

# The Northern Ireland Guide to Expenditure Appraisal and Evaluation

## A Brief Introduction



Department of  
**Finance and  
Personnel**

[www.dfpni.gov.uk](http://www.dfpni.gov.uk)

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# The Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE)

## A Brief Introduction

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# Introduction

The government spends billions of pounds every year delivering public services in Northern Ireland (NI). It is vital that this money is put to use in a way that delivers the maximum benefit to the local population. It is also important that all spending is accountable to the NI Executive and Assembly.

The *Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE)* is designed to help achieve these ends. It is the primary guide for NI Departments on the appraisal, evaluation, approval and management of policies, programmes and projects - the essential elements in the cycle of expenditure planning and service delivery.

The principles of *NIGEAE* must be applied, with proportionate effort, to *all* proposals that involve spending or saving public money, including EU funds, and to all proposed changes in the use of public resources. All such proposals should be supported by evidence of suitable appraisal, evaluation, approval, and management. There are no exceptions to this general requirement. It applies to all expenditures regardless of whether they are large or small, capital or recurrent, and above or below delegation limits.

This short document introduces some key principles of *NIGEAE*. It gives brief overviews of appraisal, evaluation, business cases and approval requirements. The full detail of *NIGEAE* is available at the Department of Finance and Personnel (DFP) appraisal website [www.dfpni.gov.uk/eag](http://www.dfpni.gov.uk/eag). Departments should refer to the website to obtain DFP's full requirements.

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# 1. Economic Appraisal

## What is Appraisal?

Economic Appraisal (or simply "appraisal") is about getting a good deal from public expenditure. It is a systematic process for examining alternative uses of resources, focusing on assessment of needs, objectives, options, costs, benefits, risks, funding, affordability and other factors relevant to decisions. It is a key tool for achieving value for money and satisfying public accountability requirements.

### Appraisal is

- designed to assist in defining problems and finding solutions that offer the best value for money (VFM).
- a way of thinking expenditure proposals through, right from the emergence of the need for a policy, programme or project, until its implementation.
- the established vehicle for planning and approving public expenditure policies, programmes and projects.

The scope of appraisal is very wide. It is about assessing VFM from a broad Northern Ireland (NI) perspective.

### Appraisal should

- cover all the costs and benefits impacting on NI residents.
- assess not only the costs and benefits falling to the public sector, but also those affecting other sectors in NI such as the private and voluntary sectors.
- take account of the full range of impacts, including for example economic, social, environmental and distributional effects.

Good appraisal leads to better decisions and VFM. It is not optional; it is an essential part of good financial management, and it is vital to decision-making and accountability. Its principles must be applied, with proportionate effort, to all spending decisions, including small expenditures.

## When is Appraisal Required?

The principles of appraisal apply to all decisions and proposals involving expenditure or resources. They apply equally to policies, programmes and projects. DFP requires the principles of economic appraisal to be applied, with appropriate and proportionate

effort, to **all** decisions and proposals for spending or saving public money, including EU funds, and any other decisions or proposals that involve changes in the use of public resources. For example, appraisal must be applied irrespective of whether the relevant public expenditure or resources:

- involve capital or current spending, or both;
- are large or small;
- are above or below delegated limits.

#### **Examples of decisions that require appraisal**

Policy and programme development	Decisions on the level and type of services or other actions to be provided, or on the extent of regulation.
New or replacement capital projects	Decisions to undertake a project, its quality, scale, location and timing, and the degree of private sector involvement.
Use or disposal of existing assets	Decisions to sell land, or other assets, or relocate facilities or operations, whether to contract out or market test services.
Specification of regulations	Decisions on the standards for health & safety, environmental quality, sustainability, or to balance the costs and benefits of regulatory standards and how they can be implemented.
Procurement decisions	Decisions to purchase the delivery of services, works or goods, usually from private suppliers.

It is important to begin applying appraisal early in the life of any proposal that has expenditure or resource implications. The justification for incurring any expenditure at all should be considered. Appraisal should be applied from the emergence of a need right through to the recommendation of a particular course of action. It should continue to be applied, where applicable, in the subsequent assessment of bids from the private sector obtained through a tendering process, until a contract is awarded.

