The Public Spending Code

Expenditure Planning, Appraisal & Evaluation in the Irish Public Service:

Standard Rules & Procedures

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Introduction

A.00

Most people have an intuitive feel for what constitutes **value for money,** whether dealing with their own spending or with expenditure from the public purse.

In very simple terms **value for money** is achieved when you are:

- *doing the right thing* - that is, spending money to achieve the right objectives, and
- *doing it right* – that is, spending money as efficiently as possible, avoiding waste.

This means that:

Good choices are made on the areas where money is spent. Resources (including all of the costs that arise over the lifetime of a project) are allocated to meet priority needs identified and the most cost-effective interventions are chosen to meet those needs. This involves good appraisal of proposals for new expenditure. Having made good choices on how resources are allocated, projects and programmes are then implemented efficiently i.e. minimum input is used to generate the outputs required and projects and programmes are only continued if they are effective in achieving the outcomes intended.

Ensuring that the State achieves **value for money** demands more than an intuitive feel. A disciplined approach needs to be applied to all aspects of the expenditure life-cycle, from the moment a proposal is put together, through its implementation and beyond when *ex-post* reviews are undertaken. The **Public Spending Code** brings together in one place details of the obligations that those responsible for spending public money are obliged to adhere to as well as guidance material on how to comply with the obligations outlined.

Elements of the Public Spending Code apply to any project or programme that:

- may incur expenditure in the near future (Appraisal, Planning)
- is currently incurring expenditure (Management, Monitoring, Evaluation)
- has incurred expenditure in the recent past (Review, Evaluation)

The Public Spending Code applies to both Capital and Current expenditure. The Code sets out to explain what is required of public service managers at different points of the expenditure lifecycle and offers advice on how to fulfil those requirements.

All Government Departments and public bodies and all bodies in receipt of public funding must comply, as appropriate, with the relevant requirements of the Public Spending Code. In the case of State Companies, the Board of each must satisfy itself annually that the Company is in full compliance with the Code.

Nothing in the Public Spending Code should be taken as precluding Government or Ministers, under the delegated sanction arrangements set down by the Minister for Public Expenditure & Reform, from deciding to approve projects independent of the detailed application of the Public Spending Code. Such decisions still require Departments to ensure that best practice is adhered to as regards public financial procedures generally, in terms of ensuring that necessary terms and conditions are applied to secure full accountability and transparency for the funds concerned.

General Points on the Public Spending Code:

- *Building on Good Practice*

The Public Spending Code builds upon some long-established elements of the VFM arrangements that have been in place in Ireland over many years. In particular, public service managers who are familiar with the *Capital Appraisal Guidelines* from 2005, as they have been expanded in subsequent Circulars and advice notes, and with the previously issued *Working Rules on Cost-Benefit Analysis,* will already have a good grounding in the main elements of the Public Spending Code. Equally however, there is a need to consolidate all of the previous advisory material, to bring procedures up to speed with best national and international practice, and to strengthen procedures so that citizens can be assured they are getting the best value for scarce public funds.

- *Aids to good decision making*

Programme evaluation and project appraisal are aids to inform decision making. They do not constitute final decisions in themselves. The basic purpose of systematic appraisal is to achieve better investment decisions. Proposals for public sector investment invariably exceed the resources available. Choice and priority setting are inescapable.

It is not enough to be satisfied that investment is justified; it is also necessary to ensure that it produces its planned benefits at minimum cost. This cost includes the ongoing current costs generated by the use of capital assets, as well as the initial capital cost. The systematic appraisal and professional management of all capital projects and current expenditure programmes helps to ensure that the best choices are made and that the best value for money is obtained.

It should also be noted that in arriving at policy decisions on investment programmes or individual projects, Ministers have to take all relevant factors into account – the economic costs and benefits are not the only relevant factors, and a judgement on social or public-good expenditure (which may not be directly amenable to costing as regards economic impact) will also be brought to bear. Accordingly, the Public Spending Code does not preclude Government or Ministers from deciding to approve projects independent of the detailed application of the Code.

- *Proportionality*

The complexity of the appraisal or evaluation of a project or programme and the methods used will depend on the size and nature of the project or programme and should be proportionate to its scale. The resources to be spent on appraisal or evaluation should be commensurate with the likely range of cost, the nature of the project or programme and with the degree of complexity of the issues involved.

- *Appraisal never to be "case-making"*

The Sponsoring Agency is responsible for ensuring that the appraisal is done on an objective basis and not as a 'case-making' exercise. Good quality appraisal at this stage will make it easier to complete the planning and implementation stages and minimize the potential for difficulties and risks to arise in the later stages.

- *Avoiding Premature Commitments*

All involved in the appraisal and management of expenditure proposals should guard against the danger that when a project is mooted, it is given a premature commitment. This must be avoided. A sequence of considered decisions will lead to progressively greater commitment of resources, but an irrevocable commitment to a proposal should only be made after all appraisal stages have been satisfactorily passed, and final approval obtained.

Where necessary, Departments and public bodies should be prepared at any stage, despite costs having been incurred in appraising, planning and developing a project, to abandon it if, on balance, continuation would not represent value for money.

- *EU Funding*

Aid from the EU is a national resource and must be used as effectively, and economically, as any other national resource. The EU expects us to ensure this. The availability of EU aid for a project is not a justification for investment in that project. The consideration that the EU may aid a project must not lead to less rigorous appraisal and decision making than if that aid was not forthcoming. If the project does not go ahead the EU aid can be applied to better effect elsewhere. In addition to the national project appraisal procedures outlined in the Public Spending Code, projects aided by the EU Funds must meet specific Community appraisal requirements. As a general principle, the provisions of the Public Spending Code should be at least as rigorous – and applied at least as rigorously – as Community appraisal. Irish citizens are entitled to know that they are getting the maximum value-for-money for their funds.

- *Adapting Guidelines to suit the decisions you have to make*

Obligations and good practice are generally described at a high level and these should be taken and adapted to suit your organisation's own circumstances. It is the responsibility of each Sanctioning Authority to ensure that Departments and agencies draw up their own procedures for management and appraisal of programmes and projects consistent with the principles set out in these guidelines.

- *A responsive and evolving Code*

The Public Spending Code will change as needs be to incorporate new requirements, better practices and other revisions to keep the Code relevant and as user-friendly as possible. Since the Code represents an evolution of established VFM procedures, in which all Government Departments and agencies are stakeholders, a new model of consultation and quality-proofing is being introduced. Several elements of the Code are flagged as "Consultation Drafts" and should be regarded as provisional for the present: these will not be formally instituted as binding elements until they have been subject to peer review by all relevant stakeholders. In particular, the Central Expenditure Evaluation Unit (CEEU) of the Department of Public Expenditure & Reform will engage actively with the broader evaluation community, in the public and private sectors and in academic life, to ensure that Ireland's Public Spending Code evolves to keep pace with best practice both nationally and internationally.

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The Public Spending Code
A. General provisions

Arrangement and Programme Life Cycle

Document Summary

This document acts as a map to the Public Spending Code, and is intended to serve as a starting-point for public service users in planning and managing public expenditure in line with the Code requirements. Part I lists the contents of the Public Spending Code. Part II describes the various stages of the Project/Programme Life-cycle (also referred in parts of the Public Spending Code as the "Expenditure Life-cycle") and points to the key Public Spending Code documents that are relevant to each stage.

I - Public Spending Code Layout:

The Public Spending Code is made up of four sections:

Section A – General Provisions: (These documents apply to all stages of the life-cycle.)

- A-00 Introduction
- A-01 Public Spending Code Arrangement & Project/Programme Life-Cycle
- A-02 Clarify your Role
- A-03 General Conditions of Sanction
- A-04 Public Spending Code Quality Assurance Requirements

ICT projects: The principles and guidelines in the Public Spending Code apply to all expenditure including expenditure on ICT. ICT projects are subject to some specific additional requirements.

The document ICT Expenditure Approval Process briefly describes the additional requirements and the website www.ict.gov.ie provides full details of procedures relating to ICT expenditure.

II - Project or Programme Life-Cycle

The four stages in the life-cycle of a project or programme are:

1. Appraisal: assessing the case for a policy intervention
2. Planning/Design: a positive appraisal should lead on to a considered approach to designing how the project/programme will be implemented
3. Implementation: careful management and oversight is required for both capital and current expenditure. Ongoing evaluation should also be a feature of current programmes
4. Post-Project or Post-Implementation Review: checking for delivery of project objectives, and gaining experience for future projects.

The successive stages should follow a realistic time schedule and have clear starting and finishing points. The appraisal and planning stages may overlap. Good detailed appraisal will require some design and planning work. Decision-making takes time and allowance should be made for this in time schedules. Figure 1 below gives an overview of how the various stages are inter-related.

1. Appraisal – Before Expenditure is Incurred

(i) Preliminary Appraisal

The preliminary appraisal aims to establish whether, at face value, a sufficient case exists for considering a proposal in more depth. It leads to a recommendation on whether or not to proceed to the detailed appraisal stage which can often be a costly exercise.

For proposals costing **more than €5m,** a preliminary appraisal should be undertaken by the Sponsoring Agency. It involves an initial specification of the nature and objectives of the proposal and of relevant background circumstances (economic, social, legal, etc.). The reasons why it is thought that public resources should be committed should be set out, having regard to what the private sector is doing or might be willing to do, independently or with State participation or encouragement.

A preliminary appraisal should include a clear statement of the needs which a proposal is designed to meet and the degree to which it would aim to meet them. It should identify all realistic options, including the option of doing nothing and, where possible, quantify the key elements of all options. It should contain a preliminary assessment of the costs (particularly financial costs) and benefits of all options.

On the basis of the preliminary appraisal, the Sponsoring Agency should **decide whether formulating and assessing a detailed appraisal would be worthwhile** or whether to drop the proposal. A recommendation to undertake a detailed appraisal should state the terms of reference of that appraisal. If significant staff resources or other costs would be involved in a detailed appraisal, the prior approval of the relevant Sanctioning Authority should be sought.

(ii) Detailed Appraisal

The detailed appraisal stage aims to provide a basis for a decision on whether to drop a proposal or to approve it in principle. It involves the clarification of objectives, exploration of options, quantification of costs and a method of selecting the best solution from competing options.

See:

- Document B-01 Standard Appraisal Steps for further information on a Detailed Appraisal
- Document B-03 Approvals Required and Scale of Appraisal
- Section D of the Public Spending Code for guidance on particular appraisal methods and
- Section E of the Public Spending Code for technical parameter values.

2. Planning/Design

Planning/Design starts with the Approval in Principle from the Appraisal stage (although some elements of planning/design may need to be completed to fully inform the appraisal). No commitment to finance a project should be made until this stage is completed and a decision taken on whether to proceed is taken. This stage involves detailed planning and costing of the project. The latter end of this stage may involve procurement and lead to the evaluation of tenders and an assessment of whether the best proposal received meets the requirements and is within the approvals required.

For more information on the Planning/Design stage see documents:

- B-02 The Planning Phase
- B-03 Approvals Required and Scale of Appraisal
- B-04 Procurement Guidelines

3. Implementation

This stage may, if an external provider is involved, begin with contract placement. Management, Monitoring, Supervision and Control are key terms that apply to this stage. For capital projects the implementation stage will be of limited duration but the implementation of current expenditure programmes could extend over many years or even decades. In the case of current expenditure, evaluation will also play an important role. Both continuous evaluation using pre-determined performance indicators and more formal evaluations will be required to ensure that programmes are operating efficiently, are achieving the outcomes as planned and are serving needs that remain a priority.

Documents in the Public Spending Code that are specifically relevant to the stage include:

- C-01 Management
- C-02 Monitoring Reports
- C-03 Periodic Evaluation/Post-Project Review
- C-04 Procedures relating to a VFM Review

4. Post-Project or Post Implementation Review

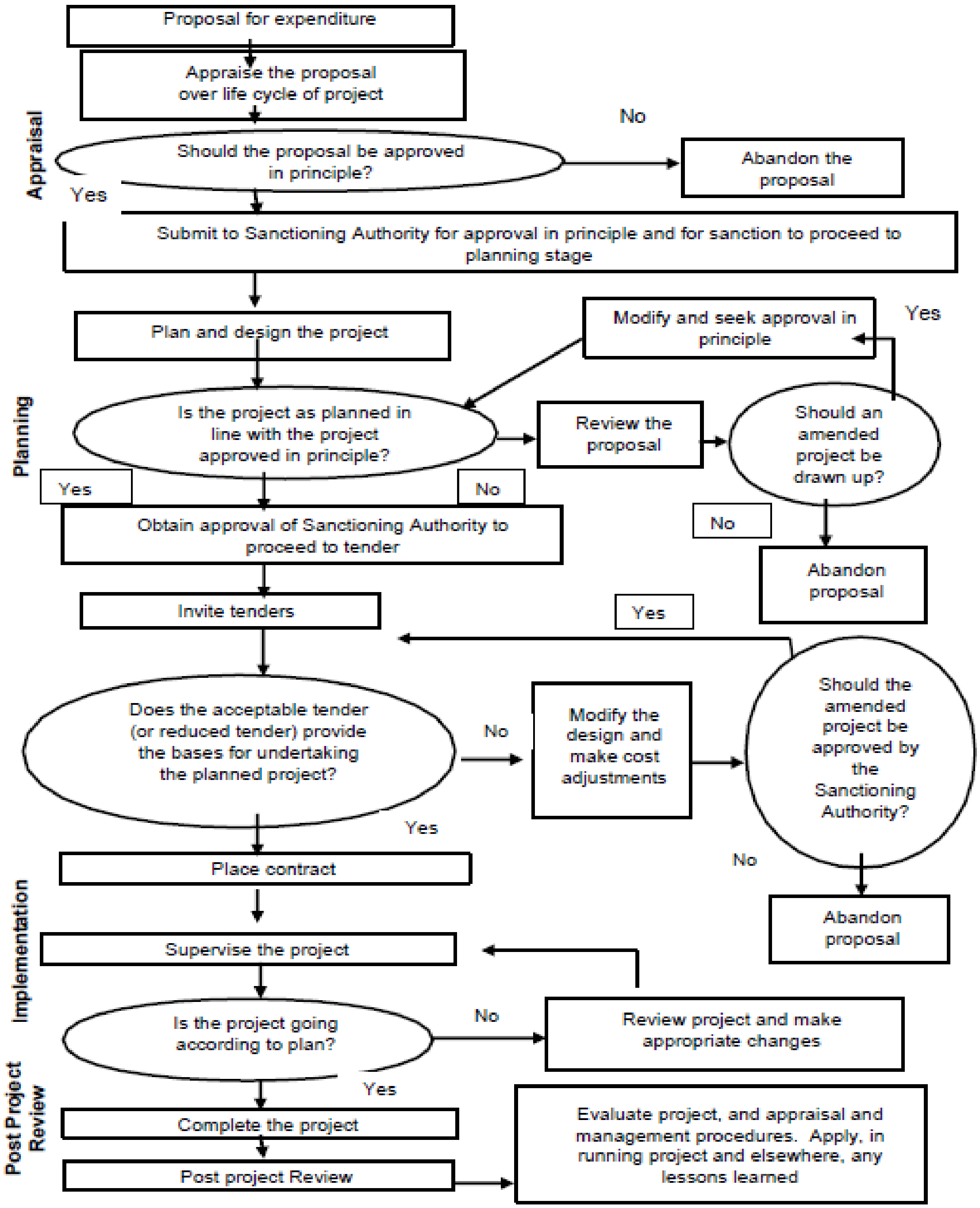
Post-Project Reviews aim to confirm whether project objectives have been met, the project has been delivered to required standard, on time and within budget and to ensure that experience gained can be used on other projects. It may also help to inform managers on the continued best use of a new asset. Documentation on the appraisal undertaken is the key starting point or reference for any post-project review.

The Post-Project Review stage is more relevant to capital expenditure. Current expenditure is likely to be reviewed during what is typically a more extended implementation period but reviews post-implementation may also be relevant.

Documents in the Public Spending Code that are relevant to this stage include:

- C-03 Periodic Evaluation/Post-Project Review

Figure 1: OVERVIEW OF THE PROJECT APPRAISAL AND MANAGEMENT PROCESS[1]



* This is an Overview of the process when outsourcing is used for the development or implementation of the project/scheme. Where outsourcing is not being used the latter part of the Planning and Design Phase and the beginning of the Implementation Phase will be different as there will neither be a tender or a contract.

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Clarify your Role

A.02

Document Summary:

An organisation's responsibilities under the Public Spending Code depend on whether it is responsible for proposing and subsequently implementing a project or programme or whether it grants approval for a project or programme to proceed under the management and oversight of another body. This document describes the roles of the Sponsoring Agency and the Sanctioning Authority. These roles are referred to throughout the Public Spending Code.

Most parts of the Public Spending Code but in particular *Public Spending Code B.03 - Approvals Required and Scale of Appraisal* make references to the *Sponsoring Agency* and the *Sanctioning Authority*. This document outlines the different roles that organisations play in the life-cycle of a project.

Sponsoring Agency

The **Sponsoring Agency** has the overall responsibility for the proper appraisal, planning and management of projects/schemes (incl. current expenditure). Sponsoring Agencies are also responsible for post-project review. (The Sponsoring Agency may be a Government Department, local authority, health agency, University or other State body.)

The Sponsoring Agency must obtain the necessary approvals from the Sanctioning Authority and ensure that the project/scheme proceeds along the lines approved by the Sanctioning Authority. All capital projects being sponsored by a State company must be specifically approved by the

Board of the company or, by management in accordance with any delegated authority from the Board, before its submission to the Sanctioning Authority. If a subsidiary company or agency is set up specially to undertake a project, it is important that the responsibilities of the parent body are not diluted.

Where the Office of Public Works (OPW) is undertaking a project in response to a request from a Government Department/Office it is the responsibility of the relevant Government Department/Office to complete the project appraisal and to secure the approval of the Sanctioning Authority before involving the OPW in the planning and implementation stages. In the case of a PPP project, the Sponsoring Agency is the public body or agency sponsoring the project, subject to subsequent assignment of responsibilities under PPP contractual arrangements.

Sanctioning Authority

The **Sanctioning Authority** is responsible for granting the approvals required as projects/schemes, funded with public assistance, proceed through the project/expenditure life cycle. The approvals required include the approval in principle following detailed appraisal and pre-tender approval. If there is not procurement there should still be an approval checkpoint at the equivalent stage i.e. when the quantity of internal resources required is known.

The Sanctioning Authority may also set conditions under which a project may proceed. It is also responsible for paying the public assistance to the Sponsoring Agency and for ensuring the project's delivery as approved. While implementation is the responsibility of the Sponsoring Agency the Sanctioning Authority must be satisfied that that the Sponsoring Agency delivers the project/scheme as approved.

The Sanctioning Authority is normally the Government Minister or Department or public body with sectoral responsibility for implementing Government policy and for providing public financial assistance in that sector. In the case of major projects the sanctioning authority may be the Government. As a rule the Government will be the Sanctioning Authority for very large projects, costing more than €250m, but the Government could also be the Sanctioning Authority for projects below this value. Where the Government is the Sanctioning Authority, the day to day oversight functions of a Sanctioning Authority revert to the line Department. The Government is involved at the major decision points. The Sanctioning Authority should take the necessary steps to ensure that it has the requisite expertise to assess project appraisal proposals from Sponsoring Agencies.

Each Sanctioning Authority is responsible for drawing up its own procedures applicable to its area of control. These procedures should comply with the principles set out in the Public Spending Code. Each Sanctioning Authority should also ensure that bodies under its aegis follow the procedures laid down by it. If there is an intermediary body (e.g. the Higher Education Authority) between the Sanctioning Authority and the Sponsoring Agency it is the responsibility of the Sanctioning Authority to define clearly the roles and responsibilities of any such intermediary bodies in regard to programme/project appraisal and management consistent with these guidelines.

In some instances the Sponsoring Agency and the Sanctioning authority, in relation to individual projects, may be the same body e.g. the National Roads Authority, non-Exchequer funded commercial State Companies. All such projects will, however, be part of a multi-annual programme or business plan which will have been appraised by a parent Department and/or Board of the company. Individual projects will still have to be appraised and approved in accordance with these guidelines with internal approval processes substituting for an external sanctioning authority.

Finance/Budget

The source of finance for a project is a good guide to the role played. The provider of the finance is usually the sanctioning authority and the organisation making the payments or incurring the expense is usually the sponsoring agency. If the finance has been received with delegated sanction that allows the funded organisation to make decisions up to a certain limit under certain conditions then the sanctioning authority and sponsoring agency may be the one body. Any organisation whether a sponsoring agency or sanctioning authority has to ensure that the necessary arrangements have been made for the financing of a project before any commitment is entered into.

Proposals made by bodies other than those responsible for their implementation.

Proposals may be initiated by bodies other than those which will be responsible for them. Submissions and research documentation coming from such sources may provide some of the information required for a preliminary appraisal. However, the Sponsoring Agency must satisfy itself that such information is accurate and objective.

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General Conditions of Sanction - Capital

A.03

General Conditions of Sanction for Multi Annual Capital Envelopes

Capital investment allocations are typically made on a multi-annual basis by the Government, so that Government Departments can undertake proper medium-term planning for the cost-effective delivery of investment projects. Sanction from the Department of Public Expenditure & Reform to each other Department for the multi-annual investment framework is subject to the following conditions:

(a) **Contractual commitments**

The level of contractual commitments (meaning formal legal contract or grant approval) made in 2011 in respect of 2012 will not exceed 85% of the 2012 allocation for the Department. The corresponding limits in subsequent years are 75% of the 2011 allocation for 2013, 60% for 2014 and 45% for 2015. These limits will be rolled forward each year.

(b) **Virement**

The Multi-Annual Investment Framework will not affect the normal rules for operation of virement between Vote subheads. A separate subhead will be established in your Vote to meet unitary payments arising under PPP contracts. Unitary payments from this subhead under contracts in respect of projects delivered by Public Private Partnership/National Development Finance Agency (PPP/NDFA) will be “ring fenced” and regarded as non-discretionary current expenditure. Virement will not apply to the carryover sums at (g) below.

(c) **Programme contingency provision**

The Department will make a contingency provision within its overall envelope to meet any unforeseen demands or additional costs which might emerge for the programme as a whole.

(d) **Project contingency**

In making provision for each project, account should be taken not just of the contract price but limited provision should also be made for likely price increases for inflation for projects with a construction duration of more than 3 years, and unforeseeable variations that might arise during project construction. (The extent to which this is necessary will be significantly reduced with the use of the fixed price Public Works Contracts).

(e) **Project costings**

Departments must in their evaluation of a project satisfy themselves that any staffing and other current costs arising are consistent with Government policy on staffing and should be fully consistent with the figures in the Employment Control Framework (ECF). Given current and foreseeable budgetary circumstances, resources are and will be very limited and Departments must take account of this.

(f) **Grants to private companies, individuals and community groups**

An appropriate contractual arrangement to be put in place by the Department or its agencies, as appropriate, for all significant grants of public funding to private companies and individuals or community groups relating to the State's interest in the asset. In such cases they should, in particular, have in place a written contract to safeguard the Exchequer interest in the event of change of ownership. The contractual provisions should also provide for the repayment of such grants where the terms are not adhered to and in the event of sale of the asset. Departments should also take account of the new requirements set out in Circular 17/10- Requirements for Grants and Grants-in-Aid issued by this Department on 22 December 2010.

(g) **Carryover of unspent annual allocations**

Any proposal by a Department to carryover unspent capital will be subject to a ceiling of 10% of the current year's Voted capital allocation (excluding Dormant Accounts capital funding) as adjusted by any pertinent Government decision this year. Any such sums approved for carryover will be lodged to the credit of the Department's PMG Account and may, in accordance with the provisions of Section 91 of the 2004 Finance Act, be spent in the following year upon approval by the Dáil of the Ministerial Order specifying the amounts by subhead. Any sum which is carried over and not spent in the following year will be surrendered to the Central Fund.

