PEMPAL Budgeting Community of Practice

"*Capital Budgeting in Ireland*"

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Minsk, Belarus,

June 14-16, 2011

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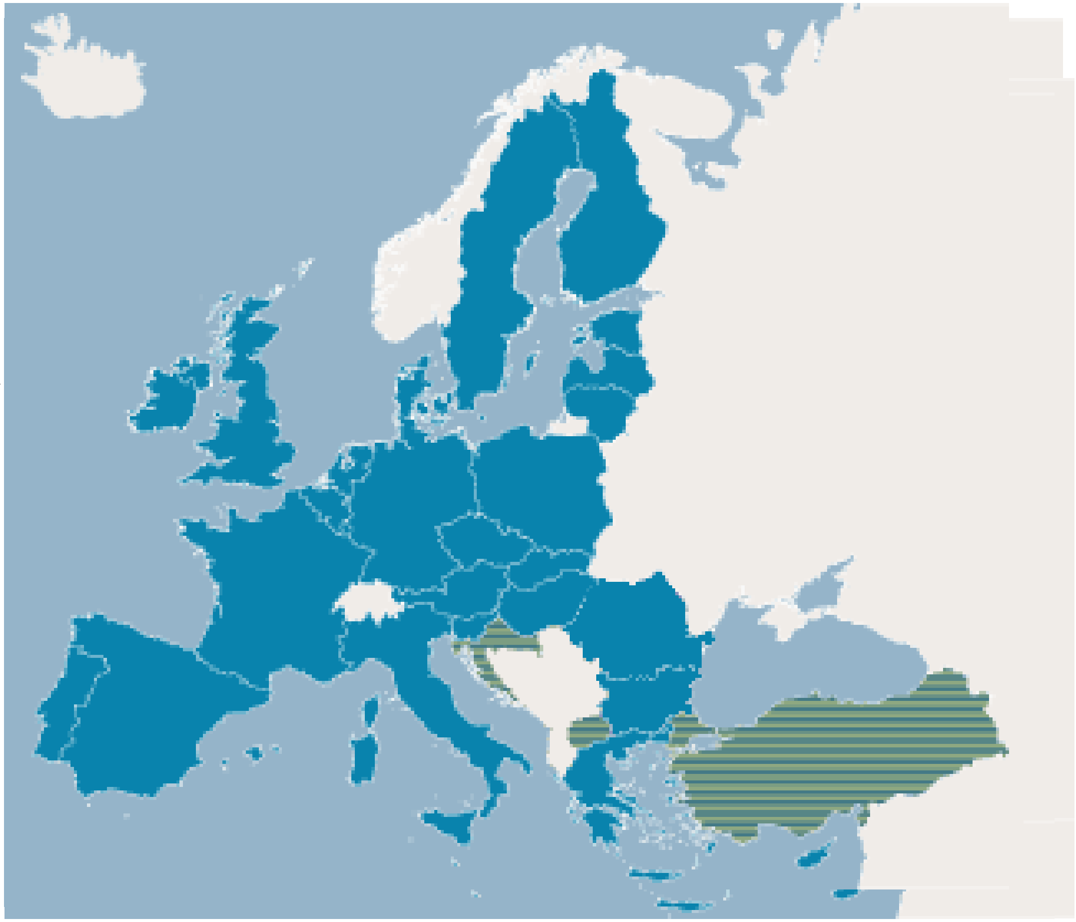
*** This Presentation is complemented by three short papers prepared by Tom Ferris**

1. Background to Ireland

(Ireland a Member State of EU since 1973)

IRELAND →



EU 27 (2008)

Candidate countries

Genesis of Ireland's Economic crisis, 2007

- External: Global Financial Crisis impacted significantly on Ireland's small open economy
- Domestic: Construction 'bubble' burst, following overreliance on construction sector
- Some policies failed to counter the crisis
  -- Irish Government's pro-cyclical fiscal stance
  - - Regulatory policies 'too light'
  - - Membership of Eurozone (fixed exchange rate and monetary policy externally driven)

New Government (Fine Gael and Labour, April 2011) – ***"To deal with …unprecedented national emergency, our country needs an unprecedented level of political resolve"***