### **The Basic Steps of Appraisal**

1. Explain the strategic context
2. Establish the need for expenditure
3. Define the objectives and constraints
4. Identify and describe the options
5. Identify and quantify the monetary costs and benefits
6. Appraise risks and adjust for optimism bias
7. Weigh up non-monetary costs and benefits
8. Calculate net present values and assess uncertainty
9. Assess affordability and record arrangements for funding, management, procurement, marketing, benefits realisation, monitoring & ex-post evaluation
10. Assess the balance of advantage between the options and present the results & conclusions

*Appraisers should refer to Section 2 of the NIGEAE website for detailed guidance on the assessment of each of these steps*

### **Proportionate Effort**

The principle of proportionate effort is vital. The effort to be devoted to appraisal should be in proportion to the scale or importance of the objectives and resource consequences in view. Decisions on small expenditures need relatively little appraisal, while those with major spending implications require significant resources to be devoted to appraisal.

Judgement of proportionate effort should take into consideration the totality of the resources involved in a proposal. However, particular weight should be given to the total public funds involved, since it is primarily for these that public bodies are accountable to the taxpayer.

It is also important that the appraisal is *appropriate* in the sense that the correct methodology is used, because the steps of appraisal are applied in different ways in different spending areas. Departmental economists can advise on this where necessary.

## 2. Appraising Assistance to the Private, Voluntary and Community Sectors

Proposals involving financial assistance to the private, voluntary or community sectors should be appraised and evaluated with proportionate effort. The special appraisal requirements for these proposals are briefly introduced in this section.

Applications for assistance should generally be subjected to preliminary screening. This involves a basic assessment of the application to decide whether it is eligible for funding under the relevant scheme, and initial testing of the need for the project and its objectives, before committing resources to a full appraisal. Departmental economists can assist to establish suitable preliminary screening systems.

### The Scope of the Appraisal

Appraisals of applications for financial assistance should generally cover the whole of the project for which financial assistance is sought, not just the financially-assisted elements of it. For instance, an appraisal should detail all the sources of funding, and should cover all the costs and all the benefits associated with the proposal, including those falling to the private and voluntary sectors as well as to the public sector. This is to enable a judgement of the overall value for money and viability of the proposal. The same principles apply to ex-post evaluations of financially-assisted projects.

Appraisals of assisted projects should generally seek to ensure that four criteria are satisfied. These are:

#### **Economic Efficiency**

A project is 'economically efficient' if it offers net benefits to the NI economy. The economic efficiency criterion is satisfied by demonstrating that the benefits to NI from the proposal exceed the costs, taking account of all the costs and benefits arising, both quantified and unquantified, net of displacement. Any significant impacts elsewhere in the UK should also be considered and weighed into the investment decision.

Economic efficiency is normally tested by applying the standard steps of appraisal, however the precise approach differs by type of project. Departmental economists can advise on the appropriate methods in their spending areas.

### **Additionality**

The success of government intervention through financial assistance is usually assessed in terms of its 'additionality'. This is its net, rather than its gross, impact after making allowances for what would have happened in the absence of the intervention. It is the extent to which an activity takes place at all, or is undertaken on a larger scale, or earlier, or to a higher standard, or within a policy target area, as a *result* of public sector intervention.

Additionality must be appraised to help ensure that assisted projects receive the minimum Government assistance required to bring them about. Any excess over this amount is "deadweight". All public sources of financial assistance to the project should be taken into account when assessing its additionality.

### **Viability**

Project viability should be assessed to help ensure that public money is not wasted on projects that will fail prematurely. There should be evidence of sound business planning, which requires thorough analysis of the anticipated cash flows and the planned financing, marketing and management arrangements.

In cases where the aims are primarily *economic*, assistance should be given only to firms which are themselves considered to be viable. This requires appraisal of the applicant's financial position and the quality of its management. If assistance is awarded, it should generally be just sufficient to enable the project cash flows including subsidy to satisfy commercial investment criteria.

In these cases, a viable project is one which, having received assistance on a once for all basis, is expected to earn sufficient profits to be self-sustaining without continuing subsidies other than those available as of right to all eligible enterprises. There should be a strong presumption against projects receiving assistance more than once, because this would encourage grant-dependency and poor management in both the assisted firm and the responsible Department.

In the case of financially-assisted projects pursued primarily for *social or environmental* rather than economic aims, the viability criterion applies less strictly, to the extent that such projects need not be expected to achieve overall financial profitability. However, any commercial elements of social or environmental projects should still be expected to achieve financial profitability. In all cases it should be confirmed that there is sound business planning and specifically that adequate arrangements for finance and management are in place.

