



Fermanagh & Omagh
District Council

Comhairle Ceantair
Fhear Manach agus na hÓmaí

Options Appraisal Policy (Economic Appraisals and Business Cases)

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Introduction

Fermanagh and Omagh District Council is committed to ensuring that public money is expended in a manner which represents value for money and satisfies public accountability requirements.

When committing funds it is essential to ensure that resources are utilised in a manner which will provide an optimal solution to an identified need. As such, an appraisal is a key decision making tool which must be carried out at the project initiation phase to allow for full consideration to be given to all potential options.

It is imperative that Managers, Heads of Service and Directors employ a proactive approach to appraisal preparation so that the appropriate documentation is available for the budget setting cycle.

1. Aim

The aim of this Policy is to provide guidance on the appraisal process from assessing the level of appraisal required right through to assessment, reporting and project evaluation.

2. Scope

This Policy is of material consideration to all Managers, Heads of Service and Directors within Fermanagh and Omagh District Council to inform decision making.

3. Objectives

The objectives of this Policy are to:

- Specify appraisal limits,
- Clarify the extent of appraisal required in relation to the level of expenditure,
- Outline where the responsibility for appraisal preparation lies,
- Document the assessment and reporting process, and
- Highlight the need and specify requirements for post project evaluation.

4. Policy Responsibility

Members are responsible for the approval of projects to proceed to tender and to award contracts to the most economically advantageous tender for projects with expenditure greater than £30,000.

The **Senior Management Team of Fermanagh and Omagh District Council** has overall responsibility for the implementation and monitoring of this Policy.

Directors are responsible for compliance with this Policy within their own directorate and the **Head of Funding and Investment** has responsibility for the day-to-day management and administration of the Policy.

All relevant employees are expected to follow this Policy and take the appropriate action to meet the aims and objectives.

5. Review

This policy may be subject to scrutiny and, from time to time, updates and re-issues will be circulated.

It is anticipated that the first formal review will take place in April 2016.

6. Appraisal: Overview

Fermanagh and Omagh District Council is committed to ensuring that public money is expended in a manner which represents value for money and satisfies public accountability requirements.

In order to comply with the Finance Act (NI) 2011 and the Prudential Code an options appraisal including an assessment of long-term affordability is necessary to justify capital investment.

An appraisal is a decision making tool and is the systematic process by which alternative uses of resources are examined. It is the process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made (CIPFA 'Option Appraisal – a practical guide for public sector organisations).

A good appraisal will lead to better decision making, facilitates good project management and project evaluation.

Preparing an appraisal is not optional; it is an essential part of good financial management, it is vital to decision making and accountability and is an integral part of the Council's capital strategy, programming and budgeting arrangements.

It is imperative that the appraisal takes place at the project initiation phase to ensure that all options are considered and that the best outcome is achieved. Preparing retrospective appraisals after a project decision has been made or expenditure committed is bad management practice and is unacceptable. Appraisals should not be used to refine the details of a predetermined option and should not be prepared in a manner as a justification for a decision already made.

It is essential that Managers, Heads of Service and Directors give consideration to projects all year round and not just at the annual budget setting time. A proactive approach must be taken to identifying opportunities and methods for continuous improvement so that adequate time and resources can be given to an options appraisal. The appraisal will be used to inform the budget setting cycle when all projects for consideration will be reviewed and prioritised accordingly within the context of what is affordable for the Council.

7. Appraisal Limits

Before any level of expenditure is incurred it is essential that appraisal techniques are applied. This appraisal process may not be formally documented depending on the level of expenditure involved but the fundamental question of, "Is there a real need for this expenditure to be incurred?" must always be asked.

The level of appraisal required will be appropriate and proportionate to the level of expenditure to be incurred.

For projects or commitments with a level of expenditure expected to be greater than £250,000 a full economic appraisal must be prepared. (Full guidance for preparation can be found at www.dfpni.gov.uk)

For projects with a level of expenditure greater than £30,000 but less than £250,000 a business case must be prepared (see Appendix 1).

For expenditure between £10,000 and £30,000 which is over and above the “normal” operational costs of a department, a business case must be prepared (see Appendix 1). Examples of such expenditure would include the replacement of a piece of equipment or the implementation of a new system which would result in a change of working practice.

These limits do not exclude a business case being prepared for expenditure below these limits at the request of a Director or Head of Service.

For Council commitments which have an element of recurring capital expenditure, for example public convenience refurbishments or play-park upgrades, an overarching comprehensive appraisal should be prepared. Such an appraisal would include a detailed report on the condition of current facilities and set out a planned programme of expenditure over the next three to five years. This appraisal will be reviewed and updated annually.

8. Elements of an Appraisal

Whilst the extent of an appraisal will depend on the level of expenditure to be incurred, the appraisal must take a realistic look at available options without bias toward a preferred outcome.

