

BERR

Department for Business
Enterprise & Regulatory Reform

**GUIDANCE FOR RDAs IN APPRAISAL,
DELIVERY AND EVALUATION**

MARCH 2008

GUIDANCE FOR RDAs IN APPRAISAL, DELIVERY AND EVALUATION

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Foreword

RDAs are a key element of Government economic policy and invest significant sums of money each year in their regions. When planning their work, RDAs need to ensure that all projects and programmes financed from their single budget:

- Fit with Corporate Plan and RES priorities
- Address market failure and demonstrate good value for money
- Are monitored to ensure delivery
- Are covered by evaluations to measure outcomes and learn lessons
- Comply with public procurement requirements and
- Fall within state aid rules

RDAs should also ensure that projects/programmes are consistent with the Business Support Simplification Programme and, in due course, with the national framework when it is agreed.

This Guidance has been produced jointly by BERR, EP, RDAs and OffPAT. It sets out best practice for the full cycle of project development-approval-delivery-learning related to RDA funded projects or programmes and provides a framework within which RDAs can operate. It incorporates the requirements of the Treasury Green Book, which sets out the principles of project appraisal and evaluation, and draws on other relevant guidance as appropriate. It applies whether the project is appraised directly by the RDA itself or by a regional partner.

Proper appraisal to secure efficient use of public money is vital. It is important that RDAs ensure that project development work is properly resourced; that all staff dealing with it are trained in and fully aware of the requirements on them; and that internal processes provide for appropriate challenge and analysis of options. Board members should be aware in outline of the requirements and their own responsibilities for ensuring all projects comply with this guidance, including those which come to them. The RDA Chief Executive, as Accounting Officer, has responsibility for seeing that this happens.

This Guidance applies to all RDA financed projects and programmes. It is important to note that EU funded projects have additional, more stringent, appraisal and audit requirements and each RDA will need to ensure its processes match up to these higher expectations for these projects.

This Guidance replaces the DTI Single Programme Appraisal Guidance 2003 (SPAG) with immediate effect.

Introduction

1.1 Purpose

This guidance sets the principles and key stages for project development, appraisal, approval, delivery, monitoring and evaluation. It provides the framework for Regional Development Agencies¹ (RDAs) to develop the most appropriate project systems for their particular circumstances. In doing so they should ensure that it is universally applied, rigorous, decision orientated, open and transparent and continuously improved.

RDA projects which are developed and delivered in accordance with this guidance are deemed to be compliant with relevant mandatory central government guidance, in particular HMT's Green Book² and its supplements and OGC's Gateway Reviews and Common Minimum Standards.³ It replaces the *Single Programme Appraisal Guidance* issued by DTI in July 2003.

1.2 Scope

This guidance covers RDA projects funded from their Single Budget and European Funds; it excludes RDA administration, research, SFIE and R&D grant projects.

In transferring responsibility for managing the Rural Development Programme for England (RDPE⁴) socio-economic projects and European Regional Development Funds (ERDF) 2007-13 programmes to the RDAs it was recognised that there would be efficiencies from joining the project activities. The principles of this guide and those of the European Programme User Guides are compatible. However, European programmes will need to pay particular attention to their technical requirements on procurement, publicity, audit and monitoring, fit with regional programme objectives and priorities which go beyond the requirements for the Single Budget. It is expected that where projects are co-financed by the RDA Single Budget and these programmes the opportunity will be taken to align or merge activities.

Where RDAs choose to delegate responsibility for programme and project funding to partners, these requirements must be passed on to those undertaking the work.

This guidance applies equally to programmes funded by RDAs. For the purpose of this guidance a programme is defined as a decision and an irreversible commitment to investment funds in a programme of activity either through direct procurement or through a grant to a third party. In such circumstances the guidance is applicable at programme level and in respect of the projects contained within the programme. Section 3 provides more information on how project and programme appraisal and evaluation can fit together.

The responsibility for the appraisal and evaluation of national programmes will lie with the central Government Department that initiated the programme.

¹ The term RDA is used to cover the 8 Regional Development Agencies and the London Development Agency.

² *The Green Book - Appraisal and Evaluation in Central Government*, HM Treasury.

³ Common Minimum Standards for the Procurement of Built Environment by the Public Sector.

⁴ The funds come from the European Agriculture Fund for Rural Development (EAFRD), co-financed with Defra funding. England will make use of voluntary modulation.

1.3 Benefits

Appraisal and evaluation act as:

- a continuous process to help RDAs understand the effects of their interventions and to ensure that their public sector interventions provide value for money;
- a mechanism to understand the social⁵ and sustainable development⁶ as well as the economic, impact of programmes and projects (i.e. their social, economic and environmental costs and benefits over time); and
- a tool to enable RDAs to assess the positive and negative effects of such interventions, allowing them to learn valuable lessons for the future.

Carrying out effective appraisals and evaluation help all those involved to understand and challenge:

- why the RDA is proposing to intervene;
- how and to what extent projects and programmes may impact on them;
- the estimated costs and benefits of proposed and actual measures; and
- the potential risks and consequences.

As the public sector aims to intervene only when necessary and since most programme and project objectives can be achieved through a range of options, the aim of appraisal and evaluation is to identify the proposals that best achieve RDAs' objectives while minimising costs and burdens.⁷ Doing so in a manner which encourages sustainable development and the promotion of equality of opportunity for disadvantaged groups.

