

NORTHERN IRELAND EU STRUCTURAL FUNDS
GUIDANCE ON THE APPRAISAL, APPROVAL AND MANAGEMENT
OF POLICIES PROGRAMMES AND PROJECTS INCLUDING
ECONOMIC APPRAISALS

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Introduction

Managing Public Money Northern Ireland (MPMNI), identifies the need for economic appraisals as an important part of good financial management. To promote sound decision-making and proper accountability, all public expenditure - including European Union Funds - must be subjected to the principles of economic appraisal.

Responsibility

Ownership of the appraisal lies with the Implementing Body; appraisals must be undertaken or commissioned and paid for by Implementing Bodies and not by the project promoter. Consultants can provide much needed skills and expertise, especially if a large data-gathering exercise is needed or there is sophisticated modeling required. Implementing Bodies must however adhere to FD (DFP) 04/09 on the use of external consultants, a copy is available in full from DFP's Accountability and Financial Management Division website at <http://www.afmdni.gov.uk/pubs/FD/fddfp0409.DOC> and <http://www.afmdni.gov.uk/pubs/FD/PAAB%20%20Use%20of%20External%20Consultants%20-%20revised%20guidance%2022%20December%202009.DOC>

Guidance

Economic appraisal guidance for Northern Ireland is set out in the Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) which can be accessed at <http://www.dfjni.gov.uk/eag>. This replaces the previous 'Northern Ireland Practical Guide to the Green Book'. Additional advice and guidance is given in a number of "Dear Accounting Officer" and "Dear Principal Finance Officer" letters; a list can be found in <http://www.afmdni.gov.uk>.

Proportionality of Economic Appraisals

The principles of economic appraisal are to be applied with 'proportionate effort to every decision or proposal. Approvals in principle should not be granted nor commitments to funding given prior to the completion of a satisfactory business case, including an appropriate economic appraisal. Only when needs, objectives, options, costs, benefits, risks, funding, affordability, management capacity and other relevant factors have been thoroughly investigated can approving authorities be

assured that a proposal is likely to represent value for money, be affordable and satisfy accountability requirements.

For all projects, whatever the costs, a proportionate appraisal is required. Judgement of proportionate effort should take into consideration the totality of 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. Eligible public financial assistance is all UK public expenditure, including central and local government expenditure, EU and IFI funding, lottery funding, etc over the whole life of the project. This is not the same as the total financial cost of the project, which will normally be greater than the total eligible public financial assistance.

EU Programmes and Projects

EU Programmes represent a body of agreed procedures and practical actions designed to implement and achieve their strategic aims. They also include detailed output and impact targets and indicative financial allocations to EU expenditure categories. They have been developed and agreed following all of the available best practice techniques. Their agreed priorities and indicative actions and financial allocations reflect agreed needs in line with strategic priorities. Appendix C provides further details.

A project (operation) is a separate component within a programme. They may be generated by officials, or they may represent proposals from the private, voluntary or community sectors. All must be appraised, evaluated and approved in line with the agreed Programme selection procedures. This includes the need for value for money to be demonstrated through proportionate business cases and for them to be viable in terms of the capacity of the project promoter to deliver them as planned. When determining need for projects this should be against the agreed needs outlined in the Programme document.

Business Cases

The Funding Body must undertake appraisals within a wider business case. Business cases should provide assessments of strategic fit, option appraisal, achievability, value for money and affordability. A business case should contain an

economic appraisal and other information including the proposed arrangements for financing, management, marketing, procurement, monitoring and evaluation of the relevant policy, programme or project. The effort to be put into business cases should be in proportion to the scale and importance of the proposal.

Documentation of the business case is required at various stages to inform key decisions. Prior to each key decision point, the business case document should be treated as a living document, to be revisited and updated regularly as information and assumptions are developed and refined. It is not just to be prepared for purposes of obtaining approval and then shelved.

