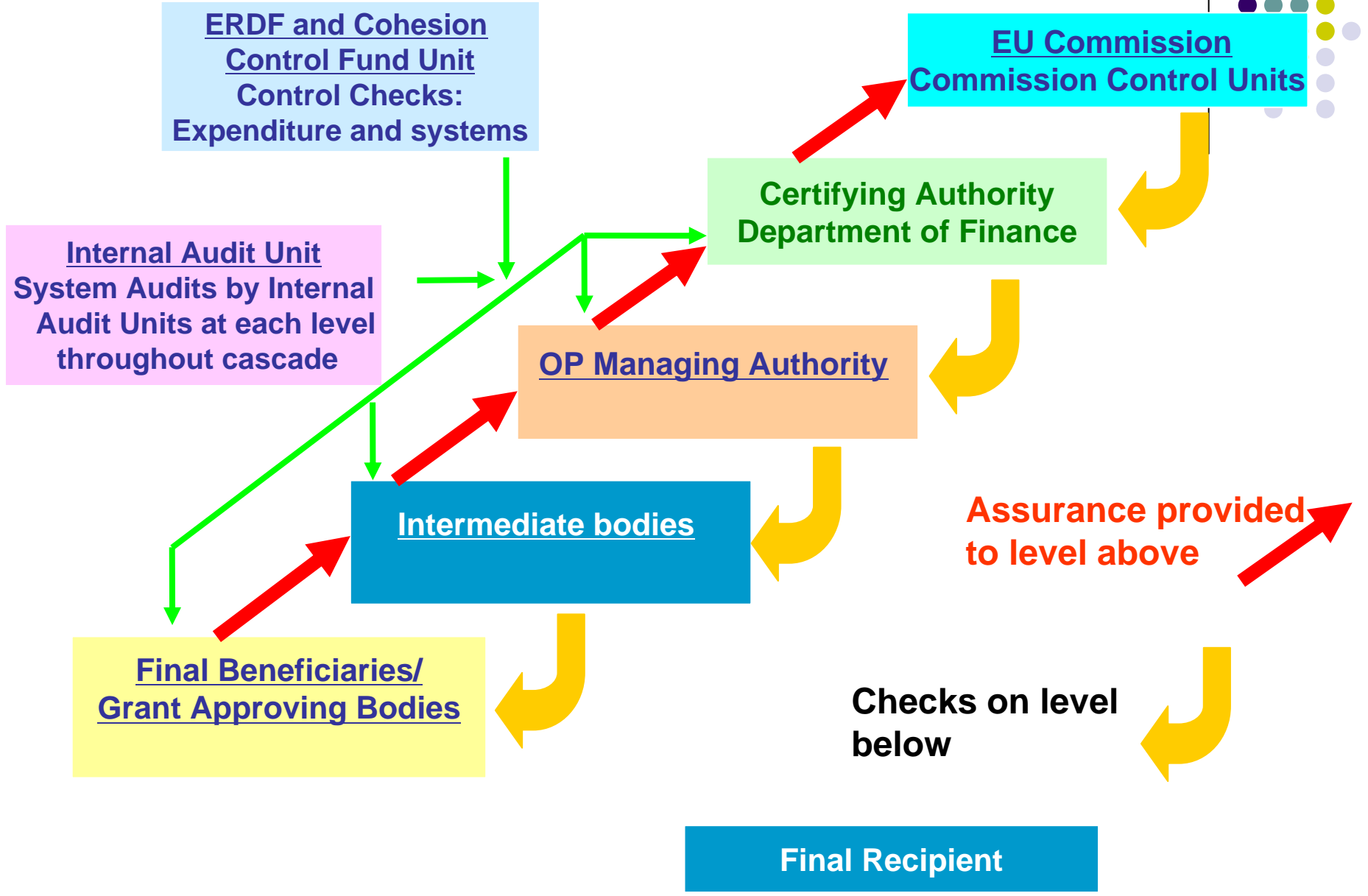
Intermediate bodies

Final Beneficiaries/ Grant Approving Bodies

Assurance provided to level above

Checks on level below

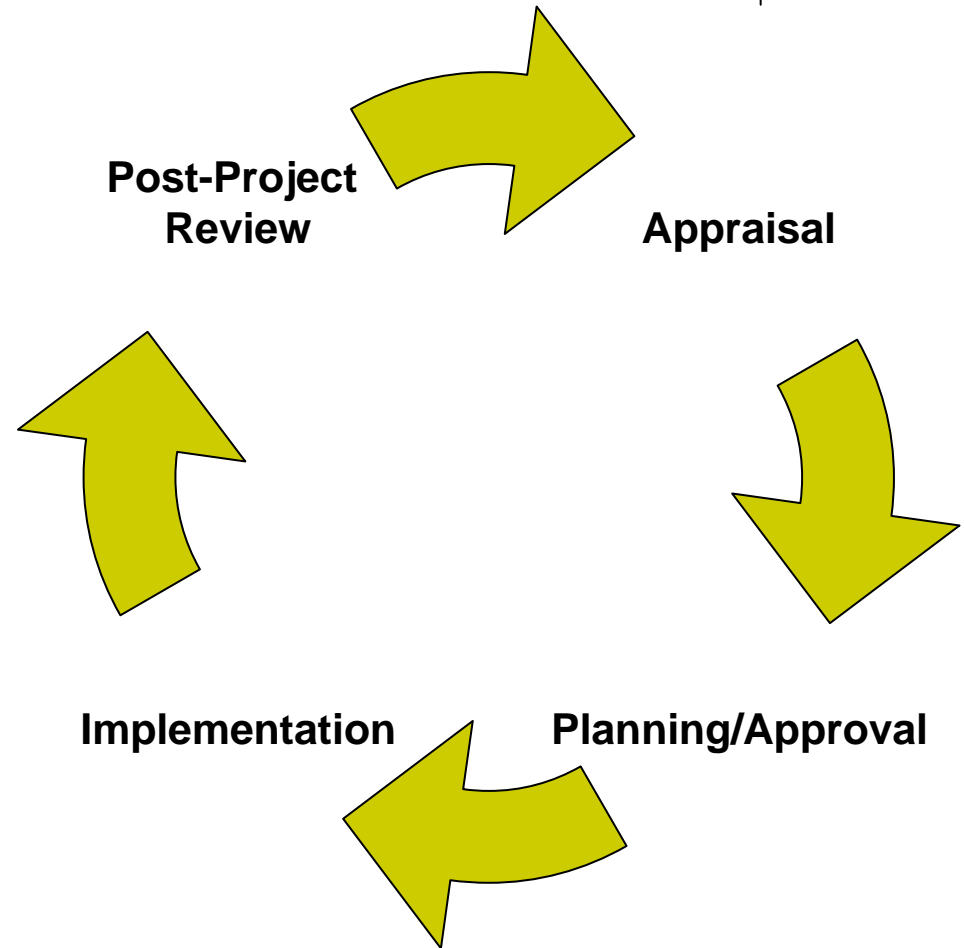
Final Recipient



# 3. Planning/ Appraisal of projects (ex-ante)



- Government Appraisal Guidelines provide for a 4-stage “project cycle”
- Appraisal and Planning stages may overlap in practice
- Mid-term evaluation part of the cycle



[This session focuses on Appraisal/Planning, as Implemenation and Post Project Review covered in “Ex-Post” Session ]

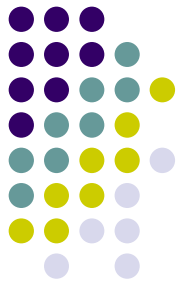
# Capital Appraisal Guidelines updated in 2005