The RDA Act 1998 requires the RDAs "to contribute to the achievement of sustainable development in the UK where it is relevant to do so". This is a cross-cutting theme that should be considered in project appraisal to ensure.

- it is resource efficient and, where appropriate, has adopted a low carbon approach;
- has investigated ways to increase economic inclusion and support sustainable communities;
- has considered how sustainable development opportunities and risk can be maximised and mitigated respectively.

Sustainable development means that RDAs should consider the long term impact of projects they fund. The benefits of this approach also accrue to the public purse – as multiple benefits can be achieved by considering how projects and programmes are managed and may enable savings to be made elsewhere in the public sector.

Like all public sector organisations, RDAs have statutory duties in relation to race, gender and disability equality. Their obligations within each area focus on:

⁵ Providing economic opportunities for all groups in all sub-regions and localities within each region, including rural and urban areas, so they can achieve their potential.

⁶ Principles are living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; using sound science responsibility; and promoting good governance. See www.sustainable-development.gov.uk.

⁷ BERR BRE Impact Assessments guidance para 3.

- promoting equality of opportunity;
- promoting good relations;
- promoting positive attitudes;
- eliminating harassment; and
- eliminating unlawful discrimination.

1.4 RDA responsibilities

RDA Accounting Officers are expected to ensure their internal project development, appraisal, approval, delivery and evaluation systems are compliant with this guidance and that projects funded by them are developed, appraised, approved, delivered and evaluated in accordance with it. They should ensure that:

- there is clear accountability for projects at every stage in their development, approval, delivery and evaluation;
- a [Senior Responsible Owner](#) (SRO) is assigned to projects at a level commensurate with its scale and importance;
- appraisals and evaluation are conducted by staff with appropriate skills and experience, whether internal or external; drawing on external expertise as appropriate;
- there is a separation⁸ of functions and assignment of project roles at each stage, with a clear distinction between project sponsors and appraisers and with the investment decision makers;
- appraisals are informed by the appropriate level of consultation;
- a clear audit trail with reports and records kept at each stage of the project to provide evidence that the project is being effectively managed (see Annex A).

1.5 Proportionality

The RDA incurs costs when it appraises monitors and evaluates projects. These costs should be proportionate to the project size, complexity and risk to the RDA.

In designing their systems to meet these requirements RDAs should build in proportionality. For large, complex and high risk projects including those outwith their financial delegations RDAs should show that they have given full consideration to all the requirements; for smaller simpler less risky projects RDAs need to have addressed the relevant appraisal requirements proportionately.

1.6 Risk and OGC Gateway Reviews

Risks must be identified and managed throughout the project life. Risk is influenced by a number of factors including the scale of RDA investment, the size and complexity of the project, whether it is novel, repercussive or contentious and its delivery. All risks, including environmental risks, should be noted in the project risk log and show how they will be managed. SROs should ensure that their projects do not suffer from the common causes of project failure.⁹

⁸ ERDF Council Regulation 1083/2006 Article 58(b)

⁹ DAO(GEN) 7/04 *Delivering Success in Government Acquisition based Programmes and Projects*.

The OGC Gateway Review Risk Potential Assessment¹⁰ or OffPAT's summary of their underlying principles in Appraisal Advice Note 3 should be used to assess the overall project risk. Projects that are high risk must be notified to the BERR Projectcentre who will liaise with OGC as required.

¹⁰ OGC Gateway Review process applies to a wide range of acquisition programmes and projects. High risk projects must be notified to the BERR Projectcentre. Projects that score a risk factor of 18 or less on the OGC RPA do not need to go through the Gateway process as the project risk is deemed to be very low and the process would not be cost effective. Additional requirements have been introduced for projects where their success is dependant on an IT component (DAO GEN 01/03).