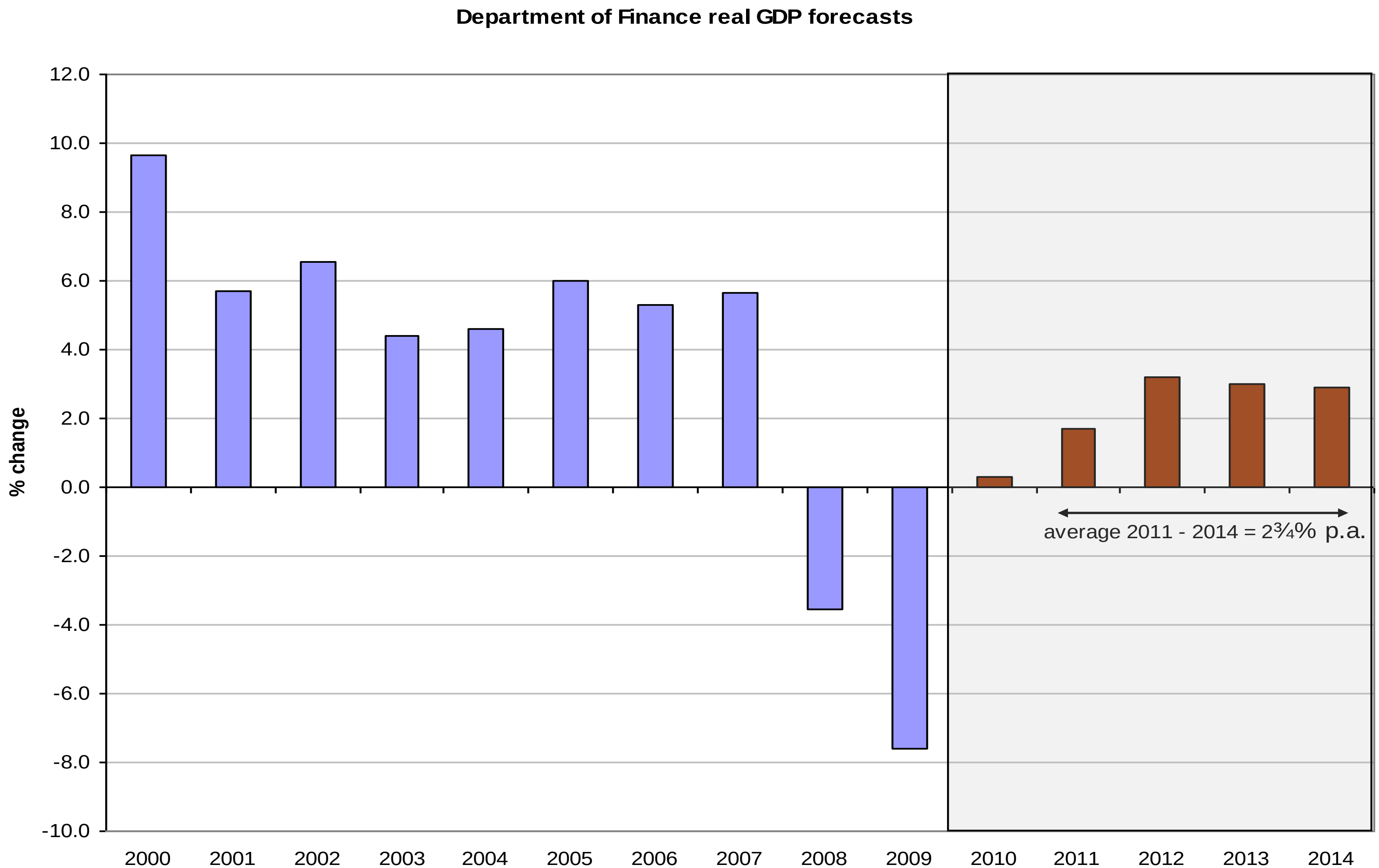
Consequences of crisis

- Domestic economy has contracted significantly
- Large Budget Deficits recorded
- Banking crisis unfolded
- Cut-back in Public Investment *