Outline Business Case (OBC)¹

The OBC is a very brief, preliminary document of no more than 5 or 6 pages that introduces the basic project concept and contains enough detail to support an informed decision on whether to proceed to prepare a full project application and business case. It should include a preliminary assessment of strategic fit, options, value for money, affordability and achievability.

Full Business Case (FBC)¹

The FBC requires a much more comprehensive analysis. It should be completed prior to consideration of the Project by the Steering Committee and used as the basis for any submission relevant accountable department for approval. The FBC should include thorough coverage of the 10 steps of appraisal in accordance with Section 2 of NIGEA to provide a full assessment of strategic fit, option appraisal, achievability, value for money and affordability. Analysis at this stage is based on detailed assumptions about costs, benefits, risks and funding. It should determine the preferred option in terms of the level and form of service provision.

Final Business Case¹

¹ The terminology used here for the various stages of a Business Cases differs from that used in the NIGEA. The terminology used here is considered more appropriate for these stages when part of an approval process between projects, implementing bodies and accountable departments.

The Final Business is documented prior to the issue of a Letter of Offer. It should provide all the information needed to support a decision to award a contract and commit actual funding, and should provide a basis for the necessary project management, monitoring, evaluation and benefits realisation. Key components of the FBC include:

- an update on key changes and developments since the OBC
- full details of the procurement process
- thorough appraisal of bids received from suppliers and (where applicable) a conventional procurement option
- final review of strategic fit, options, value for money, affordability and achievability
- plan and timetable for final negotiations and award of contract
- final plans for monitoring, evaluation and benefits realisation

Simplified procedure for Smaller and less Complex projects

The appraisal of smaller or less complex projects, including the great majority of projects below £500,000 or included in 'small grants' programmes can be facilitated by designing application forms so that they provide the information that funding bodies need to prepare a business case and to appraise them. This may be taken to include cases involving total financial assistance (including for example all sources of PE, EU and IFI funding) of up to £500k over the whole life of a project. Pro formas, where used, for appraisal of small grants should be geared towards addressing the issues in this section of *NIGEA*, including economic efficiency, additionality, displacement, viability and cost-effectiveness.

Management of Economic Appraisals

A flowchart overview of the appraisal process and checklist of standard requirements of Economic Appraisals of lesser and greater complexity has been established – see Appendix B. The proforma distinguishes projects above and below £500,000 but as indicated above, this is not a rigid threshold and there is need for judgement of the appropriate and proportionate effort in every case.

Larger Projects

The appraisal of larger projects will require applications to be accompanied by a Business Case including a full economic appraisal. The Funding Body (SEUPB / JTS) should normally be responsible for the Business Case and Appraisal. Applicants should complete application forms, supported by Business Plans for their preferred option but they should not be expected to appraise their own proposals critically. Appraisals must reflect an independent and unbiased view of proposals.

Components of Business Plans

The terms business case and business plan are not interchangeable. DFP uses the latter term in the context of financially-assisted or commercially-oriented projects, for which a business plan is required in addition to an economic appraisal in order to establish project viability. Business Plans should cover the following key elements:

MANAGEMENT PLAN

The key management personnel, their roles, their relevant experience and qualifications, and the proposed organisational structure should be identified and explained fully.

FINANCIAL PROJECTIONS

The estimated financial costs and revenues arising from the proposal should be set out year-by-year over its life. This should be disaggregated to show all individual cost and revenue items. All financial assumptions should be stated.

FUNDING PLAN

The financial position of the applicant should be described including assessment of its ability to contribute own funds to the proposal. Where applicable, the most recent statement of accounts should be supplied.

All sources of funding should be identified, including names of relevant funding bodies, the corresponding amounts of funds, and their phasing. The status of each funding application should be indicated e.g. Confirmed, Awaiting Response etc

MARKETING PLAN

The current and projected market for the planned products or services should be identified. Specific planned marketing activities should be identified and costed.

MONITORING AND EVALUATION PLAN

The proposed arrangements for monitoring and evaluation should be explained, including who will do these activities, what factors will be examined and when.