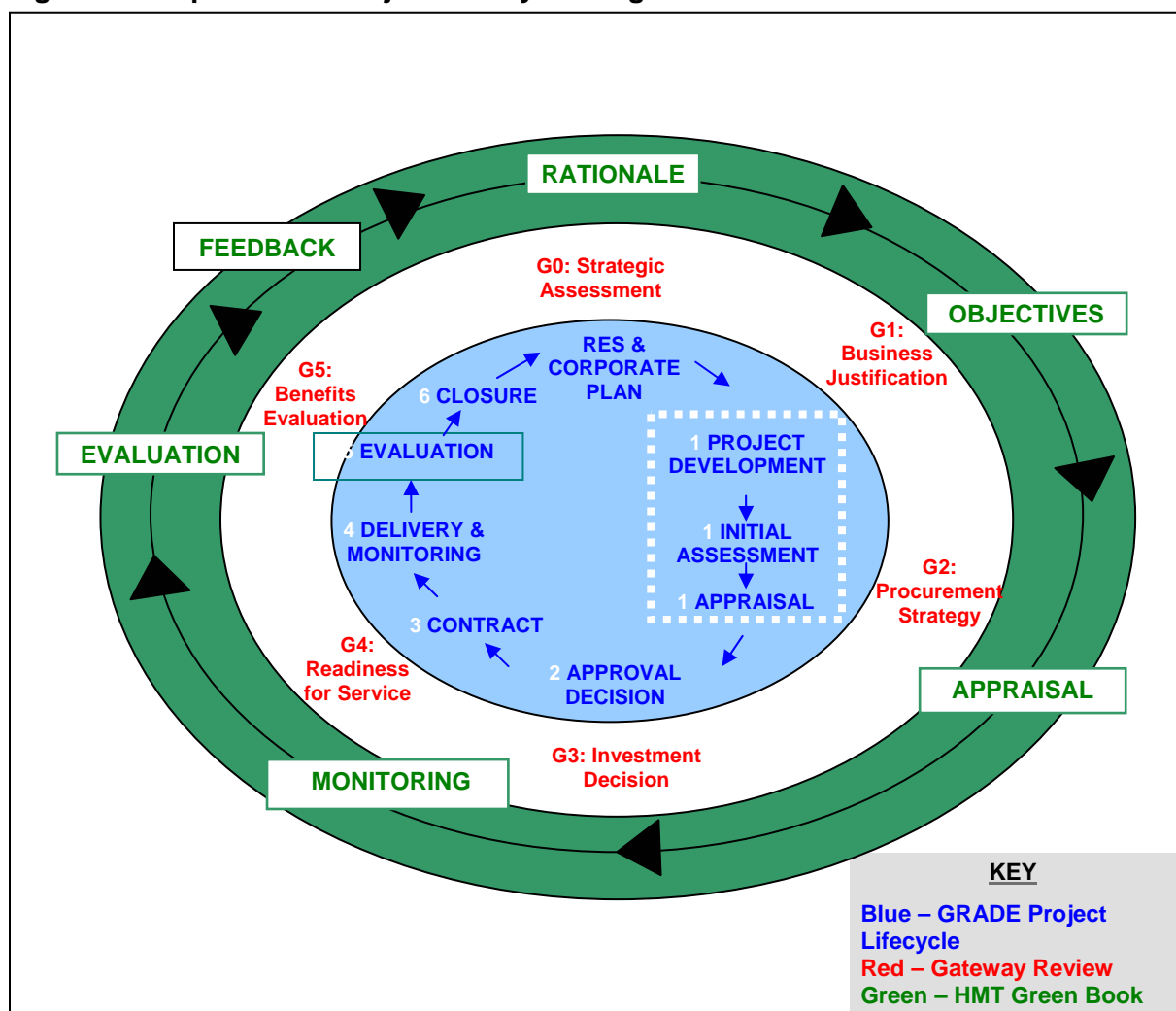
2 The Project Lifecycle

2.1 Overview

The relationship between the Green Book ROAMEF (rationale, objectives, appraisal, monitoring, evaluation, feedback) cycle, the OGC Gateway Review processes and the project stages used in this guidance is summarised in Figure 1 below.

The rest of this section then considers each of the RDA project stages in more detail. While this guidance follows a linear structure it is recognised that in reality project development, appraisal and delivery is an iterative process with many feedback loops and with many elements e.g. risk, State aid, equalities impacts, procurement and evaluation running through all stages of the project's life.

Figure 1 Comparison of Project Life Cycle Stages



Managing the project throughout its lifecycle

The stages that follow cover the management of the project, from its inception, development and appraisal to the decision to approve the investment, through delivery, practical closure and evaluation.

Project management is about organising and managing the available resources in such a way that they complete a project within the agreed scope, quality, time and

cost constraints. Each project should have a project manager to maintain project progress and integrate stakeholders to make sure that the risk of failure is reduced. A successful project manager must be able to visualise the project from start to finish and have the ability to ensure the vision is realised. There is a range of information available on standard, accepted methods of good project management. PRINCE2 is recognised as the de facto public sector project management method; it provides a framework that brings together the disciplines and activities involved in successful project management.

2.2 Project Initiation and Development

This Guidance recognises the wide range and scale of projects that RDAs support through their Single Budget. The RDA Corporate Plans are prepared on a 3-year rolling basis; the RDAs identify in them the national priorities and PSAs to be supported and how they will use their resources to support delivery of the Regional Economic Strategy (RES). The Corporate Plan is approved by the Secretary of State for the Department for Business Enterprise and Regulatory Reform (BERR). RDAs have established a range of mechanisms for delivering their respective RES including action plans, themes and sub-region/area based strategies. These provide the basis for the rationale and strategic fit for their programme and project interventions.

The initiation and development of new projects should learn from and draw on past experience of what has and has not worked and why. Learning from evaluation and the experience within the Agency and across the RDA network is essential to continuous improvement.

Project Development

It is important to understand from the start whether a project is to be delivered through an award of a grant or a contract following a procurement process. This fundamental decision affects the way in which the RDA or partners develop and deliver new projects. All built environment projects should be developed with full reference to OGC's Common Minimum Standards (CMS).

A project may be developed by:

- the RDA itself for i) direct delivery (procurement¹¹) or ii) for commissioning and delivery by regional/sub-regional partners (grant¹²); or
- by external bodies i) a partnership, which includes the RDA (grant) or ii) independently by an external body or partnership which then looks for RDA support (grant).

Irrespective of its origins the proposed project should be submitted, with its business case,¹³ as a candidate for funding from the RDA's Single Budget. The

¹¹ Procurement - the acquisition of goods, works or services in line with the government's policy of value for money, normally achieved through competition, from third party suppliers under legally binding contractual terms where all the conditions necessary to form a legally binding contract have been met

¹² Grant - a financial transfer used to fund an activity that is in broad alignment with the funder's objectives i.e. RDA Act and may be: i. general grants, to assist with the expenses of developing and running an organisation; or ii. specific grants to enable it to carry out a particular project. A grant maker is not contracting for a service that forms part of its own business. It is offering financial support in an area of work, designed and proposed by an external organisation, which it wishes to sponsor. The work to be carried out by the external organisation would be deemed to add value to a public body's overall aims or objectives. For example, grants may be given to encourage SMEs to work with the knowledge base to improve their performance.