-----------------all since 2007

* *See article on <u>Public Investment</u> by Tom Ferris*

Highs/Lows in Real GDP



Sources: CSO, Department of Finance

Ireland’s Stability Programme*

- Stability Programme takes account of National Recovery Plan, Budget 2011, Programme for Government and the Joint EU/IMF Programme (“Bail-out“)

- Irish Government is committed to restoring sustainability to the public finances through the implementation of budgetary consolidation, by reducing the deficit below 3% of GDP Stability and Growth Pact threshold by end-2015

- For 2011, a consolidation package of €6 billion is being implemented, with significant reductions to both current and capital expenditure and a widening of the tax base. For 2012, a consolidation package of €3.6 billion is planned

- The ratio of General Government Debt to GDP is forecast to be 111% at the end of 2011; peaking at 118% at end-2013 and declining to 111% by end-2015

* Submitted to **European Commission** in April 2011 (www.finance.gov.ie **)**

2. Capital Budgeting Procedures

- Irish Government has collective responsibility for formulating overall budgetary policy

- Within this overall framework, the Government agrees annual aggregate levels of expenditure for Departments, which have to be submitted for approval to Parliament (i.e. the Dáil)

- Government also approves capital investment envelopes. Since 2004, public capital investment has been set out in five-year rolling multi-annual capital envelopes

- Ministers /Departments have extensive delegated sanction from Minister for Finance in relation to capital allocations, although specific approval of Minister for Finance or Government is required in some instances*

* Responsibility for management of overall Departmental expenditure including the management of the annual estimates process and general sanctioning powers in relation to expenditure will transfer to from the Minister for Finance to the Minister for Public Expenditure and Reform, under legislative proposals of May 2011

Budgetary Reform

- Ireland has a long-established budgetary framework which has undergone a series of reforms in recent years to assist in making the budgetary process more transparent and effective
- Multi-year capital envelopes in 2004 and guidelines 2005/2007
- 2007 saw introduction of a Unified Budget, so that spending and revenue decisions are announced together on Budget day
- 2007 also saw the introduction of Annual Output Statements to provide a link between performance and resource allocation
- However, there are weaknesses in the traditional domestic framework as it relates to multi-annual fiscal planning and management
- Reforms now being planned, with discussion document, "*Reforming Ireland's Budgetary Framework; a Discussion Document*" (March 2011) -- and Comprehensive Review of all Expenditure now underway, for capital and current expenditure

http://www.finance.gov.ie/documents/guidelines/co2capapprais.pdf

3. Strategic Planning

- Irish Government has collective responsibility for planning. It has established a Government Economic Management Council with the status of a Cabinet committee, and dealing with economic planning and budgetary matters, and with the economic recovery programme
- <u>Core Reports</u>