- Designed to be rigorous in their approach to management and evaluation of capital programmes and projects
- Reflects best practice (updating the previous 1994 Guidelines)
- Introduces greater proportionality into project assessment
- Access on [www.finance.gov.ie](http://www.finance.gov.ie) (*having accessed this website, go “Policy Areas and Publications”, then go “Guidelines” then pick year “2005”*)

**See Reference 4 (Department of Finance)**

# Key Issues in Guidelines



- Guidelines 2005 identify following steps
  - Definition of project needs and objectives
  - Options analysis
  - Constraints
  - Quantification of costs and benefits
  - Analysis of options
    - Appraisal techniques (Cost Benefit Analysis, Cost Effectiveness and Multi-criteria Analysis)\*
  - Uncertainty, risk and sensitivity analysis

\* see Reference 12 (Ferris)

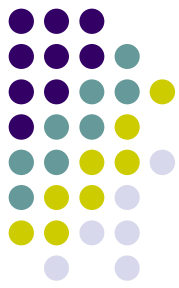
# Capital Appraisal Guidelines



- Guidelines 2005: do Ex-Ante Appraisal of **all** Capital Projects
  - Proportionate to the value of the projects
- Guidelines 2005 specify following thresholds:
  - < €m 0.5: do “Simple Assessment”
  - €m 0.5 < €m 5: do “Single Appraisal”
  - €m 5 < €m 30: do Multi-Criteria Analysis
  - Over €30 million: do Cost-Benefit Analysis
- Above take account of revisions announced in Department of Finance letter of Jan. 2006
- Sponsoring Agency responsible for Appraisal (using “in-house” or “bought-in” expertise)
- Pre-requisite to get approval from the Sanctioning Authority

**\* See Reference 4: Department of Finance’s Circulars ( Feb. 2005 and Jan. 2006)**

# Procurement at Appraisal Stage



- At appraisal stage a decision on form of procurement either traditional or PPP
- Traditional forms - range from design build (DB), DB Finance (DBF), DBF Operate (DBFO), DBFO and Maintain (DBFOM)
- Project manager for all projects above €30 million with individual responsibility for:
  - Managing project
  - Monitoring progress against contract
  - Reporting progress to Project Board

# Stages of Planning



*There are seven steps in this Planning Stage:*

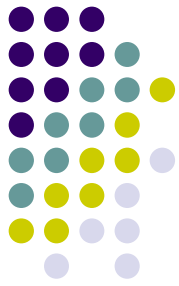
1. establishment of project management structure;
2. preparation of a project brief;
3. detailed planning and design;
4. review of proposal, using information provided by the planning process;
5. obtaining approval of the Sanctioning Authority;
6. obtaining tenders for projects;
7. review of proposal, using tender prices.



# Clear-cut responsibilities

- Clear distinction has to be made between those “authorising” investment projects and those “delivering”
- 2005 Capital Appraisal Guidelines require this distinction to be made, within project appraisal, planning, implementation and project management
  - Sponsoring Agency (“authorising”) – primary responsibility for project appraisal and management (Page 10)
  - Sanctioning Authority (“delivering”) – approves sponsoring agency proposals at various stages (Page 11)
  - Separation of functional responsibility

# A 2<sup>nd</sup> Manual - “Value for Money and Policy Review Initiative”



- ‘Value for money’ initiative complements the ‘Capital Appraisal Guidelines’
- A carefully considered appraisal system and culture takes into account, as objectively as possible, the overall benefits and costs of a given project and seeks to make sure that budget estimates are met
- The Department of Finance Manual ( 7 March 2007) outlines a Government framework to secure improved value for money from public expenditure
- Go to [www.finance.gov.ie](http://www.finance.gov.ie) (once on website, go “Policy Areas and Publications”, then go to “Guidelines” then pick year “2007”)

*See Reference 9 (Department of Finance)*

# Fixed price lump-sum contracts become the norm....



Minister for Finance (20 October 2005) said that it is -

*“...fundamental to [protect] taxpayers from cost overruns...ensure ...fair risk sharing and that contractors take on those risks that they are able to manage and control. The optimum transfer of risk will ensure that taxpayers are protected from the financial consequences of unnecessary delays and in turn cost overruns. This should apply to service or consultancy contracts as well as infrastructure projects in health, education, justice, transport and other areas”*