RDA should subject the proposal to a comprehensive but proportionate appraisal to assure itself that it can justify public sector investment against two basic tests:

- Are there better ways to achieve the project objective(s)?
- Are there better uses for these resources?

On receipt of a project proposal the RDA SRO should assign a project sponsor (the day-to-day champion) and identify a separate person to appraise the project. The project sponsor should assist the development of the project using the appraisal criteria to guide the process. The time spent upfront on planning and preparing the project business case should reduce the risk of project failure.¹⁴ Appraisals should inform project development and may be iterative with an initial assessment being undertaken where appropriate.

No project expenditure should be committed on the project before it has been appraised and approved. Where it is necessary and appropriate to undertake preparatory work, e.g. surveys or feasibility studies etc, approval for this expenditure should be sought within an initial assessment. Approval of such preliminary expenditure must not imply any further commitment on behalf of the RDA.

Initial Assessment

RDAs may choose to undertake an initial assessment of a proposed project at an early stage in its development to assess its strategic fit with the RDA's priorities. For RDA developed projects the strategic fit will already have been established and an initial assessment is unlikely to be necessary. For projects that are developed externally, those where preliminary expenditure is required to develop the project and for large value and high risk projects, an initial assessment is recommended as good practice.

An initial assessment may also be used to assess the project's relationship with other relevant strategies, the availability of funding, and to identify links that should be made with other public sector activity in the region, whether undertaken by the RDA or another organisation. It provides the RDA with an opportunity for the constructive development of emerging projects or to filter out inappropriate projects at an early stage before these absorb too much time and resources in their further development.

The initial assessment phase should also demonstrate that the sustainable development opportunities have been maximised and that any integration with linked activities are fully described.

¹³ See [HMT Green Book Business Case](#) and [OGC Business Case](#).

¹⁴ [OGC Brochure on the Common Causes of Project Failure](#).

2.3 Project Appraisal

The purpose of the appraisal is to provide a rigorous and thorough assessment of a project. It provides a cost benefit based assessment of whether a proposal is feasible and worthwhile (better than the alternatives), what its impact is likely to be and who will benefit as a result of the project. It should clearly communicate its conclusions and recommendations.

The appraisal should provide an assessment of whether a proposal is worthwhile in terms of a clearly identified market failure/equity objective(s) and provide evidence there is both a need for it and demand to take it up. It should also confirm the proposed intervention is likely to be worth the cost by ensuring there are SMART objectives and the options considered for delivering them are reasonable. It is recognised that in reality project development and delivery is an iterative process with many feedback loops and with many issues e.g. risk, State aid, equalities impact, procurement and evaluation running through all stages of the project's life.

The outcome of any project appraisal will be a decision whether or not to proceed with a proposal or a particular option or whether to amend a proposal in order to maximise potential sustainability benefits and minimise risks. It is essential, therefore, that the investment decision makers are aware of all the relevant facts. As these decisions will often have far reaching consequences, the presentation of the conclusions and recommendations to the RDA investment decision makers and key stakeholders can be as important as the analysis itself. Reports should provide sufficient evidence to support their conclusions and recommendations. They should provide an easy audit trail for the reader to check calculations, supporting evidence and assumptions. Summary reports should be drafted in non-technical language wherever possible but, if it is necessary to use technical terms, they should be explained. Appraisal reports should contain sufficient information to support the conduct of any later evaluation. Presentations and reports should be clear, logical, well founded, and geared towards helping the decision at hand.

Table 1 sets out the factors that need to be considered in the appraisal of a project, following the HMT [Business Case: Five Case Model](#) approach. The information in each element should be complete enough for the stage reached and proportionate to the scale, complexity and risk of the project.

TABLE 1 APPRAISAL CONSIDERATIONS
STRATEGIC CASE

Project description	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
Strategic fit	How does the project fit and contribute to: <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

	<ul style="list-style-type: none"> • 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> <ul style="list-style-type: none"> • Reference case – do nothing¹⁸ or do minimum • A viable alternative to the preferred option • The preferred option
Value for money	<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. 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? 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 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 it may be possible to monetise some of them). <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>

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.

	<p>Compare the costs and benefits of each option to assess value for money. 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 account.²¹</p> <p>Are the results for each option clearly presented so that:</p> <ol style="list-style-type: none"> i. the trade-offs made between the costs and benefits of particular options are shown to demonstrate which option offers best value for money? 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?
Sensitivity and optimism bias	<p>What are the risks specific to each option and do they impact on options choice? 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>
Competition	Is a competition assessment required? If so what is the outcome?

