

January, 2006

To: Each Secretary General

Dear Secretary General

I refer to

(i) the Government Decision of 11 October, 2005 in regard to the Management of ICT Projects and consultancies,

(ii) to the announcement of the Minister for Finance of additional general measures to secure better value for money from public expenditure in his address of 20 October, 2005 to the Dublin Chamber of Commerce and

(iii) the Minister for Finance's letter of 20 October last to all Ministers urging them to ensure that their Departments take immediate steps, as appropriate, to implement the measures announced.

The objective of these new measures is to build on the progress already made under the reforms introduced in recent years in relation to public expenditure management to ensure that, as far as possible, full value-for-money is obtained from public expenditure.

On foot of the Minister's announcement and letter of 20 October, 2005 the Department of Finance has been giving further consideration to the details of the implementation of the measures and has concluded that the amendments to existing guidelines and practices set out in Appendix 1 are necessary. Secretaries General are therefore requested to ensure that their Departments and their agencies involved in the management of capital programmes and projects, ICT projects and consultancies take appropriate action to give effect to the measures in the attached. In this context, I would draw particular attention to Section 3 and 3.1 of Appendix 1.

Any queries in relation to this letter should be addressed to the officials listed in Appendix 2.

I would also like to bring to your attention that information or observations are requested in some instances and early receipt of these is requested. For your convenience these instances are summarised in Appendix 3.

Yours sincerely

Tom Considine

Secretary General

Appendix 1

Public procurement and capital appraisal

1.1 More vigorous competition for public sector contracts (Minister for Finance's speech of 20th October Item 6

www.finance.gov.ie/viewdoc.asp?DocID=3527&CatID=54&StartDate=1+January+2006&m=p

The National Public Procurement Policy Framework aims to facilitate a smarter and more professional approach to public procurement by public bodies. It requires them to develop Corporate Procurement Plans that set targets to achieve savings and broader value- for- money objectives. This can be realised by identifying the appropriate structural changes in their organisation and by developing strategies to implement a programme of change.

Departments should ensure that they and their agencies fully implement the requirements and objectives of the National Public Procurement Policy. To help facilitate this, the Department of Finance will make available training material and other supporting documentation, including a template Corporate Procurement Plan.

Departments should ensure that they and their agencies seek to promote whole of Government objectives through their procurement policies. In this context and through the use of the eTenders Website they must seek to ensure that small medium enterprises are fully aware of the procurement opportunities available to them.

1. 2 Fixed price lump-sum contracts as the norm for Construction projects

(Minister for Finance's speech of 20th October Item 2)

To improve cost certainty, value for money and cost effective delivery of infrastructure projects the Government has decided that all future construction projects will be on the basis of fixed price lump sum contracts with optimum risk transfer tendered on a competitive basis.

To achieve this, standardised contracts for use across relevant public sector bodies are being developed. In addition, comprehensive conditions for the engagement of construction-related consultants have also been developed to end the practice of fees escalating with project costs.

A consultation process with the industry and the professional bodies is taking place on the implementation detail and the aim is to complete this process as soon as possible so that the new arrangements can be introduced. On completion of the consultation, training on the new contract arrangements will be provided to Departments and agencies. Public sector clients will be provided with new and detailed construction project definition material to facilitate fixed price tendering by both consultants and contractors. The Department of Finance will communicate with Departments in relation to the implementation of the new standardised contracts when the consultation process is complete.

1.3 Allocation of single individual responsibility for capital projects (Minister for Finance's speech of 20th October Item 10).

Existing capital appraisal guidelines and guidelines for the employment of consultants require the putting in place of structured arrangements for monitoring progress on projects.

As part of those arrangements a Project Manager should be appointed within the sponsoring Department or agency for capital projects at the planning/ procurement stage of the project. The person to be appointed to the role should be a senior official, including at MAC level in Departments or at management level in Agencies, 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.

1.4 Ex-ante evaluations, including economic cost-benefit appraisal, for all projects above €30 million (Minister for Finance's speech of 20th October Item 3).

The Department of Finance's Guidelines of February, 2005 for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector (Section 1.7 of the Guidelines refer) provide that all projects over €50 million should be subject to detailed Cost Benefit Analysis. In accordance with the Minister for Finance's announcement of 20 October 2005 this threshold is reduced to €30 million.

1.5 Formalised contracts review by Departments and Agencies of Projects over €30 million with reports to their Minister and with provision for audit by the Department of Finance (Minister for Finance's speech of 20th October Item 4).

All contracts for such projects must include strict performance criteria to include the achievement of key milestones, associated budgetary and financial information.