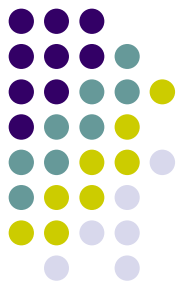
\* See [Reference 5](#): Minister for Finance and [Reference 7](#) : Department of Finance

# 4. Some Outcomes



- National Development Plan (January 2007) states that -  
*“Recent years have seen a significant improvement in the management of public capital projects. Most projects are being completed within time and budget”.*
- Yes, good systems now in place, but they are not producing “perfect outcomes” for all projects
- There are examples of “where things went wrong”, under *budget, functionality and timeliness*
- Much evidence from the Comptroller and Auditor General, whose Mission is “...*to provide assurance that public money is properly administered and spent to good effect*”

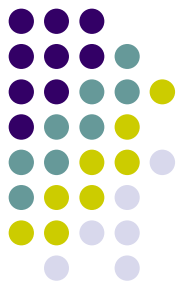
# Three Projects with “Problems”



**(A) Dublin Port Tunnel**

**(B) Human Resource Management System for Health Service (“PPARS”)**

**(C) Dublin City Regeneration Programme (“Ballymun”)**

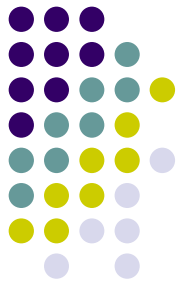


# A. Comptroller & Auditor General, in a report in April 2004, statement regarding Dublin Port Tunnel –

*“The original provision included in the plan was set at €220 million completion estimate is €715 million, which is over three times the original estimate”  
...Now €751 mn*



# Transport Ministry's reponse...



- Department of Transport now reviews projects' progress on a monthly basis, with its Sponsoring Agencies, - results used to update financial allocations on a regular basis.
- Funds are transferred between sectors, to facilitate an acceleration of projects, or where progress is slower than anticipated
- Departmental Monitoring Group, assisted by professional companies, carry out audits of compliance with Guidelines and audits of progress in project implementation
- Projects selected for audit by the Monitoring Group -- auditors submit detailed reports of all audits carried out, setting out their findings and making recommendations, where needed

## B. Suspension of large - scale

### project : C&AG Report on Development of Human Resource Management System for Health Service (PPARS), Dec. 2005



- PPARS's origin 1995.
- Procurement in early 1997 for 5 five health boards/1 hospital)
- Initial estimate in 1998 of €9 mn.
- Much 'scope-change' (1998/2005)
- Oct. 2005, Health Service Executive suspended work – over €130 mn. spent,
- Completion put at €195 mn ( 8 Areas/1 Hospital)



# Govt. Quick Response with Peer Review Process



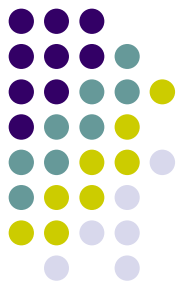
- Peer Review Process, with a Government Decision of October 2005, and to apply to major public ICT projects
- Peer Review Groups (with experienced external people) - to give Project Management timely, independent advice and guidance, at the different key stages of each ITC Project
- Applies to ITC Projects run by Government Departments and State Agencies (for ICT Projects costing over €5mn)
- Objective - to secure more realistic time/cost targets and to improve (and transfer) knowledge, skills and experience

# Are 'Peer Review Groups' responsible for ICT Projects?



- Peer Review Process does not override organisations' ultimate decision making and accountability arrangements
- 'Peer Review Groups' inform decision-making

-- see [www.peerreview.gov.ie](http://www.peerreview.gov.ie)



## **C. C&AG Report on Ballymun Regeneration Programme (March 2008)**

**1997**: Govt. approved regeneration programme to address high levels of economic and social deprivation in Ballymun area of Dublin

