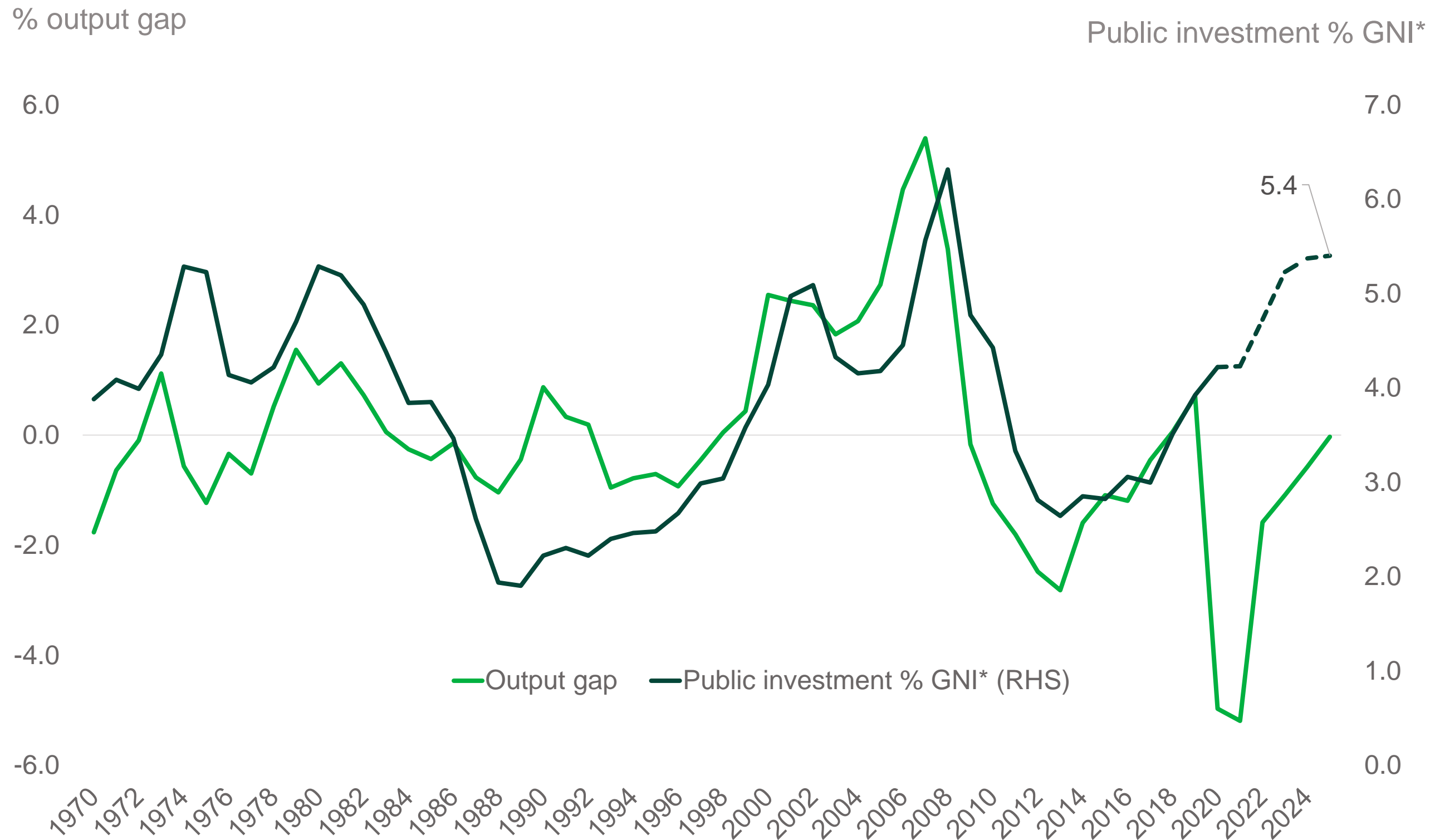


Cost escalation in Ireland's public investment spending

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Public investment on the rise...