Further Advice and Guidance

Economists can provide general advice on the content of business cases and specialist advice on the relevant appraisal and evaluation techniques and procedures.

European Division

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Information Gathering

The following questions should be used to elicit basic information to help appraise and evaluate projects. This is in addition to Programme or Activity specific information.

- What is the purpose of the project?
- Have you established a need for the project? (If so, please provide evidence of how it meets the needs identified in the relevant EU Programme document – See Appendix C).
- What are the specific objectives of the project? Provide measurable targets and quantifiable outputs.
- Have you considered alternative options to the proposal and if so what are they?
- Will the project provide added value? Would the project be scaled down or delayed without the award of EU grant?
- What are the anticipated benefits of the project? Who will be its primary beneficiaries?
- What revenue do you expect to generate per year? How will the revenue be generated and used?
- What is the expected total cost of the project broken down by category of expenditure e.g. capital costs, staff costs? (Show expected phasing over time.)
- What impacts will there be upon Lifetime Opportunities, Equality, the Environment etc?

- How is the project to be funded? (Give full breakdown) What contribution can you make to funding it?
- What risks are attached to successful delivery of the project? How will they be managed?
- What is the proposed management structure for the project? Do you have a business plan? (If so, please supply.)
- What internal arrangements will be made to ensure the project is monitored and runs to time and cost?
- What are the proposed arrangements for evaluating the project? What factors will be evaluated?
- What audit arrangements will be made?
- Are you registered for VAT? (Please supply VAT registration number.)

In addition, Implementing Bodies should reserve the right to seek further information should they require it to form a view on a project.

Appraisal General Checklist

General

- Has eligibility for assistance been established?
- Is a full economic appraisal required?
- Does the proposed assistance represent a State Aid?

Economic Efficiency

- Is it an economic or social case?
- Are there alternative options to consider?
- Are costs and benefits identified in sufficient detail?
- Are adjustments needed for foreign ownership?
- Are NPVs correctly calculated?
- Has displacement been considered - with adequate supporting evidence?
- What are the wider national costs and benefits?
- Is it a marginal case?
- Is assessment of regional costs and benefits appropriate?
- Is the project worth doing?

Additionality

- Has the applicant's financial position and ability to fund the project been examined?
- Have details of the negotiations with the applicant on the level of assistance been recorded?
- What is the evidence that assistance will make a difference to the project's location, scale, quality or timing?
- Where project mobility is claimed, is there substantial evidence of a viable alternative location?
- Are reasons recorded for the proposed level of assistance, related to the location, nature, scale or timing of the project?
- Is the proposed assistance the minimum needed to bring about the project?

Cost-Effectiveness

- Are appropriate ratios included? eg total public assistance to total project cost, cost per job, other unit costs.