FINANCIAL CASE

Financial assessment	<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 all contributions secured?</p> <p>Who will benefit from receipts and who will be responsible for any liabilities e.g. cost overruns or shortfalls in receipts?</p> <p>Have any additional costs to the RDA e.g. its own project management costs or an evaluation budget (where these are directly attributable to the project) been identified?</p> <p>Set out the gross undiscounted cost²⁴ of the option to the RDA and the budgetary impact based on resource accounting and budgeting (RAB) principles, 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.
Exit and legacy /sustainability	<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 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 acquired or improved through public funds?</p>
Recommended option	<p>Based on the above analysis what is the recommended option? Reasons 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</p>

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.

	timing without the RDA intervention and that the investment recommended is the minimum necessary.
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COMMERCIAL CASE

Legal	<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>
Procurement	<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>
State aid	<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

Beneficiaries	<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>
Sustainable development	<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>
Risk management	<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>
Delivery	<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 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>

²⁶ PRINCE2 (Projects In a Controlled Environment) is the recognised public sector best practice project management system and is mandatory for ICT projects.

Evaluation plan	Is there an evaluation plan ²⁷ covering: <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? .
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2.4 Investment Approval Decision

Projects must be appraised before any investment approval decision is made or before expenditure is committed (other than preliminary expenditure for preparatory work towards developing the project concept and appraisal, approved as part of an initial assessment).

The RDA investment approval decision will be made by a person or body independent of the project developer/sponsor and appraiser in accordance with its internal delegation arrangements. On projects that are likely to require BERR approval it is good practice to discuss the requirements with the BERR CPRG Secretariat at the earliest reasonable point.

Any subsequent changes agreed to the project should be clearly recorded so that they can be tracked. There should be a clear audit trail of how assessments and decisions are made at each stage.

2.5 Legal agreement

Once the investment decision to approve the project is made the RDA project/contract manager will implement the procurement/grant delivery plan from the appraisal stage. The term legal agreement has been used to cover both grants²⁸ and procurement²⁹ cases. RDAs are involved in either:

- **Direct delivery**, where the RDA staff themselves deliver the project on a day to day basis and are responsible for the outputs and outcomes; or
- **Indirect delivery**, where a Legal Agreement is agreed with a partner/external organisation to deliver the project on behalf of the RDA.

The legal agreement should reflect the investment decision and as a minimum have schedules that cover what is to be delivered, when and the funding the RDA will provide and on what basis. It is essential that the project monitoring plan is agreed between the parties and the provisions, roles and responsibilities and data requirements are included in the schedules of the legal agreement. This ensures there is transparency and enables effective monitoring.

Before the legal agreement is signed, by an RDA officer with the appropriate delegated authority, the RDA contract manager should confirm that it is consistent with the investment decision and includes all relevant conditions.

²⁷ The evaluation plan may be produced by the RDA Project sponsor in consultation with the RDA Evaluation Manager. See ERDF [Working Documents 2 and 5](#), [RDPE CMEF](#) and OffPAT PAN on Project Evaluation.

²⁸ Grants –RDAs should always have some form of written agreement, detailing roles and responsibilities for both parties, and setting out the purpose(s) of the grant and what benefits are to be achieved. These may be non-legally binding agreements or grant letters, or in some cases, legally binding contracts, which create a legal obligation.

²⁹ Procurement – RDAs are required to follow public sector (including EU) procurement rules. This will normally involve a competitive process. RDA procurement staff will be able to advise when OJEU procurement is needed. Goods, services or works will be provided by suppliers under legally binding contractual terms where all the conditions necessary to form a legally binding contract have been met.

2.6 Delivery

The more effective the management of the preceding stages the more chance that the project delivery will be successful. Effective project delivery requires a clear understanding of what happened in the preceding stages and ensuring all those conditions are implemented. It also involves good communications and engagement by the project manager with the RDA contract/programme manager. This ensures that the RDA is both aware and able to influence the further evolution of the project during delivery. This includes:

- identifying, assessing, reviewing and addressing risks and issues and mitigating actions;
- maintaining effective communications and engagement, formal and informal, with the delivery body and other stakeholders;
- recorded learning points as they occur and sharing them with partners and colleagues;
- recognising and acting on opportunities to increase the projects' impact timely.

Once the legal agreement for the project has been signed an essential and integral part of the RDAs responsibility is to actively manage³⁰ it. The OGC provides best practice guidance on [managing and delivering programmes and projects that RDAs can](#) draw on in designing their own systems.

The RDA should have a strategy for conducting site and audit visits and clearing monitoring and inspection recommendations or action points. There should be robust systems for detecting, dealing with and recording changes to the agreement. Effective management will allow the project manager to assure the RDA contract manager that the project is on course to deliver its objectives, outputs and outcomes within the agreed budget and delivery dates. This is important to ensure the RDA and the region achieves the goals set out in the RES.

Each RDA has an IT system to support it in monitoring its Single Budget project portfolio and to produce internal management information reports and to report to BERR. The frequency with which management data is collected will be detailed in the legal agreement to reflect the RDA's own internal reporting framework, as well as the need to report to external partners, stakeholders and Government. The Senior Responsible Owner (or equivalent decision maker) should be given regular progress reports (this may be by exception reporting) and advised of any changes that require authorisation. For some major/complex projects there may also need to be a formal project communications plan.

The main areas that should be managed are:

- **Administration of the Legal Agreement** including compliance with any conditions and European regulations, providing automatic reminders of the need to take action at key times, such as key milestones, timing of claims and progress reports.
- **Financial control of projects** with adequate and auditable arrangements for the management of RDA expenditure (claims, invoices, orders, etc),

³⁰ For the RDPE there is an EC [Common Monitoring and Evaluation Framework](#) (CMEF)

including checking the costs claimed are valid³¹ and separation of functions for certification, authorisation and payment of claims/invoices throughout the life of the project. Cost reports to be reviewed regularly to ensure expenditure is in line with the budget profile; where there is a significant variation the reason should be sought and remedial action taken, if necessary.

