



<p>Subject: FD (DFP) 07/15: APPRAISING FINANCIAL ASSISTANCE: Streamlining of Procedures and Documentation</p>	<p>Circular Ref: HSC(F) 41-2015</p> <p>Date of Issue: 8 July 2015</p>
<p>For Action by:</p> <p>Chief Executive of each HSC Body and NIFRS</p> <p>For Info to:</p> <p>Director of Finance of each HSC Body and NIFRS</p> <p>Summary of Contents:</p> <p>DFP have issued guidance on streamlining procedures and documentation required for financial assistance appraisal.</p> <p>Enquiries:</p> <p>Any enquiries about the contents of this Circular should be addressed to:</p> <p>Finance Policy Accountability and Counter Fraud Unit DHSSPS Room D3 Castle Buildings Stormont BELFAST BT4 3SQ</p> <p>fpau@dhsspsni.gov.uk</p>	<p>Related documents:</p> <p>FD (DFP) 07/15</p> <p>Superseded Documents:</p> <p>Not Applicable</p> <p>Expiry Date:</p> <p>Not Applicable</p> <p>Status of Contents:</p> <p>For Information and action if appropriate</p>

FD (DFP) 07/15: APPRAISING FINANCIAL ASSISTANCE: STREAMLINING OF PROCEDURES AND DOCUMENTATION

Purpose

1. This circular is to inform you that DFP has issued the following letter:

[FD \(DFP\) 07/15: APPRAISING FINANCIAL ASSISTANCE: STREAMLINING OF PROCEDURES AND DOCUMENTATION](#)

A copy of this letter is attached at **Annex A**.

2. This letter sets out DFP's revised guidance for appraisal of assistance to the private, voluntary and community sectors, with the aim of streamlining these procedures to reduce bureaucracy and speed up the appraisal process.

Background

3. Appraisal principles must be applied to all expenditures, including financial assistance. Doing this successfully involves using the appropriate methodology and applying proportionate effort. In the present context, the starting point for these key considerations is the section on [Appraising Assistance to the Private, Voluntary and Community Sectors](#) in the Northern Ireland Guide to Expenditure Appraisal (NIGEAE). There is also relevant general guidance under [Appropriate and Proportionate Effort](#) and [Appraisal and Evaluation of Small Expenditures](#).
4. The letter provides information on the basics of appraising financial assistance, assessing alternative options, documentation required, the use of consultants and post evaluation. It also summarises the changes to be made to NIGEAE to reflect the contents of this letter.

Action

5. Please ensure that this circular is brought to the attention of the appropriate staff within your organisation and that any relevant action points are noted. The letter should be read in conjunction with the existing relevant guidance in NIGEAE.
6. Should you have any queries please contact Paula Shearer on 028 9076 5689 or email paula.shearer@dhsspsni.gov.uk.

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FD (DFP) 07/15

26 June 2015

Dear Finance Director

APPRAISING FINANCIAL ASSISTANCE: STREAMLINING OF PROCEDURES AND DOCUMENTATION

Purpose

1. This letter advises Departments of revised DFP guidance on the appraisal of financial assistance programmes and projects. It is intended to help Departments streamline their procedures and documentation to provide for more flexibility and less effort. The aim is to reduce bureaucracy and speed processes up while continuing to ensure that projects are appraised satisfactorily and accountability requirements are met.

Background

2. Appraisal principles must be applied to all expenditures, including financial assistance. Doing this successfully involves using the appropriate methodology and applying proportionate effort. In the present context, the starting point for these key considerations is the section on [*Appraising Assistance to the Private, Voluntary and Community Sectors*](#) in the Northern Ireland Guide to Expenditure Appraisal (NIGEAE). There is also relevant general guidance under [*Appropriate and Proportionate Effort*](#) and [*Appraisal and Evaluation of Small Expenditures*](#).
3. DFP recognises that appraising financial assistance is often challenging, due to factors such as the involvement of many stakeholders with differing objectives and the difficulties of coordinating efforts to carry out appraisals, complete documentation, obtain necessary approvals and deliver assistance within acceptable timescales. Delays and other problems can arise because of, for example, excessive appraisal effort, unwieldy documentation, too much duplication, over-reliance on external consultants and too many exchanges between stakeholders. DFP is aware that these

problems can give rise to great frustration among project promoters and other stakeholders.

