

Annex 1 – Appraisal Considerations.



GUIDANCE FOR RDAs IN APPRAISAL, DELIVERY AND EVALUATION

This Guidance has been produced jointly by BERR, English Partnerships, RDAs and OffPAT. The full Guidance can be found at <http://www.berr.gov.uk/files/file45733.pdf>

**TABLE 1 APPRAISAL CONSIDERATIONS
STRATEGIC CASE**

<p>Project description</p>	<p>Project name Project location Project proposer(s) (identify names) Partner names and their roles and responsibilities, inc that of the RDA Project description setting out the main activities of the project and any dependencies and constraints</p>
<p>Strategic fit</p>	<p>How does the project fit and contribute to:</p> <ul style="list-style-type: none"> • the RES and RDA Corporate Plan • the regional ERDF Operating Programme/RDPE Implementation Plan • other RDA projects and programmes • other relevant regional or sub-regional strategies/initiatives • other relevant Government initiatives, programmes e.g.UK Sustainable

	Development Strategy
Rationale	<p>What market failure(s)¹⁵ or equity objective(s) are being addressed by the project?</p> <p>Why should the RDA support the project¹⁶ (is another public body better placed to do so)?</p> <p>What is the background context and evidence to justify public sector support for the project?</p>
Objectives¹⁷	<p>What are the project Specific Measurable Achievable Realistic and Timed (SMART) objectives?</p> <p>What indicators will be used to measure project success against those objectives?</p> <p>What is the baseline from which change will be measured?</p>

ECONOMIC CASE

Options	<p>What options have been considered as potentially capable of meeting the project objectives?</p> <p>Where options have been ruled out is this clearly justified?</p> <p>What consultation was there with stakeholders (project partners and the community) in developing the project? How did this affect the design of the project?</p> <p>The short list of options for detailed appraisal should, as a minimum, include:</p>
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	<ul style="list-style-type: none"> • Reference case – do nothing¹⁸ or do minimum • A viable alternative to the preferred option • The preferred option
<p>Value for money</p>	<p>For each short listed option, the economic costs and benefits should be identified. Care should be taken to differentiate between economic and financial costs and benefits. The assumptions underpinning these projections should be clearly identified and ranges should be used where uncertainties exist.</p> <p>Costs and benefits should be assessed over the whole lifetime of a project.</p> <p>Wider social and environmental costs for which there is no obvious market price should still be considered. Where costs cannot be quantified is this justified?</p> <p>Have attempts been made to assess scale or impact in terms of numbers affected?</p> <p>Discounting should be undertaken on projects with costs and benefits accruing over 3 years or more to calculate the Net Present Value (NPV). The Treasury discount rate (currently 3.5% real) should be used.</p> <p>Where delivery is being undertaken by the private sector the risk of default needs to be reflected in the appraisal and it may be appropriate to do that in the discount rate or by adjusting the</p>

	<p>benefits. Where the project is likely to require BERR approval, techniques should be discussed with the department.</p> <p>Profile the measurable gross outputs and outcomes¹⁹ over time showing the:</p> <ul style="list-style-type: none">• total outputs, the RDA share direct attributable to its investment and that of all public sector funders• outcomes (these should relate to the project objectives)• Strategic Added Value contribution• any other social, economic and environmental benefits (for large projects) <p>it may be possible to monetise some of them).</p> <p>The additionality of the Agency's investment should be set out.</p> <p>Adjust the gross outputs/outcomes by applying deadweight, displacement, leakage and multiplier factors to arrive at net forecast.²⁰</p> <p>Compare the costs and benefits of each option to assess value for money.</p> <p>Where all costs and benefits have been monetised this will take the form of an NPV comparison. Where there are costs and benefits that have not been monetised, the trade-offs between them should be set out explicitly including an assessment of whether additional benefits justify additional costs. For large projects it may be appropriate to use weighting and scoring techniques and to take other relevant factors into</p>
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	<p>account.²¹</p> <p>Are the results for each option clearly presented so that:</p> <p>i. the trade-offs made between the costs and benefits of particular options are shown to demonstrate which option offers best value for money?</p> <p>ii. the cost and benefit components of the preferred option can be benchmarked against other similar projects? If there is a significant variance has this been explained and justified?</p>
<p>Sensitivity and optimism bias</p>	<p>What are the risks specific to each option and do they impact on options choice?</p> <p>Are there risks associated with the delivery partner? Are these expressly set out?</p> <p>How certain / realistic are the forecast costs and benefits?</p> <p>Is there appropriate sensitivity analysis,²² including worst case scenario?</p> <p>Is optimism bias²³ clearly included and aligned with risk?</p>
<p>Competition</p>	<p>Is a competition assessment required? If so what is the outcome?</p>