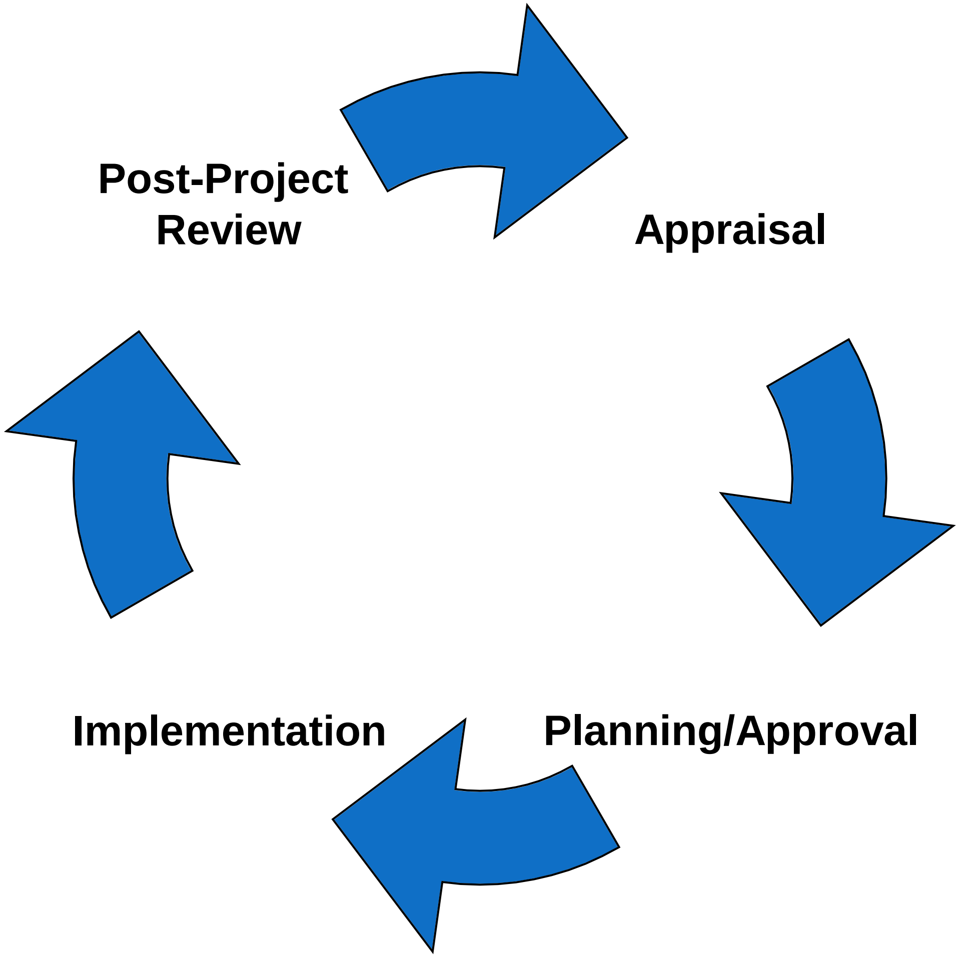
– Infrastructure Investment Priorities (July 2010)

- National Recovery Plan (November 2010)
- Joint EU/IMF Programme (November 2010)
- Budget 2011 (December 2010) and
- Programme for Government (March 2011) *
- Reforming Ireland's Budgetary Framework; a Discussion Document" (March 2011)