4. Accordingly, DFP has been reviewing its own guidance to seek ways to allow more flexibility and to ease the burden of appraisal procedures and business case documentation generally. This letter presents a number of changes to guidance which are designed to help Departments achieve these aims.
5. **The key message is that DFP supports efforts to streamline procedures and documentation, and in general to reduce bureaucracy and speed up the processing of financial assistance.** There may have been a tendency towards relatively demanding appraisal regimes for financial assistance in the past, perhaps reflecting excessive concerns over potential criticism by DFP, NIAO or PAC. However DFP accepts that there is scope to simplify current procedures without compromising value for money or accountability.
6. Clearly there are limits to what can be achieved by developing general DFP guidance. Overcoming the difficulties and reducing the bureaucracy depends upon the specifics of what happens on the ground for each individual relevant programme. Departments should therefore seek to apply the general principles presented here in the way that is best suited to their own financial assistance programmes, with a view to reducing appraisal effort, eliminating duplication, simplifying documentation, decreasing reliance on external consultants and improving stakeholder interactions; while maintaining adequate arrangements for appraisal and accountability.

The Basics of Appraising Financial Assistance

7. Appraisals of financial assistance generally address the four key criteria of economic efficiency, viability, additionality and cost-effectiveness. This is consistent with longstanding DFP guidance based on the HM Treasury Green Book. Details are given in *NIGEAE* under [Appraising Assistance to the Private, Voluntary and Community Sectors](#). Very briefly:-
 - **Economic Efficiency** – Use economic appraisal to show that the project offers net benefits to Northern Ireland. Broadly this includes assessing project need, objectives, costs, benefits, risks and funding.
 - **Viability** – Assistance should only be granted to projects that are sustainable and will not fail prematurely. Generally this means ensuring the project has sound management, finances and business planning.
 - **Additionality** – Ensure that projects deliver net additional benefits and receive the minimum financial assistance necessary to bring them about. This involves checking that the applicant has a credible case for needing the assistance sought.
 - **Cost-Effectiveness** – Projects should offer value for money (VFM) in terms of ratios of outputs to costs. This means benchmarking to ensure

that the project's unit costs are in line with those for other similar projects.

8. Appendix A below includes a checklist extracted from *NIGEAE*. It covers the issues that DFP generally expects to be addressed when undertaking independent assessments of applications for financial assistance.
9. It is stressed that this is a general checklist. While the four key criteria should normally be covered to some extent, the precise questions to be asked should be tailored to suit the specific financial assistance programme in view, and less detail is required for small projects.
10. As always, proportionate effort should be applied. The following paragraphs provide additional general guidance to help Departments decide what is proportionate, with a focus on reducing bureaucracy and effort. It mainly concerns the economic appraisal (or "economic efficiency test") which is typically where most effort is expended.

Assessing Alternative Options

11. When appraising mainstream departmental expenditure, consideration of alternative options is regarded as vital to identify best VFM solutions. However, in many financial assistance cases DFP accepts that there should be much less focus on identification and appraisal of alternative options and more emphasis on assessing the proposal put forward by the applicant.
12. **Note therefore that DFP does not generally require formal consideration of alternative options in cases involving applications for financial assistance from the non-government sectors.** In most cases it is sufficient to base assessments on the proposal put forward by the applicant. There may sometimes be room for negotiating with applicants over the details of their proposal, but that does not require formal assessment of alternatives.
13. It is good practice to consider the counterfactual position, that is, what the outcome will be in the absence of financial assistance. It is usually adequate to consider this by direct assessment of the additionality of the applicant's proposal and its potential to displace existing provision. In some cases Departments may require formal appraisal of a counterfactual or "do nothing" option. For instance, this can help to reveal whether additionality is full or partial, and hence determine more precisely the benefits attributable to the financial assistance. However, DFP does not generally require formal assessment of the counterfactual as a separate option.
14. **Efforts should not be wasted generating options for the sake of it.** For instance, there is no need for slavish consideration of increases or decreases in the scale of the applicant's proposals. However, there should remain discretion for Departments to examine options in particular cases where they consider it appropriate to do so, for example some large or complex projects. Departments must decide for themselves when it is appropriate to do this. Note also that any procurement projects must continue to comply with the general requirements for such projects.