- **Asset management** will be required for some projects. Where RDA funding is being used to provide assets a formal asset register should be kept and monitored. At the end of the project the asset register should be made available to the RDA so that clawback conditions agreed in the Legal Agreement can be monitored.
- **Risks and issues** should be reviewed throughout the project life. Projects should maintain, and regularly review, risks and issues that affect the project. Major high risk projects would need to have formal risk and issues registers, and the RDA should be entitled to review them.
- **Reporting against the project plan** (key milestones e.g. start, stage ends, closure) and decision points, recording progress against milestones and any variations, noting any actions taken by the RDA.
- **Delivery of forecast outputs/outcomes** record and assess achieved outputs against forecasts identify variance and need for changes. Any significant change to what is contracted for should be assessed for its continued value for money.
- **Visits** to the project for review progress on the ground, the frequency of which may be determined by issues/risks identified from progress reports. Site visits may also be required to release the next phase of funding, for example when verifying progress against milestones in Legal Agreements. It is also important to ensure that standards of evidence being collected are verified, both in relation to outputs but also in respect of evaluation requirements.
- **Audit** may be undertaken during the project life, either by the project's own appointed auditors, the RDA, NAO or EU auditors (this hierarchy of assurance means one set of auditors may place reliance on work done by others. The Legal Agreement will have made provision for this. European funded projects have very specific requirements and it is essential that these requirements are fulfilled.
- **Change management process** for managing changes in project costs,³² outputs and key dates and variations to the Legal Agreement. Where a project is sufficiently changed as to require a new decision there should be a re-appraisal of the relevant section of the business case with consideration given to the level of approval required for changes. RDAs should consider (through ongoing management and monitoring) if there is a need to **close** a project early due to under performance or if significant irregularities are found.

³¹ Ensure these are in line with State aid measures on eligible costs, intensity levels. For European funded projects attention should be paid to match funding in particular in-kind contributions, overheads, procurement and publicity.

³² The cost re-appraisal should consider scenarios that include and exclude costs incurred to date, and the marginal value for money of continuing with the project and the average vfm that will be achieved by the project as a whole.

- **Irregularities**³³ the RDA is responsible to make sure that all irregularities are resolved in a timely manner, in any case all irregularities must be concluded before the project can be closed. Action must be taken to follow-up and correct all recorded irregularities quickly, recovering grant where appropriate and taking steps to ensure the irregularity is not repeated. There are specific requirements in respect of irregularities in the European programmes.³⁴
- **Fraud** – RDAs should be aware of the potential for fraud both internal and external to occur during the lifecycle of a project, and should have the necessary detection processes in place.

Project Monitoring

As well as on going project management detailed above, a critical and essential role for RDAs (in ensuring the successful delivery of projects), is that of project monitoring. This can be defined as the formal reporting and evidencing that outputs, spend, outcomes and milestones are successfully delivered. This is a key stage for RDAs to embed into their processes.

A formal visit to projects to document progress and test the validity of claims made should be undertaken. The RDA should ensure that a sufficient number of projects should be subject to a monitoring visit, prioritising according to risk. Visits may cover system, operations and closure. The sample should cover both volume of expenditure and numbers of projects, spread across all project types over an agreed time period. The methodology and sample should be reviewed and allow for changes in the RDA programme and systems

A monitoring visit is the RDAs opportunity to ensure that monies from the public purse are being spent correctly and the project is delivering in the agreed manner. These formal documented monitoring visits underpin the declarations made by the Accounting Officer in the RDAs Annual Accounts and evidence the RDAs duty of care over public spending.

Monitoring will include the examination and recording of evidence to support the progress of the project in the areas listed in the project management section. Actions and recommendations to address any shortfalls will be discussed and documented. It is also important to ensure that standards of evidence being collected are verified, both in relation to outputs but also in respect of evaluation requirements.

2.7 Legal Agreement Practical Completion

The Legal Agreement should identify the end date of the project, the point at which the delivery is completed and the RDA funding ceases. Depending on the nature of the project there may be a phased closure and practical completion may be followed by outputs delivery or vice versa or these may occur simultaneously. However, in some circumstances the RDA may wish to continue to monitor and

³³ An irregularity is any administrative or financial mismanagement that comes about either by act or by omission and includes errors identified and corrected before grant is paid.

³⁴ The ERDF User Guide (Chapter 15) requires that all RDAs **must** have a dedicated irregularity co-ordinator. This person will oversee the management and closure of irregularities and will be CLG's initial point of contact. For RDPE, the SLA between DEFRA, RPA and the RDAs also requires that irregularities are reported to RPA on a timely basis.

evaluate the project for an extended period to assess whether the project outcomes are achieved.

At the end date the RDA should implement the formal closure process set out in the Legal Agreement. This stage will usually involve the completion of formal documentation, for example a Completion or Exit Report. As part of this process the RDA should review the partner's overall performance and determine whether there is any action to take, especially in relation to continued monitoring of outputs and outcomes or recovery action in respect of performance or clawback. Normally any major issues around performance should have been picked up and managed through the monitoring process.