(h) **Reporting requirements**

The Department should make arrangements:

(i) to report regularly (at least every six months) to its MAC on the appraisal of capital projects prior to approval, the management of capital projects and on progress on its capital programmes,

(ii) to highlight variances against the agreed budget and,

(ii) to undertake an annual Quality Assurance exercise to ensure compliance with the Public Spending Code and other requirements at (i) below and to report the findings of such Quality Assurance exercises annually to the Department of Public Expenditure and Reform. The Central Expenditure Evaluation Unit will carry out periodic reviews of these Quality Assurance reports. The Department of Public Expenditure and Reform will furnish a copy of the CEEU review on such QA checks to the Secretary General of the Department for comment before considering what action, if any, the Sponsoring Department needs to take on foot of any report.

(i) **Adherence to National and EU requirements in relation to capital appraisal, public procurement etc.**

The Department will comply fully with:

- The Department of Public Expenditure and Reform's Public Spending Code;
- Where appropriate, requirements for undertaking Public Private Partnerships as set down by the Department of Public Expenditure & Reform, including the requirement to consult with the National Development Finance Agency on financing options for all projects in excess of [€20 million].
- Public Procurement procedures - both National and EU; and
- Tax clearance requirements as laid down by the Revenue Commissioners.

(j) **Annual Report**

Each Department will submit to the Department of Public Expenditure & Reform before the end of January of each year an annual report on the capital investment programmes covered by this Agreement. It will include:

- Financial information on the outturn and estimate each year and the sources of the funding;
- Narrative material on progress on projects and programmes under the multi-annual investment framework;
- Information on the total level of contractual commitments entered into by future year;
- Information on major capital projects over €20m in progress or planned in the format of the attached reporting templates;
- a report on value for money and spot checks ; and
- information on PPP projects in the format requested.

(k) **North-South commitments**

Departments will fulfil all commitments entered into in respect of the North-South Bodies established under the Good Friday Agreement.

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

Quality Assurance – Compliance with the Code

Document Summary:

The Public Spending Code will only be of use if it is complied with by those that are responsible for expenditure at the appraisal, planning, implementation or post implementation stages. This document describes what is expected of the internal independent team that will carry out quality assurance checks and produce the annual quality assurance report.

The Public Spending Code imposes obligations, at all stages of the project/programme life-cycle on organisations that spend public money. These obligations apply to those that have responsibility at the different stages i.e. those within the Sponsoring Agency or Sanctioning Authority responsible for appraising, planning, approving, implementing or reviewing.

An additional obligation of the Public Spending Code is that each Department should put in place an internal, independent, quality assurance procedure involving annual reporting on how organisations are meeting their Public Spending Code obligations. This new Quality Assurance procedure replaces and updates the "spot check" requirements previously laid down in Circular letter dated 15th May 2007. The old procedure required a report with five sections – (i) Steps taken to disseminate the Guidelines (ii) Description of current systems for appraisal and management (iii) Coverage of the spot-checks and the findings (iv) measures in place to ensure compliance and (v) the views and responses of Departments and Agencies regarding the spot-check findings.

This new Quality Assurance Process aims to be easier to understand, more of an aid to compliance and easier to complete. The QA process should not place an undue burden on *organisations. QA does not involve doing or redoing any of the appraisal, evaluation or review work that is required elsewhere in the Code. QA reviews pieces of ex-ante appraisal, management, evaluation or review work done by others.*

The Quality Assurance procedure is made up of five steps:

1. Draw up inventories of projects/programmes at the different stages of the Project Life Cycle. It is expected that the Organisation's Finance Unit is best placed to draw up this inventory. They may have to consult with others to ensure that they have the full picture on projects that are at the appraisal/planning stage i.e. have yet to incur expenditure. The person responsible for the Quality Assurance process should be satisfied that they have a full and complete inventory.

2. The Organisation's Finance Unit should publish summary information on its website of all procurements in excess of €2m, related to projects in progress or completed in the year under review. A new project may become a "project in progress" during the year under review if the procurement process is completed and a contract is signed. Department's should also publish details of the website references where its agencies have placed information on procurements over €2m.

3. Complete the checklists contained in this guidance document. Only one of each checklist per Department/Agency is required. Checklists are not required for each project/programme. The QA process is based on a sample.

4. Carry out a more in-depth check on a small number of selected projects/programmes

5. Complete a short summary report for the Department of Public Expenditure & Reform. The report, which will be generated as a matter of course through compliance with steps 1-4, involves minimum administrative burden and should be submitted by the end of June in respect of the previous calendar year.

Step 1 was not formally a part of the old process but it would have had to be completed in order to select the projects that were to be checked. The second step is new but should not be a significant burden as the inventory compiled as part of Step 1 will provide the master list. The set of checklists to be completed for Step 3 serve as prompts that allow organisations to self-assess how compliant they are at a general level and will allow them to identify areas that need attention. They can also measure progress from one year to another. Step 4 is the most detailed step. Organisations are required to look in detail at a small number of projects/areas of expenditure. The detailed checks will verify whether the assessments made when completing the checklists are accurate or not. Organisations may think that they are very compliant based on the initial surface checks but find that when the detailed checks are undertaken that the practice does not live up to the theory or vice-versa. This may prompt a revisit to the checklist assessments.

Responsibility for Quality Assurance

The Quality Assurance requirement rests mainly with the Sponsoring Agency. The questions in the self-assessment questionnaires have to be answered by the organisation that is responsible for the appraisal or management of an area of expenditure i.e. the Sponsoring Agency.

Departments are usually Sanctioning Authorities in respect of one part of their budget and Sponsoring Agencies for the remainder. Where the Department is the Sponsoring Agency it carries out Steps 1-5 of the QA process in respect of that part of its expenditure.

Departments in their role as Sanctioning Authorities must choose how they will implement the QA process for agencies that they fund. The Sanctioning Department could require those that they fund to complete the QA process and report it into them or the Sanctioning Authority could decide to take a hands-on role in part of the QA process particularly Step 4 where the Sanctioning Authority chooses to undertake one or more of the in-depth reviews.

Only Departments are required to send an annual QA report to the Department of Public Expenditure & Reform

Who Quality Assures compliance with the Public Spending Code?

The Quality Assurance process should be undertaken by internal staff that are as independent as possible of the areas responsible for appraisal, planning and implementation e.g. staff from the economic /evaluation units, financial management units, internal audit, staff from an evaluation unit in another Department or academics on a *pro bono* basis. The process should be led by a small group chaired at senior level (minimum PO).

Supplementary Quality Assurance by the CEEU

In addition to the quality assurance checks undertaken by Departments themselves, the Central Expenditure Evaluation Unit (CEEU) in the Department of Public Expenditure & Reform may undertake its own quality assurance checks from time to time. This exercise, which aims to promote a consistent approach to Quality Assurance and VFM enforcement across the public service, will not replicate the internal quality assurance process but may instead involve in-depth reviews of the processes followed for specific projects or programmes.

The five steps in the Quality Assurance procedure are described in more detail below.

1. Drawing up Inventories of projects/programmes

For Departments to know that they are compliant with the Public Spending Code they first need to be aware of the areas of expenditure to which the Code applies in their Department. The first step in the process is to draw up or update your inventories of:

(i) Expenditure being considered:

- Capital projects that are or were under consideration during the year. These should be broken down by their anticipated cost (between €0.5 - €5m, between €5m - €20m, greater than €20m). Grant schemes for capital purposes should also be also included here.
- New Current expenditure programmes or significant extensions to existing programmes that will involve annual expenditure of €0.5m or more.

(ii) Expenditure being incurred

- Capital Projects (> €0.5m) that are at the implementation stage
- Capital Grant Schemes (> €0.5m) that are incurring expenditure
- Current expenditure schemes or programmes (> €0.5m) that are incurring expenditure

(iii) Expenditure that has recently ended

- Capital Projects (> €0.5m) that were completed in the year being reviewed
- Capital Grant Schemes (> €0.5m) that were completed or were discontinued
- Current expenditure schemes or programmes (>€0.5m) that were completed or were discontinued

It is expected that the Organisation's Finance Unit is best placed to draw up this inventory. They may have to consult with others to ensure that they have the full picture on projects that are at the appraisal/planning stage i.e. have yet to incur expenditure. The person responsible, for the Quality Assurance process, should be satisfied that they have a full and complete inventory.

2. Publish summary information on your website of all procurements in excess of €2m, whether new, in progress or completed

Drawing from the inventory compiled or updated in Step 1 the organisation should publish, annually on its website, summary details of all procurements (capital and current) where the value exceeds €2m. This information should appear under the standard heading **PROCUREMENTS / PROJECT PROGRESS** on all Departmental websites. Publishing this information before the end of March each year also satisfies the requirement to report on capital projects in progress or completed. The table below should be published for **each** project/procurement >€2m:

Project Details:	
Year	
Parent Department	
Name of Contracting Body	
Name of Project/Description	
Procurement Details:	
Advertisement Date:	
Tender advertised in:	
Awarded to:	
EU contract award notice date	
Contract Price:	
Progress:	
Start Date:	
Expected Date of Completion per Contract:	
Spend in Year under Review:	
Cum Spend to end Year:	
Projected final Cost:	
Value of Contract variations:	
Date of Completion:	
Outputs:	
Expected Output on completion (e.g. X km of road, No. units)	
Output achieved to date (e.g. Y km of road, no. units)	

There should be an entry for all new projects and projects still in progress. Completed projects feature for the last time in respect of the year that they were completed.

The presentation of this information can be in tabular or spreadsheet if that is more convenient.

3. Checklists to be completed in respect of the different stages

Step 3 involves completing a set of basic checklists covering all expenditure. These are high level checks that should be readily completed within each organisation. The objective of the exercise is to provide local and senior management, and the public more generally, with a self-assessment summary overview of how compliant the organisation is with the Public Spending Code. More in-depth checks are carried out as part of Step 4.

The first checklist captures obligations/good practice that apply to the organisation as a whole. Each of the remaining checklists listed below (checklists in the Appendices) might apply to a number of projects/areas of expenditure. Only one of these checklists is required for each organisation. Organisations are asked to estimate their compliance on each item on a 5 point scale (**0.** Not Done, **1.** < 50% compliant, **2.** 50-75% compliant, **3.** > 75% compliant or **4.** 100% Compliant). This self-assessed estimate of compliance can be based on an appropriate sample of the projects/areas of expenditure that are relevant to the checklist. The sample could be 5-10% of projects/programmes. The sample should rotate from year to year. Using a sample, to form a view on what should be included for the organisation in the Checklist answers, is in keeping with the intention that the QA process does not become over burdensome.

Checklist 1:	General Obligations not specific to individual projects/programmes
Checklist 2:	Capital Projects or Capital Grant Schemes being considered
Checklist 3:	Current expenditure being considered
Checklist 4:	Capital Expenditure being incurred
Checklist 5:	Current Expenditure being incurred
Checklist 6:	Capital Expenditure completed
Checklist 7:	Current expenditure completed

4. Carry out a more in-depth check on a small number of selected projects/programmes

Parts 1 & 3 of the Public Spending Code Quality Assurance process will give an organisation a good overview of how compliant its processes are with the Public Spending Code. Quality Assurance Step 4 is about examining in more detail a small subset of its practices to see if the practices used are of a high standard. This step requires a higher level of analysis and judgement than previous steps in the QA process. It may for example involve drawing conclusions on whether the CBA used to appraise a proposal for a large project was satisfactory or not.

Selection of subset for closer examination:

Over a 3-5 year period every organisation should ensure that every stage of the project life-cycle and every scale of project is subject to a closer examination. In any given year this may involve looking at a couple of large projects at appraisal/planning, implementation or review stages or looking at a larger selection of smaller projects. Not every organisation has a large project every year so where large projects, in the year under review, are at the appraisal stage, implementation stage or have recently been completed it is opportune to select them for closer examination. In other years when large projects may not be a feature there is an opportunity to select a number of smaller scale projects. **The value of the projects selected per annum, should be at least 5% of the total value of all projects in the inventory.** This includes projects at the appraisal stage that have yet to incur expenditure. A subset of more than 5% may be needed for large organisations or because of the way that expenditure is divided a 5% sample would not give good coverage. To allow flexibility the minimum of 5% can be achieved as an average over a three year period e.g. 8%, 4%, 3%. The same projects should not be selected more than once in a three year period unless it is as a follow-up to serious deficiencies discovered previously.

Where there is a scheme that involves a large number of grants then it is the scheme itself that is the unit that is examined, not all of the individual grants i.e. it will not be necessary as part of this QA process to check 5% of all grants paid. The appraisal work on the scheme itself might be reviewed i.e. was there sufficient analysis to reach a conclusion that introducing the scheme was the best option to meet the objectives pursued? A small number of individual grants might be checked to confirm (i) that the conditions attaching to a grant matched the scheme design e.g. is this the subset of the population that we intended to target?, and (ii) that there was reasonable evidence that the scheme conditions were complied with.

This approach leaves organisations the greatest flexibility to cover the whole spectrum of projects and life-cycle phases over a number of years but also allows them to focus on large items at the most appropriate time.

What is expected of a more in-depth check?

Step 4 will look at a small subset and probe the quality of the work carried out. Step 3 above looks for basic indicators of compliance with the Public Spending Code i.e. if the project is over €20m, a CBA is required. Step 3 does not involve an assessment of whether or not the CBA is up to standard. Step 4, in contrast, looks in more detail at the quality of the appraisal, planning or implementation work done.

This may mean:

- examining a CBA for a large project,
- an appraisal of a project under the €20m threshold,
- looking at how the outputs and outcomes for a current expenditure programme are defined and whether the data exists for on-going monitoring and evaluation
- examining how a large project was managed or
- looking at a post-project review

and **making a judgement** on whether the CBA, post-project review etc. was of an acceptable standard. Adverse findings might be that the estimated number of users of the proposed project was too optimistic, that the value of the benefit was overstated or unfounded, that other realistic options were not considered, that all costs including lifetime costs were not included, that the outputs were not defined prior to implementation or that data was not gathered during implementation to allow ongoing monitoring etc.

Step 4 may highlight, that while processes are in place and the organisation looks very compliant as per the checklists, there are deficiencies when more detailed checks are made.

Step 4 is a in depth look, using a small no. of projects/schemes, at how the organisation complies with the Public Spending Code. It is different from a Value for Money Policy Review (VFMPR). As with all work under the QA requirement Step 4 is reviewing work already done by others in the organisation. Step 4 looks at how the decision was made initially, was it soundly based, was it well managed during implementation and reviewed in more depth when necessary.

The VFMPR looks at whether the intervention chosen worked or not or whether it was efficiently implemented. An organisation can do everything right as per the Code and come through this Quality Assurance check with a clean bill of health but an intervention it has chosen to fund may be shown in a VFMPR to have failed in spite of the best appraisal, planning and management. They are two separate exercises. If a VFMPR found that an intervention failed then continued compliance with the Public Spending Code should mean that the intervention is either abandoned or redesigned to address the deficiencies.

5. Complete a short report for Department of Public Expenditure & Reform.

The final step in the Quality Assurance process is the completion of a report to be submitted to the Department of Public Expenditure & Reform by the end of June in respect of the previous calendar year.

The report should contain:

- the inventory of project/programmes, current & capital as compiled by the organisation's Finance unit;
- the website reference where details of procurements over €2m are published;
- completed checklists as per Step 3;
- the Department's judgement on the adequacy of the appraisal/planning, implementation or Review work that it examined as part of Step 4 and the reasons why the Department formed these judgements; and
- the Department's proposals to remedy any inadequacies found during the Quality Assurance process.

This report should be certified by the Accounting Officer and published on the Department's website.

The Quality Assurance Process should serve as an aid to each Department in its ongoing task of achieving the best value for money. The Quality Assurance process takes stock of how well an organisation does its job as steward of a significant block of public expenditure. Compiling and submitting a report will allow the Department of Public Expenditure & Reform to be of greater assistance in how it supports the achievement of this objective. It will also allow the D/PER and Departments generally to assess how appropriate this Quality Assurance Process is in practice and to make whatever adjustments may be required, in the context of the broader Consultation and Review procedures that are now integrated into the Public Spending Code itself.

CEEU Review of Compliance with Public Spending Code

The CEEU may make an annual assessment of each Department's compliance with the Public Spending Code and may publish this assessment on its website. The assessment will be based on Departments' Quality Assurance Reports, their record in completion of VFMs and any reviews that the CEEU itself conducts in Departments. Rather than focus only on deficiencies and shortcomings, it is important that instances of good practice be acknowledged, and that due credit should be given to Departments when they themselves identify and address deficiencies as part of the internal Quality Assurance process.

Checklist 1: – to be completed by all Departments

General Obligations not specific to individual projects/programmes	Self-Assessed Compliance Rating: 0 - 4	Comment/Action Required
Does the Department ensure, on an ongoing basis that appropriate people within the Department and in its agencies are aware of the requirements of the Public Spending Code?		
Has training on the Public Spending Code been provided to relevant staff?		
Has the Public Spending Code been adapted for the type of project/programme that your Department is responsible for? i.e. have adapted guidelines been developed?		
Has the Department in its role as Sanctioning Authority satisfied itself that agencies that it funds comply with the Public Spending Code?		
Have recommendations from previous Quality Assurance exercises (incl. old Spot-Checks) been disseminated, where appropriate, within the Department and to your agencies?		
Have recommendations from previous Quality Assurance exercises been acted upon?		
Has an annual Public Spending Code Quality Assurance Report been submitted to the Department of Public Expenditure & Reform?		
Was the required sample subjected to a more in-depth Review i.e. as per Step 4 of the QA process		
Has the Accounting Officer signed off on the information to be published to the website?		

Self-Assessed Ratings: **0** - Not Done, **1 -** < 50% compliant, **2** - 50-75% Compliant, **3** - > 75% Compliant, **4** – 100% Compliant

Checklist 2: – to be completed in respect of **capital projects or capital programme/grant scheme** that is or was **under consideration** in the past year.

Capital Expenditure being considered - Appraisal and Approval	**Self-Assessed Compliance Rating: 0 - 4**	**Comment/Action Required**
Was a Preliminary Appraisal undertaken for all projects > €5m		
Was an appropriate appraisal method used in respect of each capital project or capital programme/grant scheme?		
Was a CBA completed for all projects exceeding €20m?		
Were all Programmes with an annual value in excess of €30m and of 5 years or more duration subjected to an ex-ante evaluation?		
Was an Approval in Principle granted by the Sanctioning Authority for all projects before they entered the Planning and Design Phase?		
If a CBA was required was it submitted to the CEEU for their view?		
Were the NDFA Consulted for projects costing more than €20m?		
Were all projects that went forward for tender in line with the Approval in Principle and if not was the detailed appraisal revisited and a fresh Approval in Principle granted?		
Was approval granted to proceed to tender?		
Were Procurement Rules complied with?		
Were State Aid rules checked for all supports?		
Were the tenders received in line with the Approval in Principle in terms of cost and what is expected to be delivered?		
Were Performance Indicators specified for each project/programme which will allow for the evaluation of its efficiency and effectiveness?		
Have steps been put in place to gather the Performance Indicator data?		

Self-Assessed Ratings: **0** - Not Done, **1 -** < 50% compliant, **2** - 50-75% Compliant, **3** - > 75% Compliant, **4** – 100% Compliant

Checklist 3: - New Current expenditure or expansion of existing current expenditure under consideration

Current Expenditure being considered - Appraisal and Approval	**Self-Assessed Compliance Rating: 0 - 4**	**Comment / Action Required**
Were objectives clearly set?		
Are objectives measurable in quantitative terms?		
Was an appropriate appraisal method used?		
Was a business case prepared for new current expenditure?		
Has an assessment of likely demand for the new scheme/scheme extension been estimated based on empirical evidence?		
Was the required approval granted?		
Has a sunset clause been set?		
Has a date been set for the pilot evaluation?		
Has the methodology and data collection requirements for the pilot evaluation been agreed at the outset of the scheme?		
If outsourcing was involved were Procurement Rules complied with?		
Were Performance Indicators specified for each new current expenditure proposal or expansion of existing current expenditure which will allow for the evaluation of its efficiency and effectiveness?		
Have steps been put in place to gather the Performance Indicator data?		

Self-Assessed Ratings: **0** - Not Done, **1 -** < 50% compliant, **2** - 50-75% Compliant, **3** - > 75% Compliant, **4** – 100% Compliant

Checklist 4: - Complete if your organisation had capital projects/programmes that were incurring expenditure during the year under review.

Incurring Capital Expenditure	**Self-Assessed Compliance Rating: 0 - 4**	**Comment / Action Required**
Was a contract signed and was it in line with the approval in principle?		
If a construction or ICT project was the contract for a fixed price?		
Are suitable management structures in place, commensurate with the scale of projects?		
Did management boards/steering committees meet regularly as agreed?		
Were Programme Co-ordinators appointed to co-ordinate implementation?		
Were Project Managers, responsible for delivery, appointed and were the Project Managers at a suitable level for the scale of the project?		
Were monitoring reports prepared regularly, showing implementation against plan, budget, timescales and quality?		
Did the project keep within its financial budget and its time schedule?		
Did budgets have to be adjusted?		
Were decisions on changes to budgets or time schedules made promptly?		
Did circumstances ever warrant questioning the viability of the project? (exceeding budget, lack of progress, changes in the external environment)	Y/N	
If circumstances did warrant questioning the viability of a project was the project subjected to adequate examination?		
If costs increased was approval received from the Sanctioning Authority?		

Were any projects terminated because of deviations from the plan, the budget or because circumstances in the environment changed the need for the investment?	Y/N	
For projects > €20m were quarterly reports on progress submitted to the MAC or Management Board and to the Minister?		
Were prescribed annual tables on projects, completed or in progress and > €20m submitted to the Department of Public Expenditure & Reform?		

Self-Assessed Ratings: **0** - Not Done, **1 -** < 50% compliant, **2** - 50-75% Compliant, **3** - > 75% Compliant, **4** – 100% Compliant

Checklist 5: - For Current Expenditure

Incurring Current Expenditure	Self-Assessed Compliance Rating: 0 - 4	Comment / Action Required
Are there clear objectives for all areas of current expenditure?		
Are outputs well defined?		
Are outputs quantified on a regular basis?		
Is there a method for monitoring efficiency on an ongoing basis?		
Are outcomes well defined?		
Are outcomes quantified on a regular basis?		
Is there a method for monitoring effectiveness on an ongoing basis?		
Have formal VFM evaluations or other evaluation been completed in the year under review?	Y/N	
Are plans for new evaluations made in good time to ensure that they are completed in time to feed into the annual budget cycle?		
Are unit costings compiled for performance monitoring?		

Self-Assessed Ratings: **0** - Not Done, **1 -** < 50% compliant, **2** - 50-75% Compliant, **3** - > 75% Compliant, **4** – 100% Compliant

Checklist 6: - to be completed if capital projects were completed during the year or if capital programmes/grant schemes matured or were discontinued.

Capital Expenditure Completed	**Self-Assessed Compliance Rating: 0 - 4**	**Comment / Action Required**
Were the required post-project reviews carried out?		
Was a post project review completed for all projects/programmes exceeding €20m?		
If sufficient time has not elapsed to allow a proper assessment of benefits has a post project review been scheduled for a future date?		
Were lessons learned from post-project reviews disseminated within the Sponsoring Agency and to the Sanctioning Authority?		
Were changes made to the Sponsoring Agencies practices in light of lessons learned from post-project reviews?		
Was project review carried out by staffing resources independent of project implementation?		

Self-Assessed Ratings: **0** - Not Done, **1 -** < 50% compliant, **2** - 50-75% Compliant, **3** - > 75% Compliant, **4** – 100% Compliant

Checklist 7: - to be completed if current expenditure programmes that reached the end of their planned timeframe during the year or were discontinued.