15. **Costs and benefits should generally be considered only for a single option, based on the applicant's proposal**, except in those specific cases where Departments consider it appropriate to examine a range of options. The capital and resource costs should be identified year by year in much the same way as for any project. It can also generally be useful to calculate the net present cost (NPC) to provide a summary indicator of total project costs. However, there is room for flexibility over this. For instance, calculation of NPCs will not be regarded as necessary for small projects or any that have no significant recurring costs over time.
16. **It should normally be sufficient to simply list and describe non-monetary costs and benefits**. It may also be helpful to quantify them in suitable non-monetary units where it is convenient and cost-effective to do so. However, use of more sophisticated analyses such as detailed impact statements or weighted scoring should only be considered for those larger or more difficult cases where several alternative options need to be examined.

Documentation: Increased reliance on pro formas and checklists

17. It is important to document financial assistance cases, including details of the projects submitted by applicants and evidence that they have been independently appraised by the funding body in terms of economic efficiency, viability, additionality and cost-effectiveness.
18. Information provided to and sought from applicants should be designed to facilitate documentation requirements. For instance, if application forms are designed to provide as much of the required information as possible, this can help reduce subsequent documentation requirements substantially.
19. **The way forward in most cases is for funding bodies to supplement information provided by applicants with brief forms or checklists recording independent assessment**. Applicants cannot independently appraise themselves, so for many years DFP has encouraged the use of forms (or 'pro formas') for recording independent appraisal of financial assistance cases. Pro formas should continue to play a key role, and there should also be scope to employ a checklist-style approach for some programmes and projects. Forms or checklists should be used to demonstrate that proposals have been independently appraised against the four key criteria outline above and reflected in Appendix A below.
20. **Note that DFP does not generally require a separate free-standing business case document in financial assistance cases**. A perceived need to have free-standing business cases may have caused excessive duplication in the past, but DFP accepts that there is generally no such need. For example, for some programmes, acceptable business case documentation may comprise an application form, a business plan and a brief pro forma or checklist recording independent assessment of the applicant's proposals. These documents together can constitute the business case.

21. **Minimal information is required on background and strategic context.** Many business cases have contained excessive background material on relevant policies, strategies and so on. Sometimes DFP has seen cases with 20 or more pages of such material. This is an unnecessary waste of time and resources. DFP guidance was altered in 2013 to state that business cases should not generally contain more than 2 pages of this type of information. In financial assistance cases, all that is generally required is a very brief reference to the relevant programme under which the assistance is sought.
22. **Duplication of effort and documentation is unhelpful and should be avoided.** It is not necessary to repeat all the material provided in applicants' application forms or business plans in a separate business case document. While the funding body may require a separate form, checklist or other document to record independent assessment, duplication is discouraged. For example, if an applicant has made a case for the need for its project, the funding body should not generally have to reproduce it; it may be sufficient to record that the applicant's need assessment has been considered and that it is accepted or rejected.
23. Thus economical use of documentation is generally recommended for financial assistance programmes. However, it is recognised that there may be some types of projects or individual cases for which Departments will require a more substantial business case document to be developed, such as, for example, particularly large or difficult cases.

Use of Consultants

24. **DFP does not recommend extensive use of external consultants to complete business cases for financial assistance cases.** In-house appraisal should be sufficient for most cases, using suitable brief pro forma or checklist-style documents. Departments should seek to reduce reliance on external consultants by this means.
25. However, DFP recognises that there may be cases where it is necessary to employ external consultants, for instance some large or complex projects. This should only be considered when it offers VFM and following the approval of an external consultancy business case in accordance with [FD\(DFP\)07/12](#) and its [associated guidance](#); and [FD\(DFP\)13/12](#) in the case of relatively large scale, complex or innovative assignments.
26. The use of external consultants does not guarantee good quality business cases. It can result in many exchanges between funding bodies and other stakeholders before projects are accepted and approved. This may raise questions such as whether consultants are being given adequate terms of reference, whether they are being managed effectively, and in some instances whether they are capable of delivering satisfactory business cases. Departments should consider the scope to improve processes by providing better terms of reference, by managing consultancy assignments more effectively and by not re-employing consultants who have performed badly.

27. Critical to success is ensuring that consultants are given effective terms of reference (ToR). The ToR should be specific and detailed. For example, it is not generally sufficient to ask consultants to 'conduct a Green Book appraisal' for a proposal. This is too broad, allowing consultants too much scope for interpretation and excessive effort. The specific requirements for each key element of the business case should be spelt out in detail to suit the case in hand and minimise effort and cost.
28. For instance, depending upon the case in view, the ToR may stipulate that a maximum of 2 pages is devoted to background/strategic context; that alternative options should not be considered; that non-monetary factors should just be listed and described; that duplication of applicants' information should be avoided; that reports should be no more than a certain length; and so on.
29. Different stipulations may be included for the minority of larger/complex cases where Departments require formal option appraisal. The key point is that the ToR for assignments should be carefully designed to suit the cases in view and avoid excessive effort. Departmental economists can assist with the design of suitable ToR.