### **Cost-Effectiveness**

It is important that public expenditure on projects or programmes is cost-effective. This is achieved when the ratio of the outputs from a project or programme to the costs to the taxpayer of producing them is satisfactory.

Judgement of cost-effectiveness is aided by benchmarking, that is, by comparing the ratios for a specific project with those for other similar projects. This helps to indicate whether the cost-effectiveness is acceptable. Suitable ratios should be chosen to suit the case, for example, cost per job, cost per m<sup>2</sup> of floor space, cost per room, cost per trainee place provided, cost per dwelling and so on. If the unit costs are considered too high, this should lead to redesign of the project, or to it being rejected.

*Appraisers should refer to Section 4 of the NIGEAE website for more detailed guidance on the assessment of each of these criteria.*

It is good practice to advise applicants for assistance, from the outset, regarding the appraisal and approval procedures that will be necessary, the timescales that these may require, and the help that is available to them. Scheme documentation for applicants should contain this type of information.

## 3. Business Cases

Appraisals should be undertaken and presented within a wider business case. A business case typically contains an appraisal and other information such as an affordability assessment and the proposed arrangements for financing, management, marketing, procurement, monitoring and evaluation.

Documentation of the business case is required at various stages to inform key decisions. For procurement projects, DFP advocates developing the business case through three stages:

- **Strategic Outline Case (SOC):** a very preliminary document of 5-6 pages that introduces the basic project concept and contains enough detail to support a decision on whether to proceed to prepare an OBC.
- **Outline Business Case (OBC):** a comprehensive analysis completed prior to the commencement of formal procurement which determines the preferred service provision option, and recommends a particular procurement route.
- **Full Business Case (FBC):** a report on the procurement process including full details of bid evaluation, and a final review of strategic fit, options, VFM, affordability and achievability completed prior to financial closure.

For proposals involving assistance to the private or voluntary sectors, this three-stage approach is not usually required, and the terms SOC, OBC and FBC are not generally used. In such cases, the business case should be developed through as many iterations as are judged necessary to cover all of the issues set out in Section 4 of *NIGEAE*.

In PPP/PFI cases, an additional business case known as an 'appointment business case' is needed prior to the appointment of a preferred bidder. The special requirements for PPP/PFI business cases are set out in *NIGEAE* section 5.

There are also special requirements for proposals involving the use of external consultants. A business case must be completed for all external consultancy contracts expected to cost £10,000 or more. See *NIGEAE* section 8.7 for details of the required format and content.

All programmes and projects in central government are subject to Gateway Reviews. These examine projects at critical stages in their lifecycle to provide assurance that they can progress successfully to the next stage. The following table indicates the Gateway Review that corresponds with each business case stage.

<b>Business Case Stage</b>	<b>Gateway Review</b>
<b>Programme Case</b>	<b>0: Strategic Assessment</b>
<b>SOC</b>	<b>1: Business Justification</b>
<b>OBC</b>	<b>2: Delivery Strategy</b>
<b>FBC</b>	<b>3: Investment Decision</b>
<b>Implementation</b>	<b>4: Readiness for Service</b>
<b>Benefits Realisation</b>	<b>5: Benefits Evaluation</b>

Fuller details of business case requirements are given in section 8 of *NIGEAE*.

## 4. Evaluation

Evaluation is an ex post activity which examines the outturn of a project, programme or policy, and is designed to ensure that lessons are learned and fed back into the decision-making process. This ensures government action is continually refined to reflect what best achieves objectives and promotes the public interest.

Evaluation is like appraisal conducted in retrospect. Thus the general principles and techniques of *NIGEAE* apply as much to evaluation as to appraisal, including the principle of proportionate effort.

Departments should make arrangements to measure outturns and record them. Outturns should be compared with initial estimates and the results used to consider how to improve the quality of the assumptions in future appraisals, including, for example, the estimates of costs and benefits and the assumptions made about risks and appraisal optimism.

Post Project Evaluations (PPEs) are an integral part of the process involved in completing a project. They should not be seen as an additional complication to the appraisal process, but rather as an opportunity to learn valuable lessons and to avoid repeating mistakes. Every appraisal of any substance should indicate how the proposals concerned will be evaluated after completion and how the results of the evaluation will be disseminated.

