

Capital Appraisal and Cost Benefit Analysis

Brian Carroll

Central Expenditure Evaluation Unit
Department of Finance

Introduction

- Context
 - GIF will operate with an initial Exchequer provision €300m over 3 years
 - Need to achieve best possible VFM in deciding how to spend
 - Requires best practice appraisal
 - Embodied in DoF VFM Frameworks

Introduction (cont'd)

- Revised Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector, February 2005
- Supplemented and amended by Public Procurement and Capital Appraisal Circular Letter, January 2006
- Central objective is to ensure VFM
 - improve quality of decision making
 - improve quality of management control once projects underway

Introduction (cont'd)

- Latest guidance
 - reflects changes in evaluation, project appraisal and management best practice
 - introduces more proportionality and greater consistency in project appraisal and management
 - provides more clarity in relation to the roles of all those involved in approving capital expenditure

Roles and Responsibilities

- Clearer definition of the respective roles and responsibilities
- Application of Guidelines primary responsibility of line Departments and Agencies
- Sponsoring Agency – primary responsibility for project appraisal and management (Page 10)
- Sanctioning Authority – approves sponsoring agency proposals at various stages (Page 11)
- Separation of functional responsibility

Appraisal Requirements

- All projects under capital programmes or included in business plans must be subject to project appraisal
- Guiding principle is proportionality
 - projects costing less than €0.5 million – a simple assessment
 - projects between €0.5 million and €5 million – a single appraisal
 - projects costing between €5 million and €30 million – MCA
 - over €30 million – full CBA
 - innovative projects/new technology/significant future operational costs – full CBA

Preliminary Appraisal

- To determine if a project justifies more detailed consideration – is this worth doing?
- Required for projects costing over €5m
- Can be used to decide between project types
- Format
 - clear statement of needs
 - identification of realistic options
 - preliminary assessment of costs (particularly financial costs) and benefits
 - choice of preferred option
 - are benefits sufficient to warrant incurring costs

Detailed Appraisal

- Builds on Preliminary Appraisal
- To determine if a project should go to planning and implementation stages
- Can be used to decide between options within preferred project type
- Format
 - objective of project
 - list of realistic options
 - constraints
 - quantify financial costs and sources of funding

Detailed Appraisal (cont'd)

- analyse the main options (MCA, financial analysis, CBA, CEA, Exchequer cash flow analysis)
- identification of risks (mitigation strategy)
- time profile for actions
- recommendation of preferred option
- MCA and CBA key components of Detailed Appraisal
- Not mutually exclusive – use forms of analysis that are appropriate
- Remember objective is to secure best VFM in expenditure!

MCA

Multi-Criteria Analysis							
Options	Criterion 1					Criterion n	Total
A							
B							
C							
D							
E							
F							
G							
Weights							

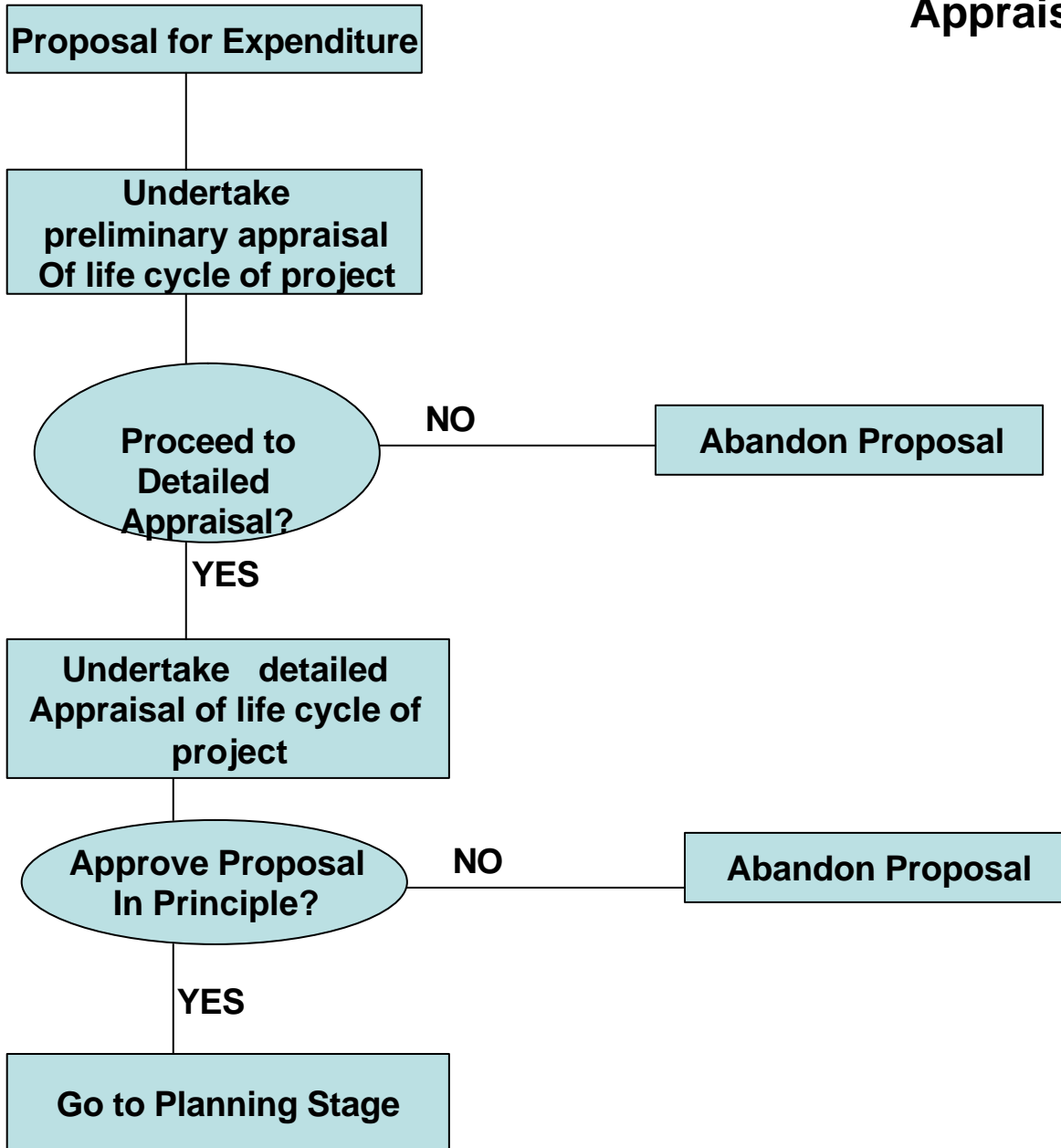
CBA

- Takes as its starting point financial costs and benefits
- Attempts to go beyond this to identify wider non financial costs and benefits and place a monetary value on them
- Are benefits greater than costs?
- Is there a net benefit to society?
- Proposed Working Rules for CBA

Who does Detailed Appraisal?

- Sponsoring Agency
- Appraisal should not be done as 'case-making' exercise
- Sanctioning Authority should ensure it has requisite expertise to assess project appraisal proposals from Sponsoring Agencies
- Outcome – 'Approval in Principle' to proceed to detailed planning

Appraisal Stage



KEY MESSAGES

- GIF offers great opportunity to accelerate development of the Gateways
- Initial Exchequer allocation of €300m is a scarce resource that needs to be applied to maximum effect
- Necessary if GIF is to continue post 2010
- Key to this is best practice appraisal
- Embodied in DoF VFM Frameworks
- Implement them!