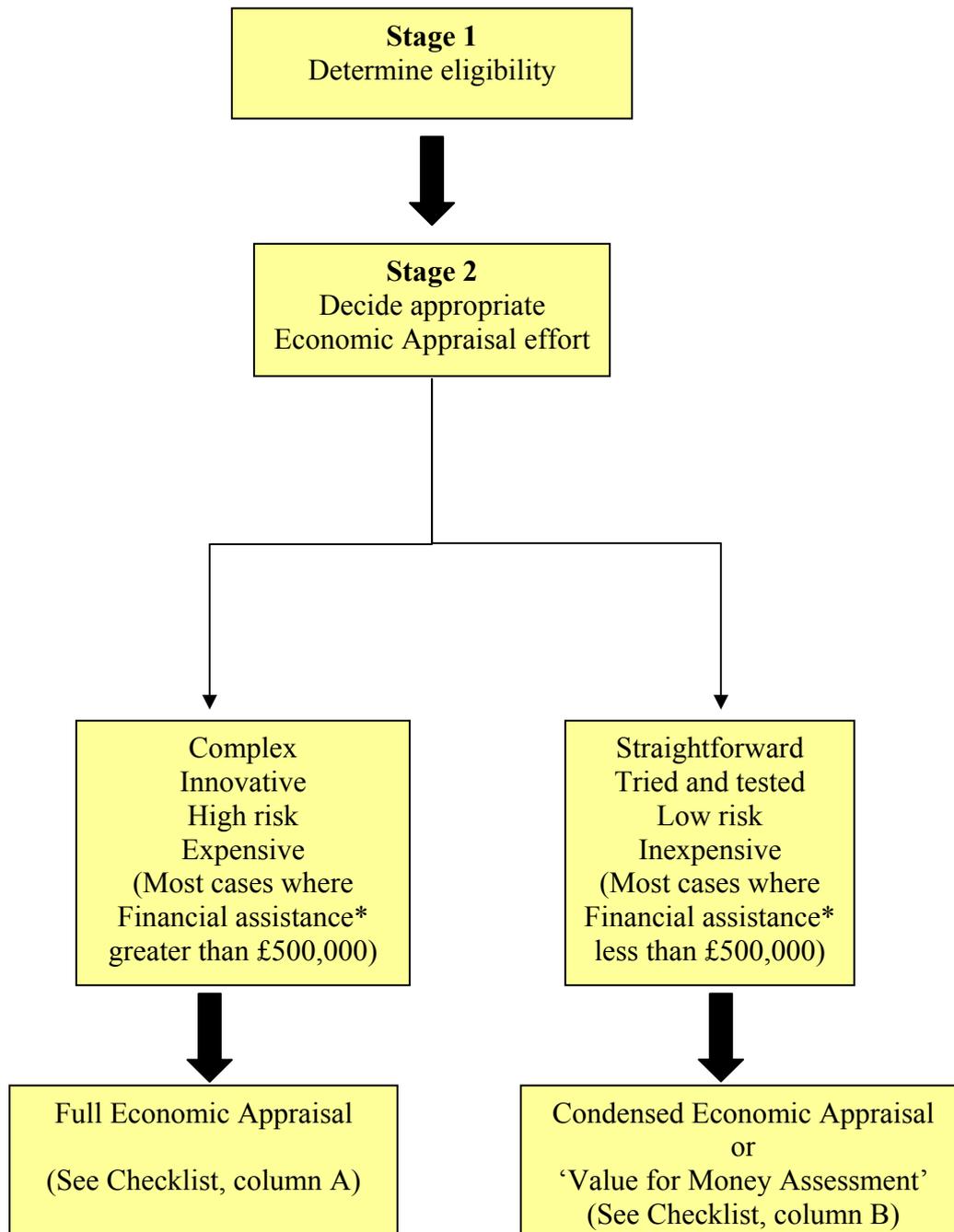
- All NI and EU funding taken into account?
- Is the proposal cost-effective?

Viability

- Business plan provided?
- Are the project management arrangements clear?
- Are the key management personnel identified and do they have the right experience and qualifications?
- Are anticipated cash flows set out in suitable detail?
- Will the proposed assistance enable the project to (a) cover all its costs and (b) earn a commercial rate of return?
- Are the applicant's financial position and previous track record stated?
- Are arrangements for funding clear and unambiguous?
- Is there a sound marketing plan?
- Is the project sustainable beyond the proposed period of funding? Is there a clear exit strategy?
- Do plans provide for suitable monitoring and evaluation?
- Is the project viable?

ECONOMIC APPRAISAL GUIDANCE

OVERVIEW OF APPRAISAL PROCESS



*Financial assistance is all UK public expenditure, including EU and IFI funding, over the whole life of the project. This is not the same as the total financial cost of the project, which will normally be greater than the total of financial assistance.

CONSIDERATION AND APPRAISAL OF NEED FOR PROJECT PROPOSALS UNDER EU PROGRAMMES

Purpose

1. The purpose of this note is to outline how the EU Operational Programmes can be used to assist in the consideration of need for projects seeking funding under the Programmes. It is intended for use by those carrying out and commenting on such appraisals.

Background

2. An essential part of the appraisal process for any project is to determine that it is needed. This is the first and perhaps most fundamental stage in any economic appraisal.