### Conducting an Evaluation

DFP generally expects Departments to conduct project evaluations in accordance with the guidance in the *Post Review* section of the *Successful Delivery (NI)* website and according to PRINCE2 procedures. This requires evaluation to be conducted in two stages:

1. A **Project Evaluation Review (PER)**. This reviews the effectiveness of the project management up to the point of project closure. Led by the Project Manager, it should result in an **End Project Report** and a **Lessons Learned Report** as described in the PRINCE2 guidance.
2. A **Post Project Review (PPR)**, also known as a **Post Project Evaluation (PPE)**. A PPR or PPE should be planned before project closure and is the main substance of the ex post evaluation. It compares outturn against estimated costs and benefits, and generally reviews success in achieving objectives. It should be conducted 6 to 12 months after project closure, led by an individual independent of the Project Board and Project Team.

The guidance provided at the *Successful Delivery (NI)* website and in PRINCE2 on the conduct of PERs and PPRs is not repeated here. However, the following paras provide some general principles for ex post evaluation that are relevant to PPRs/PPEs and apply generally to ex-post evaluation of policies, programmes and projects.

Planning for evaluation must begin at the appraisal stage and should ensure that appraisal reports contain the information needed for evaluation. This should include an outline plan, setting out the general boundaries of the proposed evaluation, as indicated at paras 2.9.12-17 of *NIGEAE*.

**An evaluation should normally follow this sequence:**

1. Establish exactly what is to be evaluated and how the outturns can be measured.
2. Define the counterfactual i.e. estimate what would have happened if the intervention (e.g. the project, programme policy or financial assistance) had not occurred.
3. Compare the outturn with the target outturn, and with the effects of the chosen counterfactual(s).
4. Present the results and recommendations.
5. Disseminate and use the results and recommendations.

The above sequence applies broadly as much to policies and programmes as to projects. In most cases effort should be concentrated upon evaluating the extent to which objectives have been achieved, whether assumptions have proved accurate (e.g. by comparing outturns with target outturns), and what lessons can be learned.

**Evaluation reports should generally summarise:**

1. whether, and if so, why the outturn differed from that foreseen in the appraisal;
2. how effective the activity was in achieving its objectives, and why;
3. the cost-effectiveness of the activity; and
4. what the results imply for future management or policy decisions.

The results obtained should generally lead to recommendations for the future. These might include, for example, changes in procurement practice, improvements to methods for estimating costs or benefits, changes to management procedures, or the continuation, modification or replacement of a project, programme or policy. Efforts should be made to disseminate the results widely within the organisation.

A PPR template is provided at the *Successful Delivery (NI)* website. This indicates the minimum content of a PPE and is recommended for general use to document PPRs/PPEs.

DFP requires all projects to be subject to proper monitoring and control measures including PPEs for expenditures above de minimis levels (i.e. above £500k). DFP approval of all projects above delegated limits is conditional upon satisfactory arrangements for PPEs in all cases. In monitoring PPEs, DFP intends to give greater priority to larger projects and areas where lessons learned can be of most value. However, this does not affect the continuing requirement to ensure that suitable arrangements for PPE are made for all projects.

## 5. Approval of Departmental Expenditure

In central government, approval is required for all capital projects, financial assistance and other expenditures, but the "approving authority" will vary depending on the nature and scale of the project and the level of delegation. The approving authority could, for example, be a finance division, a Departmental Minister or DFP.

In approving any capital project, financial assistance or other expenditure, the following principles should be applied by the approving authority:

1. There should be an early opportunity for the approving authorities to consider and influence the choices made. This could take the form of the formal submission of a strategic outline case (SOC) for approval or, on some occasions, of informal contacts between the project sponsor and the approving authority.
2. The business case is an important factor in the consideration of any spending proposal, and Departments are responsible for ensuring that this is carried out and that the proper methodology is used. Approvals in principle should not be granted in any case prior to the completion of a suitable business case, including an appropriate economic appraisal. Only when needs, objectives, options, costs, benefits, risks, funding, affordability and other relevant factors have been thoroughly investigated according to the relevant appraisal methodology can approving authorities be assured that a particular proposal is value for money and affordable.
3. At each approval stage, the approving authority should specify parameters or conditions under which the project must be resubmitted for approval. Re-submissions might be required where:-
  - a specified time elapses before the commencement of the next stage of the project;
  - estimated capital costs rise by more than a given amount or percentage of original estimate;
  - the estimated time for completion slips by a specified period; or
  - the NPV of the project alters to a negative figure.

Depending upon the case, the requirement may be for a complete revision of a business case, or re-submission of certain unsatisfactory elements of it. Once approval has been obtained, it is the Project Sponsor's responsibility to monitor the progress of the project and to resubmit it as soon as it appears likely that a triggering condition will be met.