*** see article by Tom Ferris on <u>Programme for Government</u>**

4. Project Appraisal

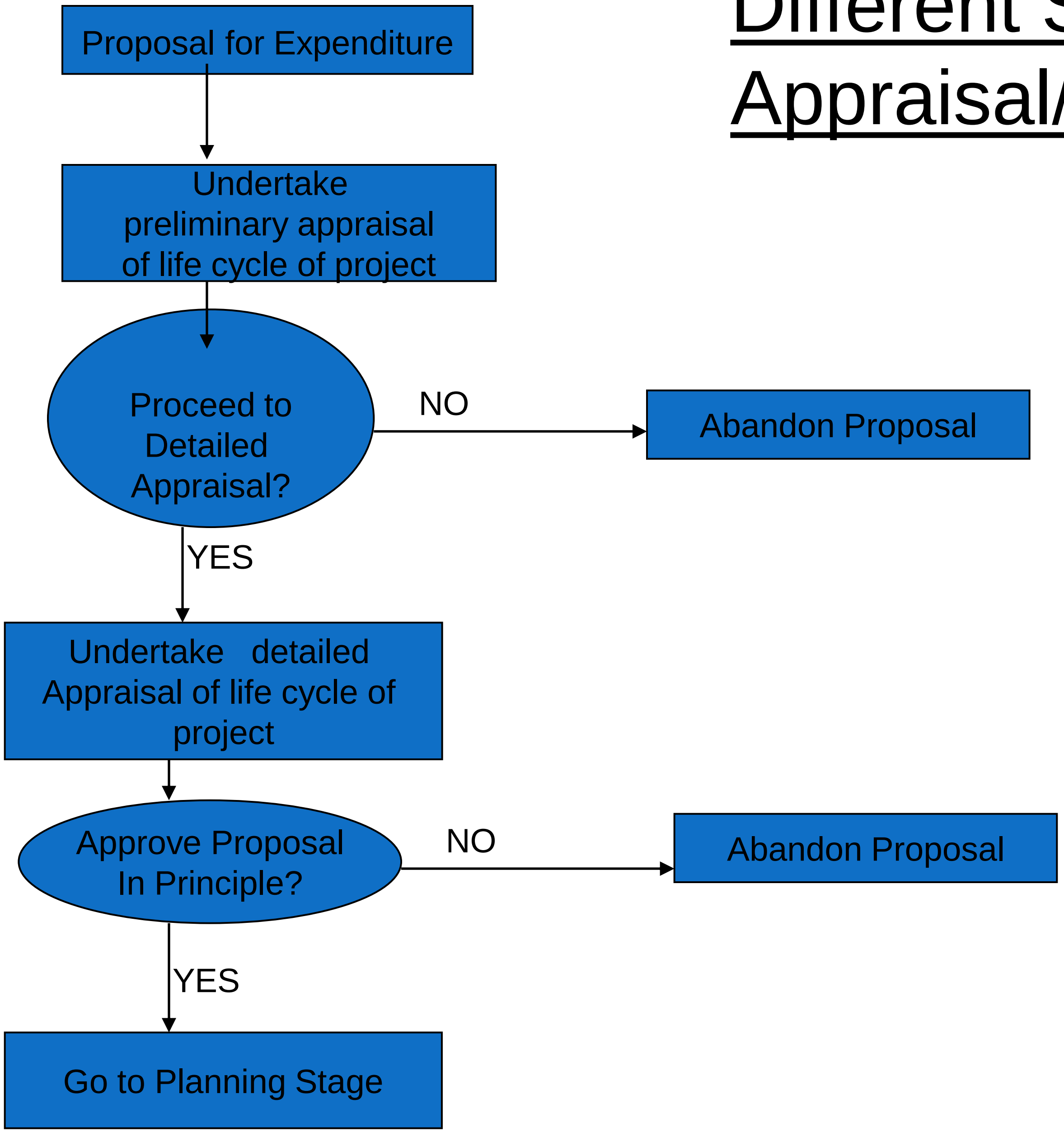
- Government Appraisal Guidelines provide for a four-stage "project cycle"*
- Appraisal and Planning stages may overlap in practice
- Mid-term evaluation part of the cycle



*** See "<u>Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector</u>" February 2005**

www.finance.gov.ie

Different Stages of Appraisal/Evaluation



Capital Appraisal: Proportionality

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

5. Budget Process

- *National Recovery Plan, 2011-2014* , with fixed targets for tax and expenditure policy over 4-years, moves towards full medium-term budgetary planning and fiscal reform

  -- including a reformed annual budget process, with draft medium-term plans submitted with the annual Budget in December, and subject to a process of consultation before final plans are submitted to the EU each April; the subsequent Budget would then be framed on the basis of the medium-term plans

  -- including an enhanced Medium Term Expenditure Framework with multi-annual ceilings for expenditure in each area, to ensure that public expenditure is managed within fixed, sustainable limits and to guide planning and delivery of structural reforms

Interesting innovations

- *National Recovery Plan, 2011-2014* , plans some interesting innovations
- An independent Fiscal Advisory Council to provide an independent commentary on the Government's budgetary plans and forecasts
- Introduction of "performance budgeting" to set out more clearly public service outputs and impacts of spending programmes in annual Estimates, and to show the totality of financial and staffing resources associated with each programme
- Fiscal Responsibility Law to put key reform measures on statutory basis and to put principle, of keeping public finances on a sustainable footing, into law

6. Implementation

- IMPLEMENTATION requires clear arrangements for monitoring progress and cost control, securing project standards and timely delivery