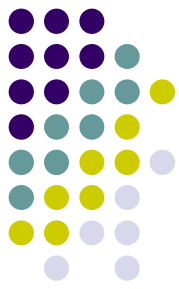
**1999**: Government approved a budget of €442 million for a Masterplan

**2008**: Overall cost now put at €942 mn., inc. associated civic and community works, as well as programme variations; but before future inflation

**2012**: Full Redevelopment six years late (not 2006)

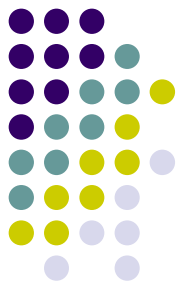


# Government Department reply to C&A'g report on Ballymun Project



- Department of Environment, Heritage and Local Government said *“...the experience...should position the Department to formulate more rigorous evidence-based projections for future regeneration projects”*
- It also stated that *“The C&AG’s Report...will be of great value to housing authorities engaged in other regeneration projects. It is important that lessons are learned from the country’s flagship regeneration project”*
- On cost, it said that *“...increase on initial projections...is accounted for by a number of factors including the discovery of asbestos in the flat complexes and court challenges which resulted in delays and increased costs to the overall programme”*

# Challenge of Investment Downturn (Change, % Year-on-Year)



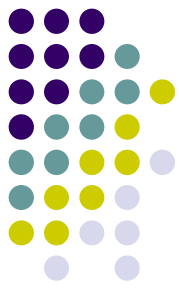
	2003 - 2007 (average)	2006	2007	2008 <sup>f</sup>	2009 <sup>f</sup>
Consumer Spending	5.5	7.1	6.3	0.4	0.4
Investment (GDFCF)	6.8	4.0	1.2	-17.3	-16.8
Exports of Goods & Services	5.2	5.7	6.8	2.5	2.2

## 5- Some Conclusions



- A well-organised and adequately resourced evaluation system, underpinned by appropriate structures and a clear sense of purpose or focus, is the key to maximising investment benefits
- Evaluations carried out at right time, by experienced and detached evaluators, with a focus on appropriate questions and support of key stakeholders, can make a difference
- Important to develop networks for officials to share experience and best practice, including on-going international liaison, e.g. World Bank and EU

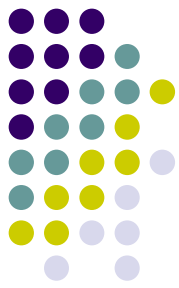
# Specific Steps taken



*Ireland has been developing an extensive experience during past 20 years, through:*

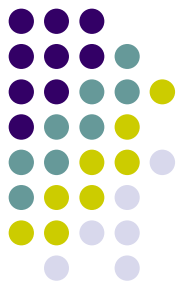
1. Learning from EU processes
  2. Developing its own systems, e.g. Central Evaluation Unit and Evaluations, e.g. ESRI
  3. Putting in place Guidelines
    - Working Rules on Cost-Benefit Analysis, June 1999,
    - Capital Appraisal Guidelines, February 2005
- While the foregoing are necessary, they are not sufficient ...there has to be effective and efficient delivery of projects “on-the-ground”

# Conditions for successful projects



- Clear understanding of the rules and regulations
- Systems must be in place to communicate rules and regulations
- Systems must also be in place to ensure compliance with rules and regulations
- Central Coordination at “heart of process”

# Importance of Training



- Specialised training is a very important requirement in the successful appraisal, planning and delivery of projects
- There is need to ensure that officials are properly trained in areas such as procurement, project management, project appraisal and policy analysis
- External professional advice should be obtained if Ministeries have not got the relevant expertise – and it should be acquired on a “knowledge-transfer” basis

Thomas Jefferson  
(1743/1826)\*



**“The price of freedom  
is eternal vigilance”**

← *the delivery of successful projects  
depends on focussed planning,  
efficient implementation  
and effective monitoring*