Source: IFAC (2021) *Fiscal Assessment Report, December 2021*

Public investment on the rise...

- With planned ramp up in investment, ensuring that Exchequer funds are spent efficiently and value for money is achieved is critical
- Ireland's track record to date on large infrastructure projects isn't great
- However, DPER is putting in place some new measures to address this
- But... more can be done and lessons from past mistakes need to be heeded

History of cost overruns on major projects

- Early **motorway** projects programme expected to cost €5.6 billion but ended up costing over €16 billion
- First phase of **Luas** project originally estimated to cost €285 million to be completed by 2001. When finally completed in 2004 the cost had risen to €778 million
- **Dublin Port Tunnel** expected to cost approx. €200m in 2000, €580m in 2002 but ended up costing €804m by time it was completed in 2006
- **National Children's Hospital** has seen estimated budget for construction jump from €790m in 2013 to most recent estimate of €1.73bn

National Broadband Plan (NBP)

- First announced in 2012 with a projected overall cost of €350m (50% to come from State)
- In December 2015, estimated cost of €500m to €1bn
- Significant delays in tendering process from 2016-2019
- By time contract was signed at end of 2019, cost of subsidy to State had increased to at least €2.2bn (further €480m in potential contingency costs)!
- Project has since been plagued by delays and questions over private financing of company

National Broadband Plan (NBP)

- So what happened?
- Once-off bespoke project pushed for and procured by same Department
- Issues with CBA
- Ownership options considered massively underestimated level of competition and risk of interference by incumbent
- Overly complex and rigid contract design
- Lack of in-house experience

Nothing new here?

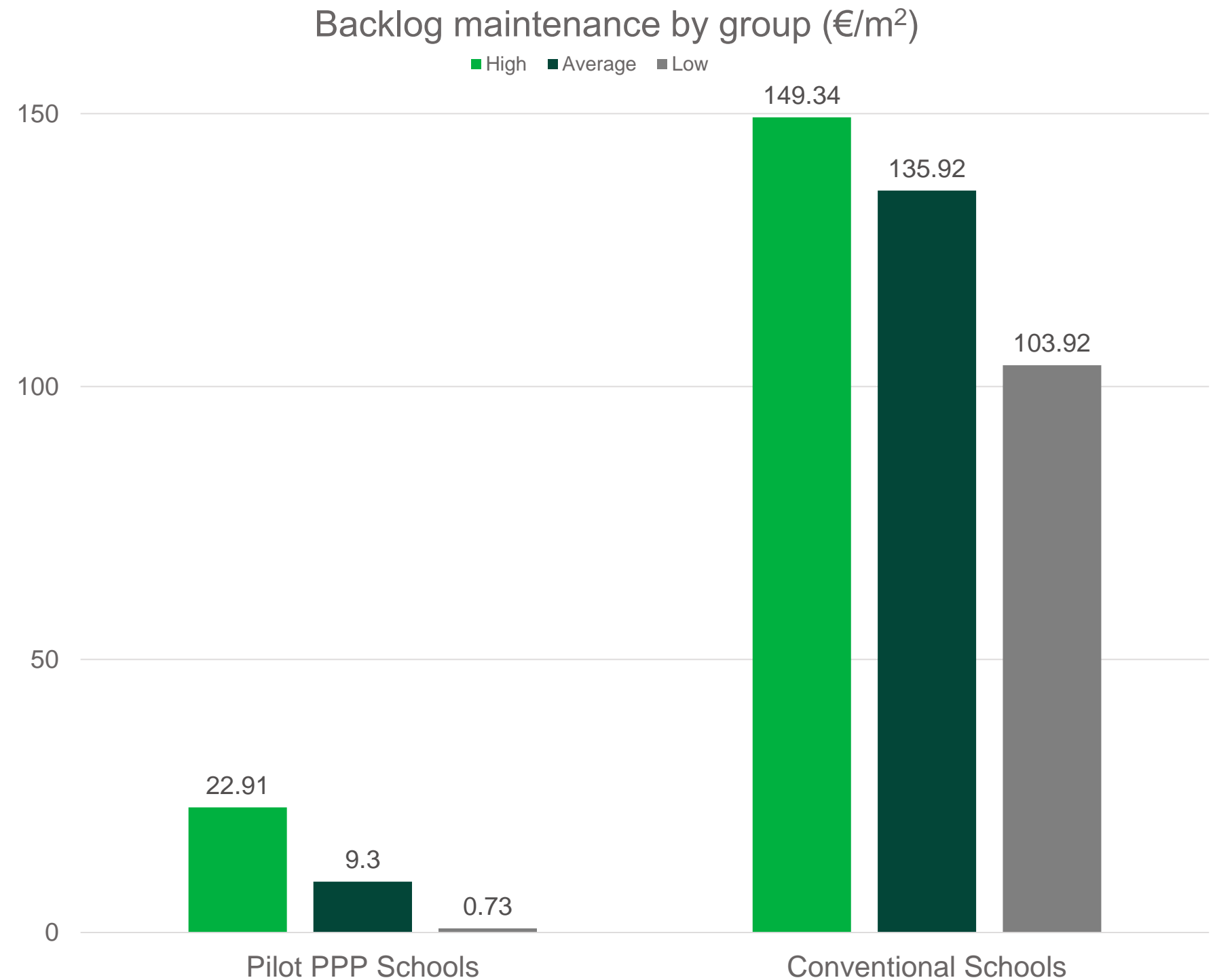
- Bent Flyvberg has documented many of the same issues for megaprojects across the world
 - Unrealistic forecasts – cost underestimation and benefit overestimation
 - Poor spending controls – governance and oversight
 - Political interference and changes to project scope/design
 - Transparency and accountability
- Worldwide, CBAs for major projects systematically biased due to over-optimism
 - Underpinned by a range of behavioural biases such as overconfidence bias, the planning fallacy and strategic misrepresentation
- Problem is generally not cost *overruns* but cost *underestimation* at the outset