It is the responsibility of the RDA to ensure that original auditable evidence is available for audit. The evidence does not need to be held on the RDA premises, but arrangements must be made for retention and retrieval if retained by the project delivery body, including after the contract ends. Arrangements will differ depending on the type of information and the RDA Records Management policy should be consulted on the timescales to be included.

The RDA should ensure that there is a record of:

- practical completion that confirms whether the project is completed within the terms of the (original or modified) Legal Agreement or whether any enforcement action is needed;
- the extent to which the project objectives have been achieved;
- completion of the forward/exit strategy arrangements, ensuring that the RDA does not have any on-going liabilities.
- financial completion - record and reconcile actual expenditure to approved expenditure, including any funds recovered, overage, final claim and audit report(s);
- reconciliation of actual to planned outputs and any outcomes/impact realised at closure, and any continued monitoring required;
- any early lessons that can be determined, particularly around the management of the project both by project staff and the RDA;
- the existence of clawback or aftercare provisions to review usage of capital assets, and arrangements for future management at key dates;
- retention of key audit documentation; and
- arrangements for the evaluation stage, including agreed timescales.

2.8 Evaluation and Learning

Evaluation serves two key purposes in the project lifecycle. The principal aim is to assess the extent to which the project has met its original objectives. Part of this process includes testing the assumptions that were made in developing and appraising the project to ensure that lessons are learned for future projects.

All projects should be covered by an evaluation plan as an integral part of project development. This allows mechanisms to be established to record relevant data and ensure learning is captured during the lifetime of the project. The RDA should then ensure that this evaluation plan is implemented, including any necessary amendments to reflect changes in situation. The size, scope and scale of the evaluation(s) planned should be proportionate to the size, complexity, risk and innovation of the project, with relevant resource allocation (time and funding) identified within the evaluation plan.

A final evaluation should be carried out at a period after the project when project impact can be effectively assessed. For larger or more complex projects this is likely to be between 6 months and 5 years after the end of the project. However, it may be important to assess progress towards objectives at an earlier stage e.g. in order to assess effectiveness of the project before allocating continuation funding. An interim evaluation may then be required within the lifetime of the project. Clear definition of proposed timings and purpose of evaluation should be included in the evaluation plan. These requirements should also be reflected in funding agreements with delivery organisations / funding recipients.

Evaluations should reflect an assessment of the assumptions made in the appraisal process but in the knowledge of what has actually happened in the project. It should focus on how far the critical success factors identified at appraisal were met as well as on resulting outcomes and impact. Lessons learned from evaluation should be fed back into the project process to inform the development, appraisal and delivery of new projects.

3 Projects and Programmes

The Green Book principles apply to policy, programmes as well as projects. As RDAs are increasingly moving towards managing through programmes with related projects, it is useful to consider how this guide can be applied at both project and programme level.

3.1 Definitions

To ensure that there is a common understanding of what is meant by programme and project the terms are defined below based on those in the OGC guidance:³⁵

Programme - a group of projects and activities that is coordinated and managed as a unit such that they achieve outcomes and realise benefits.

Project - a unique set of co-ordinated activities with definite starting and finishing points undertaken by an individual or team, to meet specific objectives with defined time, cost and performance parameters.

3.2 Applicability

Table 3.1 shows the relationship between projects and programmes by identifying where they are similar and where they differ from each other.

Table 3.1

Projects	Programmes
Similarities	
Both require a Business Case/PID demonstrating how they will deliver corporate objectives	
Both are subject to HMT <i>Green Book appraisal and evaluation</i>	
Departmental Centres of Excellence for Programme and Project Management are responsible for assurance on compliance for both programmes and projects in line with OGC guidance and DAO GEN 7/04 <i>Delivering success in government acquisition-based programmes & projects</i>	
Both should deliver benefits	
Both can be funded through grants or by procuring services	
OGC Gateway Reviews apply to both acquisition (procurement) programmes and projects	
Both can be subject to competitive commissioning	
State aid rules applies to programmes and projects that impact on undertakings	
Both require organisational structures to manage them with clearly defined roles and responsibilities e.g. SRO, Programme/Project Manager.	
Differences	
Focus on SMART objectives	Focus on Vision and Aims
Focus on outputs/outcomes	Focus on outcomes/impact and link to regional indicators/PSAs
Delivery as a single entity	Delivery through projects
PRINCE2 or alternative project management system	OGC Management of Successful Programmes (MSP)

³⁵ Programme and Project Management Centres of Excellence Information Pack and *Management of Successful Programmes (MSP)*.

Project Manager	Programme Manager
Project Plan	Programme Plan

The key stages of the project lifecycle, described in section 2, are equally applicable at the programme level although there are some key differences at the appraisal and evaluation stages.

3.3 Appraisal

Where RDAs are managing projects within programmes, there will be a relationship between the level of appraisal undertaken at programme and project level. This has potential benefits for efficiency savings by reducing duplication of work through doing the work at the most relevant level. While recognising that the Green Book requirements apply at both levels Table 3.2 indicates the emphasis in the relationship between the programme and project level appraisal requirements.

Even where a programme is appraised each of its projects still needs to be looked at on a case by case basis and will require its own appraisal. This is required to provide the RDA investment decision makers with the information to make their decision. Where more detail is provided in the programme appraisal, then that analysis can be drawn on in the project appraisal but it will need to demonstrate its applicability to project objectives.