EU Programming Requirements and the Determination of Need

3. EU Programming documents are produced under strict regulating guidance from the Commission. One such requirement is that they establish through consultation and research needs and priorities for the eligible area.
4. Article 12 of Regulation (EC) 1080/2006 which stipulates that each Programme should include *“an analysis of the situation in terms of strengths and weaknesses and the strategy chosen in response [and] a justification of the priorities chosen having regard to...the results of the ex ante evaluation...”*
5. Ex ante evaluation is in turn governed by Article 48 of Regulation 1083/2006: *“Ex ante evaluations shall aim to optimise the allocation of budgetary resources under operational programmes and improve programming quality. They shall identify and appraise the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets, the coherence, if necessary, of the strategy proposed for the region, the Community value-added, the extent to which the Community’s priorities have been taken into account, the lessons drawn from previous programming,*

and the quality of the procedures for implementation, monitoring, evaluation and financial management.”

6. The development of all Northern Ireland EU Programmes (Competitiveness, Employment, PEACE III and INTERREG IVA) was in line with these Regulations. Following extensive public consultation and research each commissioned a detailed socio-economic profile of the eligible region focusing on factors such as employment levels, unemployment, skills levels, entrepreneurship, principal economic activities, communications and infrastructure. This profile was then used to compile a SWOT analysis that identified such weaknesses as low productivity, over-dependence on traditional/declining economic sectors and on the public sector, low entrepreneurship and poor workforce skills. The SWOT analysis in particular informed the development of the Operational Programme, including its aims, objectives and priorities, the policy areas (themes) to be addressed and the amount to be allocated to each of these areas.
7. Throughout the development of the Programme, independent ex ante evaluators provided a critique of successive draft versions of the profile, SWOT and Operational Programme. Their criticisms were either taken into account during subsequent redrafts or rejected with rationale provided. The final version Operational Programmes, agreed by both the Executive and the Commission, includes a description of the process and stage by which the Programme was developed and the principal issues raised by the ex ante evaluators.
8. The process by which Programmes are developed therefore already provides assurance that there is demonstrated need for assistance in those policy areas that the Programme addresses.
9. The key question therefore when considering the need for a project under the EU Programmes is therefore whether and to what extent the projects meets the needs that have already been identified and agreed at the Programme level. The Programme selection process and selection criteria are based on

the Programme's aims, objectives, priorities and themes are designed to do this. These have been agreed by the Monitoring Committees and the Executive. Any applicant project that achieves a score above the threshold will by definition meet the need that the Programme was designed to address.