Current Expenditure that (i) reached the end of its planned timeframe or (ii) Was discontinued	**Self-Assessed Compliance Rating: 0 - 4**	**Comment / Action Required**
Were reviews carried out of, current expenditure programmes that matured during the year or were discontinued?		
Did those reviews reach conclusions on whether the programmes were effective?		
Did those reviews reach conclusions on whether the programmes were efficient?		
Have the conclusions reached been taken into account in related areas of expenditure?		
Were any programmes discontinued following a review of a current expenditure programme?		
Was the review commenced and completed within a period of 6 months?		

Standard Appraisal Process

B.01

Document Summary:

The techniques used in appraising proposals or new areas of expenditure vary depending on the scale of expenditure involved. The more complex techniques are explored in the Standard Analytical Guidance Section of the Public Spending Code. Regardless of the scale or the technique used all appraisal involves a series of steps from objective definition and options exploration through to selection of the preferred option. This document sets out those standard appraisal steps. For expenditure involving less than €5m, following the standard appraisal steps should ensure a good appraisal.

Appraisal involves both the Sponsoring Agency and the Sanctioning Authority being clear about the objectives of a proposal/intervention and consideration of all the options open to the Sponsoring Agency in meeting these objectives. All publicly funded projects or initiatives should be appraised carefully for:

- consistency with programme/policy objectives;
- value for money (taking account of deadweight[1] and displacement[2])

Appraisal by the Sponsoring Agency should follow the general approach in the checklist below. Appraisal of **all** new expenditure (whether capital or current), large or small should be subjected to the general appraisal process described below.

[1] Deadweight : would have happened anyway in the absence of public funding
[2] Displacement: to what extent have existing facilities or activities been displaced by those that are now grant-aided

The *appraisal and planning stage will often overlap*. In reality, it is very difficult to carry out a detailed appraisal unless some planning and/or initial design work has been done.

There are seven standard steps and these are expanded upon below.

(i) Define the objective

(ii) Explore options taking account of constraints

(iii) Quantify the costs of viable options and specify sources of funding

(iv) Analyse the main options

(v) Identify the risks associated with each viable option

(vi) Decide on a preferred option

(vii) Make a recommendation to the Sanctioning Authority

Further guidance on particular techniques and methods are contained in Section D of the Public Spending Code and parameter values are to be found in Section E.

(i) Define the Objective

Define clearly the objective of the proposals i.e. what needs are to be met and what is the planned scale on which those needs will be met, measured as precisely as possible**.** This is a key step that does not always get the required attention. If the objective changes during the appraisal or planning process then all parts of the appraisal need to be reviewed.

Needs and Objectives

An objective is the explicit intended result of a particular programme or project, measured as precisely as possible. For example, there may be a need to improve traffic flow on a road. To state the objective of works on that road as being “to reduce average journey times” would be unsatisfactory since it would not provide a basis for judging whether investment proposed to improve the roads would produce sufficient benefit. Something more explicit is needed. “To reduce average journey times between Town A and Town B by X percent by the year 2020” is a precise objective. It assists in addressing such questions as what are the various ways in which this objective can be reached; what costs and what results can be expected from each alternative course of action; and are the benefits sufficient to justify the costs.

Project and programme objectives should be expressed in terms of the benefits they are expected to provide and those whom they are intended to benefit. For example, road building programmes are not ends in themselves, as they must be seen in the light of the needs of the economy as a whole, and of the target groups for which the programmes cater (for example, freight traffic, tourist traffic, commuters. etc.). There is a need for realism in stating objectives.

Where programmes have multiple objectives it is necessary to be clear about the relative importance of each and how this should be reflected in resource allocation and in the appraisal process. Objectives should be expressed in a way which will facilitate consideration and analysis of alternative ways of achieving them. They should not be so expressed as to point to only one solution. For example, population growth may put pressure on the schools in a particular area and an objective might be expressed as being “to build new schools in the area” to meet this pressure. The objective “to provide school places to meet population growth within the area” would provide a better basis for considering alternative ways of achieving this objective, such as the provision of new schools, the expansion of existing schools, on a permanent or temporary basis, or making better use of the existing stock of schools by provision of special transport (school bussing) arrangements.

New projects should only be undertaken where there is a clearly established public need for the projects or service provided; existing services should be reviewed to ensure that the kind of service provided is the kind of service required, and is on the appropriate scale. Costly and wasteful over-supply, and/or under-utilisation of resources should be avoided.

Identifying the most appropriate policy response to a "need" can be difficult. Every effort should be made to identify available research that will assist in identifying a problem properly and which may have looked at how different types of solutions work.

(ii) Explore Options – taking account of constraints

- list the **options** i.e. realistic alternative ways in which the objective can be achieved; include the option of doing nothing, or consider whether an objective could be met by ways other than expenditure by the State;
- list the constraints;
- The output from this step should be a list of realistic options that meet the objective(s). If the objective cannot be met from the available options then the objective should be revisited.

<u>Options & Constraints</u>

<u>All</u> realistic ways of achieving stated objectives should be identified and examined critically when considering project options for the first time. This should be done with a completely <u>open mind,</u> and should always include the option of <u>'doing nothing'</u> or <u>'doing the minimum'</u>. Different scales of the same response should be included as separate options, where appropriate. There should be no presumption that public sector responses are the only ones available; options which involve, or rely totally on, the private sector should also be considered. The alternatives should be described in such a way that the essentials of each alternative, and the differences between them, are clear. Options on the appropriate procurement method will also be considered i.e. traditional design build (DB), Design Build Finance (DBF), Design Build Finance Operate (DBFO) and Design Build Finance Operate and maintain (DBFOM) etc.

Constraints

There will invariably be constraints in reaching objectives. There will normally be resource constraints. There may be technical constraints; for instance, there may be only a limited number of ways in which a product can be made, or a service delivered. Constraints may also arise as a result of previous policy or investment decisions, but these may be amenable to change. Constraints must also be explored and fully taken account of, because they will limit the range of solutions which are feasible or acceptable. The following is a checklist of the kinds of constraint which typically should be considered in appraising a proposal:

- Financial
- Technological
- Legal/regulatory
- State Aids rules
- Environmental
- Physical inputs/raw material
- Availability of manpower and skills
- Time
- Administrative /managerial ability
- Distributional (e.g. between regions, income groups, etc.)
- Social
- Spatial policy
- Land use planning
- Co-operation required from other interests
- General policy considerations.

Considering the possible alternatives in the light of the constraints will usually lead to the conclusion that some of the alternatives are not feasible. Others may conflict with existing policies. Objectivity is important in considering options. There is a danger that the selection of options may be manipulated in order to make a case for a course of action which is already favoured. For example, options for which there is a very weak case may be put forward in order to make a poor option look good. If the poor option is the best available it should be considered alone on its own merits.

(iii) Quantify the costs of viable options and specify sources of funding

For capital projects, cost quantification should cover ongoing capital and life cycle costs relating to the operation and maintenance of the project, and receipts generated by the use of capital assets, as well as the costs involved in their creation. The cost of the project should be the expected outturn cost, including construction costs, property acquisition, risk and contingency. The cost of possible future price increases and variations in project outputs should be factored into the calculation of project costs.

Costs of current programmes or capital grant schemes will largely depend on the amount per eligible individual and the expected take-up. Projected administration costs should also be included. Reliable estimation of take-up us key. The costs of current programmes or capital grant schemes can be more difficult to predict. Cash limits on schemes should be used to protect the exchequer from unexpected exposure.

(iv) Analyse the main options

This step and the next step on the consideration of risk will lead to a recommendation on the preferred option. Different forms of analysis provide different kinds of information about investment proposals, and it is important to identify clearly, and to agree with the Sanctioning Authority, which forms of analysis are appropriate. The chief criterion used in deciding on the appropriate forms of analysis is whether or not the project is to be operated on a commercial basis.

The costs of the possible options will have been determined in the previous step. Depending on the scale of the project the analysis of options may involve placing a monetary value on the benefits.

Types of analysis that may be used include:

- Multi-criteria analysis (MCA)
- Financial analysis
- Cost benefit analysis
- Cost effectiveness analysis
- Exchequer cash flow analysis

Further information on when a particular method is required is contained in document B-03 Approvals Required and Scale of Appraisal and further guidance on each type of analysis is available in the Standard Analytical Techniques Section of the Public Spending Code.

Sensitivity Analysis:

Sensitivity analysis involves evaluating proposals over a range of assumptions about key factors (e.g. prices, costs, interest rates on any borrowed funds, growth rates, demographic changes) and should always be undertaken. If an option yields acceptable results only with particular combinations of circumstances, and the results are very sensitive to variations in these circumstances, then it should probably not be undertaken. If the relative merits of options change with variations in the assumed values of variables, those values should be examined to see whether they can be made more reliable. It may be possible to attach probabilities to ranges of values, to help pick the best option.

(v) Identify the risks associated with each viable option

Identify the potential impact of adverse circumstances on each option, and draw up, if possible, a strategy for dealing with risks.

Important aspects of an appraisal will necessarily be based on assumed future outcomes and events. **Realistic** assumptions must be made about future prices, costs, market growth, and other relevant factors. Appraisal reports should always clearly state their assumptions. Over optimism should be avoided. Assumptions should be based on analysis of past performance, bad years as well as good and careful study of possible future developments. Realistic assumptions reduce, but cannot eliminate, the element of uncertainty in the decision-making process, and the risk that decisions made on the basis of the analyses may turn out to be wrong. Good project appraisal highlights the elements which are uncertain, so that the Sponsoring Agency and the Sanctioning Authority are aware of the risks involved in proceeding, or not proceeding, with any proposal. Suitable strategies to minimise risk, and its consequences, should be put in place e.g. in project management organisation, review procedures, information flows, etc. An appropriate level of contingency should be built into the costings.

(vi) Decide on a preferred option

Decide on the preferred option, specify it and a clear and detailed **time profile** for actions, (including time for planning and decision making) and for expenditure. Excessively high quality and cost specifications should be avoided. A balance must be struck between specifications which are excessive relative to needs and low quality specifications which may generate short-term economies but which lead to greater costs in the long-run.

(vii) Make a recommendation to the Sanctioning Authority

The Sponsoring Agency should recommend the preferred option - with reasons for its choice and an indication of its sensitivity to changes in key assumptions – for consideration and approval by the Sanctioning Authority.

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

The Public Spending Code

B. Expenditure under Consideration

The Planning Stage

B.02

Document Summary:

This stage moves the preferred option that was been approved in principle after appraisal to the point where contractors put a price on delivering a fully specified solution and the Sponsoring Agency selects the one that it would place a contract with. This stage has a number of checkpoints and if expected costs or environmental conditions change a reappraisal and re-approval may be required

The planning stage involves seven steps. These are

- establishment of project management structure;
- preparation of a project brief;
- detailed planning and design;
- review of proposal, using information provided by the planning process;
- obtaining approval of the Sanctioning Authority to go to tender;
- obtaining tenders for projects;
- review of proposal, using tender prices.

1. Management of Projects

The scale and complexity of the project should be reflected in its management structure and information system. Unless it already exists (e.g. for ongoing capital programmes) the management structure should always be identified and established once approval in principle has been obtained. In some cases, it may be possible to outline the proposed structure, filling some of the roles immediately and leaving others to be filled later on, as appropriate. However, the senior decision-makers for the project, and the senior managers should all be identified clearly at the outset, and their involvement and relative role clearly agreed. Three issues should be carefully considered. These are:

- what kind of management structure would be suitable for the project?
- who is to be accountable for what aspects of the project?
- what kind of reporting systems should be installed?

The management of the project should usually be organised along the following lines:

Sanctioning Authority

The Sanctioning Authority (Government, Department, Local Authority, etc.) is responsible for conveying approval to a project, within specified cost, to specified standards and time limits, etc.

Sponsoring Agency

The Sponsoring agency has overall responsibility for the proper management of the project, including its detailed planning; for obtaining necessary approvals from the Sanctioning Authority and for ensuring that the project proceeds along the lines approved by the Sanctioning Authority. Usually, the Sponsoring Agency is the body with whom the contractor(s)/supplier(s) will have a legal commitment.

Steering Group

A Steering Group has the responsibility for overseeing the execution of the project. A Steering Group will usually be required on a complex and large scale project and particularly where a number of bodies are interested or involved in the project. It should usually be chaired by a representative of the Sponsoring Agency. The group should include appropriate professional staff e.g. architect/engineer/quantity surveyor. The Group may include a representative from the Sanctioning Authority and/or the Department of Public Expenditure and Reform.

Project Co-ordinator

The Project Co-ordinator is the person who is responsible for the execution, on time to the requisite quality and within budget, of the decisions taken by the Steering Group, or by the Sponsoring Agency in the absence of a Steering Group (where the project is small). For very large projects it may be necessary to appoint a professional firm to take on the task of actually managing the project. It would report to the Project Co-ordinator (who in turn would report to the Steering Group, and/or Sponsoring Agency, as appropriate) and it would be responsible for ensuring that the project came in on time and within cost.

Design Team Leader

A Design Team Leader should normally be appointed for every project with more than one technical consultant. The Design Team Leader would report to the Project Co-ordinator or, where a project management firm had been appointed, to that firm.

Information Flows

The following should be established as early as possible:

- The information needs at various levels of the management structure.
- The format that should be used for presenting this information. In this connection the standard forms in *National Standard Building Elements and Design Cost Control Procedures* should be used wherever these are appropriate. However, particular projects may require special forms which vary from those standard forms
- The frequency of the submission of reports.
- Who is responsible for supplying and for compiling information?

The information system should reflect the nature of the project but should deal with all of these points.

2. Project Brief

The project brief is essentially a description of the project option which has been approved in principle, detailing the objectives and parameters to be taken into account by the planning professionals. All the client's requirements should be set out in appropriate detail (e.g. for buildings, specify schedule of accommodation and room sizes etc.).

The project brief should not call for over-elaborate designs and/or the specification of standards which exceed the minimum necessary to achieve a satisfactory **and cost-effective** end product. The programme for the completion of the work specified in the detailed appraisal should also be given. The services to be provided by consultants, architects, engineers, etc., should be clearly identified.

Cost limits/targets for the project should be included in the project brief. Estimated costs for the project itself and for project planning will have been included in the detailed appraisal. These should be used as the permitted expenditure limits.

3. Detailed Planning and Design

Once design has commenced on the basis of the project brief, **changes in the scope or objectives of the project should not be made unless absolutely necessary**, or unless the proposed changes could reduce the overall cost of the project. If changes are to be made, the cost implications (including the effects on design costs) and the effects on the timing of the project should be fully appraised, and the express approval of the Sanctioning Authority sought, before an amended design brief is given to consultants.

Employing Consultants

Depending on the type of project and the availability of skills within the Sponsoring Agency, it may be necessary to engage the services of consulting architects, engineers, quantity surveyors, etc. Outline guidance on selecting consultants is contained in Appendix 1.

Costs

In managing the design process, it is important to consider regularly how the information being produced is likely to affect the estimated cost of the proposed project.

Departments and public bodies will be in a position to develop and update standard costs of providing typical projects or elements of projects. These will be used as a benchmark for appraising project costs. Regard should be had to national and international benchmarks for larger and more complex projects.

If the designs furnished by consultants to the Sponsoring Agency exceed the cost limit(s) set in the project brief, they should be referred back to the consultants by the Sponsoring agency to ensure that costs are reduced to stay within the said overall cost limit(s). Significant changes in specification to achieve cost reduction should be notified to the Sanctioning Authority for approval, with information on any change in the quality of the works being undertaken.

Data Gathering for Evaluation

It is during the detailed Planning & Design stage that the data, required for the subsequent monitoring and evaluation, should be specified. Failure to specify data gathering requirements from the start of implementation should be the subject of critical comment in any subsequent VFM or similar evaluation. Many evaluations fail to reach conclusions on the value of an investment/expenditure programme due to lack of data. This can lead to years of further wasteful expenditure while data is gathered.

Changes in Circumstances/Time Scale

Changes which are relevant to a project, and which may make it more or less beneficial for the economy, may occur at any time (e.g. developments in technology, fluctuations in the availability or cost of raw materials or other inputs, changes in the domestic and international economies, legal changes). Such changes may alter radically the needs to be met, the priority which they are to be given, the scale on which they should be met, and the feasibility of possible alternative solutions. Under or over-estimation of relevant factors, notably cost, may be discovered during detailed planning following approval in principle, or when tenders are received.

Changes in the time scale of a project can also have very significant effects. Unscheduled delays (due, for example, to time overruns on particular stages or to delays in reaching decisions) may result in circumstances changing so as to alter radically the case for a proposal. Similarly, decisions to delay a project (i.e. to change the time profile) may result in significant changes in factors affecting decisions made. When significant alteration of the planned time scale occurs, it is particularly important to reassess fully the basis on which earlier decisions were made.

The detailed appraisal is the framework against which the impact of changes can be assessed. In setting it up, it is important to identify clearly factors which are so significant to the appraisal that unexpected changes in them would warrant speedy reappraisal, and corrective action, if necessary.

Indefinite Postponement of Project

If a decision is taken to defer a project indefinitely, then it should be fully reappraised before being started again. For instance, a project deferred indefinitely after architectural or engineering plans have been drawn up should not subsequently be proceeded with, without returning to the detailed appraisal stage.

4. Pre-Tender Review

When plans and designs have been finalised, the project proposal should be reviewed, taking into account any major changes in relevant circumstances and the more precise information generated by the design process. In particular, if the expected total cost of the project has increased, then the project should be re-examined and reductions achieved without lowering the quality standard of the project below acceptable levels, in order to bring the project within the approved limit. Works should not be omitted so as to achieve reductions if they will have to be reintroduced later as being essential for the completion of the project, or for the generation of its full benefits, or if they significantly change the nature of the project. The Sanctioning Authority should be notified of any significant changes.

The pre-tender review is necessary to provide the information required by the Sponsoring Agency and the Sanctioning Authority to decide whether or not to approve the project and to allow it to proceed to Request for Tender.

Planning Permission Requirements

If a project requires planning permission, a final decision to proceed with it should not be taken until permission is obtained from the appropriate Planning Authority or An Bord Pleanála. The implications of any conditions attaching to the planning permission should be fully assessed, going so far, if warranted, as to consider whether the project should be abandoned. Before these steps are carried out financial exposure in respect of the project arising, for example, out of contracts, should be minimised. Similar considerations should apply to the requirements of various statutory codes operated by local authorities and other bodies, e.g. Building Control (Fire Safety Certificate), Air or Water Pollution Licence, Waste Permit, or Integrated Licence (Environmental Protection Agency). **Under Design and Build Contracts responsibility for obtaining planning permission may be assigned to the successful contractor.**

5. Obtaining Approval of Sanctioning Authority

Approval of the Sanctioning Authority is required before tenders are invited.

6. Tendering

Tendering should, as appropriate, be invited in accordance with national procurement guidelines or where the costs exceed EU thresholds on the basis of the procedures set out in EU Directives.

7. Review using Tender Prices

When a tender price and other relevant information become available, the case for proceeding with the proposal should again be reviewed. The analysis contained in the detailed appraisal once again provides the framework for undertaking this review. The award criteria in the tender document will be used to select the best proposal received. The best proposal is then compared with what was expected at the Approval in Principle point. If the costs and output from the best proposal do not match the costs and benefits that led to the Approval in Principle then the Appraisal decision may have to be reviewed.

If tenders exceed the approved budget, the project should be re-examined and reductions achieved without lowering the quality standard of the project below acceptable levels, in order to bring the project within the approved limit. Works should not be omitted so as to achieve reductions if they will have to be reintroduced later as being essential for the completion of the project, or for the generation of its full benefits, or if they significantly change the nature of the project. The Sanctioning Authority must be informed of all significant works omissions.

If serious additional costs have arisen, the sanctioning authority should require the Sponsoring Agency to undertake, as appropriate, a revised cost-effectiveness analysis or cost benefit analysis having regard to the increased costs. Where a revised cost-effectiveness analysis or cost benefit analysis has been carried out and the project is either no longer affordable or the best value option, the procurement should be terminated and the resources diverted to more worthwhile projects.

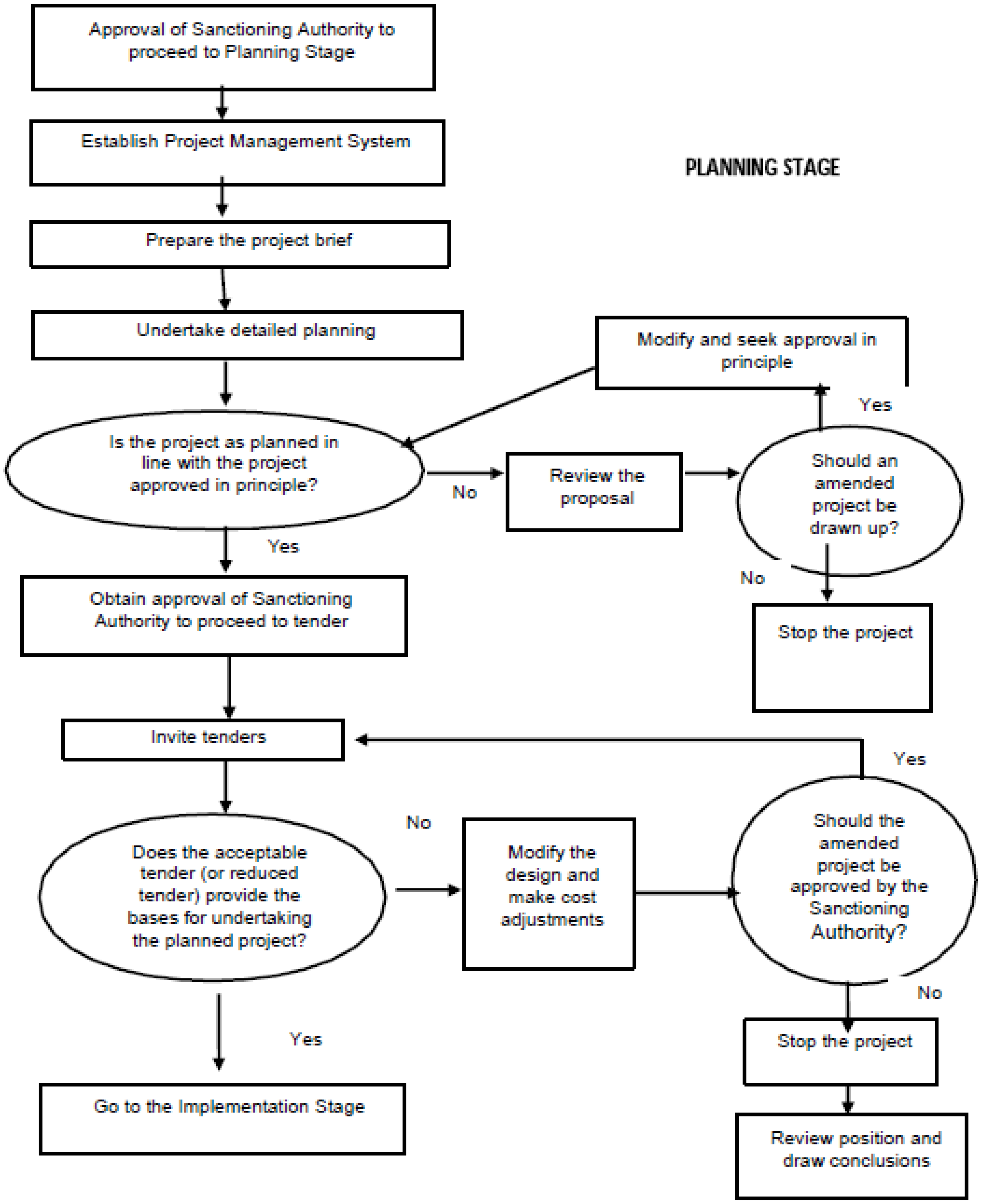
If tenders are over the approved limit re-appraisal may be required to determine whether the project should be abandoned or proceeded with. If this re-appraisal suggests proceeding at higher cost the approval of the Sanctioning Authority to a raised financial limit must be sought before contracts are placed. If it is decided that the project should be abandoned at this post-tender stage, and if substantial amounts have already been spent on planning etc. at this stage, the position should be reviewed to determine why the project came to proceed to this stage and was then abandoned.