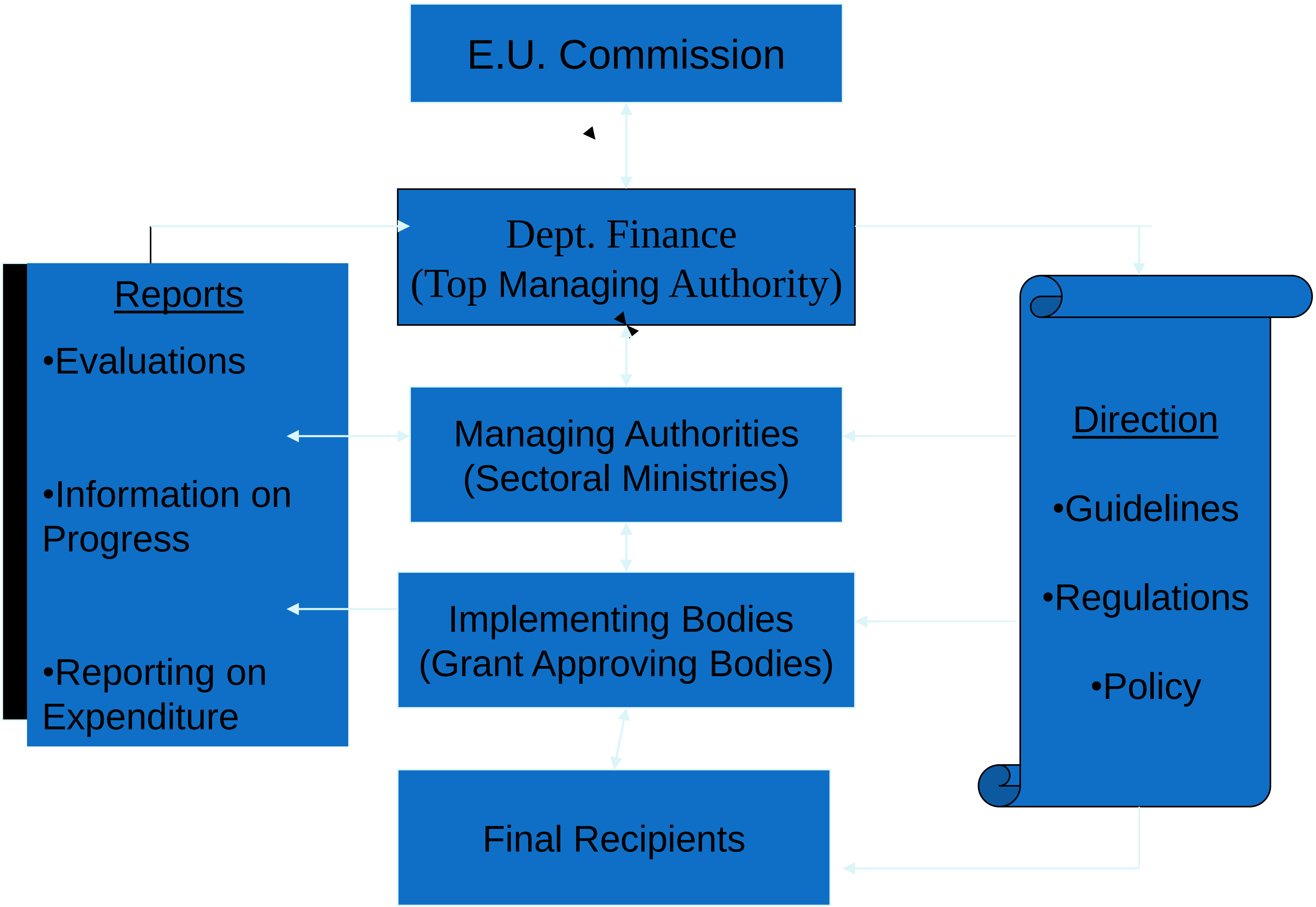
- 2005 Capital Appraisal Guidelines require a clear distinction, between those “authorising” investment projects and those “delivering” projects, during the different stages - project appraisal, planning, implementation and project management
- Separation of functional responsibility

➢ Sponsoring Agency (“authorising”) – primary responsibility for project appraisal and management

➢ Sanctioning Authority (“delivering”)– approves sponsoring agency proposals at various stages

Note: Procurement reform is being supported centrally by the National Public Procurement Policy Unit (NPPPU) in the Department of Finance through capacity-building and training and education measures, in tandem with incremental and suitable e-procurement measures

Implementation (learning from EU)



Medium-term Budgeting means..