Economic Appraisal Checklist

Section of the Appraisal	A. Complex, innovative, high risk or expensive projects i.e most cases above £500,000: KEY ELEMENTS OF FULL ECONOMIC APPRAISAL	B. Straightforward, tried-and-tested, low risk, inexpensive projects i.e. most cases under £500,000 KEY ELEMENTS OF CONDENSED ECONOMIC APPRAISAL (or 'VFM ASSESSMENT')
1. Strategic Context	Fit of the proposed project with:- <ul style="list-style-type: none"> ▲ The main aims and objectives of the Priority and Measure and Programme. ▲ Other policy documents relevant to the Measure. 	Fit of the proposed project with:- <ul style="list-style-type: none"> ▲ The main aims and objectives of the Priority and Measure and Programme. ▲ Other policy documents relevant to the Measure.
2. Assessment of Need (incl. assessment of Additionality)	<ul style="list-style-type: none"> ▲ Quantified assessment of need (Reference to relevant EU Programme Document supported by relevant economic and social indicators relating to the target groups for the project and location of the project). ▲ Qualitative assessment of need (Reference to relevant EU Programme Document including for example more descriptive aspects of need evident through dialogue and consultations with project promoters and potential beneficiaries). ▲ Additionality: Assess potential for deadweight and establish that the proposed assistance is the minimum necessary. 	<ul style="list-style-type: none"> ▲ Quantified assessment of need (Reference to relevant EU Programme Document supported by relevant economic and social indicators relating to the target groups for the project and location of the project). ▲ Qualitative assessment of need (Reference to relevant EU Programme Document including for example more descriptive aspects of need evident through dialogue and consultations with project promoters and potential beneficiaries). ▲ Additionality: Assess potential for deadweight and establish that the proposed assistance is the minimum necessary.
3. Define the Objectives and Constraints	<ul style="list-style-type: none"> ▪ Define the expected outcomes and outputs. ▪ Specify targets that are SMART i.e. <u>S</u>pecific <u>M</u>easurable <u>A</u>chievable <u>R</u>elevant and <u>T</u>ime-dependent. ▪ Include implementation targets e.g. dates, milestones. ▪ State the key constraints on the project, e.g. technical, financial, legal, timing etc. ▪ Indicate the relative priority of individual objectives or elements of the proposals ▪ Provide sufficient detail to enable option generation and option performance assessment. 	<ul style="list-style-type: none"> ▪ Define the expected outcomes and outputs. ▪ Specify targets that are SMART i.e. <u>S</u>pecific <u>M</u>easurable <u>A</u>chievable <u>R</u>elevant and <u>T</u>ime-dependent. ▪ Include implementation targets e.g. dates, milestones. ▪ State the key constraints on the project, e.g. technical, financial, legal, timing etc. ▪ Indicate the relative priority of individual objectives or elements of the proposals ▪ Provide sufficient detail to enable option generation and option performance assessment.
4. Identification of Options	<ul style="list-style-type: none"> ▲ Consideration of any variations in the scale, quality, technique, location, timing or funding of the proposed project which may offer better fit with the need identified, or higher quality outputs/outcomes or greater value for money (VFM) in terms of the ratio of inputs to outputs/outcomes. 	It is always good practice to think about possible alternatives. However: Formal consideration of options is not mandatory for projects below the £250k threshold
5. Quantify Monetary Costs and Benefits	<ul style="list-style-type: none"> ▲ Identification and phasing of monetary costs of shortlisted options. ▲ Identification and phasing of quantifiable benefits. ▲ Adjust for displacement. 	<ul style="list-style-type: none"> ▲ Identification and phasing of monetary costs and benefits. ▲ Adjust for displacement. Cost-effectiveness: Assess ratios of inputs to outputs e.g. total financial assistance

Section of the Appraisal	A. Complex, innovative, high risk or expensive projects i.e most cases above £500,000: KEY ELEMENTS OF FULL ECONOMIC APPRAISAL	B. Straightforward, tried-and-tested, low risk, inexpensive projects i.e. most cases under £500,000 KEY ELEMENTS OF CONDENSED ECONOMIC APPRAISAL (or 'VFM ASSESSMENT')
(incl assessment of Cost-effectiveness)	<ul style="list-style-type: none"> ▲ Cost-effectiveness: Assess ratios of inputs to outputs e.g. total financial assistance to total project cost, total financial assistance cost per job, other unit costs. 	to total project cost, total financial cost per job, other unit costs.
6. Assess Risk and calculate Optimism Bias	<ul style="list-style-type: none"> ▲ Identify the main risks for each option. ▲ Identify measures to pro-actively monitor/deal with risk. ▲ Adjust costs, benefits and timescales for optimism bias where appropriate. 	<ul style="list-style-type: none"> ▲ Identify the main risks. ▲ Identify measures to pro-actively monitor/deal with risk. <p>A less detailed assessment of risks will be expected. Formal analysis of optimism bias is not mandatory.</p>
7. Weigh up Non-Monetary Costs and Benefits	<ul style="list-style-type: none"> ▪ Identify relevant non-monetary costs and benefits. ▪ Quantify them in suitable units where possible. ▪ Employ appropriate technique to show how they compare under the different options e.g. "list and describe" in simpler cases; "impact statement" or "weighted scoring method" in others. ▪ Consider distributional issues incl. New TSN & Equality. ▪ Explain assumptions clearly e.g. weights and scores should be explained individually. ▪ Interpret the results of the non-monetary analysis. 	<ul style="list-style-type: none"> ▪ Identify relevant non-monetary costs and benefits. ▪ Quantify them in suitable units where possible. ▪ Consider distributional issues incl. New TSN & Equality. <p>It will normally be adequate to list and describe non-monetary costs and benefits.</p>
8. Calculate NPVs and Assess Uncertainties	<ul style="list-style-type: none"> ▪ Identify phasing of monetary costs and benefits over suitable time period, adjusted for inflation, optimism bias and (where relevant) displacement and tax differences. ▪ Calculate NPV (or NPC) for each option, using correct discount rate. (NB: Calculation of NPVs is not mandatory for projects of three years duration or less) ▪ Include spreadsheets detailing the calculations, including disaggregation of cost/benefit items. ▪ Show, for each year, the discount factors used, the total NPV for the year, and the cumulative NPV to that year. ▪ Identify the price basis and base year for discounting. ▪ Test and interpret the sensitivity of the NPVs (or NPCs) to changes in important assumptions, and explain choice of variations covered. ▪ Interpret the results e.g. estimate the probability of various possible outcomes and implications for option ranking. 	<p>Calculation of NPVs and detailed sensitivity analysis are not mandatory for projects below the £250k threshold.</p>