Proceed to Implementation

It is at this point that the bulk of the spending on the project itself (spending will have been incurred at the appraisal and planning stages in relation to design fees, planning fees environmental assessments, site investigations etc.) can be sanctioned. (Once this point has been passed, it is often very difficult to withdraw from the project without incurring very large costs.) An explicit amount should be sanctioned.

Figure 4 summarises the various steps that are required during the Planning Stage.

Figure 4: THE PLANNING STAGE



Appendix 1

Employing consultants for construction contracts

If the necessary resources are not available within the public sector to fully appraise a project the employment of outside consultants may be considered.

- Management consultants may be required to undertake detailed studies/appraisals.
- Technical consultants may be needed to give technical advice at various stages.

The first priority in engaging consultants is to ensure that the best quality of professional service is provided. It is essential that every authority which engages consultants should establish formal systems for monitoring and assessing the effectiveness and efficiency of consultants in the discharge of their contracts.

A comprehensive brief for consultants is of fundamental importance. All the clients requirements should be set out in proper detail, together with a tentative programme for the completion of the work. The service to be provided by each of the consultants must be clearly identified.

Separate agreements are required for consultancy tasks at the appraisal stage and at the planning and implementation stages of a project and that the contract under which consultants are engaged for particular tasks must make it clear that, if the project proceeds, they may not necessarily be engaged on later tasks. Fees should be sought on a competitive tendering basis.

The importance of complying with these requirements in employing consultants can be illustrated in a situation where, for instance, a project has proceeded to the planning stage. If, at this stage, circumstances warrant revising or abandoning the project, it is important that provision has been made in consultants' contracts for termination without incurring undue costs/liabilities.

Departments should try to anticipate their likely needs for consultancy services for project appraisal and planning purposes. Allowances for such services should be included in annual Departmental Budgets.

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

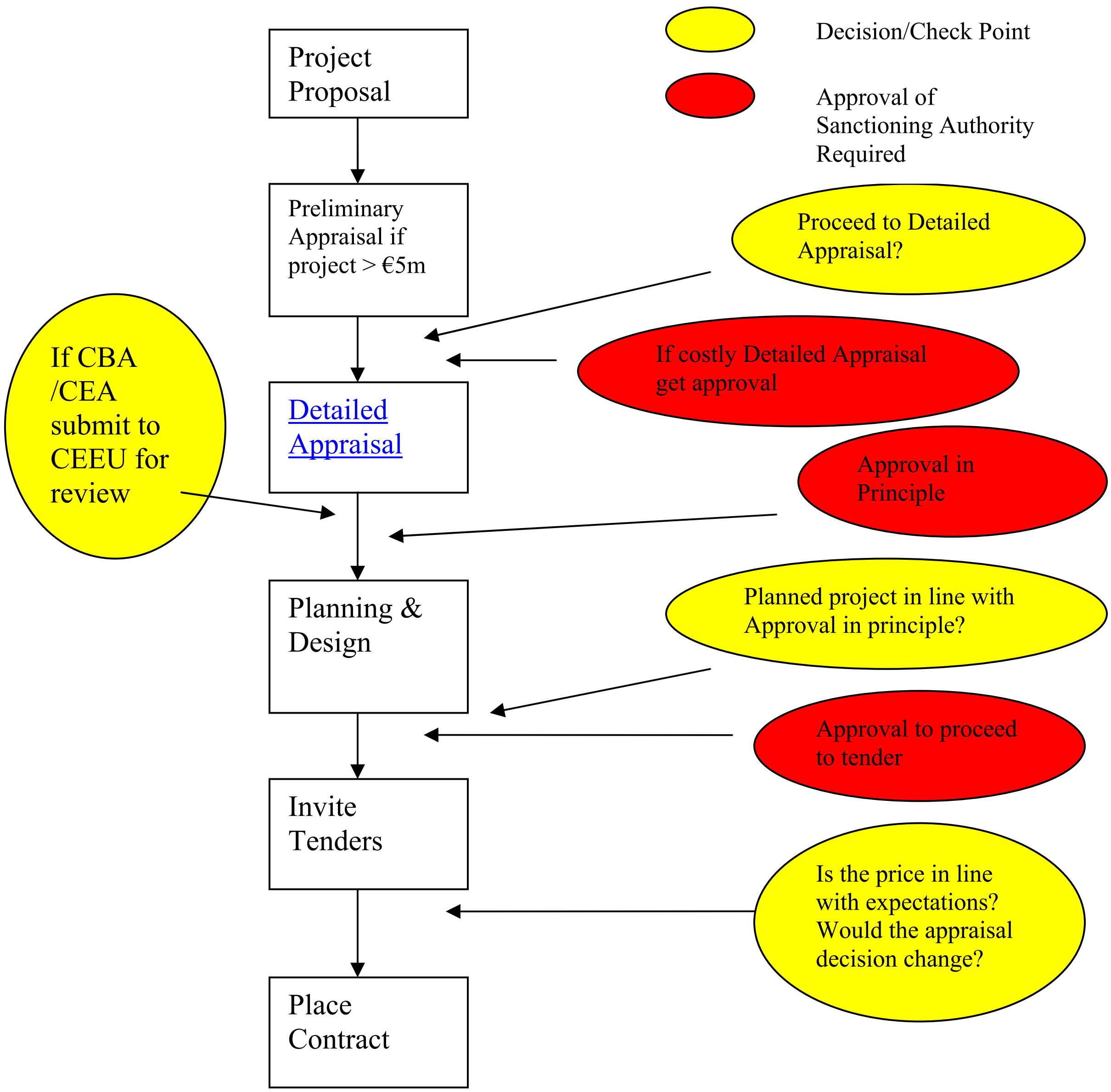
Approvals Required and Scale of Appraisal

B.03

Document Summary:

There are several checkpoints and approvals required before a proposal can proceed to implementation. The type of Appraisal required will depend on the type or scale of project. This document summarises the checkpoints and approvals required before a proposal can proceed to full implementation.

1. Decision Points and Required approvals:



Approval in Principle

'Approval in principle' is a decision given by a Sanctioning Authority to a Sponsoring Agency at the end of the appraisal stage. It permits the successive steps in planning a project or scheme to proceed, stopping short of the placement of major contracts or the making of any irrevocable commitments to undertake the project/scheme. It commits relatively limited resources to planning the project. Those resources are expended progressively. If circumstances warrant, it should be possible to revise or drop the proposal during the planning process without incurring all of the planning costs or any of the more substantial liabilities associated with the project itself. **If the value of the capital project exceeds €20m then the CBA (or CEA) should be submitted to the CEEU in the Department of Public Expenditure and Reform for their views, prior to the Sanctioning Authority granting the Approval in Principle.** The CEEU will give their views to the Sponsoring Agency and may publish their review of the CBA (or CEA) on their website, with any necessary redaction to protect the State's interest in the tender process and commercial sensitivity. Redactions, if necessary at all, should be kept to a minimum and a justification for the redactions should be published with the document.

For **current expenditure proposals expected to incur over €20m (with an annual spend of at least €5m) an economic appraisal should be submitted to the Vote Section who may seek the views of the CEEU.** If the CEEU is asked to give their observations on the appraisal of a current expenditure proposal they may decide to publish their review of the appraisal on their website. For more information on appraisal of Current Expenditure proposals see document B-06 Appraising Current Expenditure.

Pre-Tender Approval

When plans and designs have been finalised, the project proposal should be reviewed. Account should be taken of any major changes in relevant circumstances and the more precise information generated by the design process. In particular, if the expected total cost of the project has increased, then the project should be re-examined and reductions achieved without lowering the quality standard of the project below acceptable levels, in order to bring the project within the approved limit. Works should not be omitted so as to achieve reductions if they will have to be reintroduced later as being essential for the completion of the project, or for the generation of its full benefits, or if they significantly change the nature of the project. The Sanctioning Authority should be notified of any significant changes.

The pre-tender review is necessary to provide the information required by the Sponsoring Agency and the Sanctioning Authority to decide whether or not to approve proceeding to seek tenders.

Review using Tender Prices

When a tender price and other relevant information become available, the case for proceeding with the proposal should again be reviewed. The analysis contained in the detailed appraisal once again provides the framework for undertaking this review. The award criteria in the tender document will be used to select the best proposal received. The best proposal is then compared with what was expected at the Approval in Principle point. If the costs and output from the best proposal do not match the costs and benefits that led to the Approval in Principle then the Appraisal decision may have to be reviewed.

If tenders exceed the approved budget, the project should be re-examined and reductions achieved without lowering the quality standard of the project below acceptable levels, in order to bring the project within the approved limit. As stated above in relation to the pre-tender stage, works should not be omitted so as to achieve reductions if they will have to be reintroduced later as being essential for the completion of the project, or for the generation of its full benefits, or if they significantly change the nature of the project. The Sanctioning Authority must be informed of all significant works omissions.

If serious additional costs have arisen, the sanctioning authority should require the Sponsoring Agency to undertake, as appropriate, a revised cost-effectiveness analysis or cost benefit analysis having regard to the increased costs. Where a revised cost-effectiveness analysis or cost benefit analysis has been carried out and the project is either no longer affordable or the best value option, the procurement should be terminated and the resources diverted to more worthwhile projects.

If tenders are over the approved limit re-appraisal may be required to determine whether the project should be abandoned or proceeded with. If this re-appraisal suggests proceeding at higher cost the approval of the Sanctioning Authority to a raised financial limit must be sought before contracts are placed. If it is decided that the project should be abandoned at this post-tender stage, and if substantial amounts have already been spent on planning etc. at this stage, the position should be reviewed to determine why the project came to proceed to this stage and was then abandoned.

3. Scale of Appraisal

Every spending proposal should be appraised carefully. However, the resources spent on appraisal should be commensurate with the cost of projects (or proposals for current expenditure), and with the degree of complexity of the issues involved. Small and routine projects should be appraised with a readily applicable methodology which is used consistently and which reflects the principles set out in this document.

Simple appraisals involving expenditure of less than €500k may be completed within a matter of days. The appraisal of complex projects involving expenditure of more than €20m, which will involve a Cost Benefit Analysis, may take a number of months.

(i) A simple assessment will be carried out for minor projects with an estimated cost below €0.5 million, such as projects involving minor refurbishment works, fit outs etc.

(ii) Projects costing between €0.5 million and €5 million should be subject to a single appraisal incorporating elements of a preliminary and detailed appraisal.

(iii) A Multi Criteria Analysis (MCA) should be carried out at minimum for projects between €5 million and €20 million.

(iv) Projects over €20 million should be subjected to a Cost Benefit Analysis (CBA) or Cost Effectiveness Analysis (CEA). **Prior to Approval in Principle the CBA (or CEA) should be submitted to the Central Expenditure Evaluation Unit in the Department of Public Expenditure & Reform for their views.** The CEEU will give its views on the appraisal to the Sponsoring Agency and may publish their review of the CBA (or CEA) on their website, with any necessary redaction to protect the State's interest in the tender process and commercial sensitivity. Redactions, if necessary at all, should be kept to a minimum and a justification for the redactions should be published with the document.

For **current expenditure proposals expected to incur over €20m (with an annual spend of at least €5m) an economic appraisal should be submitted to the Vote Section who may seek the views of the CEEU.** If the CEEU is asked to give their observations on the appraisal of a current expenditure proposal they may decide to publish their review of the appraisal on their website.

(v) Programmes with an annual value in excess of €30 million and of 5 years or more duration to be subject to prior and mid-term evaluation at the beginning and mid point of each 5 year cycle or as may be agreed with the Department of Public Expenditure & Reform. Programme Evaluation should consider five key questions:

1. **Rationale** -What is the justification or rationale for the policies underpinning the programme? What is the underlying market failure justification for Government intervention?
2. **Relevance** – What are the implications for the programme of changes in the wider socio-economic environment and in the context of overall Government policy?
3. **Effectiveness** – Is the programme meeting its financial and physical objectives?
4. **Efficiency** – Could more be achieved for the resources invested?
5. **Impact** – What socio-economic changes can be attributed to the programme. Most projects will be considered in the context of a sponsoring agency's business plan or a multi-annual investment programme. The Sanctioning Authority should ensure that there is adequate consultation between sponsoring agencies, relevant Departments and public bodies having functional responsibilities in the sector or cross-sectoral responsibilities.

Cost-Benefit or Cost-Effectiveness Analysis?

There are two basic forms of economic analysis, one of which should be applied in the appraisal of each non-commercial investment proposal valued over €20m (see figure 6 below):

Cost-Benefit Analysis

The general principle of cost-benefit analysis (CBA) is to assess whether or not the social and economic benefits associated with a project are greater than its social and economic costs.

Cost-Effectiveness Analysis

Cost-effectiveness analysis (CEA) compares the costs of different ways of achieving a particular objective. A choice can then be made as to which of these options (which all achieve the same or similar ends) is preferable.

Cost-benefit and Cost-effectiveness analysis are very similar. Ideally, cost-benefit analysis would always be undertaken. However, there are situations where significant costs or benefits associated with a project cannot be quantified or valued, and where this occurs cost effectiveness analysis may have to be relied on. CEA is employed to determine the least cost way of determining the project objective.

Whether undertaking cost-benefit or cost-effectiveness analysis, a number of important considerations arise:

- There may be significant costs or benefits which do not affect the Sponsoring Agency but which are important to other persons or agencies or to society in general. These are usually called 'externalities' (i.e. they are external to the sponsor's direct concerns).
- There may be no market prices available for evaluating some costs or benefits associated with project options as they may not be traded items.
- In some cases, though resources consumed and outputs produced may be traded, the prices may not reflect the real value to society of those resources or outputs.

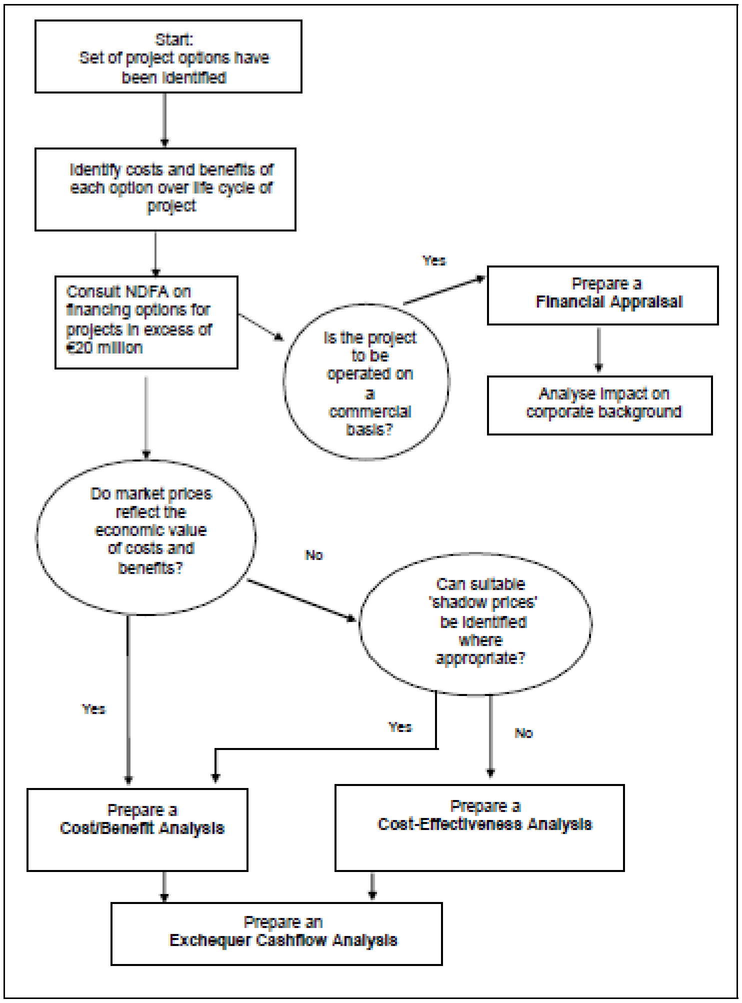
For further information on Appraisal Techniques see Document D.01.

Project Finance including PPPs:

The Sponsoring Agency is required to seek the advice of the NDFA on all projects above €20 million and should do so at preliminary appraisal stage and in any event no later than before tender documents are finalised. The Agency's statutory functions include advising public bodies on the optimum means of financing the cost of public investment projects to achieve value for money and providing advice in relation to all aspects of financing, refinancing and insurance including risk analysis of public investment projects.

The option of procuring a project by PPP for projects costing over €20m should be considered by the sponsoring agency as part of the project appraisal. The separate Guidelines on Public Private Partnerships should be followed when considering the PPP option – see www.ppp.gov.ie.

Figure 6: Identifying the Appropriate Type of Analysis



The Public Spending Code
B. Expenditure under consideration

Procurement Guidelines

B.04

Capital projects as a rule and in some cases current expenditure programmes will involve third party provision on a contractual basis. Having attained an Approval in Principle on completion of the Appraisal phase and an Approval to Proceed to Tender during the planning phase the project moves on to Procurement which is a phase of planning that is governed by extensive regulations and guidance.

Procurement Regulations aim to give potential suppliers a fair opportunity to compete. From a Value for Money perspective lower prices are secured when competitive processes are used. To be compliant with the Public Spending Code, Departments and Agencies have to comply with Procurement Regulations and Guidelines.

For regulations and guidance on procurement see: http://per.gov.ie/public-procurement-2/

Contract Placement

The Sponsoring Agency should procure the services of a contractor in accordance with EU and national procurement requirements.

Depending on the kind of project being undertaken, the Sponsoring Agency may have a choice of engaging in a single contract with one contractor, or of co-ordinating a number of minor or sub-contracts. The task of managing a large number of contracts should not be underestimated; any potential cost savings associated with such an approach should be weighed against the inevitable additional management costs. **The use of nominated subcontractors is not permissible in any public works contract. The contract should make clear the specific responsibilities of the parties.**

Public Procurement

National Public Procurement Policy Unit (NPPPU)

The NPPPU was established in June 2002 and is charged with the formulation of policy and guidance in public procurement and the delivery of the government's e-procurement strategy. It is also responsible for producing national procurement guidelines, transposition of EU directives and for the Government Contracts Committee. The unit can be contacted at 01 6318034 or 01 6318101 or email: procure@per.gov.ie

National Procurement Service (NPS)

The NPS was established in April 2009 on foot of a Government Decision assigning responsibility for procurement to the Minister of State at the Department of Finance with special responsibility for the Office of Public Works.

The establishment of the NPS is part of an overall vision for Public Procurement, which sees policy and operational structures working together. The NPS has been tasked with centralising public sector procurement arrangements for common goods and services (excluding the construction sector). By identifying key markets and analysing procurement trends, the NPS develops a more integrated approach to procurement across the public sector utilising procurement tools such as aggregation and framework agreements.

The NPS establishes central framework agreements and contracts for use by the wider public service. These central contracts are publicised through www.procurement.ie. This website also contains guidance material and standard procurement documents for use by public service buyers and suppliers.

The NPS administers the www.etenders.gov.ie website which is the portal through which all public service contracts over the value of €25,000 must be advertised. This website also allows full access to the Official Journal of the European Union.

The NPS can be contacted on 046-9426000 or email nps@opw.ie and is based in OPW Headquarters, Jonathan Swift Street, Trim, Co. Meath.

Public Private Partnerships

B.05

Public Private Partnerships are an alternative way of financing a project. As stated in Public Spending Code Document B-03 Approvals Required and Scale of Appraisal procurement using PPP should always be considered when the value of the project exceeds €20m.

A Public Private Partnership (PPP) is an arrangement between the public and private sectors (consistent with a broad range of possible partnership structures) with clear agreement on shared objectives for the delivery of public infrastructure and/or public services by the private sector that would otherwise have been provided through traditional public sector procurement.

The PPP approach has the potential to offer value for money and timely delivery of infrastructure when applied to projects of the right scale, risk and operational profile.

One key aspect of the PPP approach is that risk is transferred to the party that can manage it best.

Further information on PPPs can be found on the Central PPP Unit's website at www.ppp.gov.ie

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An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

The Public Spending Code
B06. Appraisal and Planning
Appraising Current Expenditure

Document Summary:

The Public Spending Code extends the requirement for expenditure appraisal to current as well as capital expenditure. While section B.01 sets out the standard appraisal steps which apply to public expenditure both current and capital, this section of the Code provides more detail on specific *ex ante* requirements before new current expenditure projects/programmes are undertaken or sanctioned. The new obligations are:

(a) Preparation of a detailed Business Case incorporating a financial and economic appraisal for consideration by the relevant vote section of D/PER, assisted by the CEEU as appropriate.

(b) Resubmission of Business Cases in order to address any issues identified by D/PER

(c) Provision for a 'sunset clause', after which the expenditure scheme will be reviewed and discontinued unless it can be demonstrated to meet VFM criteria.

(d) Fixed cash limits for demand-led schemes.

(e) Pilot implementation of new proposals required before final approval, where feasible

(f) "Evaluation-proofing" of all Business Cases and related Memoranda for Government.

These obligations apply to new current spending proposals involving total expenditure of at least €20m over the proposed duration of the programme and a minimum annual expenditure of €5m. In particular, the current appraisal provisions apply to:

(i) New grant/subsidy schemes

(ii) Extension, renewal or re-orientation of existing programmes/schemes

(iii) New delivery mechanisms for existing services

(iv) New public services

(v) New State bodies or amalgamations of State Bodies

(vi) Measures deriving from broad cross sectoral or framework policy initiatives

This section also sets out some items of good practice to ensure appraisal of current expenditure is robust and an overview of required content for a Business Case. Additional guidance will be developed in line with the evolving nature of the Public Spending Code.

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1 Introduction

Prior to the formulation of the Public Spending Code, project/programme appraisal requirements only formally applied to capital expenditure. There were no specific published rules and guidelines regarding new *current* spending proposals, and the procedures for assessing such proposals were devised on a case-by-case basis. Although Regulatory Impact Assessment (RIA) Guidelines (2009) impose certain appraisal requirements when a new regulation is proposed, these generally only cover instances of new current expenditure involving a regulation and are not designed to cover all types of current spending. This section of the Public Spending Code puts the procedures for assessing and appraising current expenditure on a standardised basis.

The appraisal rules have been designed to address, in particular, a number of shortcomings that can commonly arise in the case of new current spending proposals. These include:

- Poor objective setting
- Poor appraisal and planning
- Inadequate estimation of demand and take-up by clients
- Underestimation of the full costs of implementation
- Lack of sufficient piloting and testing
- Inadequate risk assessment
- Little effort made to design appropriate management information arrangements e.g. data collection streams to support ongoing monitoring and review.

The Public Accounts Committee (PAC) of Dáil Éireann has also recommended that new initiatives should be underpinned by Business Cases and cost benefit analysis[3].

This section explains the scope of the new requirements and outlines the specific obligations for Departments and Agencies that are developing current expenditure proposals. It also outlines critical success factors for best practice in appraising current expenditure. It includes an appendix which highlights the main high level components required for a Business Case submission.

