DIÁLOGO DE POLÍTICA REGIONAL

Seminario
de la Red de Sistemas Nacionales de Inversión Pública de América Latina y el Caribe - RED SNIP

4 y 5 de octubre de 2023, Lima - Perú
PIM Practices in the UK

Simon Groom
Legal Basis and Main Actors
Legal Basis for PIM

‘Anglo-Saxon’ model – similar to Australia, New Zealand and Canada

No dedicated public investment law or by-laws

The legitimacy of the PIM system derives from:

- The power of the finance ministry
- Responsibilities placed upon ‘accounting officers’ to ensure value for public money
- Accountability to Parliament (through its committees)
<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Treasury</strong></td>
<td>The UK’s economic and finance ministry leads on PIM</td>
</tr>
<tr>
<td><strong>The Infrastructure and Projects Authority</strong></td>
<td>Specialists independent review for major projects</td>
</tr>
<tr>
<td><strong>The National Infrastructure Commission</strong></td>
<td>Inputs into long-term infrastructure planning</td>
</tr>
<tr>
<td><strong>Major Projects Review Group</strong></td>
<td>Additional scrutiny of major projects</td>
</tr>
<tr>
<td><strong>Line ministries and delivery agencies</strong></td>
<td>Prepare project and develop business cases</td>
</tr>
</tbody>
</table>
Appraisal and Independent Review
## The Business Case Model

<table>
<thead>
<tr>
<th></th>
<th>Strategic Outline Case (SOC)</th>
<th>Outline Business Case (OBC)</th>
<th>Full Business Case (FBC)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Case</strong></td>
<td>Completed in full but may be revised later</td>
<td>Revisited.</td>
<td>Revisited and revised if required.</td>
</tr>
<tr>
<td><strong>Economic Case</strong></td>
<td>Completed as far as review of a long-list of options, recommended way forward and an initial short-list for OBC stage</td>
<td>Completed according to methodological guidance on appraisal and evaluation in central government (the ‘Green Book’).</td>
<td>Findings of procurement included in the economic analysis and recorded. Economic case re-assessed.</td>
</tr>
<tr>
<td><strong>Commercial Case</strong></td>
<td>Addresses the fundamentals of any potential procurement or ‘deal’, e.g., initial identification of potential PPP options.</td>
<td>Outlines envisaged ‘deal’ structure/s and any contractual clauses and payment mechanisms.</td>
<td>Recommended ‘deal’ written up.</td>
</tr>
<tr>
<td><strong>Financial Case</strong></td>
<td>Discusses likely affordability of the proposed project</td>
<td>Detailed analysis of affordability and any funding gaps.</td>
<td>Affordability and funding issues resolved.</td>
</tr>
<tr>
<td><strong>Management Case</strong></td>
<td>Outlines how the project will be set up and managed</td>
<td>Develops in more detail how the project will be delivered with an outline of the proposed project management plan.</td>
<td>Detailed plans for delivery and arrangements for realization of benefits, the management of risk and ex post evaluation are recorded</td>
</tr>
</tbody>
</table>
Hierarchy of Reviews for Treasury Approval Points at SOC, OBC & FBC

- Below ministry’s delegated spending limit
- Above ministry spending limit
- ‘Mega’ > £1 billion
- Large < £1 billion
- Also if novel or contentious

MPRG
- Major Project Review Group

Treasury Approval Panel
- Treasury approval desk-based review

Delegated ministry approval – variable by sector

Planned Assurance Reviews by IPA
Prioritization and Budgeting
Narrowing the ‘Prioritization Space’ for Budgeting

- Informed budget decisions in a narrowed ‘Prioritization space’
  - Appraisal (OBC) is a strong filter, enforced by independent review (internal & external)
  - Effective ‘gatekeeping’ – no bypass route around TAPs
  - Only strategically relevant projects go for appraisal (SOC)
  - Only projects that are ‘ready to go’ are budgeted (FBC)
  - Affordability considered from an early stage
  - Political input
Monitoring
Risk-Based Monitoring

Monitoring is decentralised: only the Government Major Projects Portfolio (GMPP) is monitored at central level

Risk-based monitoring of the GMPP is performed by the IPA

Risk of delivery success/failure assessed through a delivery confidence assessment part of the Project Assurance Review (PAR) system run by IPA

Focuses high-level managerial attention on projects with higher risk of failure

Movements between higher- and lower-risk projects are used to assess trends in the overall delivery risk of the portfolio
Limitations and Potential Lessons
Limitations on Replication