Section of the Appraisal	A. Complex, innovative, high risk or expensive projects i.e most cases above £500,000: KEY ELEMENTS OF FULL ECONOMIC APPRAISAL	B. Straightforward, tried-and-tested, low risk, inexpensive projects i.e. most cases under £500,000 KEY ELEMENTS OF CONDENSED ECONOMIC APPRAISAL (or 'VFM ASSESSMENT')
9. Project Finance, Management, Monitoring and Evaluation (incl. Assessment of Viability)	<ul style="list-style-type: none"> ▪ Provide sufficient detail to enable checking of calculations. ▪ <i>Financing:</i> Include PE implications and sources of funding, phased over time. ▪ <i>Management:</i> Give details of proposed personnel, procurement method, timetable, benefits realisation plan, accommodation needs, staffing issues, exit strategy etc. ▪ <i>Marketing:</i> Provide market assessment and marketing plan as appropriate ▪ <i>Monitoring:</i> Indicate how the proposed option will be monitored during and after implementation. ▪ <i>Evaluation:</i> Record pre-implementation levels of resource use and service provision. Indicate factors to be evaluated, when, how and by whom. ▪ Assess Viability i.e. examine cash flows, management & financial arrangements to ensure that funding is not wasted on proposals that will fail prematurely. 	<ul style="list-style-type: none"> ▪ <i>Financing:</i> Include PE implications and sources of funding, phased over time. ▪ Provide suitable details of management, marketing & monitoring arrangements and exit strategy. ▪ Assess Viability i.e. examine cash flows, management & financial arrangements to ensure that funding is not wasted on proposals that will fail prematurely. ▪ <i>Evaluation:</i> Arrangements should be made to evaluate a sample of projects covering 5% of the assistance awarded to projects below the £250k threshold.
10. Present the results and conclusions	<p>A substantial free-standing Economic Appraisal Report should be provided, covering:</p> <ul style="list-style-type: none"> ▪ The steps of the appraisal in the order shown here. ▪ Details of assumptions and calculations, using appropriate appendices. ▪ A summary of main results (i.e. on economic efficiency, affordability, additionality, viability, cost-effectiveness and overall VFM) for each option. ▪ Conclusions and recommendations. 	<p>A brief summary Economic Appraisal report or pro forma should be provided, covering:</p> <ul style="list-style-type: none"> ▪ The steps of the appraisal in the order shown here. ▪ Details of main assumptions and calculations. ▪ A summary of main results (i.e. on economic efficiency, affordability, additionality, viability, cost-effectiveness and overall VFM) for each option. ▪ Conclusions and recommendations.