

NORTHERN IRELAND EU STRUCTURAL FUNDS

ECONOMIC APPRAISALS

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 DAO (DFP) 03/05 on the use of external consultants, a copy is available in full from DFP's Accountability and Accountancy Services Division website at <http://www.aasdni.gov.uk/pubs/DAOs/dao0305.doc>

Guidance

Economic appraisal guidance is set out in the Treasury publication 'Appraisal and Evaluation in Central Government' also known as the 'Green Book.' Specific guidance on its application in Northern Ireland is detailed in 'The Northern Ireland Practical Guide to the Green Book', published by DFP in 2003 which can be downloaded from the DFP website <http://eag.dfpni.gov.uk/ni-practical-guide-final-version.pdf>. 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 www.aasdni.gov.uk.

Proportionality of Economic Appraisals

The principles of economic appraisal are to be applied with 'proportionate effort'. In general, this requires that all projects, where the total financial assistance over the life of the project totals £500,000 or more, should be the subject of a full economic

appraisal; that is, one in which all the appraisal stages described in the 'Northern Ireland Practical Guide to the Green Book' are followed. However, that does not mean that a complex modeling exercise is required on every occasion, nor is the £500,000 figure to be regarded as a rigid cut-off point. Sometimes, even for projects with total financial assistance of more than £500,000, the approach to be taken is very obvious and a few pages outlining why the decision has been arrived at maybe perfectly reasonable. In other cases, more detailed analysis may be appropriate. For all projects, whatever the costs, a proportionate appraisal is required. 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.

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 may be based on the information gathered in the application process or from supplementary information - see Appendix A. Implementing Bodies must be able to demonstrate clearly the value for money judgement reached for each project supported. It is not sufficient that appraisal forms are merely completed. There must be evidence that the information in the completed forms has been assessed and considered satisfactory before deciding to approve funding.

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.

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.

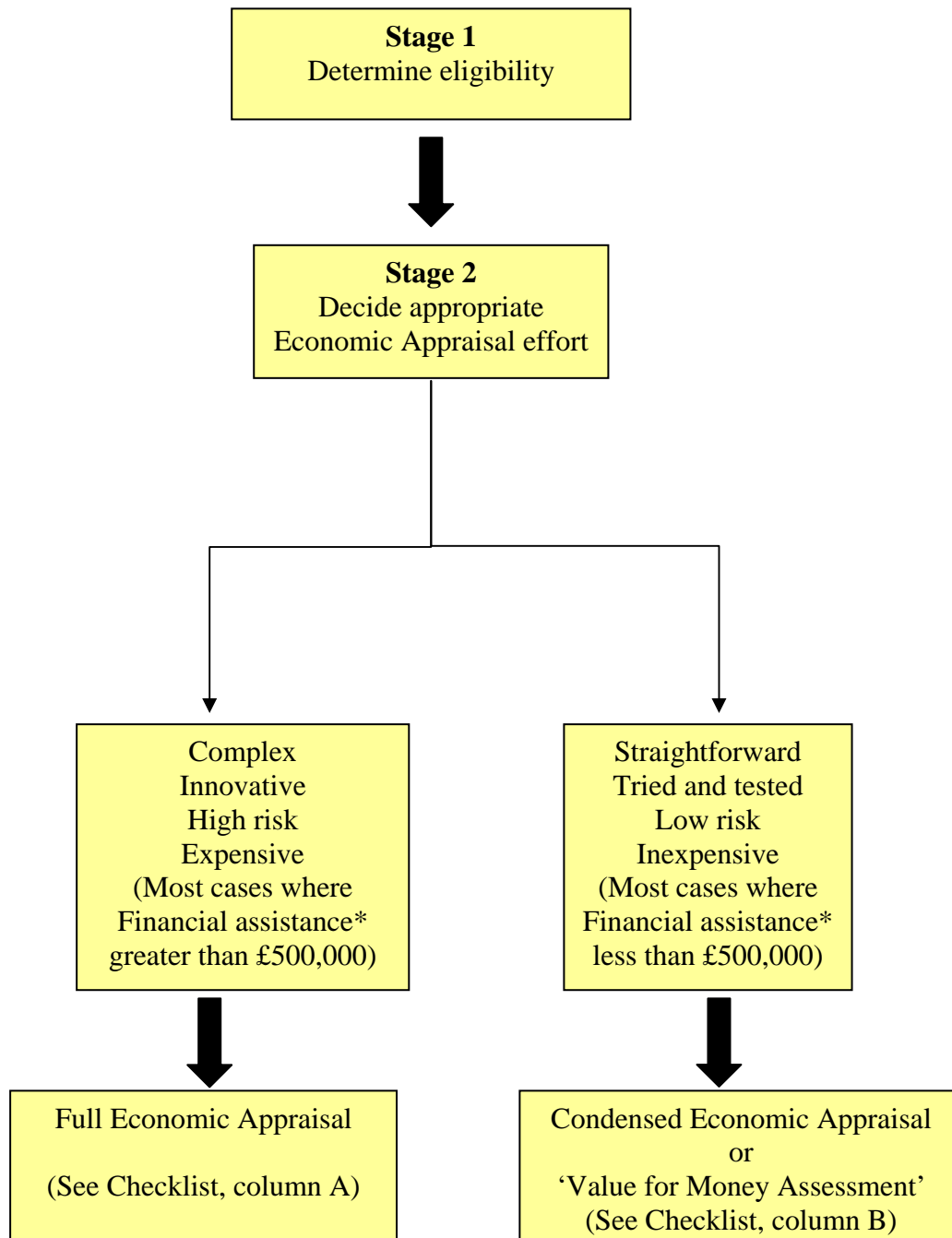
- What is the purpose of the project?
- Have you established a need for the project? (If so, please provide evidence of how it meets the needs identified in the relevant EU Programme document – See Appendix C).
- What are the specific objectives of the project? Provide measurable targets and quantifiable 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.

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. Specific Measurable Achievable Relevant and Time-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. Specific Measurable Achievable Relevant and Time-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>

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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.