The Department of Finance's Guidelines of February, 2005 for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector <http://www.finance.gov.ie/ViewDoc.asp?DocId=-1&CatID=16&m=p> require that all projects must be closely monitored and kept under review by the Project Manager and Project Board during development to ensure that the project objectives, performance criteria and key project milestones are achieved on time and within budget as per the contract. There must also be regular reports on project progress submitted to the Project Board. 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 termination.

In accordance with the Minister for Finance's announcement of 20 October 2005, for projects costing over €30 million a separate progress report for each project must be submitted to the Departments MAC for Departmental Projects and to Management and/or the Board for Agency etc. projects and then to the relevant Minister on a quarterly basis. These reports may be subject to audit by the Department of Finance.

The Capital Appraisal Guidelines of February, 2005 (Section 4.1 of the Guidelines refer) provide that all projects over €50 million and a representative sample of at least 5% of projects completed must be subject to post project review by the sponsoring Department or Agency. In line with the Minister for Finance's

announcement of 20th October 2005 this threshold for major projects is also reduced to €30 million.

Departments are required under the general conditions of Department of Finance sanction for expenditure under the rolling 5 year multi-annual capital envelopes to carry out spot-checks on a sample of projects for compliance with the capital appraisal guidelines and to report the findings of such spot-checks to the Department of Finance.

Guidance on the carrying out of spot-checks will be finalised soon for issue to Departments following consideration of the observations of Departments on the draft circular letter in the matter which issued to Departments on 5th October, 2005. This guidance will confirm that spot-checks should be carried out by Officials/ Body or persons who are independent of those directly involved in the appraisal and management of the projects. Similarly for spot checks for compliance with the capital appraisal guidelines, those charged with formally reviewing contracts for projects over €30 million should be independent of those involved in delivery of the projects. Pending finalisation of the guidance, some spot-checks should still be carried out by Departments in line with the requirements set out in the sanctions for the 2004 and 2005 multi-annual capital investment programme.

Departments are also required to submit an Annual Report on their capital envelope investment programmes to the Department of Finance. The summary of progress reports on projects costing over €30 million may be appended to Department's annual report to the Department of Finance. The Department of Finance will be undertaking spot-checks of these reports and the contract reviews.

1.6 Performance table for Government Departments and State Agencies regarding the extent of project outcomes versus budgets on contracts (Minister for Finance's speech of 20th October Item 12).

Departments and Agencies as part of their review of capital projects costing over €30 million as set out above and post project review of capital projects must include details of such projects in their annual report on their Statement of Strategy and in their Annual Report on their capital envelope investment programme to the Department of Finance in the following format:

Department/ Agency (insert name) –Projects over €30 million completed in year under review								
Project	Start date	Expected date of completion as per contract	Actual date of completion	Contract price as per contract €million	Final cost €million	Variance against contract price €million	Expected Output (e.g. X kms of road, no. units)	Output achieved (e.g. X kms of road, no. units)
A								
B etc.								
Department/ Agency (insert name) - Projects over €30 million 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 €million	Actual Cost to date €million	Projected final cost € million	Expected Output on completion (e.g. X kms of road, no. units)	Output achieved to date (e.g. Y kms of road, No. units)
A							
B etc.							

Note: Separate details should be given for each phase, as appropriate, where projects are appraised and developed in discrete phases which cost over €30 million e.g. land acquisition costs not directly charged to a particular project, housing scheme Phases 1 and 2.

The Department of Finance will include details of capital projects in excess of €30 million in the Public Capital Programme.

ICT projects and consultancies, recruitment and training of specialist staff

2.1 Review of existing Department of Finance guidelines on the commissioning and management of consultancies (Government Decision of 11 October, 2005 www.taoiseach.gov.ie/index.asp?docID=2226)

The Department is currently carrying out a review of the existing guidelines on consultancies. Departments/Offices are asked to participate in this review and, based on their experience of implementing the guidelines and of managing consultancy projects, to submit observations on how the guidelines can be improved and strengthened. They are also requested to suggest examples of best practice, risk management and project control that might usefully be considered or adopted. As part of this exercise, this Department will be examining the documentation of sample consultancy projects across the civil service.

For this to be achieved, Departments are requested to nominate a single point of contact with responsibility for the oversight of consultancies across their Department.

The name, business address, phone no. and e-mail address of the contact

should be supplied to Mr Paul Murphy (paul.e.murphy@finance.gov.ie or tel

6318019) as soon as possible. Any observations or suggested improvements to the

current guidelines are also requested by 27 January, 2006.

In the interim, the existing guidelines, as augmented and consolidated in guidance issued in September 2005 on foot of recommendations of the Quigley Report, must be complied with in full.

2.2 Extension of service contracts (Minister for Finance's speech of 20th October Item 5),

Unless existing project contracts (i.e. contracts entered into before 20 October 2005) otherwise provide for such an option, no extension of service contracts should be approved without tendering if the extension is more than 50% of the original contract or exceeds €250,000, whichever is the lower.