- Medium-term envelopes put overall limits on the amount of investment that can take place annually
- Carry-over facility allows under-investment to be carried forward, under certain limits set-by the Department of Finance
- Line Departments having to meet certain conditions, e.g. each required to make a contingency provision within overall envelope to meet any unforeseen demands/additional costs
- In providing for projects, Departments must plan not just for contract price, but provision for likely price increases, variations in specifications and other factors which might arise during project construction

7. Monitoring, Evaluation and Audit

- Ireland has developed an effective evaluation system to ensure that projects are monitored on their implementation
- Controller & Auditor General provides independent assurance that public money is properly managed and spent to good effect
- Government Departments have to have audit committees which review Departments' corporate governance regime including internal control environment and risk management; as well as monitoring the work of the internal audit function
- Consultants are also engaged by Departments to do audit work

Value for Money Initiative

- 'Value for money' initiative complements the 'Capital Appraisal Guidelines'
- A carefully considered appraisal system and culture takes into account, as objectively as possible, the overall benefits and costs of a given project and seeks to make sure that budget estimates are met
- The Department of Finance Manual (7 March 2007) outlines a Government framework to secure improved value for money from public expenditure
- Departments have to undertake VfM studies under a programme agreed with the Department of Finance

➢ Go to www.finance.gov.ie (once on *website, go "Policy Areas and Publications", then go to "Guidelines", then pick year "2007")*

Doing the "Back-check"

- Post Project Review to be completed by Sponsoring Agencies
  - All Projects > €30m
  - Representative sample of at least 5% of all projects
- Annual Report on capital envelope programmes have to be submitted to Central Expenditure Evaluation Unit, at the Department of Finance
- Performance table – project outcomes versus budgets – for all projects over €30m*
  - Included in Annual Report on Capital, and
  - Annual Report on Statement of Strategy

*** See Note on Compliance Checks by Tom Ferris**

Monitoring Transport Projects

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

Department of Transport Spot-checks, 2009

- Department of Transport in its 2009 Annual Report reported on spot-checks carried-out on its capital projects

- Task: Carry out a rolling programme of project and programme audits to assess compliance with the relevant guidelines and efficient delivery of Transport 21 Projects and Programmes

- Outcome 2009: Consultants Steer Davies Gleave and Booz & Company were engaged by the Department of Transport in 2007 to review respectively (i) the appraisal and (ii) the financial and physical progress of selected Transport 21 projects. Six audits were conducted during 2009. The audits carried out relate to projects that have a total estimated capital cost of €1.931billion.

8. Some Conclusions

Ireland has been developing an extensive experience in capital investment delivery during past 20 years, through:

1. Learning from EU processes
2. Developing its own systems, e.g. Central Evaluation Unit and External Evaluations, e.g. Economic & Social Research institute
3. Putting in place Guidelines

--Working Rules on Cost-Benefit Analysis, June 1999,

-- Capital Appraisal Guidelines, February 2005

- **While the foregoing are necessary, they are not sufficient …there has to be effective and efficient delivery of projects "on-the-ground"**

Much done –more to do

- Government is committed to sharpening focus on performance at organisational level
- Existing process of resource allocation is heavily focused on financial inputs *('how much money is being spent?')* rather than on outputs and impacts *('what is being achieved and delivered with this money?')*
- While reforms, such as the introduction of Annual Output Statements, have improved the expenditure framework, there is much scope for further progress
- The introduction of a new system of 'performance budgeting' should bring a sharper focus on the actual outputs and outcomes delivered with scarce public resources
- We await independent Fiscal Advisory Council and Fiscal Responsibility Law

Importance of Training

- Specialised training is a very important requirement in the successful appraisal, planning and delivery of public investment projects

- There is need to ensure that officials are properly trained in areas such as procurement, project management, project appraisal and policy analysis

- Important to develop networks for officials to share experience and best practice, including on-going international liaison, e.g. World Bank and EU

- External professional advice should be obtained if Ministries have not got the relevant expertise – and it should be acquired on a "knowledge-transfer" basis

Thomas Jefferson (1743/1826)

“The price of freedom is eternal vigilance”

In short, delivery of successful capital investment depends on well-trained officials focussed planning, efficient implementation, effective monitoring and regular review of processes/procedures


Have I done my
Capital Budgeting?