Ex Post Evaluation and Benefits Management / Realisation

30. Evaluation involves ex post examination of outturns to ensure that lessons are learned and fed back into the decision-making process. Departments should generally have arrangements in place to measure outturns, compare them with initial estimates and use the results to consider how to improve the quality of assumptions in future appraisals, including, for example, estimates of costs, benefits and risks. All programmes, including those involving financial assistance, should be evaluated.
31. However, there is room for flexibility over details of how evaluation is carried out and excessive effort should be avoided. It is good practice to record outturns for all financial assistance cases, but evaluation may in some cases be focused at programme level without conducting detailed evaluations of individual projects. Substantial free-standing evaluation reports should only be required for the largest projects. *NIGEAE* indicates that where a programme consists of a large number of small scale projects or activities, it may be appropriate to select only a representative sample of them for detailed evaluation. This may apply to a number of financial assistance programmes.
32. Benefits management and realisation are generally important, since delivery of benefits is crucial to the success of any project. Programme managers should actively seek to ensure that financially-assisted projects are implemented and actually deliver the benefits claimed for them.
33. Again, there is room for flexibility over details and excessive effort should be avoided. Departments should note the availability of a simplified 'Benefit Profile for Small Projects' template, which can enable all the benefits of a project to be profiled on a single sheet. This is located at the Successful

Delivery NI [templates page](#). For large projects, the standard 'Benefit Profile' template (available at the same page) should continue to be used for each individual benefit claimed.

Changes to NIGEAE

34. The NIGEAE section on [Appraising Assistance to the Private, Voluntary and Community Sectors](#) will be amended to reflect the contents of this letter.

Summary of Key Points

- I. DFP supports efforts to reduce bureaucracy in delivering financial assistance by streamlining appraisal procedures and documentation.
- II. Formal consideration of alternative options is not generally required in financial assistance cases.
- III. Costs and benefits should usually be considered only for a single option, based on the applicant's proposal.
- IV. It should normally be sufficient to simply list and describe non-monetary costs and benefits.
- V. Departments retain discretion to appraise options and conduct more detailed appraisal when necessary e.g. in large or complex cases.
- VI. DFP does not generally require a separate free-standing business case document in financial assistance cases.
- VII. Information provided by applicants should generally be supplemented by brief forms or checklists recording independent assessment. This can generally be regarded as sufficient business case documentation.
- VIII. Duplication of effort and documentation is unhelpful and should be avoided.
- IX. Documentation of general background/strategic context information should be minimal and should never exceed two pages.
- X. DFP does not recommend extensive use of external consultants to complete business cases for financial assistance cases.
- XI. When external consultants are required, their terms of reference should be specifically designed to avoid duplication and excessive effort.
- XII. Financial assistance programmes should be evaluated and subjected to benefits management/realisation but excessive effort should be avoided.

Action

35. This letter should be read in conjunction with the existing relevant guidance in *NIGEAE*. Departments should seek to apply its principles in the way that best suits their own financial assistance programmes including relevant programmes of their Agencies, NDPBs and other sponsored bodies.
36. Where this gives rise to significant proposed changes to appraisal regimes, these should be discussed and agreed with the relevant Supply Officer.

Enquiries and Advice

37. General queries on this letter and the revised guidance should be directed in the first instance to Ken McConville of DFP's Strategic Policy Division, Carleton House (email ken.mcconville@dfpni.gov.uk or phone 07867802330).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Sullivan', with a long horizontal flourish extending to the right.

COLIN SULLIVAN

Copy Distribution

**Permanent Secretaries
SPAR/PSD HoDs
Victor Dukelow
Ken McConville**

Appendix A

Financial Assistance to the Private, Voluntary and Community Sectors: A 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

- Does the proposal have clear objectives and targets?
- Are there alternative options to consider?
- Are costs and benefits identified in sufficient detail?
- NPVs calculated correctly?
- Is displacement considered - with adequate supporting evidence?
- Any adjustments needed for foreign ownership?
- Are risks and uncertainties assessed adequately?
- What are the wider costs and benefits?
- 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? e.g. 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?