The operation of this requirement should be kept under review by Departments and Agencies. Any general value-for money issues arising out of the general operation of service contracts should be brought to the attention of the Department of Finance as part of the wider reporting of project reviews under the capital appraisal guidelines.

Existing rules relating to service contracts as set out in "Public Procurement Guidelines- Competitive Process, 2004" remain in place.

The requirements in relation to service contracts generally also apply to ICT projects.

2.3 Allocation of single individual responsibility for all major IT and capital projects (Minister for Finance's speech of 20th October Item 10).

A Project Manager should be appointed within the sponsoring Department or agency for all major IT projects. As for capital projects, the person to be appointed to the role should be a senior official, including at MAC level in Departments or at management level in Agencies, 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.

2.4 Fixed price lump-sum contracts as the norm ICT Projects and consultancies (Minister for Finance's speech of 20th October Item 2)

Fixed price contracts should be applied to all new ICT procurements in the Civil Service and to procurement of consultancies. Attention should also be paid to schedule drift which delay the delivery of the benefits of the new system. It is intended that additional guidance for ICT project contracts and associated statements of work will be included in the revised guidelines on the commissioning and management of consultancies when the review of these guidelines indicated at 2.1 above is completed.

The peer review process (below) will help in the management of these issues for significant projects but it is also important in this regard to ensure that there are adequate management arrangements in place for ICT projects not covered by peer review.

2.5 Peer Review of ICT Projects (Government Decision of 11 October, 2005)

The existing sanctioning arrangements for ICT expenditures funded from voted moneys require Departments and Agencies to supply yearly to the Department of Finance:

- An annual statement on ICT-related expenditure under a number of categories e.g. hardware; telecommunications infrastructures; software development/procurement; external ICT-related consultancy/integration; and non-computer set-up costs (e.g. staff, office machinery, training) and for each new business project, a succinct statement of expected impacts and the lifetime costs.
- A statement of strategies for the management of information, computer applications and technical infrastructures. Departments, Office and Agencies must keep these strategies up to date and the updated versions should be supplied to the Department of Finance.

The sanctioning arrangement also requires the provision of project impact statements for all proposed projects which must include a project descriptions, costs and expected timescales. These sanctioning arrangements will be supplemented by a peer review process for all significant ICT projects.

An independent parallel peer review of ICT projects must be carried out for ICT projects where the development and roll out costs exceed €5 million or where the project is likely to stretch the resources of the sponsoring Department or Agency. The peer review will be carried out at key decision points (preliminary business case assessment, detailed assessment, pre-tender, post-tender, project close-out) by a team of experienced people external to the Project Board and the organisation.

Peer review teams will comprise people with relevant experience and may include people from both the public and private sector. In the absence of any special circumstances, the findings of the peer review will be put into the public domain. The Department of Finance will provide a Website to allow Departments and Agencies to publish peer review conclusions.

The peer review process will particularly focus on the preparation of good business cases, cost benefit analysis, affordability within the approved budget for the organisation, detailed planning, and strong governance arrangements, limiting the scope of a proposed project to the current ICT capacity of the sponsoring organisation etc. It will also take account of Government initiatives on achieving increased value for money.

Peer reviews will not override the accountability arrangement in place within organisations.

2.6 Additional specialised training for the civil service and State Agencies.

Specialised training for the civil service (Minister for Finance's speech of 20th October Item 7)

The Civil Service Training & Development Centre (CSTDC) in CMOD is already modifying the content of its training programmes on the Capital Appraisal Guidelines and Policy Analysis in the light of the Ministers of address of 20 October, 2005 to the Dublin Chamber of Commerce. The object is to ensure that all courses will provide course graduates with the necessary knowledge, skills and competencies, as appropriate, to undertake and interpret cost benefit analysis, evaluate programmes and projects and manage major ICT and capital projects. The revised programme content will take account of the findings of a CMOD review of the management of large scale projects which was completed in early 2005. CSTDC is also bringing to the attention of Institute of Public Administration the need to take these considerations into account in relation to relevant training for the wider public service.

It is intended to provide a new project management course with new content and add-on modules to cater for specific interests e.g. ICT, construction, engineering etc.

2.7 Open recruitment of a number of full-time specialists to the public sector on IT procurement and Capital Project Evaluation and Management and secondment of IT procurement specialists between the public and private sectors (Minister for Finance's speech of 20th October Items 8 & 9).

It is essential that Departments have staff with the necessary expertise to plan and manage contracts in a professional manner. Where this expertise is not available within the civil or public sector, Departments must look at recruitment on the open market of staff with the qualifications and experience required.