[3] Dáil Éireann Committee of Public Accounts Final Report on: Appropriation Accounts 2008 & 2009; Annual Reports of the Comptroller and Auditor General 2008 & 2009; and Special Reports of the C&AG (Hearings of the Committee in the period July 2009 to January 2011), July 2011

2 Distinction between current and capital expenditure

A differentiation is made between capital and current spending in accounting for public expenditure. Capital spending generally involves the creation of an asset where benefits accrue to the public over time e.g. a road, a rail line, a school or a hospital. Public funds are allocated to time-bound projects where substantial once-off costs are incurred in earlier time periods with investment on land acquisition, construction materials and human capital. The targeted benefits usually arise in future time periods once initial investment is completed. However, current expenditure involves day to day expenditure and typically includes spending on:

- Salaries of public servants involved in delivering public services
- Non-pay costs such as materials (drugs, teaching materials etc) and administrative overheads as well as other commercially procured products and services
- Income supports for targeted groups
- Grant payments to achieve specific economic and/or social objectives
- Payments for services carried out by professionals (e.g. training etc) or other business sectors.

The cost profile for current spending proposals also tends to be more evenly distributed over time. In some cases, the benefits of current expenditure materialise directly as expenditure is incurred (e.g. income supports such as social protection schemes) but in other cases, positive outcomes arise over longer time horizons (e.g. early childhood intervention schemes).

It should be noted that programmes and projects often have both current and capital characteristics. In addition, capital expenditure projects generally include current costs such as operating and maintenance costs which are subject to the same appraisal requirements as the upfront investment costs. The majority of the general provisions in the Public Spending Code as set out at sections A and B are equally applicable to current and capital expenditure.

Analysts carrying out current expenditure appraisals will generally be required to devote more attention to the following issues:

- Costing staff time including pay overheads such as employers PRSI and pensions (usually existing internal Departmental/agency staff or new staff)
- Difficult to measure personal and programme outcomes and wider effectiveness indicators

- Administrative costs of services e.g. management costs, non pay costs such as IT
- Costing different methods of delivery including external sourcing.

It is beyond the scope of this section to set out all the detailed current expenditure appraisal issues for different project types across different sectors. The appraisal requirements can vary significantly from area to area, and the precise approach often needs to be customised to suit the type of spending under consideration. Each Department should draw up its own guidelines for the conduct of appraisal of new current expenditure programmes/schemes. Proposed guidance may be submitted to the CEEU for consultation purposes. The advice of the CEEU can be sought at the outset of the current appraisal process to discuss best practice. In particular, it may be difficult to quantify and monetise outcomes. Targeted outcomes may be influenced by many causal factors and isolating the specific impacts of one causal factor can be a technical and complex task, particularly if the quantum of programme expenditure is small relative to the overall scale of other expenditure interventions in the policy area.

3 Scope

This section describes the scenarios where the new current expenditure guidelines apply. The appraisal guidelines apply to the main activities involved in the appraisal stage of the project/programmne lifecycle as summarised below:

1) Identify proposal
2) Preliminary appraisal
3) Detailed appraisal
4) Finalisation of business case
5) Planning and design
6) Pilot Implementation

As with capital projects, some of the elements of the appraisal activities necessarily overlap with the planning and design stage (e.g. piloting). Further detail on the stages is set out on page 13.

Departments and agencies will be required to appraise the options for new current expenditure proposals before a determination is made that the proposal is approved in principle and should move on to the planning stage.

The obligations and guidance for current expenditure appraisal apply to proposals which involve a total budget of at least €20m or more for the duration of the programme and an annual expenditure of at least €5m. Some indicative examples of the scope of current spending proposals covered by the new obligations are set out below in sections 3.1 to 3.6.

3.1New grant/subsidy schemes

It may be proposed to introduce a new grant scheme[4] or subsidy to achieve specific objectives for particular sectors of the economy or to promote social development. Grant schemes may be provided by Government Departments or Agencies and typically include grants to the agricultural, arts, energy, sports and enterprise sectors. Grants are also paid to third sector or voluntary bodies to achieve a range of social objectives

Some examples of new grant schemes launched in recent years include:

- Suckler Welfare Scheme (Department of Agriculture, Food and the Marine)
- Employment Subsidy Scheme (Enterprise Ireland)
- Language Support Schemes (Arts, Culture and the Gaeltacht

The new current appraisal obligations apply to new grant schemes introduced across all Government Departments and Agencies.

3.2Extension, renewal or re-orientation of existing schemes

In some cases, existing spending schemes may terminate because schemes are time-bound or because scheduled payments to beneficiaries have finished. It is common for Departments and Agencies to develop proposals to either extend schemes or develop successor schemes with similar objectives. In both these instances, the new appraisal obligations are deemed to apply. The appraisal obligations apply even if the change to the scheme does not involve any significant additional spending relative to the pre-existing scheme i.e. a rigorous appraisal of the entire scheme must be carried out as if it were being implemented for the first time. An evaluation of

[4] This should not be confused with grant-in-aid payments which are payments to State agencies, public and voluntary bodies to cover running costs or payments to a specific public or private agency to cover the cost of a particular activity carried out by that body (Requirements for Grants and Grants-in-Aid, Circular 17/2010, Department of Public Expenditure and Reform)

an existing scheme (whether by way of VFM & Policy Review or FPA) may also act as valuable inputs to this appraisal as well as any other evidence based policy outputs.

3.3New delivery mechanisms for existing services

New spending proposals may also involve a major change in delivery mechanisms to achieve more cost-effective delivery of the same objectives for a programme or project. For example, a buy vs. lease decision to address housing objectives could involve the design of new mechanisms to meet housing needs for eligible claimants but the long term objectives for the intervention may not change. Another example could involve a change in the administration of services such as individualised budgeting instead of block grant allocation for social care programmes. There are also instances where public services or administrative functions could be delivered using a shared service model or external sourcing. In these cases, there should also be a strong focus on a financial analysis and an Exchequer cashflow analysis including, in particular, an assessment of administrative savings.

3.4New public services

Merit goods such as healthcare, social and educational services may be introduced to achieve Programme for Government objectives. These are often delivered by professional frontline staff. These services are also subject to the new appraisal requirements. Quantifying the targeted outputs to be delivered and designing appropriate measures of outcomes are important tasks to be addressed in the appraisal of these services.

When considering the delivery mechanism for all new services the option of external sourcing must be considered.

3.5New State bodies

The creation of a new agency or public body also requires adherence to the new appraisal obligations. This also applies to proposed amalgamations of existing public bodies. In this case, an important element of the appraisal efforts should be the Exchequer cash flow analysis or financial analysis which illustrates the potential savings from amalgamations.

3.6 National/cross sectoral policy programmes and frameworks

Broad policy frameworks or cross sectoral policy initiatives may be formulated by lead Departments e.g. the Framework for Sustainable Development. These strategic documents generally set out broad principles and aims for a given policy area (s). However, inclusion of measures at a strategic level in these frameworks does not obviate the requirement for proper appraisal of specific current and capital spending proposals arising from high level policy aims. The Department proposing specific measures should apply the Public Spending Code appraisal requirements as approval of broad policy frameworks does not confer automatic approval of the specific actions, schemes or programmes which result from these frameworks.

In general, the obligations for appraising new current expenditure proposals do not apply automatically to the broad range of existing current expenditure schemes i.e. it is not intended that all existing programmes must be appraised each year as this would be highly resource-intensive and the VFMPR/FPA arrangements set out at section C apply instead to ongoing expenditure. Similarly, it is not intended that these arrangements for appraisal of new current expenditure apply to routine administrative budgets already in place as the focus is on new programme expenditure. However, as pointed out at section 3.2 above, any proposed extension, renewal or re-orientation of existing schemes should be informed by expenditure appraisals.

If it is uncertain as to whether or not the new arrangements apply to a spending proposal, line Departments should consult the relevant vote section in D/PER and the CEEU. In general, the approach should be taken that even if there is some doubt as to whether expenditure is new or not, it is more than likely that the area of spend would benefit from appraisal and evaluation.

4 Obligations/Rules

The specific obligations for current spending appraisals are set out below.

4.1 Business Case

Line Departments are required to submit a Business Case (see Appendix A of this section for overview guidance on the contents of a Business Case) for current expenditure proposals with total expenditure over the duration of the programme/scheme of at least €20m and a minimum annual expenditure of €5m to the relevant Vote section in DF/PER. The vote section may send the Business Case to the CEEU for formal technical review to determine compliance with the Public Spending Code. The CEEU may publish this assessment. The economic and financial appraisals are key components of the Business Case document.

Re-submission will generally be required by the Vote section in any case where an appraisal requires further work and the Business Case document will required to be developed through as many iterations as are necessary to address the relevant appraisal issues.

It is important that preparation of Business Cases begin at early stage to be consistent with budgetary timetables. Ideally, work on a new spending proposal should commence 9 to 10 months prior to the core period of the estimates cycle i.e. a business case for a spending proposal intended to begin in 2013 should be initiated in quarter 4 2011.

A multi criteria analysis should be carried out at minimum for new current expenditure proposals between €5m and €20m. Projects costing between €0.5m and €5m should be subject to a single appraisal incorporating elements of a preliminary and detailed appraisal. The scale of appraisal should be commensurate with the level of expenditure proposed (see also document B03).

4.2 Sunset clauses

All new proposals should contain specific dates for the application of "sunset clauses". The sunset clause is the specification of a fixed date by which spending the programme or project will terminate, unless the value for money of the programme can be demonstrated on foot of a rigorous review. Even for schemes where spending is expected to continue for a significant period of time (e.g. merit goods involving human services), a sunset clause should still be applied to facilitate a review of the merits of the scheme taking into account effectiveness to date and changes in the external environment. Sunset clauses are of particular importance for new grant schemes and new agencies.

4.3 Cash limits for demand led spending proposals

In keeping with the multi annual expenditure framework reforms, any new demand-led spending proposals should incorporate strict cash limits[5]. This is so that unexpected or unanticipated rises

[5] See also part 10 of section C3 in the Public Financial Procedures, 2008

in demand do not automatically pre-empt other uses for scarce resources, whether in that Department/Agency or elsewhere. Cash limits are also a necessary feature of modern expenditure management in the context of fixed multi-annual expenditure ceilings in each departmental area.

If eligibility or qualifying criteria is the mechanism used for selection then the scheme should have a cash or other volume limit. A queuing system may be appropriate to determine the distribution of the fixed allocation among competing applicants. In general, commitments should be managed to avoid the risk of incurring expenditure that is significantly in excess of what is intended or budgeted.

The cash limits for demand led spending proposals do not apply to some social protection schemes where expenditure is driven by demographics or macro-economic issues and where competing applicants is not appropriate e.g. unemployment related payments.

4.4 Evaluation proofing

New spending proposals proposed in Business Cases should include a detailed plan for evaluation and monitoring. The plan should specify the data to be collected and the methods for gathering the data. It should also include the following:

- Articulation of the programme logic model which outlines the contribution of all relevant factors to the objective of the intervention and sets out the linkages between objectives, inputs, activities, outputs and outcomes
- Specific measures to set up systematic data collection and data collection streams to support reporting of performance indicators for monitoring , performance budgeting purposes[6] and evaluation (VFM's and FPA's)
- Specific evaluation techniques proposed to track outcomes including plans regarding the design of control/comparison groups where feasible (i.e. experimental evaluations) e.g. surveys, focus groups, statistical analyses, longitudinal studies, phased introduction, before and after studies
- Schedule of pilot studies and evaluations as well as an identification of who will carry these out

[6] Performance budgeting information is set out in the Revised Estimates for Public Services volume published annually by the Department of Public Expenditure and Reform

The feasibility of assessing outcomes can vary from programme to programme and monetising outcomes can be difficult. However, at minimum, it should be possible to quantify the types of outcomes targeted.

4.5 Pilot exercises

In principle and as general rule, no new programme / scheme can be introduced without a pilot. Final approval for full implementation of a scheme should not be granted until the pilot has been completed, formally evaluated and submitted for approval to the vote section in the Department of Public Expenditure and Reform. The piloting exercise will enable testing of different variants of the policy proposal, will highlight potential drawbacks and generate data about outcomes. However, pilot schemes may not be feasible for each new spending proposal and exceptions to this rule may be considered where issues of equity, feasibility or proportionality of expenditure arise. The Business Case should include a section on piloting. In this section, the proposing Department/Agency would set out the planned arrangements for piloting or provide a justification as to why piloting is not feasible.

4.6 Approvals

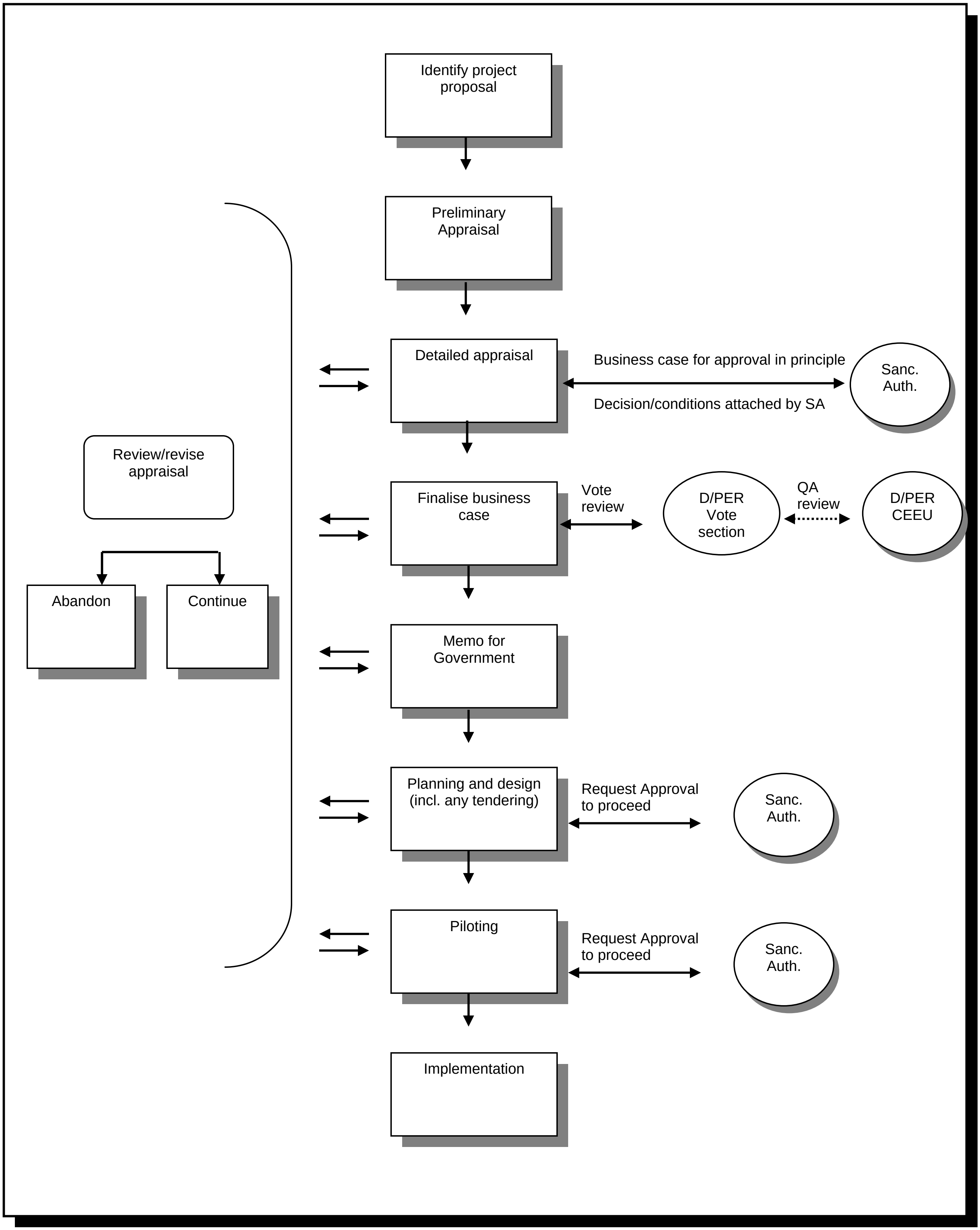
A similar sequencing of approvals by the sanctioning authority is required for current expenditure as is required for capital expenditure. Figure 1 (page 12) shows the main stages in the appraisal process for current expenditure proposals, illustrates when approval by the sanctioning authority is typically required and also when the appraisal should be revised in light of new information or conditions attached to approvals and assessments. The main triggers for a review/revision of the appraisal are when:

- The sanctioning authority approves the proposal in principle and includes conditions or changes in scope
- The Department of Public Expenditure and Reform provides feedback on technical aspects of the appraisal
- Changes arise as a result of a Government decision
- Additional and more detailed information is gathered during planning and design
- More detailed appraisal information emerges from the piloting process

In practice, appraisal is an iterative process with the analysis undergoing continuous updating as new information emerges.

There are a number of differences in the stages for capital expenditure projects and current spending. For example, a capital project will generally involve tendering for goods and services provided by the private sector. This is generally considered to be part of the planning and design stage because a decision for approval is required after tender prices become available and the project may still be abandoned. However, for a current spending proposal, there may not always be tendering as a scheme or programme may be delivered using internal resources only. This does not obviate the need for a revision of the appraisal and seeking approval based on up to date planning and design information at key stages of the decision cycle.

Figure 1 Illustrative Stages and approvals required for current expenditure appraisal



5 Key success factors for high quality appraisal

A review of the core principles which apply equally to current and capital spending proposals is an important starting point in appraising current expenditure. below: (see also overview of VFM framework for more detail). It can be resource intensive to carry out a rigorous appraisal. However, a properly conducted appraisal will ensure better decision making and greater allocative efficiency. This section outlines some high level success factors for carrying out a robust appraisal. The resources and practical guidance in relation to appraisal on the Public Spending Code website will be subject to ongoing development in line with the requirements of users.

5.1 Key components of the appraisal

As with the appraisal of capital projects, there will be significant overlap between the appraisal and planning/design stages. However, a certain amount of planning/design information will be required to carry out a proper appraisal in the first instance e.g. eligibility conditions and related demand.

The appraisal should incorporate an appraisal of the merits of the proposal (i.e. an economic appraisal such as a CBA) and also a separate financial analysis.

In general, the Business Case should incorporate both economic and financial appraisal. The economic appraisal (e.g. CBA or CEA) should be presented to demonstrate the merits of the scheme. As part of the overall appraisal, a separate financial appraisal should also be carried out. In most cases, the financial flows will be included in the economic appraisal. The financial appraisal will generally also incorporate an Exchequer cashflow analysis, a note on budgetary impact (i.e. consistency with multi annual expenditure ceilings) and a note on the sources of funds. In certain narrow circumstances, economic appraisal may be less relevant for certain types of spending proposals where the costs and benefits relate solely to elements of the Exchequer. This is the case where the proposal involves a redesign of a scheme/programme to achieve the same objective but at a lower cost to the Exchequer, an agency amalgamation which aims to generate efficiencies, a shared services decision or an external sourcing decision. Where an economic appraisal has not been carried out, the justification for this decision must be clearly set out in the Business Case.

5.2 Good practice checklist

Box 1 Critical success factors for current expenditure appraisal

Objectives

- Proposals should pay particular attention to the specific articulation of quantifiable objectives.
- Due account should be taken of other Government programmes with similar objectives to avoid duplication and to ensure a whole of Government approach
- The team involved in compiling the appraisal should complete the programme logic model to illustrate the links between objectives, inputs, activities, outputs and outcomes
- Appraisals should pay particular attention to the intended clients of schemes, relevant demographic characteristics (location, income, household composition etc) and the predicted level of take up. Likely demand should be linked to anticipated funding levels and eligibility considerations.
- Demand estimation should be based on empirical research.
- Appraisals should clearly consider the impacts (costs etc) on other Departments arising from spending proposals. Any potential overlaps or duplication with other schemes/tax expenditures should be identified.
- Distributional/equity concerns i.e. is the programme/scheme targeted at those with most need

Options appraisal

- Appraisal of spending proposals should incorporate a detailed options appraisal to ensure decisions are fully informed. Realistic options can include operational implementation options, private sector alternatives, varying scale solutions or alternative types of economic intervention (subsidies, taxes, regulations etc). The do-nothing or do-minimum options should always be considered.
- For new services external sourcing must be considered as one of the possible delivery mechanisms.
- The costs and benefits of each option should be appraised and not just the favoured option.

Quantification of costs and benefits

- Detailed research should be carried out in order to quantify the costs and benefits of the spending proposal under consideration using primary sources where possible. This is subject to the principle of proportionality.
- Appraisals should incorporate address deadweight (e.g. eligibility conditions, rates of subsidy/grant and duration of programmes/schemes), displacement and additionality issues Evaluation methods should be designed to ensure these can be measured in future evaluations.
- Include opportunity cost of internal staff re-assigned to administer and manage new schemes
- Cost recovery issues and/or financial contributions from programme participants (these should feature in the financial analysis)
- The pattern and timing of programme/scheme take up is critical for planning/design purposes, particularly given the importance of adhering to multi annual spending ceilings
- In the event that private, community or third sector organisations are involved in programme delivery, the forthcoming supplementary guidance for this sector should be taken into account

5.3 Analytical Techniques

The Business Case for new current spending proposals should include a financial and economic appraisal. The key appraisal techniques which should be applied include:

- CBA
- Exchequer cashflow analysis
- Multi criteria analysis (MCA)

More detail on the specific application of these techniques are set out in section D of the Public Spending Code. This section of the website is subject to ongoing development. In particular, CBA is the main economic appraisal technique required by the Public Spending Code. In circumstances, where CBA is not appropriate due to the difficulty in monetising outcomes, CEA may be considered.

Given that the outcomes of some current spending proposals may be difficult to monetise, MCA can also be an additional, useful tool to rank competing options according to different criteria. This does not mean that no attempt should be made to monetise outcomes but targeted outcomes can also be expressed in performance indicator terms and the expected effectiveness of options can be ranked accordingly. Examples of such outcome measures include:

- Unit cost per job created (enterprise sector)
- State subsidy per subscriber (national broadband scheme)
- Annual energy savings over baseline levels (energy schemes)

If all outcomes cannot be fully monetised, the qualitative assessment should always be carried out in a structured way.

5.4 Revising the appraisal

Unlike a capital project, tendering may not always play a significant role in the delivery of many current expenditure programmes/schemes. This does not detract from the requirement to revise the CBA at key decision points. The appraisal for a current expenditure programme/scheme should be reviewed and potentially revised at key decision points (see Figure 1, p.13)

Appraisals should always be revised if the scope of the proposal changes or there is a significant lapse in time between the initial appraisal and the approval decision.

5.5 Practical steps to ensure a high quality appraisal

In order to carry out a successful appraisal, there should be a systematic approach to generate the analytical outputs required. Box 2 below summarises the steps which should be taken to ensure a high quality appraisal.

Box 2 Best practice in carrying out an appraisal

1. Planning

- Check PS Code guidance
- Assign sufficient resources
- Devise methodology and data required
- Consult e.g. PSEN, CEEU

2. Gather evidence

- Use previous evaluations
- Primary data gathering
- Empirical research
- Substantiate costs and benefits

3. Consult

- Use the Evaluation network
- Use internal skilled resources to challenge analysis
- Check with CEEU
- Peer review

4. Iterate

- Rework analysis to test for risk and accuracy
- Ongoing improvement
- Update for new data
- Revise for D/PER feedback

Appendix A High Level Guidance on Business Cases

The Business Case is the formal submission presenting the spending proposal that Departments make internally to senior management as well as to the Department of Public Expenditure and Reform. It becomes the key document of record and integrates all the various elements required to support a decision on the merits of a proposal. The Business Case should incorporate the following key elements:

- Objectives
- Scope
- Feasibility
- Options Appraisal
  - Economic
  - Financial
  - Risk analysis
- Planning and design issues
- Evaluation plan
- Recommendation

The Business Case should be prepared by the sponsoring agency. It is important that there is input from staff resources with experience of economic analysis and evaluation to underpin the quality of analysis carried out.

