

DPE S 431/10/2011

To Heads of Departments/Offices

2 September

Circular 13/13: The Public Spending Code: Expenditure Planning, Appraisal & Evaluation in the Irish Public Service - Standard Rules & Procedures

A Dhuine Uasail

Overview

1. The purpose of this circular is to notify Departments and Offices¹ that the Public Spending Code (available at www.publicspendingcode.per.gov.ie) is now in effect as the comprehensive set of expenditure appraisal, Value for Money requirements and related guidance covering all public expenditure². The new Code replaces all previous guidelines, circulars and directions issued in relation to appraisal and Value for Money e.g. the Capital Appraisal Guidelines 2005. The Code combines and updates the previous components of the VFM framework and also includes additional modules.

Background

2. This circular is relevant to all officials in public bodies involved in activities related to the appraisal, management, implementation and review of expenditure. In particular, *all managers with responsibility for an area of expenditure* must ensure adherence to the Public Spending Code.

The introduction of the new Public Spending Code follows on from the Government decision of 24 July 2012. The Code was developed in consultation with Departments and the Public Service Evaluation Network. It consolidates, updates and replaces instructions in relation to the Value for Money Framework including among others:

¹ Hereafter, references to Departments should be read as “Departments and Offices”.

² Separately, the “Public Financial Procedures” (PFP) outlines the principles of Government Accounting including the financial frameworks, rules and procedures which apply to Public Expenditure. This also includes Value for Money requirements. The PFP will be updated to reflect the new Public Spending Code. It should be noted that the main requirements of the PFP are broadly unaffected by introduction of this Code.

- procedures relating to the Value for Money and Policy Reviews launched in 1997 as the Expenditure Review Initiative, with various amendments in recent years
- the Working Rules for Cost Benefit Analysis, 1999
- the 2005 Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector
- the Circular Letter on Value for Money, 2006
- the Circular Letter on the conduct of Spot-Checks for compliance with the General Conditions of Finance Sanction for Multi-Annual Capital Envelopes, 2007

Objective and Application of the Public Spending Code

3. The Public Spending Code is designed to ensure that the State gets the best possible value for the resources at its disposal. The requirements in the Code are based on employing good practices at all stages of the *expenditure life cycle*. Every organisation needs to assure itself that the expenditure practices it employs are of an acceptable standard, that it consistently maintains these standards and if there are deficiencies that they are identified and addressed. Departments and other public service organisations also need to assure themselves that the expenditure practices employed by organisations reporting to them and to whom they may provide funding are of an appropriate standard.
4. All Government Departments, local authorities, the Health Service Executive, 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.
5. The Code applies to both Capital and Current expenditure and sets out to explain what is required of public service managers at different points of the expenditure lifecycle and advises how to fulfil those requirements.
6. The economic costs and benefits are not always the only factors influencing policy decisions regarding public expenditure. There may also be social or other public policy considerations which inform the decision making process. Nothing in the Public Spending Code should be taken as precluding Government or Ministers from deciding to approve projects independent of the evidence arising from detailed application of the Public Spending Code appraisal requirements. Any such decisions still require Departments to ensure that best practice is adhered to as regards public financial procedures generally, in terms of ensuring that the necessary terms and conditions are applied to secure full accountability and transparency for the funds including the rules regarding sanction of the Minister for Public Expenditure.

Revised Conditions and Requirements

7. In addition to consolidating previous components of the expenditure appraisal and Value for Money Framework, the Public Spending Code includes new conditions and requirements which mark important changes to existing provisions:

(i) Current Expenditure Requirements

The Code applies to Current Expenditure as well as to Capital Expenditure. There is a new module dealing specifically with requirements and guidelines for *ex-ante* appraisal and planning of Current expenditure (Section B06 of the Code).

(ii) Thresholds and Submissions to the Department of Public Expenditure & Reform.

The threshold for conducting a Cost Benefit Analysis (CBA) or Cost Effectiveness Analysis (CEA) has been reduced from €30m to €20m.

All economic appraisals for:

- Capital projects costing in excess of €20m
- Current expenditure programmes/proposals that are expected to cost over €20m (with an annual spend of at least €5m)

should be submitted to the Department of Public Expenditure and Reform prior to the Sanctioning Authority granting the Approval in Principle.

Upon receipt of a CBA or CEA, the Central Expenditure Evaluation Unit (CEEU) in the Department of Public Expenditure will examine it as regards technical compliance with the Public Spending Code and will provide written views on the appraisal to the Sponsoring Department. The CEEU may publish its review of a CBA or CEA on the Department of Public Expenditure website. There may be a requirement to redact some material in order to protect the State's interest in the tender process and to ensure commercial sensitivity.

(iii) Quality Assurance

The Public Spending Code replaces the existing spot check regime with a new streamlined quality assurance process (section A04 of the Code). Government Departments are required to complete and publish an annual Quality Assurance Report, signed off by the Accounting Officer. This report should also be submitted to the Department of Public Expenditure

and Reform by the end of February in respect of the previous calendar year. As part of the quality assurance process, Departments are also required to publish summary information on its website by the end of February of all procurements in excess of €2m, related to projects in progress or completed in the year under review.

(iv) Value for Money and Policy Reviews

The Value for Money and Policy Review process continues to be an important element of the Public Spending Code. In particular, the annual selection of relevant topics should facilitate informed resource allocation decisions. In addition, 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. This will bring consistency and comparability by providing a common view of how particular programmes perform relative to other programmes.

(v) Economic appraisal Parameters

Central appraisal parameters covering the discount rate and certain shadow prices will be published shortly on the Public Spending Code website. These will become the new central benchmark values to be applied in appraisals across the public sector.

Evolution of the Public Spending Code

8. The Public Spending Code will be updated from time to time as appropriate where improvements can be made to ensure that it continues to reflect current best practice, remains relevant and is as user-friendly as possible. Consultation and quality proofing will continue as new elements or amendments to the Code are introduced.

Dissemination, Implementation and Enquiries

9. You are requested to bring this circular to the attention of –
- i. All staff in your Department who might be involved in the appraisal, management, implementation and review of public expenditure and
 - ii. All public bodies under the aegis of your Department.

and to ensure that arrangements are put in place to implement its terms in the areas under the aegis of your Department.

10. Any queries concerning this circular should be addressed to the CEEU in the Department of Public Expenditure and Reform at vfm@per.gov.ie.

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