## **DFP Approval of Projects in Excess of Delegated Limits**

Arrangements on the level of delegation from DFP are subject to agreement between Departments and DFP. Where expenditure proposals exceed the Department's delegated limits, DFP Supply will act as the approving authority. The level of delegation will take account of past history of project management, and the current expertise in project management, as evidenced by documented client project management procedures and client training. DFP Supply Officers can advise on the current delegations.

Where DFP approval of expenditure is required, none of the relevant expenditure should be committed, and none of the relevant works should commence, until DFP approval has been granted. Expenditure that is incurred without the necessary approvals is irregular and retrospective approval will be granted only in very exceptional circumstances.

### **Standard Conditions of DFP Approval**

- Approval is always given on the basis that projects will be implemented as described and costed in the business case upon which the approval is based. If a Department wishes to implement a project on a basis other than that approved by DFP, it should consult DFP again to ensure that any proposed changes to the original business case do not alter DFP's view of the project.
- Tolerance levels on cost are 10%. If it becomes apparent that the total capital expenditure or total revenue expenditure indicated in the approved business case will be exceeded by more than 10%, Supply should be notified as soon as possible and appropriate further action agreed between the Department and Supply.
- The same applies where project implementation is expected to be delayed by more than 24 months by comparison to the timescale indicated in the approved business case.
- Supply should be informed as soon as possible of any substantial changes to the project which occur at any time after DFP approval is granted. This applies to both proposed substantial changes to the project, and to actual substantial differences in outturns compared to the assumptions in the business case. In this regard, a substantial change may be defined broadly as a variance of 10% or more from the assumption in the approved business case.
- In such circumstances, Supply will consider the specifics of the case and decide what additional submissions are required e.g. a letter or addendum covering specific issues that require further consideration, or a more substantial revision of the business case.

Submissions should be made at a stage early enough to permit dialogue on assumptions and methodology between DFP and the relevant Department; and to permit revision of business cases or re-appraisals to be undertaken where necessary. DFP reserves the right to withhold approval when there is inadequate time for the appropriate scrutinies and discussions to be undertaken.

Submissions should normally include a suitable business case. The general arrangements for DFP approval of business cases (SOCs, OBCs and FBCs) are as set out in Sections 8.5 to 8.7 of *NIGEAE*. DFP will continue to monitor the quality of submissions and will expect proposals to comply with the appropriate procedures and to be value for money and affordable.

It is important to involve economists in the more costly, complex or contentious cases before committing resources to them. Departments should consult their economists in all cases requiring DFP approval, and should take account of their views before submissions are made to DFP.

DFP approval of a particular project relates solely to agreement to proceed with the project. It does not imply approval for expenditure to be incurred beyond existing agreed public expenditure or budgetary provision.

Appraisers should refer to Section 9 of the *NIGEAE* website for more detailed guidance on approval procedures.

## 6. Specialist Advice, Further Guidance and Other Resources

Appraisal and evaluation often require and generally benefit from a multi-disciplinary approach, calling on the expertise of a range of specialists. These might include, for example, economists, statisticians, accountants, and other specialists in finance, procurement, and land and property. It is important that the right skills and advice are sought and applied appropriately to the case in hand.

Departmental economists can advise on the full range of issues relating to business cases, including for example appraisals, feasibility studies, business plans and evaluations. They can supply guidance on the appropriate techniques to use, help to draft terms of reference, provide quality assurance, assist with the selection and management of external consultants and help to undertake relevant analysis.

This booklet provides an introduction to some of the key principles of appraisal, evaluation, business cases and approval. Fuller details of these principles are available at the NIGEAE website <http://www.dfpni.gov.uk/eag>

In addition, the website provides guidance on:

- **Policy and Programme Appraisal**
- **Implementation, Management and Monitoring**
- **Public Private Partnerships (PPP) and Procurement Issues**
- **Use of Consultants**
- **Appraisal of Small Expenditures**
- **Appraisal of Accommodation Projects**
- **Management of Appraisals and Evaluations**
- **Training in Appraisal**

The website provides a number of other useful resources including:

- Spreadsheets to aid calculation of net present values (NPVs) and optimism bias adjustments
- The basics of discounting
- Discount tables
- The weighted scoring method: a guide to good practice

- Comparison of appraisal types
- Common errors in appraisal
- A glossary of key terms
- Links to relevant websites