It is essential that all appraisals give full consideration to the ongoing revenue costs of the project to facilitate adequate and appropriate revenue budgeting.

In line with the limits as outlined in section 7, a business case must be completed. A template for completion is included as Appendix 1 and, at a minimum, the business case should cover;

- Introduction and Assessment of Need
- Aim and Objectives
- Available Options
- Monetary Costs and Benefits
- Non-Monetary Costs and Benefits (including social value considerations)
- Risks
- Analysis of Preferred Options
- Monitoring and Evaluation
- Financing

For expenditure over £250,000 a full economic appraisal must be carried out in line with the Department of Finance and Personnel's most up to date guidance in relation to preparing economic appraisals (Northern Ireland Guide to Expenditure Appraisal and Evaluation).

At a minimum, the appraisal should include:

- Introduction and Background to the Project
- Strategic Context
- Assessment of Need
- Objectives and Constraints
- Identify and Describe the Options
- Monetary Costs and Benefits
- Risk Appraisal and Adjustment for Optimism Bias
- Assessment of Non-Monetary Costs and Benefits including sustainability and social value
- Quantitative Analysis
- Findings and Recommendations
- Financing, Management, Monitoring, Benefits Realisation and Post-Project Evaluation.

9. Appraisal Preparation

The preparation of an options appraisal could have cross cutting implications over a number of departments and directorates as various personnel may need to be involved in the process.

The responsibility for the preparation of an appraisal lies with the department who have identified the need and whose service delivery will be improved as a result of the project. The Accountant associated with a particular Directorate will be responsible for coordinating and overseeing the completion of an appraisal and the appropriate Director must sign off the appraisal on completion. All staff within the Directorate should provide adequate assistance and guidance to the Accountant as required.

In some cases it may be necessary to externalise the preparation of an appraisal based on the availability of internal resources or the requirements of a funder.

Regardless of whether an appraisal is prepared internally or externally the preparation of a thorough, comprehensive and extensive appraisal is a resource intensive process. It is essential that adequate time is afforded to the appraisal process to ensure that the optimal decision is made.

10. Appraisal Assessment

In order to ensure an independent and objective approach, assessments will be led by personnel who have had no input into the preparation of the appraisal

and who have no responsibility for or involvement in the management and implementation of the proposal under consideration.

It will be the responsibility of **The Funding and Investment Unit** to coordinate the assessment process. The assessment panel will include the Capital and Treasury Accountant. This role will provide an independent challenge to each appraisal and help to ensure there is a consistent quality of appraisal being prepared across all Directorates by providing periodic feedback to the Accountants.

Full information must be provided to the assessment panel including drawings (where appropriate), a timeline for project delivery and an executive summary of the project (see appendix 2 for executive summary guidelines). This information must be forwarded to The Funding and Investment Unit in advance of the assessment panel to allow members appropriate time to consider the documents.

The relevant Head of Service will be required to make a brief presentation to the assessment panel on the proposed project and be available to provide clarification as required. It is essential that those involved in the appraisal preparation give their full cooperation to the assessment team.

Each appraisal will be scored against an assessment matrix (appendix 3). It is essential that a minimum score of 65 is achieved. Feedback will be provided on all appraisals. Where an appraisal has failed to achieve the minimum score, the opportunity will exist for resubmission.

11. Appraisal Reporting

On a monthly basis, the Funding and Investment Unit will provide to the Senior Management Team a report summarising the projects assessed along with the executive summary of each appraisal.

For projects incurring expenditure over £30,000 the executive summary of each options appraisal will be reported to the Policy and Resources Committee. This summary will outline the key elements of the proposal including the options considered, the preferred course of action and a pre-tender estimate of price range involved. The summary will conclude with a recommendation to proceed to tender and to award to the most economically advantageous tender upon receipt and assessment of tenders.

The full business case will also be available to Members.

For expenditure between £10,000 and £30,000 the options appraisal assessment must be discussed with the relevant Director who will then approve the business case and allow the project to proceed.

12. Post Project Evaluation

The purpose of a post project evaluation is to provide a critical and objective review of the project.

It is essential that a post project evaluation is carried out between 12 months and 18 months following project completion. The post project evaluation should follow the format as laid out in Appendix 4 and include, as a minimum, the following elements:

- Overview of Project Purpose
- Achievement of Expected Benefits
- Unexpected Benefits
- Unexpected Problems
- User Reaction/Feedback
- Budget

The Accountant associated with a particular Directorate will be responsible for coordinating and overseeing the completion of a post project evaluation and ensuring it is brought to the attention of the relevant Head of Service and/or Director. The post project review will also be shared with the Funding and Investment Unit as a learning tool for future projects.