While the Business Case will contain some planning and design information, it will not be possible to include all planning and design related details until the proposal has proceeded to this stage. Nonetheless, a certain amount of planning and design information is required to carry out the appraisal. For example, the eligibility conditions and rate of subvention are important design considerations for a new grant scheme.

Box A1 High level Outline of Business Case requirements

Nr	Item	Detail
1	Objectives	➢ Definition of the policy proposal and its objectives ➢ Economic rationale for the proposal ➢ Programme logic model showing linkages between inputs, outputs and outcomes
2	Scope	➢ Duration of spending proposal (including identification of sunset clause) ➢ Departments affected ➢ Number of clients
3	Feasibility	➢ Constraints ➢ Administrative feasibility ➢ Previous experience
4	Options Appraisal	
4a	*Economic appraisal*	➢ Options appraisal (including justification of options) ➢ Core assumptions ➢ Decision criteria ➢ Limitations
4b	*Financial*	➢ Exchequer cashflow analysis ➢ Affordability analysis (MTEF) ➢ Analysis of sources of funding
4c	*Risk analysis*	➢ Identification of risks ➢ Sensitivity and scenario analysis ➢ Risk mitigation strategy
5	Planning and design issues	➢ Scheme design i.e. eligibility, payment rates ➢ Administrative issues e.g. IT, staffing, ➢ Roles, responsibilities and reporting ➢ Project implementation plan ➢ Procurement issues e.g. outsourcing ➢ Cross cutting issues
6	Evaluation plan and proofing	➢ Pilot arrangements ➢ Performance measurement framework o Data collection streams o Indicators o Techniques to measure outcomes ➢ Proposed monitoring/evaluation arrangements ➢ Schedule of evaluations
7	Recommendation	➢ Key results from appraisals ➢ Qualitative issues
8	Appendices	➢ Assumptions, parameters, input values ➢ Detailed methodology

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

The Public Spending Code
B. Expenditure under Consideration

Conducting a Regulatory Impact Analysis

B.07 - Discussion Draft June 2012

As an alternative to public expenditure and direct intervention by public bodies, Government Departments may sometimes consider the option of regulating private bodies or private markets in order to influence outcomes for the benefit of the public. Because little or no direct expenditure is involved, it is easy to form the view that regulation is a 'costless' way of achieving worthwhile objectives. However, regulations can involve compliance costs and other costs which represent a burden upon the economy and it is important that these costs are taken into account before such regulations are introduced.

Regulatory Impact Analysis (RIA) is a tool to assess the likely effects of a proposed new regulation and involves a structured analysis to (i) ascertain whether or not the new regulation would have the desired impact and (ii) identify the full range of costs associated with the regulation.

Regulatory Impact Analysis (RIA) is used by all Government Departments and Offices and applies to:

(i) proposals for primary legislation involving changes to the regulatory framework
(ii) significant Statutory Instruments
(iii) proposals for EU Directives and significant EU Regulations when they are published by the European Commission
(iv) any other proposals for legislation that may be brought forward by Policy Review Groups or that may be prepared by officials for consideration by Cabinet Committees.

Departments have responsibility for conducting and preparing RIAs, which is comprehensively addressed in the RIA Guidance Manual, which can be found at:

http://www.taoiseach.gov.ie/eng/Publications/Publications_Archive/Publications_2011/Revised_RIA_Guidelines_June_2009.pdf

RIA is one aspect of the Better Regulation agenda which is led by the Department of Jobs, Enterprise & Innovation. In support of this overall agenda, the CEEU in the Department of Public Expenditure and Reform is available to advise on some of the more analytical components of RIA, for example in the identification and measurement of costs, benefits and impacts. Requests for advice should be circulated via the relevant Vote Section in the Department of Public Expenditure and Reform. An interactive tool designed to familiarise officials with the RIA process is also available at www.cstdc.gov.ie

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Department of Public Expenditure and Reform

The Public Spending Code
C. Implementation and Post-Implementation

Management

C.01

Document Summary:

From a Value for Money perspective the Management or Implementation stage can be key. Good appraisal leading to a well chosen solution can go to waste if implementation is not properly managed. Current Expenditure Programmes or Capital Grant schemes can be allowed to drift on with no evidence that objectives are being achieved. This document outlines at a high level what Sponsoring Agencies and Sanctioning Authorities should be conscious of. This includes proper structures, performance indicators and reporting requirements. Being aware that termination is an option if the circumstances justify it is also highlighted.

Implementation

The implementation stage of a project begins once final approval for the award of a contract has been secured. Capital Grant Schemes or Current Expenditure programmes enter this stage once final approval is secured. The critical tasks at this stage are management and monitoring to ensure that what is planned is executed satisfactorily, within budget, to standard and on time.

Implementation is the responsibility of the Sponsoring Agency while the Sanctioning Authority must be satisfied that the Sponsoring Agency delivers what has been approved. Where the Government is the sanctioning authority, the responsibility for ensuring delivery - for the management and monitoring functions in the implementation stage will rest with the relevant line Department (the Department which presented the proposal to Government).

The Sanctioning Authority should satisfy itself that the Sponsoring Agency has systems in place and system checks in place to ensure that the project is delivered as per the contract, approved project specification and within the approved budget and in compliance with these guidelines.

Actions or responsibilities at the Implementation Stage can vary depending on whether you are responsible for:

- a large capital project i.e. > €20m
- a capital project of a smaller scale
- a programme of capital expenditure
- a capital grant scheme
- an area of current expenditure

All require:

a) assigned responsibility for delivery
b) an appropriate structure to monitor and manage the implementation phase
c) regular reporting
d) a means of measuring if the project, programme, capital grant scheme or current expenditure intervention is delivering on its expectations

This document sets out a combination of specific requirements and some high-level pointers for the Implementation Phase. It does not aim to be prescriptive about every situation as the nature of what is being implemented; the scale of expenditure and the period of implementation all have a bearing on what is appropriate. Sponsoring Agencies responsible for implementation together with the Sanctioning Authority must decide on the best approach for each individual situation taking account of the guidance in this document.

Note: The monitoring, management, evaluation or review of discrete areas of expenditure should incorporate the relevant administrative expenditure associated.

<u>(a) Assigned Responsibility for Delivery</u>

For capital projects a Project Manager should be appointed within the sponsoring Department or Agency at the planning/procurement stage of the project. The person appointed to the role should be a senior official including an official at MAC level or equivalent where appropriate. The project manager should be assigned personal responsibility for monitoring progress on the project against the contract requirements and for reporting progress and issues arising to the Project Board.

Similarly responsibility for capital programmes, capital grant schemes and current expenditure programmes should be assigned within Departments and Agencies.

(b) Appropriate Structure for monitoring and management

All expenditure, whether capital or current, has to be actively managed. This will involve monitoring against plans and expectations, monitoring and assessing changes in the broader environment that may impact on the underlying need and making decisions on adjustments or even termination.

Capital projects will have a Project Board with appropriate expertise and authority. It will include the Project Manager and a representative of the sanctioning authority.

Capital Programmes, capital grant schemes and current expenditure programmes also need formal structured arrangements to ensure that there is systematic co-ordinated monitoring and management of programmes. Responsibility for putting these structures in place may primarily rest with the sanctioning authority or the sponsoring agency depending on the nature and scale of the expenditure. These structures may include a programme co-coordinator to coordinate implementation of the programme and a monitoring committee to monitor and review progress. Where the programme is a cross-cutting programme the monitoring committee will be representative of relevant Government Departments, implementing public bodies and sectoral interests.

(c) Regular Reporting

Monitoring of all types of expenditure is required to ensure that milestones are being met and expenditure is within budget. Regular reports should be submitted to the Project Board or other structure as discussed above. If adverse developments occur such as potential cost overruns or delays the progress report should include recommendations to address the situation, including where warranted the option of project/scheme termination.

For projects costing over €20m a separate progress report for each project must be submitted to the Department's MAC for Departmental projects and to Management and/or the Board for Agency projects and then to the relevant Minister on a quarterly basis. These reports may be subject to audit by the Department of Public Expenditure & Reform.

Departments are required to send an Annual Report on their capital envelope investment programmes to the Department of Public Expenditure and Reform. The summary reports on progress for projects costing over €20m may be appended to the Department's annual report to the Department of Public Expenditure & Reform. The Department of Public Expenditure & Reform will be undertaking their own checks of these reports.

Departments and Agencies, as part of their review of capital projects costing over €20m, must include details of such projects in their annual report of their Statement of Strategy and in their Annual Report on their capital investment programme to the Department of Public Expenditure & Reform in the following format: (A similar report is required for completed projects – see Post Implementation below)

Annual Report on Projects in progress and > €20m

Department/Agency (Insert Name) – Projects over €20m underway in year under review and to be completed in later years							
Project	Start Date	Expected Date of completion as per contract	Contract price as per contract €m	Actual cost to date €m	Projected final cost €m	Expected output on completion (e.g. X km of road, no. units)	Output achieved to date (e.g. Y km of road, no. units)
A							
B etc.							

(d) A means of measuring if on target with expectations

For capital projects, milestones in the contract and in the project plan can be used by the Project Manager and Project Board to ensure that the project is on schedule and within budget. Other performance indicators may have to be developed for changes in the external environment that could influence the project.

For non-project expenditure performance indicators should be developed at the outset as well as a means of gathering the data to support performance indicator measurement. These performance indicators will then be used as part of the monitoring and management of the Implementation Stage for capital programmes, capital grant schemes and current expenditure programmes. There may be schemes or programmes underway that do not have suitable performance indicators. If this is so then suitable performance indicators should be developed as soon as possible.

Adverse Developments or Changes in Circumstances

Regular management reports should be prepared by the Sponsoring Agency covering all significant developments relating to the project and its costs. If adverse developments occur, including unforeseen cost increases, which call into question the desirability or viability of the project, the Sponsoring Agency should submit a report at the earliest possible moment to the Sanctioning Authority, detailing the necessary measures proposed to rectify the situation.

Where, despite these measures, increased costs above those already approved are likely to arise, the approval of the Sanctioning Authority for the extra expenditure should be obtained before any commitment is made to accept cost increases. Any application for such approval should outline the reasons for the excess, along with a detailed explanation of why it was not possible to take appropriate measures to offset the increased cost. The viability of the project, given the changed circumstances, should also be reported on.

If a project is going badly wrong, there should be a willingness to terminate it before completion. Action of this kind can be justified if the cost of the project escalates above earlier estimates or if the benefits expected from it are not likely to be realised. An attitude that, once work on a project commences, it must be completed regardless of changed circumstances, is to be avoided. Before making a final decision to terminate a project that is not going according to plan, the costs of termination (for example, payments that might have to be paid by way of compensation to contractors etc.) should be ascertained and made known to the appropriate authorities.

Post-Implementation

The main requirement post-implementation is one of review. This is discussed in Document C-03 Periodic Evaluation/Post Project Review.

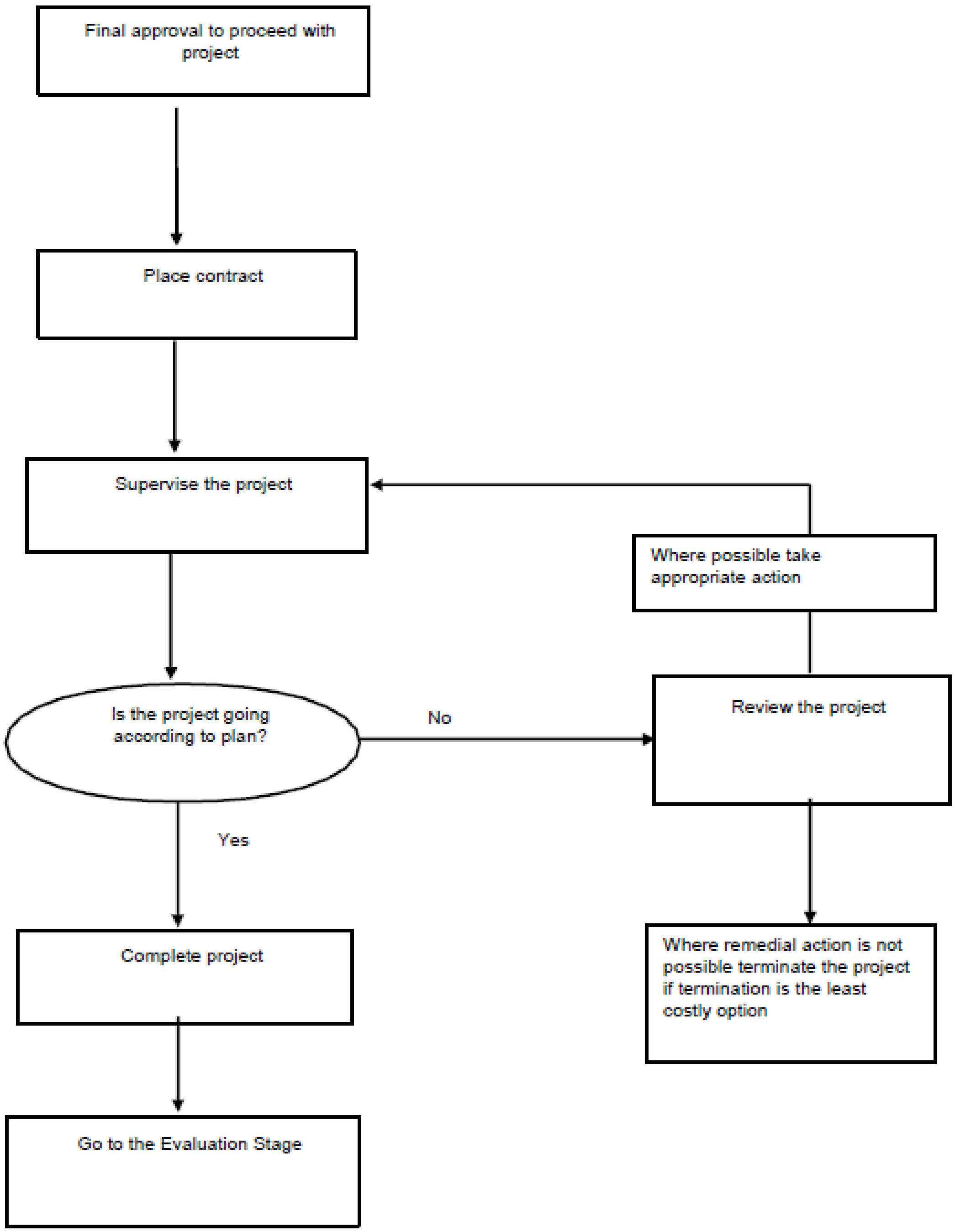
In addition to this requirement the tabular report below should be submitted to the Department of Public Expenditure & Reform in respect of each completed project > €20m.

Report on Projects > €20m completed in the year under Review

Department/Agency (Insert Name) – Projects over €20m completed in the year under review.								
Project	Start Date	Expected date of completion as per contract	Actual Date of completion	Contract price as per contract €m	Final cost €m	Variance against contract price. €m	Expected output (e.g. X km of road, no. units)	Output achieved (e.g. Y km of road, no. units)
A								
B etc.								

Figure 5 (see overleaf) reviews the Implementation Stage.

Figure 5: THE IMPLEMENTATION STAGE



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An Roinn Caiteachais Phoiblí agus Athchóirithe
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The Public Spending Code
C. Implementation and Post-Implementation

Monitoring Reports

C.02

Document Summary:

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An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

The Public Spending Code
C. Implementation and Post-Implementation

Periodic Evaluation/Post-Project Review

Document Summary:

All expenditure is subject to ongoing monitoring using appropriate performance indicators. Ongoing analysis of performance indicators should give management a good idea of whether an investment or intervention is yielding the expected outputs and outcomes. A subset of expenditure in any one year will be subject to further in-depth evaluation. Evaluation/post-project review of some expenditure is mandatory i.e. capital projects > €20m whereas there is discretion on the selection of other projects/programmes/schemes that will be selected for evaluation. This document outlines why there is a need for more in-depth evaluations and what must be evaluated and also the importance of aligning evaluation timetables with the new 'Whole of Year' Budgetary process.

The importance of active management, regular reporting and monitoring and the use of performance indicators was outlined in Public Spending Code Document C-01 Management. Active management allows a sponsoring agency to assess whether a capital project is on schedule and within budget. For capital grant schemes and current programmes a regular analysis of performance indicators should give the sponsoring agency and sanctioning authority a good idea of whether an intervention is achieving its objectives or not.

In addition to the active management and regular analysis of performance indicators there is a need for periodic evaluations of areas of expenditure. This requirement is there because:

- regular monitoring of performance indicators needs to be supplemented with a more in-depth study to assess efficiency and/or effectiveness
- an independent review of efficiency, effectiveness and continued relevance is sometimes needed
- the outcomes of the intervention will not occur for some time and a different approach to measuring effectiveness is required
- the scale of the investment/intervention justifies an in-depth evaluation

For capital projects the benefits will not be seen until the project has been completed. The project has by then exited the active management stage. All large capital projects and a proportion of other capital projects have to be subjected to a post-project review to see if the predicted benefits of the project were realised. Post-project reviews should be undertaken once sufficient time has elapsed to allow the project to be properly evaluated with sufficient evidence of the flow of benefits/costs from it. There are two separate focuses of review – (i) project outturn and (ii) appraisal and management procedures. The second element can be done after project completion as it involves reviewing administrative and management procedures. The timing of the first element will depend on the nature of the project i.e. the period required to observe the expected benefits. This period should be no longer than one third of the timeframe used in the Appraisal. The detailed appraisal provides the base against which the outturn review is made. The aim of a review of project outturn is to determine whether:

- the basis on which a project was undertaken proved correct;
- the expected benefits and outcomes materialised;
- the planned outcomes were the appropriate responses to actual public needs;
- the appraisal and management procedures adopted were satisfactory;
- conclusions can be drawn which are applicable to other projects; to the ongoing use of the asset; or to associated policies.

Post-project reviews for capital grant schemes and for current expenditure programmes may also be needed particularly where evaluations were not undertaken when the schemes were active or if the benefits would not be apparent for some time. Post-implementation reviews reveal if the type of intervention chosen is effective and efficient and informs future decision making.

The Value for Money and Policy Review process aims to subject some significant portion of an organization's expenditure to an in-depth review every year. There are also more focused reviews that may not examine all of the evaluation questions posed by a VFMPR (See Public Spending Code Document C-04 Reviewing and Assessing Expenditure Programmes).

Note: The monitoring, management, evaluation or review of discrete areas of expenditure should incorporate the relevant administrative expenditure associated.

Evaluations and the Annual Estimates and Budgetary Timetable

Whether evaluations are undertaken as part of the VFMPR initiative, with a full set of terms of references or focussed on a targeted subset of evaluation questions e.g. effectiveness or efficiency they should be completed within a reasonable period (6-9mths for full set of terms of reference and much less for more focused evaluations). They should be scheduled so that their findings are available for the forthcoming budgetary cycle.

From 2012 the budgetary process is moving to a 'Whole of Year' timetable. Oireachtas Committees will feed their views into the process starting in the spring of each year. It is expected that by the Autumn of each year Committees will be informed by the VFM reviews generated on an ongoing basis by Departments.

It is important therefore that Departments target the completion of their evaluations for the Autumn of each year at the latest so that the findings can inform opinions and decisions, in Departments, in the Committees and in the Department of Public Expenditure and Reform at the earliest opportunity. Failure to adhere to this schedule seriously undermines the value of the evaluation work. To give Departments their best chance of meeting this timetable significant new evaluations should begin in the Autumn/early Winter.

Mandatory Evaluation / Post-Project Review Requirements

- Capital Grant Schemes with an annual value in excess of €30m and of five years or more duration to be subject to prior and mid-term evaluation at the beginning and mid-point of each five year cycle or as may be agreed with the Department of Public Expenditure & Reform.
- All Capital Projects costing > €20m[7] are to be subject of a post-project review

[7] As the threshold for post-project review has been reduced from €30m to €20m, DPER will consider on a case by case basis whether projects costing between €20m and €30m and appraised when the previous threshold figure applied, will require a post-project review.

- At least 5% of other capital projects should be reviewed
- The VFMPR process obliges Departments to carry out a minimum numbers of VFMs. This varies depending on the size of the Department. See Public Spending Code Document C-04 – Reviewing and Assessing Expenditure Programmes.

Additional Evaluation / Post-Project Review Requirements

Departments and agencies should not restrict themselves to the mandatory evaluation or post-project review requirements. From time to time it may be apparent that while not mandatory, an area of expenditure would benefit from a more in-depth review based on the picture the performance indicators paint or maybe because the performance indicators are not as informative as originally thought.

Communicating lessons learned

As with all parts of the Public Spending Code any significant lessons should be translated into changes in the Sponsoring Agency's practices and communicated within the organization and to the sanctioning authority so that it can apply any general lessons learned to this Code or to supplementary information.

Responsibility for Evaluation / Review

It is the responsibility of the Sponsoring Agency to carry out the evaluations or post project reviews. Those conducting reviews and evaluations should not be the same people as conducted the appraisal or managed the implementation. VFM & Policy Reviews have specific requirements regarding Steering Committees and independent chairpersons.

The Public Spending Code
C. Implementation and Post-Implementation

Reviewing and Assessing Expenditure Programmes

Document Summary:

Current expenditure programmes are subject to review under the established system of *VFM & Policy Reviews (VFMPRs).* The procedures for conducting VFMPRs are being updated to ensure that they form an effective input into the ongoing resource allocation process. In particular: each Department / Office should prepare an annual and multi-annual VFMPR schedule, agreed with the Department of Public Expenditure & Reform, providing for review of strategic programmes over a three-year period; each such review should be completed within a 6 to 9 month timescale as a rule; and each Review should have a uniform output – a 'balanced scorecard' – assessing each programme against a range of criteria of use to decision-makers.

In addition, the VFMPRs will be supplemented with sharper and more narrowly-focused assessments designed to answer specific issues of policy configuration and delivery, whether within a particular Department or on a cross-cutting basis. These Focused Policy Assessments will be conducted by Departmental Evaluation Units and by the CEEU.

As a matter of course, Departments/Offices should also engage with relevant Committees of the Oireachtas to ensure that their evaluation work programme is aligned – in terms of content and timetabling – with Oireachtas requirements, and with the new 'whole-of-year' budgetary timetable announced by the Minister for Public Expenditure & Reform on 5 December 2011.

1. Background

VFM & Policy Reviews (VFMPRs) are now a well-established feature of the evaluation landscape in Irish public policy-making. The Reviews, which are conducted in accordance with detailed guidelines laid down in a 2007 Guidance Manual, are generally carried out thoroughly and are useful in addressing the standard VFM questions that are relevant for any such review, including:

- What is the rationale and the objectives for the scheme?
- Are the objectives still relevant, in light of evolving policy priorities?
- Has the scheme achieved its objectives?
- How efficiently has the scheme been delivered?
- How does the scheme rate against alternative ways of achieving the same objectives?

However, the VFMPR process has not achieved its full initial ambitions, in terms of breadth of coverage and direct relevance for the resource allocation process. Some shortcomings that have been identified by practitioners include the following:-

- The VFMPR process can be quite time-consuming and administratively burdensome. This does not lend itself to timely turnaround of reports, and indeed some VFMPRs have in the past taken several years from start to completion.
- Related to this, it is difficult for the VFMPR process to cover a broad range of spending areas in any one or two year period. This problem, which is exacerbated in some areas by the shortage of staff with relevant analytical expertise, can make the VFMPR process seem removed from the regular Estimates cycle, whereby policy-makers must form an overall judgement about how resources should be prioritised and allocated.
- The VFMPRs do not share a common format or presentation, and there is no uniform standard for reporting the outcomes of a Review. A more standardised approach would enable policymakers to digest the findings of a report more readily, and would help to orient the VFMPR so that it provides clear answers to the key questions.