A number of initiatives to increase open recruitment were agreed in Sustaining Progress. In particular, there was agreement that the Civil Service could directly recruit staff to general service rather than professional and technical posts where there was an identified skills scarcity [section 22.11]. This was subject to agreement between management and unions.

Open recruitment in IT and a number of other specialist areas such as financial and human resource management and other professional disciplines are mentioned in the agreement. Clearly, in view of the Minister's new measures on management of public sector contracts, the skills-shortage initiative provides an excellent opportunity for Departments to recruit staff with the very specific skills and background needed in the contracts area. I would ask you to follow this up as a matter of priority.

As you will be aware, this Department asked Departments and Offices on a number of occasions to identify posts which could be filled under the agreement, an exercise which produced a total of 41 posts. However, IMPACT objected to the filling of a number of these posts and this was upheld by the Arbitration Board.

While this decision limited the scope of the initiative, the Department of Finance has continued with the process and a number of competitions have already taken place and others are planned. We need to do everything we can to ensure that the civil service has the ability to meet skills shortages in the contracts area and elsewhere. The Department has recently asked all Departments and Offices to review their skills needs with a view to increasing the range of open recruitment as much as possible. Where your Department has identified a need for specialist contract staff, you are asked to include these posts in your reply.

The secondment of IT procurement and other specialists from the public or private sector for a specific period is also likely to be a key part of implementing the Minister's decisions. In examining your specialist needs in the context of recruitment of permanent or contract staff, it is suggested that Departments should give very careful consideration to the secondment option which can offer significant flexibility and allow Departments to get the services of people with very specific skills.

General

3. Secretaries General/Accounting Officers to certify compliance for major projects over ICT and capital projects over €30 million (Government Decision of 11 October, 2005).

Accounting Officers must certify in their annual report progress report on their capital envelope and ICT Strategy Statement, as appropriate, that Guidelines for the Engagement of Consultants in the Civil Service (March 1999) and the Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector of February, 2005 are being complied with fully in their Departments and that all expenditure on consultancy is necessary and will provide value- for-money.

All Accounting Officers are also reminded of their existing responsibility to ensure such compliance in accordance with the terms of Section 8.7 of their Administrative Budgets. Accounting Officers should confirm that there is, in each Department/Office, one officer, at senior level, with responsibility for ensuring compliance with all current consultancy and procurement guidelines, including the requirement to update regularly the Central Database of consultancy information (this Department's Circular 40/02 on Public Procurement Guidelines also refers).

3.1 In the context of 2006 Estimates, Ministers are required to review the need for consultancy provisions and confirm that Departments are applying guidelines (Government Initiative of 11 October, 2005)

Government Decision S 180/20/10/0839 of 2 November 2005 on the Abridged Estimates Volume for 2006 requires Ministers to review their estimates for consultancy expenditure and report back to the Department of Finance by January 2006 and to confirm whether their allocations for this purpose are required in full and that all consultancy expenditure in that context will be undertaken in full compliance with the Department of Finance Guidelines on consultancies.

Departments must confirm compliance with these requirements to the relevant Vote Section or to ICT Vote Control Section of the Department of Finance as appropriate.

Appendix 2

Query	Contact	Contact Details telephone and e-mail
General queries and capital appraisal	Mr Paul Fleming PED	6045547 Paul.Fleming@finance.gov.ie
Consultancy Guidelines	Mr Paul Murphy	631 8019 paul.e.murphy@finance.gov.ie.
Public Procurement	Mr Pat Leahy	6066252 pat.leahy@finance.gov.ie
ICT Guidelines	Michael McCarthy CMOD	6045102 Michael.McCarthy@finance.gov.ie
ICT Project Management Training	John Brennan CMOD	6045054 John.Brennan@finance.gov.ie
Review of Training	Sighle de Barra CMOD	6045024 Sighle.deBarra@finance.gov.ie
Recruitment	Jake Byrne	6045421 Jake.Byrne@finance.gov.ie
Secondment	Breda Scanlan	6045442 breda.scanlan@finance.gov.ie

Appendix 3

Paragraphs/Items requiring the submission of information or observations by Departments to the Department of Finance

- 1.5 Formalised Contract Review by Departments and Agencies of Projects over €30 million.
- 1.6 Performance table for Government Departments and State Agencies etc.
- 2.1 Review of existing Department of Finance Guidelines on the Commissioning and Management of Consultancies.
- 2.2 Extension of Service Contracts and ICT contracts.
- 2.5 Peer Review of ICT Projects
- 2.7 Open Recruitment of a number of full-time specialists etc.)
- 3 Secretaries General/accounting Officers to certify Compliance for Major ICT and Capital Projects over €30 million.
- 3.1 In the context of the 2006 Estimates, Ministers will be asked to review the need for consultancy etc.