Upcoming NDP investment plans

- National Development Plan envisages investment of €165 billion from 2021-2030
- Over 50 'major' projects within NDP with projected costs >€100 million
- In 2021, DPER announced that an independent external assurance process (EAP) will be established to review projects >€100m. External reviews at two key points:
 - 1) when preferred delivery option is chosen
 - 2) before a decision is taken to approve project to go to tender
- Major Projects Advisory Group also established in December 2021 to support DPER's project scrutiny and challenge role
- Only time will tell how effective these new governance measures are...

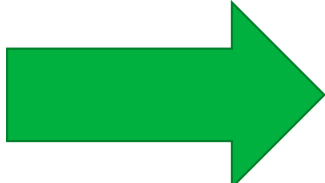
Other lessons to take on board

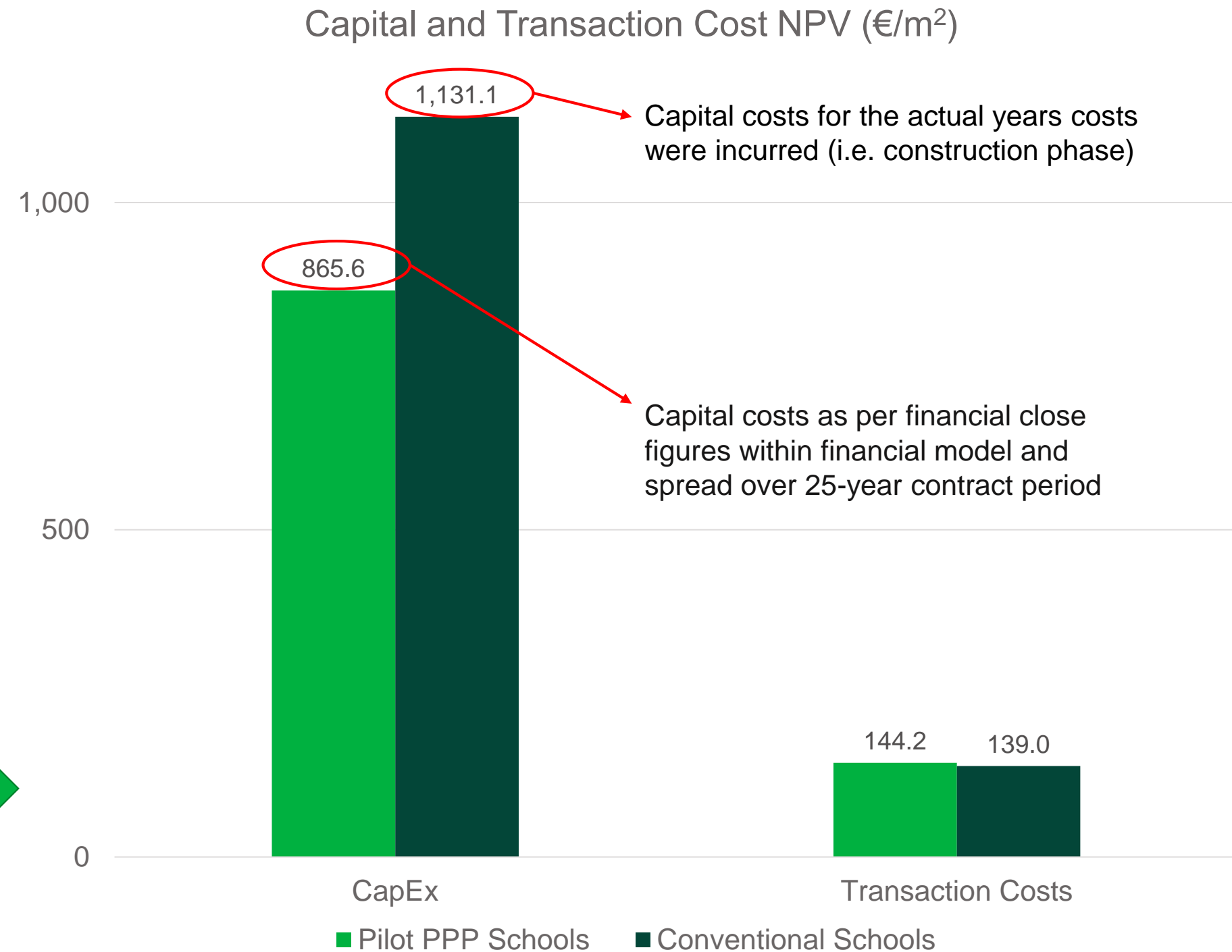
- The importance of budgeting for maintenance and lifecycle costs!
- Recent “mid-term” review of pilot PPP schools project revealed stark contrast between maintenance and quality of PPP schools versus traditionally procured schools
- Balance between building quickly and cheaply versus building higher quality (cost) assets that require less maintenance



Source: DES (2021) *Review of the Pilot PPP Schools Bundle*

Other lessons to take on board

- Transparency a big issue that needs to be addressed
- Lack of detailed reviews of major public and PPP projects
- More data needs to be put in public domain to allow for greater independent scrutiny
- Less of this type of analysis! 



Source: DES (2021) *Review of the Pilot PPP Schools Bundle*

Other lessons to take on board

- Both National Development Finance Agency (NDFA) and Transport Infrastructure Ireland (TII) have developed significant expertise in procurement of major infrastructure projects
- Potential for NDFA to take on responsibility for procurement of non-PPP projects outside of transport?
 - e.g. NDFA recently given responsibility to deliver Devolved Schools Building Programme 2 for Department of Education
- More resources should also be given to bodies such as the C&AG to conduct detailed performance reviews of major projects

Thank you



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