1. Unique legal framework
2. Powerful status of finance ministry
3. Technocratic civil service
4. Public investment is a relatively small share of public spending and GDP, consequently, the number of projects is not huge
5. It’s not perfect! - Poor mega projects with strong planning and political momentum can still get implemented, e.g., High Speed Rail 2
Potential Lessons

1. Legal basis for PIM is specific to UK and similar political systems - most countries will need a stronger legal basis

2. Enshrining the pursuit of ‘value for money’ – economy, efficiency and effectiveness - in the legal/regulatory framework is essential

3. Step-wise planning and decision-making filters out strategically irrelevant and unfeasible projects so that prioritisation is concerned with the ‘good’ projects

4. Risk-based review and approval of projects can be an effective way of using scarce analytical resources efficiently and delegating authority to performance-oriented spending agencies

5. No purely technical solution to budget prioritization for projects

6. Risk-based central monitoring is important, even in a decentralised PFM system
¡Gracias!
Supplementary Slides for Information
The ‘Treasury’

Sets the ground rules for the proper administration of public money and accounts to parliament for doing so

As far as PIM goes the Treasury:
- Establishes the project planning process and procedures
- Develops the national *ex ante* (and *ex post*) evaluation methodologies
- Reviews and approves high risk projects at critical points in the project cycle
- Runs the prioritisation exercise that forms part of the budgeting process.

The Treasury does not carry out project formulation and evaluation itself

No dedicated PIM unit in the Treasury:
- Capital specialists in spending teams
- Ad hoc panels
Infrastructure and Projects Authority

Created in 2016 when Major Projects Authority and Infrastructure UK merged

Reports jointly to office of the prime minister (Cabinet Office) and the Treasury

Focuses on the successful delivery of large, complex and risky projects – the Government Major Project Portfolio (GMPP) of around 150 projects

No direct involvement in project implementation and no approval/decision-making role

Manages project ‘assurance’ system

Improving transparency and openness, and addressing capacity constraints also come within IPA remit

Around 180 Staff
National Infrastructure Commission

Advisory body created in 2015 to compensate for weaknesses in strategic infrastructure planning in government

Operationally independent, at ‘arms-length’ from the Treasury, but without legal personality and reporting through the Treasury

Board of infrastructure experts (the ‘Commission’ itself) supported by a technical secretariat made up of around 40 infrastructure specialists and supporting administrative staff.

NIC produces:

◦ A National Infrastructure Assessment once in every government term, setting out its assessment of long-term infrastructure needs (currently to 2050), with recommendations to the government. Basis for Government’s long-term, rolling National Infrastructure Strategy (NIS)

◦ Specific studies on pressing infrastructure challenges, including recommendations to the government.

◦ An annual monitoring report, taking stock of the government’s progress in areas where it has committed - in its NIS - to implementing recommendations of the NIC.
Major Projects Review Group (MPRG)

Standing body created in 2007 to review and make decisions on proposals for ‘mega’ projects

Jointly chaired by DG Public Finance and Spending (Treasury) & CEO Civil Service (Cabinet Office)

Assembles panels on an ad hoc basis to review projects. Membership of panels includes:
- Experts (usually 2) from public and private sectors drawn from a pool selected to review major projects
- SRO and project director (minimum), plus other members of the project team
- CEO of IPA

Supported by a secretariat in the IPA, responsible for overseeing and coordinating the technical, operational and assessment aspects of the process
IPA Role in TAPs

IPA works hand-in-hand with Treasury in supporting TAPs

- **Project validation review (PVR)** for all major projects (defined as those subject to TAP) before any public commitment is made.

- All subsequent reviews and approvals, including those by the Treasury, are planned through an Integrated Assurance and Approval Plan (IAAP)

- IPA carries out planned project assurance reviews (PAR) at key points in the project cycle and makes recommendations (but does not issue approvals).

- IPA reviews are shared with the Treasury to inform the TAP decisions.

