Improving Public Investment Efficiency and Effectiveness

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The Good, the Bad and the Ugly

Climate change

Demographic change

Changing preferences

Countries must ‘’mind the gap’’ between investments needs and funding

There are ways to deliver quality outcomes for less

Careful new investment

Investment in new infrastructure should be affordable and realistic, ensuring long-term value for money.

Best use of existing system

Improving current infrastructure can help provide a better service.

Managing demand

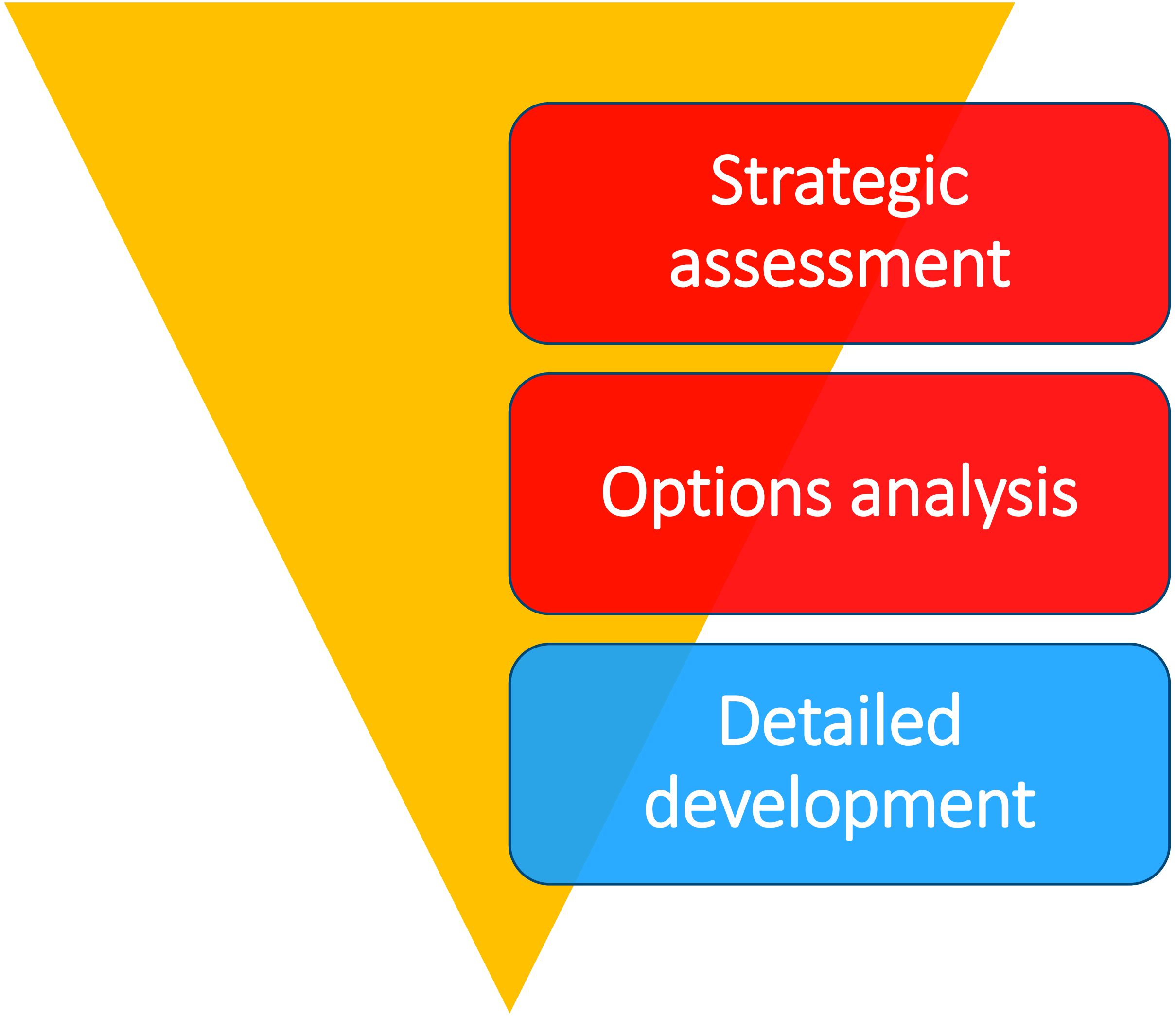
Reducing the demand for infrastructure can mean it performs better and reduces the need to build new infrastructure.

Effective planning

Early planning can make the most of opportunities to combine infrastructure needs with the way land will be used. It should also factor in future infrastructure needs as possible.

Source: New Zealand Infrastructure Strategy 2022 - 2052, New Zealand Infrastructure Commission, 2022.

A robust, structured approach for selecting public investments



What is our strategy?	• Strategic priorities • Future trends and challenges
What are we trying to solve?	• Investment gaps • Problem definition and benefits
What is necessary for success?	• Risks, constraints, dependencies • Critical success factors

What are the benefits and costs?

- Direct, indirect benefits and costs
- Distributional analysis

What are the risks?

- Risk quantification
- Optimism bias

Performance under different scenarios?

- Sensitivity analysis

Key considerations for capital budgeting

Investment projects carefully planned so they are affordable within a multi year expenditure framework

Affordability includes life cycle costs and considering potential risks

Investment projects carefully monitored so that they are delivered on time and within budget

Monitoring financial and physical progress requires analysis and use of internal audit

Investment projects incur ‘lumpy’ expenditures – flexibility and medium-term approach required

Flexibility could allow limited carryover of unspent moneys for capital investment

Managing authority

- Responsible for planning, implementation, delivering on time and within budget

Ministry of Finance

- Responsible for safeguarding public moneys and ensuring value for money

MoF responsibilities…

MoF needs to establish a methodology that maximises value for money and minimises waste

MoF should be satisfied that the process sees the best projects being selected within an overall framework that is affordable

MoF should be satisfied that the process allows LMs to deliver on time and within budget

Not enough to say “we give them the money and then it is up to them”

Affordability is fundamental

Affordability at all stages of planning, including strategic assessment stage, preliminary business case and final business case

Economic appraisal may make a strong case for the project but there is no point in pursuing a project for which the funds are not available (think about risks and life-cycle)

Projects which are selected for implementation must provide not only value for money but must be affordable within a multi-annual expenditure framework

Primary focus of financial appraisal is on affordability and financial impact

Financial Appraisal

Financial Appraisal should clearly set out

- the envelope of total investment required
- total operating costs
- future maintenance and renewal costs
- forecast revenue streams arising
- impact on the budget balance
- the timing of costs

Financial Appraisal should present results through a set of standard KPIs including:

Financial Internal Rate of Return (FIRR)
Financial Net Present Value (FNPV)

External Peer Review

- Appropriately qualified expert to review the appraisal process

Benchmarking

- Compare projected or actual costs and performance info against similar projects

Reference class forecasting

- Predicts the outcome of a planned action based on actual outcomes in a reference class of similar interventions to that being forecast

More information

- https://one.oecd.org/document/GOV/SBO(2022)6/REV1/en/pdf
- https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0410
- https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0411
- https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0460

Thank you for your attention!

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