For these reasons, the Government has decided to update and streamline the VFMPR process in a number of ways, and to supplement it with more focused policy assessments, which can be conducted more quickly by trained evaluators within Departments / Offices and by the Central Expenditure Evaluation Unit (CEEU). These measures draw upon the experiences of conducting the 2011 Comprehensive Review of Expenditure, and are detailed below.

2. Updates to VFMPR Process

2.1 Existing VFMPR Procedures

Up to now, the VFMPR procedure has been governed by a 2007 Guidance Manual which has been updated on an *ad hoc* basis, and the key provisions of which can be outlined as follows:-

(a) **Selection of topics for review:** All VFMPRs should be targeted at areas of significant expenditure where there is the greatest potential for them to add value and influence policy developments. The Minister for Public Expenditure & Reform prepares an annual schedule of reviews for approval by Government, taking account of suggestions prepared by Departments.

(b) **Steering Committees:** Each VFMPR should be overseen, managed and delivered by a Steering Committee appointed by the relevant Department, with an independent chair, and include representatives of the Department of Public Expenditure & Reform.

(c) **Terms of Reference:** The Steering Committee prepares the ToR for each review, on the basis of standard template drawn up by the VFMPR Central Steering Committee.

(d) **Evaluation Framework:** Under the 'programme logic model,' evaluators must have a clear sense from the outset of the rationale for a spending programme, expressed in terms of inputs, activities, outputs, results / impacts; their linkage to specific strategic and programme objectives; the performance indicators that can be used for these purposes; and the evaluation criteria to be used (rationale, continued relevance, efficiency, effectiveness etc).

(e) **Planning:** Decide upon evaluation criteria, methodologies, involvement of stakeholders; and then manage the conduct of the VFMPR – including data collection, analysis and evaluation – within budget, on schedule, and to proper quality standards.

(f) **Methodologies:** Detailed guidance is provided on methodological approaches for conducting the VFMPR, by reference to the programme logic model of the Evaluation Framework.

(g) **Content:** Guidance is also provided on the standard elements for inclusion in a VFMPR Report.

These VFMPR procedures and guidelines remain valid, but need to be updated and streamlined in a number of respects to allow for more timely conduct of Reviews, and more direct linkage to the annual and multi-annual processes of expenditure allocation. The intention is that the VFMPR process, and other supporting processes outlined in this document, will be more effective in helping Departments / Offices to remain within the fixed expenditure allocations set out as part of the Medium-Term Expenditure Framework (MTEF).

2.2 Changes to VFMPR Procedures

(a) Selection of Topics for Review / Coverage of Reviews

Under the pre-existing arrangements of the VFMPR process, the areas of Health, Education, Social Protection and Justice & Equality are required to conduct one review per year, while all other line Departments plus the Office of the Revenue Commissioners and the Office of Public Works carry out 2 reviews each in the three-year period. The new approach will satisfy the following objectives:-

- **All Strategic Programmes of expenditure** – which form the basis of the performance budgeting framework - should be subject, in whole or in part, to rigorous evaluation over the three-year period. While it may not be practicable to evaluate the entirety of spending under each Strategic Programme, significant elements of expenditure should be covered and VFMPRs should not be focused on schemes that account for very minor elements of spending (the Focused Policy Assessments outlined in section 3 below may have a role in that respect). Departments should focus in particular on the more discretionary areas of programme expenditure, where issues of both effectiveness and efficiency feature strongly. For Departments / Offices with a relatively high proportion of "non-discretionary" ongoing expenditure, VFMPRs will still have a key role to play in assessing issues of efficiency, scheme design / alternative modes of delivery etc.

- To facilitate this breadth of coverage, all VFMPR analyses should be completed to report stage within a **6 to 9 month timescale**, as a rule, and should be planned and managed accordingly within each Department / Office.

- Following discussion between the line departments and the Department of Public Expenditure & Reform (D/PER) and following consultation with Government, the Minister for Public Expenditure & Reform will decide a **comprehensive VFMPR schedule of topics** to cover the coming year and the following two years (consistent with the new Medium Term Expenditure Framework or MTEF). The schedule will be made public and will be delivered upon by all Departments / Offices. The schedule will allow for limited flexibility to adjust topics on an annual basis, mainly to take account of viewpoints put forward by relevant Oireachtas Committees.

In proposing suitable topics for evaluation, Departments should have regard to the over-arching objective of facilitating the prioritisation, and re-allocation, of expenditure in support of

Government Programme commitments and consistent with MTEF spending ceilings. Accordingly, it will be necessary to target evaluation resources at areas of significant expenditure, for which – on the basis of previous reports, the CRE or other analyses – there may be a *prima facie* case for critical examination of the current scale of resource allocation. In this regard, Departments/Offices will be required to clearly indicate the estimated total expenditure that the proposed reviews will cover.

Departure from the list of review topics approved by Government is only allowed in exceptional circumstances, and then only where a suitable topic of at least equal significance is substituted for a review being dropped.

(b) Steering Committee Membership and Meetings

Based on the experience of the 2009-11 round of VFMPRs, the Steering Committees of Reviews should be more focussed and limited to key relevant officials. The aim, where possible, should be no more than 5 officials on the Steering Committee, comprising the Chairperson, the lead evaluator, the D/PER representative and two other senior officials – whether from within the Department / Office or from elsewhere – with knowledge and experience that is relevant to the subject matter of the review and/or to the Department's review/audit process more generally. External evaluation expertise on the Steering Committee can also be considered but stakeholders that are beneficiaries or sectional interests should not be members. Their views will be sought as required as part of the evaluation.

With the exception of the lead evaluator and chairperson the work of Steering Committee ordinary members is additional to their normal 'desk jobs'. For this reason, care should be taken to minimise the demands upon their time. The Steering Committees, particularly in the case of smaller reviews, should hold fewer meetings at key stages in the process e.g. one/two to agree on ToR /work programme, two mid-review meetings to discuss progress and a final meeting to finalise the draft.

The work programme and role of the Steering Committee should be linked to key milestones in the lifecycle of a VFM. A timetable for delivery of key milestones should be agreed. The meetings of the Steering Committee will be dictated by the production of the required deliverable. If deliverables are produced in accordance with the agreed timetable then the VFMPR can meet its target delivery date. The role of the Committee is to sign-off deliverables associated with the key milestones and to give direction on work needed to produce the next deliverable.

Milestone / Deliverable	**Comment**
Sign-off: - Terms of Reference - Objectives of Programme being Reviewed - Programme Logic Model - Methodology incl. data required - Timetable for Deliverables	These are the basic foundation stones of a good evaluation and no further work should be done until these are signed-off. They should be signed-off after a maximum of two meetings of the Steering Committee.
Preliminary analysis of data gathered.	This allows the Steering Committee to form an opinion on whether the data received matches the expectations they had when the methodology was agreed. It also allows the Steering Committee to give advice/direction to the Evaluator on report drafting and further analysis of the data to support the findings that will emerge. One meeting of the Steering Committee
First draft of key chapters of the Report	Steering Committee gives its views on first draft of the key chapters. Gives advice and direction on the findings, on structure and drafting. One meeting of the Steering Committee
Final Report	Finalisation of the Report may take one or two meetings of the Steering Committee.

(c) Approval of Terms of Reference

The first key task of a VFM Review Steering Committee is to draw up the Terms of Reference for the review. When a draft of the ToRs has been discussed with the Steering Committee, it should be forwarded for consultation to the relevant Vote Section in the Department of Public Expenditure and Reform. This can be done informally through the Department of Public Expenditure and Reform representative from the relevant Vote section on the Steering Committee. However, it should be noted that Vote Sections should submit all draft ToRs for approval at Assistant Secretary level before advising line Departments/Offices of agreement to proceed.

Following this consultation, any amendments that might be agreed with the Department of Public Expenditure and Reform should be made to the draft ToRs before they are submitted to the Secretary General/Head of Office who is carrying out the review. Where a matter of dispute exists, direct consultation should take place between the Secretary General/Head of Office and the relevant Department of Public Expenditure and Reform Assistant Secretary with the aim of resolving the point at issue. Once the Secretary General/Head of Office is satisfied with the draft ToRs, he or she will give authority to formally commence the review.

(d) Role of the Evaluator

The lead evaluator has a pivotal role in the evaluation. S/he is not a secretary to the Steering Committee but is conducting the VFMPR under their direction. The lead evaluator should have sufficient analytical capacity to deliver the review. It is a person's knowledge/experience of evaluation and the VFMPR process that is important and not their prior knowledge of the programme being reviewed. The lead evaluator cannot be working in the area that is being reviewed. It is the lead evaluator's responsibility to produce the deliverables required for the Committee. In advance of the first meeting the evaluator should have prepared a background document/presentation on the area being reviewed as well as draft TORs, PLM and methodology. This will facilitate an efficient running of the review. Meetings of the Steering Committee will be dictated by production of deliverables by the evaluator rather than a set timetable of meetings. The Committee should not need to meet with stakeholders or conduct field visits. They may do so if they wish but it is quicker to give direction to the evaluator on who should be consulted. The lead reviewer should keep the Chairperson of the Steering Committee informed of progress in the review and of any issues that may require resolution, so that timely decisions can be made and reports finalised in time.

(e) Use of paid consultants

The engagement of paid consultants to carry out VFMPRs, as a rule, is not permitted. The VFMPR work should be conducted from within the evaluation / policy analysis resources that are developed and maintained within each Department / Office. Exceptions can only be justified on the basis that a particularly complex piece of analysis is required and that the necessary skills are not available internally. Even where this is the case it is not a justification to outsource the whole review.

(f) Independent Chairpersons

It is best practice to have a fully independent Chairperson in charge of each Steering Committee. The Independent Chairperson is responsible for driving the review within schedule and within its Terms of Reference and acts as a key channel between the lead reviewer and the Steering Committee. It is the responsibility of the independent Chairperson to see that the review deadline is met. The Chairperson should not be the lead reviewer.

The CEEU will maintain the existing central list of suitably-qualified retired officials at Principal Officer grade (or higher) to act as independent Chairpersons, and will also compile a list of serving Principal Officers who have evaluation and VFM experience and who would be available to chair Steering Committees.

(g) Role of CEEU and publication of Assessments

The Vote Section in the D/PER will continue to be represented on the review Steering Committee. The CEEU of the D/PER will no longer be directly involved in reviews and will instead be involved in carrying out its own quality assessments of Reviews at terms of reference / work plan stage, interim and final draft report stages. These assessments will be made available to the Steering Committee and the final assessment will be made available online.

The evaluator should send the TORs, Objectives, PLM, Methodology, Timetable, first draft key chapters and first final draft, to the CEEU prior to the Steering Committee meeting at which these deliverables will be signed-off, and in reasonable time to allow the CEEU to return their written comments to the Steering Committee. The evaluator is free to avail of advice from the CEEU on a less formal basis prior to formally sending any deliverable. The CEEU may be requested by the Chairperson to attend to exchange views at particular meetings of the Steering Committee or to engage more fully on certain aspects of the review process, where in the Chairperson's view this would be helpful; as a rule, the CEEU will endeavour to accede to such requests.

The CEEU will publish a simple tracking document on all VFMPR deliverables on its website in the format below. It will also publish its final review of the VFMPR here.

Tracking Table for VFMPRs

Department	VFMPR	TORs, Objs' PLM, Methodology rec'd	CEEU sign-off	First draft of key chapters	CEEU sign-off	First final draft	CEEU sign-off
Dept of Industry	Employment Grants	●	●	●	x		
Dept of Sport	Sports Facilities	●	●	●	●	●	●

(h) Timetabling of reviews

In order to ensure the relevance of evaluations, the annual cycle of VFMPRs will be aligned more closely within the new, 'whole-of-year' approach to setting expenditure allocations (see section 4 below). This involves the following elements:-

- The schedule of VFMPRs should be decided, following consultation with Government, by the Minister for Public Expenditure and Reform during the autumn of each year.
- Work on the VFMPRs for the year ahead should get under way immediately with appointment of Steering Committee, agreement of Terms of Reference and commencement of fieldwork. VFMPRs for later years, as specified in the multi-year schedule, can be planned for in advance, but the precise timetabling of these future reviews will be subject to revision in light of views expressed by the relevant Oireachtas Committees.
- The VFMPRs should be concluded within a timeframe (6-9 months from their commencement) that allows for the final Reviews to be submitted to the Oireachtas Committees during the course of the year, to inform discussions and debate of the following year's Estimates.

- Accordingly, an end-date for each VFMPR should be specified from the outset of each Review, and this deadline will be regarded as fixed and binding.

(i) Compliance with Timeframes / Sanctions

In order for the evaluation process to be effective it is essential that, insofar as possible, that timeframes are strictly adhered to. If the Chairperson considers that the agreed timeframes may not be adhered to, he/she should notify the Head of Department/Office immediately, who in turn must request an extension of the deadline from the Head of the CEEU in the Department of Public Expenditure & Reform. In this context, the reason for slippage should be explained and a new deadline will be fixed, which will not exceed 3 months from original deadline.

(i) Principle of transparency

A primary rationale for the VFMPR process is to facilitate better resource allocation decisions by bringing to light, and testing, the evidential basis for spending programmes. Complementary to this is the general principle of transparency in relation to how public money is allocated, used and evaluated. The CEEU will maintain a central repository of all reports including terms of reference, timescale, status update and letters (if any) seeking extensions to deadlines on the http://publicspendingcode.per.gov.ie website. As a guiding principle, all of the background material that would be released in response to an FOI request should be made public at the same time as the VFMPR report is published.

(k) Completing the Report & Memorandum for Government

The final report should be submitted by the Steering Committee Chairperson to the Secretary General and Minister of the relevant Department for publication. A copy of the report should also be circulated to the Minister for Public Expenditure and Reform at this stage. Before publication of the final report the relevant Minister should bring a Memorandum to Government. This Memorandum should outline the main findings and recommendations of the report and the proposed responses to address any issues arising. The Memorandum should be submitted to Government within one month of the finalisation of the report.

The following steps should be taken once the report has been cleared for release:

- lay the report before both Houses of the Oireachtas, ideally, along with the response of the Department/Office to the report's recommendations; the Oireachtas Library requires six copies of the document together with the completed form. For further information, contact Oireachtas Library.

- copies of each review must also be forwarded to the relevant Dáil Select Committee. The Clerk of the Committee will be able to advise how many copies the Committee will need;
- the report (and the Department's/Office's response) should be published on the website of the Department/Office;
- two copies should be forwarded to the Central Expenditure Evaluation Unit;
- a copy of the report should be sent to the Department of Public Expenditure Vote Section;

(l) Uniform Reporting: 'Balanced Scorecard'

As highlighted in the 2011 Comprehensive Expenditure Report[8], in order to bring greater uniformity and standardisation to the evaluation process, each VFMPR will include a 'Balanced Scorecard' which will be used to assess the programme against a range of criteria of use to decision makers. This standard approach will represent one key, recognisable output of the Reviews for all programmes, and will to some extent facilitate performance comparisons across programmes and across Departments. A draft approach to the Scorecard is outlined in Box 1 and will be further developed in consultation with the Public Service Evaluation Network.

3. Focused Policy Assessments (FPAs)

Building upon the experience of the 2011 Comprehensive Review of Expenditure (CRE), the full VFM & Policy Reviews will also be complemented with sharper and more narrowly focused assessments designed to answer specific issues of policy configuration and delivery. The experience of the Comprehensive Review of Expenditure – including the major analyses conducted by each Department, and the cross-cutting and thematic evaluations undertaken by the Central Expenditure Evaluation Unit (CEEU) in the Department of Public Expenditure & Reform – showed that it is possible to get a quicker turnaround, to high standards of quality, when specific timelines and specific policy questions are set.

These Focused Policy Assessments (FPAs) can play a useful role in addressing the following types of policy issue:-

- Cross-cutting issues of relevance to one or more department; typically conducted by the CEEU or by evaluation staff from relevant Departments working together;
- Evaluation of a discrete expenditure programme, to answer specific questions of programme design and delivery, by reference to one or more evaluation criteria;

[8] http://www.budget.gov.ie/Budgets/2012/Documents/CER%20-%20Estimates%20Final.pdf

- Preliminary evaluation of a more complex programme or inter-connected set of programmes, to scope issues that may benefit from full VFMPR.

To optimise the effectiveness of the FPAs, it is intended that the overarching process will be flexible and not overly prescriptive, however it is envisaged that the FPAs:

- Operate under a clear mandate from the relevant official with responsibility for Programme area and the Head of CEEU.
- Are conducted by a Department's evaluation unit and / or by an evaluator from CEEU. Ideally there should be no more than one or two evaluators.
- Have tightly framed terms of reference focusing on the key issue at hand.
- Do not require a steering committee; the responsibility of the evaluation should be under the management of the head of the departmental evaluation unit or the head of CEEU, as appropriate.
- Are completed within tight timeframes, 3 months as a rule.
- Are routinely published on http://publicspendingcode.per.gov.ie subject to any necessary redactions arising under FOI legislation. Redactions should be kept to the minimum necessary and a justification for redactions should be published with the document.

4. Role of the Oireachtas and its Committees

The *Comprehensive Expenditure Report 2012-2014* set out range of reforms and an enhanced role for the Oireachtas. As can be seen from the timetable below the Oireachtas and its Committees will now play an ongoing part in the new 'Whole of Year' budgetary process.

Input from the Oireachtas: A New Annual Estimates Timetable

Under the new arrangements Estimates allocations will be determined in the following manner.

Start of year: Multi-annual expenditure ceilings are known

Spending allocations are set for each Department not just for the forthcoming year (n), but also for years (n+1) and (n+ 2). Ministers and officials have up to two years to plan their affairs so as to achieve policy objectives within these allocations.

Spring of each year: Engagement with Oireachtas Committees on allocations / Estimates

It is open to the Oireachtas Committees, from the early part of each year, to engage with Ministers and their Departments to exchange views on how the fixed allocations for future years should be allocated to best effect. These perspectives can be taken into account by Government as the Estimates allocations are considered over the remainder of the year.

April: Stability Programme Update
Just as the November 2011 Medium-Term Fiscal Statement set out the Government's overall fiscal adjustment path for the 2012-2015, the Stability Programme Update (SPU) published in April each year will adjust these targets as necessary to reflect economic developments, input from the assessments of the independent Fiscal Advisory Council and indeed the views of the Oireachtas Committees. In this context, the multi-year fiscal planning horizon will be extended by a further year, including the new overall expenditure figures.

Autumn of each year: Further engagement on expenditure policy
As the Government's annual Estimates process becomes more advanced, Oireachtas Committees will have further opportunities to engage on specific policy proposals. The Committees will be informed by the range of VFM Reviews and focused policy analyses generated on an ongoing basis as part of the Government's new Public Spending Code.

End of each year: Estimates are finalised
The Estimates for the coming year will be published as part of the annual Budget process, having been informed by the input of the Oireachtas Committees over the preceding year.

February of the following year: Revised Estimates and "Performance Budgets"
More detailed versions of the annual Estimates, which will now include key performance information, will be published and referred to Dáil Select Committees for consideration. In this context, Ministers and public service managers can expect to be held to account for delivery – or non-delivery – of the targets and objectives spelled out previously.

This new approach allows greater opportunities for Oireachtas members, as representatives of the public, to play a more substantive role throughout the entire budgetary process, from initial allocation of funds, through to holding Ministers and public service managers to account for the achievement – or non-achievement – of stated performance targets. The VFMPRs in particular will be used to assist Oireachtas Committees in their assessment of resource allocation priorities. Completion of these reviews will therefore have to be more closely aligned with this timetable. The Oireachtas Select Committees can also play a role in setting the agenda of topics and programmes to be reviewed in the VFM process, and holding Departments to account for timely progress.

Each Department should avail of the opportunity presented by the new process to work in a proactive way – including through submitting lists of topics for the annual and multi-annual review cycle to Committees and soliciting their feedback, and through timely completion and submission of reviews during the course of the year to facilitate Committee consideration.

Box 1

‘Balanced Scorecard’: A New Standard for Programme Evaluation

A criticism of the VFM & Policy Reviews is that they are each conducted differently, the various Reports are presented differently from one another, and it is hard for policy-makers to form a common view of how particular programmes rate relative to other programmes.

As part of the new process, all Reviews will have to include a standard report – a ‘balanced scorecard’ – based upon a number of important criteria that are common to all evaluations. These criteria include:-

Quality of Programme Design

- Are the programme objectives clearly specified?
- Are the objectives consistent with stated Govt priorities? Is there a clear rationale for the policy approach being pursued?
- Are performance indicators in place from the outset, to allow for an assessment of programme success or failure in meeting its objectives? If not, can such success/failure indicators be constructed *ex post?*
- Have alternative approaches been considered and costed, through cost-benefit analysis or other appropriate methodology?
- Are resources (financial, staffing) clearly specified?

Implementation of Programme / Scheme

- To what extent have programme objectives been met? In particular, what do the success/failure indicators show?
- Is the programme efficient in terms of maximising output for a given input and is it administered efficiently?
- Have the views of stakeholders been taken into account?

Cross-cutting aspects

- Is there overlap / duplication with other programmes?
- What scope is there for an integrated cross-departmental approach?
- Are shared services / e-Govt channels being used to the fullest extent?
- Can services be delivered more cost-effectively by external service providers?

This approach allows for an overall, standardised quality score to be put in place, providing a programme rating that is of use to policy-makers and to those – including Oireachtas Committees and the general public – scrutinising the cost-effectiveness of spending. In other countries, more general programme ratings using the ‘traffic light’ system are found to be useful:-

HIGH Score (Green light) – the programme is well-specified, achieving its objectives, and cost-effective in general terms.

INTERMEDIATE Score (Amber light) – the programme scores highly in some areas, poorly in others: scheme re-design or efficiency improvements must be considered.

LOW Score (Red light) – poor evidence of delivery of objectives; scheme funding should be available for reallocation to other priority areas.

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

The Public Spending Code
D. Standard Analytical Procedures

Overview of Appraisal Methods and Techniques

D.01

Document Summary:

This document outlines the main appraisal methods and techniques which should be used as part of the Public Spending Code. It provides a brief introduction to each technique and contains reference material at the end of the document. This information is intended to provide a general overview of these techniques, helping to orient new Public Spending Code users and point the way to further more detailed material, both in the Public Spending Code and more generally.

1. Overview of appraisal

The basic purpose of systematic appraisal is to achieve better spending decisions for capital and current expenditure on schemes, projects and programmes. This document provides an overview of the main analytical methods and techniques which should be used in the appraisal process. These techniques can also be used in the evaluation process. More detailed information on individual techniques can found in financial and economic textbooks, examples of which are listed at the end of this document and in other guidance material on the VFM portal.

An understanding of discounting and Net Present Value (NPV) calculations is fundamental to proper appraisal of projects and programmes. A good understanding of Cost Benefit Analysis (CBA), Internal Rate of Return (IRR), Multi Criteria Analysis (MCA) and Cost Effectiveness Analysis (CEA) is also essential for economic appraisal purposes.

2. Analytical methods

The recommended analytical methods for appraisal are generally discounted cash flow techniques which take into account the time value of money. People generally prefer to receive benefits as early as possible while paying costs as late as possible. Costs and benefits occur at different points in the life of the project so the valuation of costs and benefits must take into account the time at which they occur. This concept of time preference is fundamental to proper appraisal and so it is necessary to calculate the present values of all costs and benefits.

Net Present Value Method (NPV)

In the NPV method, the revenues and costs of a project are estimated and then are discounted and compared with the initial investment. The preferred option is that with the highest positive net present value. Projects with negative NPV values should be rejected because the present value of the stream of benefits is insufficient to recover the cost of the project.

Compared to other investment appraisal techniques such as the IRR and the discounted payback period, the NPV is viewed as the most reliable technique to support investment appraisal decisions. There are some disadvantages with the NPV approach. If there are several independent and mutually exclusive projects, the NPV method will rank projects in order of descending NPV values. However, a smaller project with a lower NPV may be more attractive due to a higher ratio of discounted benefits to costs (see BCR below), particularly if there affordability constraints.