FINANCIAL CASE

<p>Financial assessment</p>	<p>For the preferred option, determine whether the project is financially viable by assessing the credibility of the project financial plan.</p> <p>Are all the project funding bodies and their funding contributions identified? Are</p>
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	<p>all contributions secured?</p> <p>Who will benefit from receipts and who will be responsible for any liabilities e.g.</p> <p>cost overruns or shortfalls in receipts?</p> <p>Have any additional costs to the RDA e.g. its own project management costs or</p> <p>an evaluation budget (where these are directly attributable to the project) been</p> <p>identified?</p> <p>Set out the gross undiscounted cost²⁴ of the option to the RDA and the</p> <p>budgetary impact based on resource accounting and budgeting (RAB) principles,</p> <p>over the lifetime of the proposal. Pay particular attention to:</p> <ul style="list-style-type: none"> • non recoverable VAT • current market value of any land or other non financial assets to be committed • any anticipated write-down on future disposals.
<p>Exit and legacy /sustainability</p>	<p>What will happen to the project after the RDA's investment ends?</p> <p>If it is not to close will it be financially self-sustaining? Is there sufficient demand</p> <p>for it? If not how will long term funding be secured?</p> <p>If assets are to be sold will the sale comply with rules on disposal²⁵ of assets</p> <p>acquired or improved through public funds?</p>
<p>Recommended option</p>	<p>Based on the above analysis what is the recommended option? Reasons</p>

	<p>should include practicality, value for money, added value, affordability and sustainability.</p> <p>Confirm that the project could not go ahead on its proposed scale, quality and timing without the RDA intervention and that the investment recommended is the minimum necessary.</p>
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COMMERCIAL CASE

<p>Legal</p>	<p>Are the project activities within the RDA's remit to support?</p> <p>Is the RDA funding the project under a contract or grant award?</p> <p>Are there specific requirements/conditions to be attached to the project agreement?</p> <p>Are clawback/guarantees required?</p>
<p>Procurement</p>	<p>For procurement contracts what is the procurement strategy e.g. is OJEU procurement required?</p> <p>What are the arrangements for OGC Gateway Reviews?</p>
<p>State aid</p>	<p>How is the proposed intervention State aid compliant? What State aid measure(s) e.g. block exemption, de minimis or Commission approved scheme applies?</p> <p>Is it within the relevant aid intensity ceilings?</p> <p>If it requires notification how will this be managed and what are the implications and risks for the project programme and costs?</p>

MANAGEMENT CASE

<p>Beneficiaries</p>	<p>Have the beneficiaries/users/area(s) of benefit been identified?</p> <p>Have the possible positive and negative impacts of the project upon them been considered?</p> <p>Has an equalities impact assessment been undertaken? What were its conclusions and impact on project design/options selection?</p>
<p>Sustainable development</p>	<p>How have the sustainable development opportunities been tested through options selection and project design?</p> <p>Will the project have a positive impact on the environment, economy and/or social sustainability?</p> <p>Where any adverse consequences identified? How will these be managed/mitigated?</p>
<p>Risk management</p>	<p>Are risks, constraints, dependencies identified, costed and managed?</p> <p>Is there a project risk log with relevant development stage risks identified?</p> <p>How will the project be designed and managed to reach the target groups or area?</p>
<p>Delivery</p>	<p>Is this the right delivery body?</p> <p>Does the delivery body have the capability (capacity and experience) to deliver the type and scale of project?</p> <p>To deliver the project will a recognised project management process²⁶ be used with clearly defined contract and</p>

	<p>project roles and responsibilities?</p> <p>Are the key project delivery dates, milestones, tasks and responsibilities clearly set out in a project delivery plan?</p>
Monitoring plan	<p>Is there a monitoring plan that covers:</p> <ul style="list-style-type: none"> • the delivery arrangements, • roles and responsibilities, • what is to be delivered by when, how • costs, funding and audit arrangements, • the reporting arrangements, • how changes to project costs, outputs, key dates and variations to the contract will be managed • site visits to the project to review progress on the ground • risk and issues management plan & provision for contingencies <p>Are these to be included in schedules to the RDA legal agreement?</p>
Evaluation plan	<p>Is there an evaluation plan²⁷ covering:</p> <ul style="list-style-type: none"> • whether it is part of a programme or a standalone evaluation. • what type of evaluation, timing costs and resources? • how will it be disseminated, including to the RDA network? • how will the lessons learnt be incorporated into future projects? .

15 The main market failures are externalities, market power, imperfect information, public goods (see Appendix C).

16 RDAs should not fund the core activities of other public sector bodies as this would override the funds approved by Parliament for those activities.

- 17 See OffPAT PAN 2/2006 A Project Logic Chain Approach.
- 18 Note 'do nothing' does not mean that nothing happens (see OffPAT PAN 7/2005 for more information).
- 19 The OffPAT PAN 2/2006 A Project Logic Chain Approach provides examples of the linkages between project objectives, outputs and outcomes. See also the RDAs Combined Technical Note.
- 20 See OffPAT PAN 8/2005 The Additionality of Project Benefits.
- 21 See <http://greenbook.treasury.gov.uk/chapter05.htm#considering> for more information.
- 22 Test the extent to which changes in key variables (costs, receipts, number of users) effect the decision making criteria (e.g. NPV in a cost: benefit analysis, cost per unit in a cost effectiveness analysis or project break even). Use switching points to identify how much a key variable needs to change for the project/option to no longer represent good value for money.
- 23 Application should be proportionate to the project scale, type and risk, the minimum level of consideration for projects that require approval by the RDA's Board. For more information see OffPAT PAN 5/2005, *CLG Adjusting for Optimism Bias in Regeneration Projects and Programmes: A Guidance Note* & Green Book Annex.
- 24 RDAs Financial Memorandum definition.
- 25 See Built Environment references in Appendix E.
- 26 PRINCE2 (Projects In a Controlled Environment) is the recognised public sector best practice project management system and is mandatory for ICT projects [Name]