- The IPA also carries out unplanned (‘consequential’) reviews of projects experiencing difficulties, either during preparation or implementation.
Increased Scrutiny for Mega Projects

MPRG reviews and makes decisions on projects that:

◦ Whole life cost over £1 billion
◦ High risk and complex in their procurement and delivery of benefits
◦ Set a precedent, or are highly innovative
◦ Other projects ‘of concern’

Review criteria

◦ Deliverability
◦ Affordability
◦ Value for Money

Decision communicated by letter from the chair of the PS of the responsible ministry

◦ Approve the project to proceed as planned;
◦ Approve the project to proceed, but with conditions; and
◦ Halt the further development of the project.
Treasury Approval Points (TAPs)

- SOC – AO sign off
- Treasury Approval Point – IPA review

- OBC – AO sign off
- Treasury Approval Point – IPA review

- FBC – AO sign off
- Treasury Approval Point – IPA review

- Ready for Budgeting

Major projects only
Selecting Projects for Budget Funding

Strong ‘gatekeeping’ – no bypassing of TAPs

Cross-sectoral prioritisation at government level is limited to the big decisions

For less important decisions, sector ministries prioritise within top-down capital expenditure ceilings

Supportive PFM environment:
- Medium-term budget perspective, including forward allocations for capital, militates against ‘wish-list’ budgeting
- Performance-orientation gives incentives to prioritise efficient and effective projects and not to start what cannot be completed

Greater use of benefit-cost ratios to inform priorities, but not always estimated and other factors affect final prioritisation
Thresholds for Treasury Approval Points

Finance minister responsible to parliament for the use of public money, but can delegate to accounting officers in spending ministries

Remains responsible for spending decisions above the delegated limits, creating requirement for the Treasury to approve such projects

Delegated authority limits vary by implementing organisation and sector/sub-sector, e.g.,

- Transport
  - National road projects (implemented through the Highways Agency) - £500 million
  - Local government transport projects - £50 million.
- Health - £50 million
- Defence - £100 million,
- Foreign affairs - £15 million.
Selecting Projects for Budget Funding

Strong ‘gatekeeping’ – no bypassing of TAPs

Cross-sectoral prioritisation at government level is limited to the big decisions

For less important decisions, sector ministries prioritise within top-down capital expenditure ceilings

Supportive PFM environment:

- Medium-term budget perspective, including forward allocations for capital, militates against ‘wish-list’ budgeting
- Performance-orientation gives incentives to prioritise efficient and effective projects and not to start what cannot be completed

Greater use of benefit-cost ratios to inform priorities, but not always estimated and other factors affect final prioritisation
Delivery Confidence Assessment

DCA measures confidence in a project’s ability to deliver its aims and objectives:

- within the timescales;
- within the budget;
- to the quality requirements, including delivery of benefits, both financial and non-financial.

DCA reflects objective and subjective factors:

- Specific issues that threaten delivery to time, cost and quality, and jeopardise the delivery of benefits;
- Review team’s professional judgement of the likelihood of the project succeeding, even when there may be no definitively clear evidence either way;
- Resilience of the project to overcome identified shortcomings or threats.

Delivery confidence is reported using a RAG [red-amber-green] rating – the traffic light system
RAG Ratings

- **green** if successful delivery appears highly likely
- **amber/green** if successful delivery appears probable
- **amber** if successful delivery appears feasible but significant issues already exist
- **amber/red** if successful delivery is in doubt
- **red** if successful delivery appears to be unachievable.
Gateway Reviews: A Parallel Internal Review Process
Internal Review: the Gateway System

Series of peer reviews, carried out by accredited experts who are external to the project and the implementing agency.

Applicable to all projects at discretion of spending ministry

Examine progress and likelihood of successful delivery of projects and give independent guidance to implementation teams on improvements.

Report confidentially to the project’s ‘senior responsible officer’

Reviews take place at five ‘gateway’ stages in the project cycle between planning and operation
5 Gateways

- Business justification:
- Delivery strategy
- Investment decision
- Readiness for service
- Operations review and benefits realisation
Linkages between Gateway Reviews and Business Cases

Business Assurance

- Doing the right things at the right time
- Strategic fit
  - Scoping and planning of proposals
  - Options appraisal and identification of optimal solution
  - Confirmation of VfM
  - Allocation and commitment of resources
  - Tools – 5 Case Model approach
  - Formal intervention points – AO sign off at SOP, SOC, OBC, FBC

PPM Assurance

- Doing things right
- Delivery assurance – ensuring the scheme delivers agreed outcomes
- Control and ability to intervene
- Tools – MSP, PRINCE2, Gateway Reviews
DIÁLOGO DE POLÍTICA REGIONAL

Seminario
de la Red de Sistemas Nacionales de Inversión Pública de América Latina y el Caribe - RED SNIP

4 y 5 de octubre de 2023, Lima - Perú