Using different evaluation techniques for the same basic data may yield conflicting conclusions. In choosing between options A and B, the NPV method may suggest that option A is preferable, while the IRR method may suggest that option B is preferable. However in such cases, the results indicated by the NPV method are more reliable. The NPV method should be always be used where money values over time need to be appraised. Nevertheless, the other techniques also yield useful additional information and may be worth using.

The key determinants of the NPV calculation are the appraisal horizon, the discount rate and the accuracy of estimates for costs and benefits.

Discount rate

The discount rate is a concept related to the NPV method. The discount rate is used to convert costs and benefits to present values to reflect the principle of time preference. The calculation of the discount rate can be based on a number of approaches including, among others:

- The social rate of time preference
- The opportunity cost of capital
- Weighted average method

The same basic discount rate (usually called the test discount rate or TDR) should be used in all cost-benefit and cost-effectiveness analyses of public sector projects.

The current recommended TDR is 4%. However, given the recent changes in economic circumstances, the current discount rate needs to be updated. This task will be undertaken by the CEEU and the revised discount rate will be published in section E of the code –Reference and Parameter Values.

However, if a commercial State Sponsored Body is discounting projected cash flows for commercial projects, the cost of capital should be used or even a project-specific rate.

Internal Rate of Return (IRR)

The IRR is the discount rate which, when applied to net revenues of a project sets them equal to the initial investment. The preferred option is that with the IRR greatest in excess of a specified rate of return. An IRR of 10% means that with a discount rate of 10%, the project breaks even. The IRR approach is usually associated with a hurdle cost of capital/discount rate, against which the IRR is compared. The hurdle rate corresponds to the opportunity cost of capital. In the case of public projects, the hurdle rate is the TDR. If the IRR exceeds the hurdle rate, the project is accepted.

There are disadvantages associated with the IRR as a performance indicator. It is not suitable for the ranking of competing projects. It is possible for two projects to have the same IRR but have different NPV values due to differences in the timing of costs and benefits. In addition, applying different appraisal techniques to the same basic data may yield contradictory conclusions.

Benefit / Cost ratio (BCR)

The BCR is the discounted net revenues divided by the initial investment. The preferred option is that with the ratio greatest in excess of 1. In any event, a project with a benefit cost ratio of less than one should generally not proceed. The advantage of this method is its simplicity.

Using the BCR to rank projects can lead to suboptimal decisions as a project with a slightly higher BCR ratio will be selected over a project with a lower BCR even though the latter project has the capacity to generate much greater economic benefits because it has a higher NPV value and involves greater scale.

Payback and Discounted payback

The payback period is commonly used as an investment appraisal technique in the private sector and measures the length of time that it takes to recover the initial investment. However this method presents obvious drawbacks which prevent the ranking of projects. The method takes no account of the time value of money and neither does it take account of the earnings after the initial investment is recouped. For example, a project requires a €3 million investment and Option

1 returns €2 million in the first year and Option 2 returns €3 million for the same year. On this basis Option 2 is the preferred option as the payback period is shorter but if the cashflows changed in subsequent years and Option 1 returned €2 million annually while Option 2 only earned €1 million annually, the chosen option would have been incorrect. The ordinary payback period should not be used as an appraisal technique for public investment projects.

A variant of the payback method is the discounted payback period. The discounted payback period is the amount of time that it takes to cover the cost of a project, by adding the net positive discounted cashflows arising from the project. It should never be the sole appraisal method used to assess a project but is a useful performance indicator to contextualise the project's anticipated performance.

Sensitivity analysis

An important feature of a comprehensive CBA is the inclusion of a risk assessment. The use of sensitivity analysis allows users of the CBA methodology to challenge the robustness of the results to changes in the assumptions made (i.e. discount rate, time horizon, estimated value of costs and benefits, etc). In doing so, it is possible to identify those parameters and assumptions to which the outcome of the analysis is most sensitive and therefore, allows the user to determine which assumptions and parameters may need to be re-examined and clarified.

Sensitivity analysis is the process of establishing the outcomes of the cost benefit analysis which is sensitive to the assumed values used in the analysis. This form of analysis should also be part of the appraisal for large projects. If an option is very sensitive to variations in a particular variable (e.g. passenger demand), then it should probably not be undertaken. If the relative merits of options change with the assumed values of variables, those values should be examined to see whether they can be made more reliable. It can be useful to attach probabilities to a range of values to help pick the best option.

Sensitivity analysis requires a degree of exploratory analysis to ascertain the most sensitive variables and should lead to a risk management strategy involving risk mitigation measures to ensure the most pessimistic values for key variables do not materialise or can be managed appropriately if they do materialise.

It is important to take into account the level of disaggregation of project inputs and benefits – sensitivity analysis based on a mix of highly aggregated and disaggregated variables may be misleading.

Scenario analysis

The scenario analysis technique is related to sensitivity analysis. Whereas the sensitivity analysis is based on a variable by variable approach, scenario analysis recognises that the various factors impacting upon the stream of costs and benefits are inter-independent. In other words, this approach assumes that that altering individual variables whilst holding the remainder constant is unrealistic (i.e. for a tourism project, it is unlikely that ticket sales and café-souvenir sales are independent). Rather, scenario analysis uses a range of scenarios (or variations on the option under examination) where all of the various factors can be reviewed and adjusted within a consistent framework.

A number of scenarios are formulated – best case, worst case, etc – and for each scenario identified, a range of potential values is assigned for each cost and benefit variable. When formulating these scenarios, it is important that appropriate consideration is given to the sources of uncertainty about the future (i.e. technical, political, etc). Once the values within each scenario have been reviewed, the NPV of each scenario can then be recalculated.

Switching values

This process of substituting new values on a variable-by-variable basis can be referred to as the calculation of switching values. These can provide interesting insights such as what change(s) would make the NPV equal zero or alternatively, by how much must costs or benefits fall or rise, respectively, in order to make a project worthwhile. The switching value is usually presented as a % i.e. a 20% increase in investment costs reduces project NPV to 0.

This is very useful information and should be afforded a prominent place in any decision-making process. Moreover, given the importance of this information the switching values chosen should be carefully considered and should be realistic and justifiable. For example, for capital projects requiring an Exchequer commitment over the medium to long-term, operating and maintenance costs should always be examined. Similarly, any project reliant upon user charges should always examine the impact of changes in volumes and the level of charges.

Finally, the European Commission have suggested that when undertaking a sensitivity analysis a useful determinant of the most critical variables is those for which a 1 per cent variation (+/-) produces a corresponding variation of 5 per cent or more in the NPV.

Distributional Analysis

The calculation of NPV's makes no allowance for the distribution of costs and benefits among members of society. This is an important drawback if the intended objectives of a programme/project aimed at specific income groups. Differential impact may arise because of income, gender, ethnicity, age, geographical location or disability and any distributional effects should be explicit and quantified where appropriate. A common approach to take account of distributional issues is to divide the relevant population into different income groups and analyse the impact of the programme/project on these groups. Weights can be attached to the different groups to reflect Government policy. Carrying out a distributional analysis can be a difficult task because costs and benefits are redistributed in unintended ways.

3. Economic appraisal techniques

Economic analysis aims to assess the desirability of a project from the societal perspective. This form of appraisal differs from financial appraisal because financial appraisal is generally done from the perspective of a particular stakeholder e.g. an investor. Sponsoring Authority or the Exchequer. Economic analysis also considers non-market impacts such as externalities.

CBA

The general principle of cost benefit analysis is to assess whether or not the social and economic benefits associated with a project are greater than its social and economic costs. To this end, a project is deemed to be desirable where the benefits exceed the costs. However, should the benefits exceed the costs, this does not necessarily imply that a projects will proceed as other projects with a higher net present value (NPV) may be in competition for the same scarce resources. In addition, there are affordability constraints which mean that projects should not proceed even if the NPV is positive.

In cost-benefit analysis all of the relevant costs and benefits, including indirect costs and benefits, are taken into account. Cash values, based on market prices (or shadow prices, where no appropriate market price exists) are placed on all costs and benefits and the time at which these costs/benefits occur is identified. The analytic techniques outlined above (i.e. NPV method, IRR method, etc.) are applied using the TDR. The general principle of cost-benefit analysis is that a project is desirable if the economic and social benefits are greater than economic and social costs. It is vital that cost-benefit analysis is objective. Its conclusions should not be prejudged. It should not be used as a device to justify a case already favoured for or against a proposal. Factors of questionable or dubious relevance to a project should not be introduced into an analysis in order to affect the result in a preferred direction.

A more detailed guide on how to carry out a CBA is set out in *Public Spending Code D.03 – Guide to Economic Appraisal: Carrying out a CBA.*

Cost Effectiveness Analysis (CEA)

It is difficult to measure the value to society of public investment in social infrastructure because the outputs may be difficult to specify accurately and to quantify, and are not frequently marketed. In cases like these, the cost of the various alternative options should be first determined in monetary terms. A choice can then be made as to which of the options (if they all achieve the same effects) is preferable. CEA is not a basis for deciding whether or not a project should be undertaken. Rather, it is concerned with the relative costs of the various options available for achieving a particular objective. CEA will assist in the determination of the least cost way of determining the capital project objective. A choice can then be made as to which of these options is preferable.

Evaluating options in CEA is best done by applying the principles of the NPV method to the stream of cash outflows or costs. The recurring costs of using facilities as well as the capital costs of creating them should be taken into account, particularly if they differ between alternative options. Usually, the aim will be to select the option which minimises the net present cost.

There is a particular need for consistency in the assumptions and parameters adopted for CBA and CEA appraisals. CEA is most applicable to healthcare, scientific and educational projects where benefits can be difficult to evaluate.

Cost Utility Analysis (CUA)

CUA is a variant of CEA that measures the relative effectiveness of alternative interventions in achieving two or more objectives. It is often used in health appraisals. In a CUA, costs are expressed in monetary terms and outcomes/ benefits are expressed in utility terms e.g. outcomes are often defined in quality adjusted life years (QALYs). This outcome measure is a combination of duration of life and health related quality of life. Whereas in a CBA, there is a requirement to attempt to place a monetary value on all benefits, CUA allows for a comparison of the benefits of health interventions without having to place a financial value on health states.

Multi Criteria Analysis (MCA)

Multi-criteria analysis (MCA) establishes preferences between project options by reference to an explicit set of criteria and objectives. These would normally reflect policy/programme objectives and project objectives and other considerations as appropriate, such as value for money, costs, social, environmental, equality, etc. MCA is often used as an alternative to appraisal techniques because it incorporates multiple criteria and does not focus solely on monetary values.

MCAs often include "scoring and weighting" of the relevant criteria reflecting their relative importance to the objectives of the project. Care should be taken to try and minimise the subjectivity of decision making in an MCA as this is a common problem with carrying out MCA's. The relative importance of objectives and criteria to achievement of the project will vary from sector to sector. The Sponsoring Agency should agree these with the Sanctioning Authority.

In constructing a multi criteria analysis scorecard and determining the weightings to be given to criteria the aim should be to achieve an objective appraisal of project options and consistency in decision making. Judgments regarding the scoring of investment options should be based on objective, factual information. The justification for scoring and weighting decisions must be documented in detail. In this regard, the system should be capable of producing similar results if the selection criteria were applied by different decision makers.

The main steps in the MCA process include:

1. Identify the performance criteria for assessing the project
2. Devise a scoring scheme for marking a project under each criterion heading
3. Devise a weighting mechanism to reflect the relative importance of each criterion
4. Allocate scores to each investment option for each of the criteria
5. Document the rationale for the scoring results for each option
6. Calculate overall results and test for robustness
7. Report and interpret the findings

The importance of explaining the weights and scores fully, and interpreting the results carefully, cannot be over-stressed.

Sources for further reading

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An Roinn Caiteachais Phoiblí agus Athchóirithe
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The Public Spending Code
D. Standard Analytical Procedures

Carrying out a financial analysis

D.02

Document Summary:

This document provides a high level guide to carrying out a financial analysis. Financial analysis is an important element of overall appraisal, and focuses upon the cash implications of particular projects or programmes. Every spending proposal must include a separate financial analysis with the level of detail commensurate with the extent of expenditure involved. A financial analysis is usually undertaken from the perspective of the sponsoring agency.

There are different forms of financial analysis depending on the perspective taken. In addition to a financial analysis from the perspective of the sponsoring agency, an Exchequer cashflow analysis is also an important analytical tool. This analysis considers all direct and indirect flows which impact on the Exchequer and not just the sponsoring agency. An Exchequer cashflow analysis must accompany every CBA (mandatory for projects over €20m).

Financial analysis is also of relevance for commercial semi-state companies which are appraising investments.

This guide also explains the differences between a financial analysis and an economic appraisal and describes the main steps in carrying out a financial analysis.

The main application of this guide is for capital projects but the general principles also apply to current projects as an understanding of financial flows is critical to any spending proposal.

Introduction

Detailed appraisal is a key stage in the project or programme lifecycle. This document provides introductory guidance on how to carry out a financial analysis. A financial analysis or appraisal is an important building block in the overall appraisal process and acts as a first step before carrying out the economic appraisal. A financial analysis only considers financial cash flows whereas an economic analysis in the form of a CBA examines all costs and benefits for society and not just the direct financial flows arising from the project.

It should be noted that financial analysis is a broad term which can cover many different types of assessments carried out for different purposes. Some of the variants of financial analysis used for appraisal purposes include:

1. A general financial analysis identifies and quantifies financial inflows and outflows.
2. Exchequer cash flow analysis is a specific financial analysis which takes into account direct and indirect flows which impact on the Exchequer. This is an important type of analysis because it isolates the cashflow impact of spending proposals for the Exchequer, regardless of which part of the Exchequer is affected by the cashflows.
3. Affordability analysis – an assessment of whether or not a project is affordable with reference to expenditure ceilings, the timing of payments and the opportunity cost of investments.
4. Analysis of sources of funds – a breakdown of the sources of finances for a given project.

A clear distinction must be drawn between the general financial analysis which should be carried for every spending proposal and which is reflective of inflows and outflows for the sponsoring agency and an Exchequer cashflow analysis which takes a whole of Exchequer perspective and which should accompany every CBA carried out.

This document describes the main features of financial analyses, explains the difference between financial appraisal and economic appraisal and outlines the main steps involved.

What is a financial analysis?

Financial analysis is a method used to evaluate the viability of a proposed project by assessing the value of net cash flows that result from its implementation. Such appraisals are routinely carried out in the private sector by companies to assess whether investment projects are commercially profitable.

Financial analyses are also relevant for the public sector, particularly where there is output to be sold and charges imposed e.g. light urban rail, water charges. A financial analysis allows for an assessment of the budgetary impact of projects by looking at the pattern of project related cash flows. Financial analyses are particularly important for appraising PPP projects, large projects with complex financing structures and for assessing the net return of projects developed by commercial semi-state companies. Nevertheless, any sponsoring agency must be able to quantify the financial cashflows associated with any spending proposals.

Financial analyses are prepared using many of the same principles which apply to economic appraisal techniques such as CBA e.g. incremental flows and the calculation of discounted cash flows. Although some elements are shared, financial analysis differ from economic appraisals in the scope of their investigation, the range of impacts analysed and the methodology used. An economic appraisal such as CBA typically considers all the social and economic impacts on society and not just the cash flows directly affecting the sponsoring body or the Exchequer. In addition, CBA also considers costs and benefits for which market values are not readily available whereas a financial appraisal focuses only on cash flows. Figure 1 overleaf sets out the main differences between a financial appraisal and an economic appraisal. (More detailed information on economic appraisal and on CBA in particular, is located at document D03 – Guide to Economic Appraisal: Carrying out a CBA)

Figure 1 Differences between financial analysis and economic appraisal

Financial Analysis	Economic appraisal
• Considers only financial cashflows • Used by the private sector but can also be used by the public sector • Focuses on financial flows directly affecting project sponsor and/or Exchequer	• Considers economic costs & benefits • Used mainly by the public sector due to the focus on net benefit for society • Focuses on economic and financial flows affecting society

It is important to note that whereas a CBA may illustrate that a proposal would generate a net benefit for society, the distributional analysis of the costs and benefits as between the Exchequer and private citizens can vary. For example, a project may involve significant costs to the Exchequer and a net benefit for society but the extent of the Exchequer costs are such that the project is unaffordable or the project causes significant costs for other components of the Exchequer other than the Sponsoring Agency.

Purpose of a financial appraisal

A financial appraisal focuses on financial cashflows as opposed to economic flows and in particular considers profitability and sustainability. The objectives of a financial appraisal can include:

- Identifying and estimating the financial cashflows
- Assessing financial sustainability i.e. can a project's revenues cover its costs and will a project run out of cash[9]
- Determining that part of the investment cost which will not be recouped by net revenue
- Calculating performance indicators such as the Net Present Value (NPV) and Internal Rate of Return (IRR)
- Assessing the funding sources (public, private, EU) for the project and examining the return on capital for different sources of funds.

[9] Sustainability occurs if the net flow of cumulated generated cashflow is positive for all the years considered

Who should carry out a financial appraisal?

Sponsoring agencies should carry out financial appraisals. As outlined in *Public Spending Code A.02 – Clarify Your Role,* these are normally Government departments, offices and agencies or any body in receipt of public funds. Financial appraisals are the main focus of the investment appraisal[10] process for commercial semi-state companies.

As previously stated, there are at least two types of financial analysis which must be carried out for projects over €20m:

- A financial analysis from the perspective of the sponsoring agency
- An Exchequer cashflow analysis

When to undertake a financial appraisal?

A financial analysis incorporating an analysis of cash flows, even at a simple level, should be carried out for all spending proposals regardless of scale because an understanding and quantification of financial flows is critical to the approval decision. The level of detail involved should be commensurate with the scale of expenditure.

The financial analysis should be carried out as one of the first steps in the overall appraisal stage because an understanding of the pattern of the cashflows is a critical building block for the overall business case as well as the CBA.

It is useful to distinguish the financial analyses from the economic appraisal because the former acts as a foundation on which the CBA is built, particularly regarding the estimation of project costs. In the case of an Exchequer cashflow analysis, it also allows for a separate consideration of the budgetary impact of the project on cashflows.

[10] Commercial semi-states should also assess the impact of a project on the profit and loss account and the impacts on the organisation's finances including working capital, debt and reserves.

Main steps in carrying out a financial analysis

The main steps in carrying out an Exchequer cashflow analysis are set out below. The same basic steps also apply to a financial analysis from the perspective of the sponsoring agency with the exception that broader Exchequer cashflows are excluded.

1. Identify the time horizon (usually the same as the CBA time horizon) based on the economic useful life of the asset.
2. The incremental inflows and outflows should be identified for each of the main options. Figure 2 sets out some typical types of inflows and outflows.

Figure 2 Main types of cashflows in a financial appraisal

Outflows	**Description**
Investment costs	The initial capital outlay, usually a once off cost incurred at the outset of a project
Operating costs	Ongoing running costs for a project e.g. utilities, labour, material, accommodation costs, administrative costs
Start up costs	Preparatory studies, consulting, training, R&D,design, planning
Decommissioning cost	Costs associated with removing an asset from use
Inflows	
Operating revenues	Revenue from charges or tolls / dividends
Residual value	The value of an asset at the end of its useful life or at a point in time, usually a once off value. The residual value of an asset should usually be the discounted value of net future revenue after the time horizon. It can also be considered as the value of the asset in its best alternative use e.g. scrap.
Dividends	
Savings on unemployment payments (indirect)	These can be relevant but are not amenable to reliable costing. They should always be directly attributable to the project i.e. savings on welfare payments are not included if these savings occur regardless of the project going ahead
Additional tax revenue (indirect)	These can include income tax, VAT and corporation tax but should be included only to the extent that these are net of deadweight i.e. the revenue is additional revenue which would be not received in the absence of the project.

The analysis should take into account flows both directly and indirectly associated with proposals. Additional expenditure for which the sponsoring agency is not responsible but which are project related should be included. The costing of indirect flows should be strictly net of deadweight and displacement. Often, only a low proportion of social protection savings or additional tax revenue can be directly attributed to the project.

All sources of finance, including EU finance, should be included. The financial appraisal should also include all attributable overheads.

There are different ways of categorising costs. In addition to the direct/indirect categorisation, it may also be useful to categorise costs into variable, fixed and semi fixed groupings. Exchequer cashflows should be separately identified.

It is important to note that the following flows should not be included as part of a financial appraisal.

- Depreciation is an accounting transaction and not a cashflow and should be excluded from the financial analysis
- Reserves are also not cashflows.
- Other accounting items should be ignored such as :
    - Sunk costs - costs which have already been spent or committed and cannot be changed by the decision under consideration. They should be ignored. However, the quantum of sunk costs to date is a noteworthy point of information in terms of progress under the project to date and should be noted separately
    - VAT[11]

For a commercial semi-state organisation carrying out a financial analysis, the profit and loss projections should also be included. This would show the impact of a project on the main revenues and costs of the organisation. Similarly, the balance sheet projections should also be shown by illustrating the impact of the project on the finances of the organisation with particular emphasis on its working capital, debt and resources. Commentary should be included where necessary.

[11] To the event that additional VAT revenue is generated as a result of the scheme, this revenue can be included but only if it is strictly additional and net of deadweight. In general however, VAT on inputs can be excluded as it is a transfer payment unless there are differences in tax treatment between options.

3. Quantify the costs

   Cost estimation is difficult and often requires the input of accountants, economists and other specialists. Costs should be based on the most accurate data available and should be as realistic as possible because underestimation of costs can be a common problem with appraisals.

   Costs should be set out in constant prices to be consistent with the application of the real discount rate.

4. Identify the pattern of these flows i.e. in what years do these flows arise.
5. Discount the value of these flows to take account of the time value of money using the official Department of Public Expenditure & Reform discount rate (see section E of the Public Spending Code).
6. Carry out a sensitivity analysis of the most critical cost and revenue variables
7. Report the results

There should be a clear link between the financial analysis and the CBA so allow private and social costs and benefits to be separately identified.

An indicative sample Exchequer cashflow analysis is set out at Appendix A.

Common errors

It is a common problem to conflate financial flows with economic flows and include them in the same analysis. Other issues to avoid include:

- Not including residual values
- Incorrect valuation of residual values e.g. overly optimistic assessment of residual values given that residual values are difficult to predict
- Underestimation of costs

- Increases in costs from initial project conception to final delivery are common. Cost increases must be reconciled back to show or explain the reasons for the cost increases. Cost estimates must include all initial capital costs and lifecycle costs (in detail)
- Errors in the timing of cash inflows and outflows
- Not including cashflows which may affect other Exchequer components
- Overestimating the income tax receipts/benefits and social protection payments savings of projects[12]
- Mismatching real/nominal values with real/nominal discount rates

[12] These indirect flows must always be calculated net of deadweight and care is required.

Appendix A Sample Exchequer cashflow analysis for a capital project

Financial analysis template

	2012	2013	2014	2015*
Revenue from charges				
Residual value				
Dividends				
Total inflows				
Equity participation				
Subsidies/grants				
Operating costs				
Materials				
Labour				
Other maintenance				
Administrative				
Investment costs				
Plant				
Machinery				
Planning and design				
Decommissioning costs				
PPP payments				
Total outflows				
Indirect taxes				
VRT				
Carbon levy				
Customs and excise				
Direct taxes				
Income tax				
Corporation tax				
Total tax impact				
PPP Payments				
EU Finance passing through the Exchequer				
Fines				
Other flows				
Net cashflow				
Discounted net cashflow				

* The first four years are shown for indicative purposes, appraisal timeframes are generally longer

Analysis of sources of funds

	2012	2013	2014	2015
EU finance passing through the exchequer				
Exchequer contribution				
National Private capital				
EIB financing				
Other loans				
Total sources of finance				

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