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FD (DFP) 14 /11

5 August 2011

Dear Finance Director

APPRAISAL AND APPROVAL PROCEDURES - THE IMPORTANCE OF: INCLUDING TOTAL COSTS; APPRAISING MUTUALLY DEPENDENT EXPENDITURES TOGETHER; AND NOT SPLITTING PROJECTS

Purpose

1. To make Finance Directors aware of amendments to DFP guidance which clarify the importance of identifying total cost consequences and emphasise that mutually dependent expenditures must be appraised together and that projects must not be split up to avoid exceeding delegation limits.

Background

2. DFP's general guidance is that appraisals should identify and include the total resource consequences of options. This is to ensure that all the resources used by an expenditure proposal are accounted for. See Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE), para 2.5.24.

3. An important consequence of this is that mutually dependent expenditures must be appraised together. Where one expenditure clearly gives rise to another, they should not be appraised separately. For example, an appraisal concerning the construction of a building must take account of all the associated costs arising such as land

purchase, infrastructure and works services, fitting out with equipment, security, staffing, maintenance and other operational costs. It would be incorrect to appraise any of these costs separately in piecemeal fashion. They are interdependent and must be appraised together in order to ensure that the total resource consequences of a proposal are identified. This is a long standing principle that has been stated in several editions of the HM Treasury Green Book.

4. A related point is that projects must not be split into separate components or phases in order to bring them below delegation limits and avoid submission to DFP. Expenditure incurred in this way will be regarded as irregular. Examples of bad practice include purchases of capital items such as vehicles or computers being appraised separately from other directly related capital expenditures like equipment, accommodation, installation or testing; and the roll out of ICT projects being split into phases to avoid exceeding delegation limits. Where expenditures or activities are linked together and the costs or benefits are mutually dependent, the proposal must be appraised as a whole and submitted to DFP accordingly.

5. A further point to note is that the contribution of the component parts of a proposal to achieving overall value for money must be taken into account. For example, activities offering poor value for money should not be advanced by lumping them together with other more cost-effective activities; and where projects are advanced in phases, the value for money of each individual phase should be considered separately as well as looking at the project as a whole.

6. These points will be reflected in revisions to NIGEAE paras 2.4.15, 2.5.28 and 9.2.5 as indicated in the attached annex.

Action

7. Departments should ensure that all relevant personnel are made aware of these points including those in the Agencies and other bodies for which they are responsible.

Enquiries

8. Enquiries about this guidance should be made in the first instance to Ken McConville (02891858086 or ext 68086) or Donna Watton (02891858082 or ext 68082) of DFP’s Strategic Policy Division, at Rathgael House.

Yours sincerely

RICHARD PENGELLY

cc Permanent Secretaries

ANNEX: AMENDMENTS TO NIGEAE

Insertion under Step 4: Identify and Describe the Options

2.4.15 An option may affect, or be affected by, other expenditure across the public sector (for example, where its outputs or costs depend upon another project or the implementation of a related policy perhaps in another department). Where a number of expenditures or activities are linked together and the costs or benefits are mutually dependent, the proposal must be appraised as a whole. However, the contribution of the component parts of each proposal to achieving overall value for money must be taken into account. For example, activities offering poor value for money should not be advanced by lumping them together with other more cost-effective activities; and where projects are implemented in phases, the value for money of each individual phase should be considered as well as looking at the project as a whole.

Insertion under Step 5 - Identify and Quantify the Monetary Costs and Benefits of Options

2.5.28 Mutually dependent expenditures must be appraised together. Where one expenditure clearly gives rise to another, they should not be appraised separately. For example, an appraisal concerning the construction of a building must take account of all the associated costs arising such as land purchase, infrastructure and works services, fitting out with equipment, security, staffing, maintenance and other operational costs. It would be incorrect to appraise any of these costs separately in piecemeal fashion. They are interdependent and must be appraised together.

Insertion under DFP Approval of Projects in Excess of Delegated Limits

9.2.5 Projects must not be split into separate components or phases in order to bring them below delegation limits and avoid submission to

DFP. Expenditure incurred in this way will be regarded as irregular. Where expenditures or activities are linked together and the costs or benefits are mutually dependent, the proposal must be appraised as a whole and submitted to DFP accordingly. Examples of bad practice include:

- Appraising purchases of capital items such as vehicles or computers separately from other directly related capital expenditures such as ancillary equipment, accommodation, installation or testing;
- Splitting the roll out of ICT projects into phases to avoid exceeding delegation limits; and
- Appraising building construction costs without taking account of associated spending on land purchase, infrastructure and works services, fitting out with equipment, security, staffing, maintenance and other operational costs.