Table 3.2:

	Programme	Project
Project description	✓	✓
Strategic fit	✓	Analyse in context of the programme
Rationale	✓	
Beneficiaries / users	✓	
Objectives	✓	Analyse in context of the programme + detailed project objectives
Options	✓	Detailed project options
Economic costs and benefits	In terms of outcomes and impact	✓
Value for money	Test in relation to securing desired outcomes and wider impact	✓
Sensitivity/Optimism Bias		✓
Financial assessment	budget	✓
Exit/sustainability	✓	
Recommended option	✓	✓
State aid	✓	✓
Legal / procurement	✓	Analyse in context of the programme
Risk management	✓	✓
Delivery	✓	✓
Monitoring plan	✓	✓
Evaluation plan	✓	Where projects form part of a programme their evaluation should

		feed into or be part of a programme evaluation
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3.4 Evaluation and Learning

In developing their corporate evaluation plans, RDAs should consider whether evaluations are best conducted at project or programme level and how the learning will be disseminated internally, to their stakeholders and across the RDA network.

Appendix A – Summary of Audit Trail Requirements

This appendix sets out the audit trail requirements for Single Budget projects. There are additional requirements for European projects set out in the European guidance.

Initiation, Development and Appraisal

The following information and decisions for each project should be clearly documented, signed and dated and kept on file:

- Project proposal and supporting evidence.
- Initial assessment and recommendations, where appropriate.
- Record of any approval for preliminary expenditure, with the purpose clearly described; signed by the Investment Decision Maker with the appropriate delegated authority.
- Results of any studies, surveys, research, professional and legal advice received.
- Appraisal and any recommendations/conditions for inclusion in the contract.
- Equalities Impact Assessment
- Copy of the project Monitoring and Evaluation Plan(s).
- Copy of all correspondence and file notes of meetings on the project.

Investment Approval Decision

The following information and decisions for each project should be clearly documented, signed and dated and kept on file:

- A record of the project appraisal approval by the Investment Decision Maker, with the appropriate delegated authority, that commits the RDA to an investment decision.
- Any appropriate conditions or comments attached to the decision.
- The decision should distinguish between the RDA's commitments to the project itself, in cash and in kind, and the additional costs to the RDA of deciding to commit to that expenditure. These costs should include any preliminary expenditure, any contracted out appraisal costs, the RDA's fees for professional, technical or legal advice, and any sunk project costs e.g. land costs.

Legal Agreement

The following information and decisions for each project should be clearly documented, signed and dated and kept on file copies of:

- any 'intention to support' and offer letters
- any Invitation To Tender (ITT)
- any Official Journal of the European Union (OJEU) notices, where appropriate.
- any supplier appraisal
- the contract/funding agreement (the original should be kept secure)
- all correspondence and file notes of all meetings and/or conversations in relation to the contract.

Delivery

The following information and decisions for each project should be clearly documented, signed, dated and kept on file copies of:

- all claims, orders, invoices, audit reports
- all output returns
- all Project Progress Reports (costs, outputs, milestones, narrative)
- any agreed changes to the project.
- all variations to the legal agreement
- risk, issues, change registers, where appropriate.
- any meeting notes, site visit records, project correspondence.

Practical Completion

The following information and decisions for each project should be clearly documented, signed and dated and kept on file copy of:

- Completion Report – practical completion, financial, outputs/outcomes (if any), objectives, timescales.
- Any final audit report.
- Capital projects – the arrangements for future reviews on asset usage/clawback.

Evaluation and Learning

The following information and decisions for each project should be clearly documented, signed and dated and kept on file:

- Copy of evaluation report(s) – interim and final.
- Any benchmarks used, identifying the source.
- Capital projects - the arrangements for future reviews on asset usage/clawback.
- Record of how lessons learnt were disseminated, to whom and how they have been used.

Appendix B – Land and Property Transactions

This appendix sets out the requirements for the acquisition and disposal of land and property assets.

Basic Principles

Acquisitions and disposals of land and property should be:

1. Within a strategic context
2. Justified by appraisal
3. Informed by market value
4. Managed so as to contain risk

1. Within a strategic context

Acquisitions and disposals of land and property should normally be carried out in the context of broader RDA strategies at local and regional level. This emphasis on strategic context does not preclude urgent action to buy or sell land and property not foreseen in the RDA's published strategies but these special cases will need to be fully justified at the time.

When acquiring land and property the RDA should consider in its risk assessment whether, if the need for it went away, it would be able to re-sell it without excessive loss.

2. Justified by appraisal

Where the RDA is proposing to acquire land and/or property as a free standing decision in advance of specific development proposals then an appraisal is required just as where there *are* specific development proposals, the project as a whole is appraised. The appraisal should take into account any RDA estate management costs.

- 1. Advance Purchase/Disposal** - where an RDA needs to acquire/dispose of land/property for strategic purposes in advance of an agreed masterplan, an appraisal of the transaction should be conducted before any commitment is made. This also applies to compulsory purchases initiated in advance of working up full development proposals. The appraisal should:
 - relate to the acquisition/sale itself and cover the normal range of issues – strategic context, options, cost, value, potential outputs and outcomes, risks, opportunities and delivery arrangements;
 - identify the strategy which the acquisition/sale supports;
 - demonstrate the dependency of that strategy on the proposed acquisition/sale;
 - estimate the likely extent of any future investment required to make effective use of the land and property acquired.
- 2. Project Purchase/Disposal** - Where the transaction forms part of an already identified larger project it should be included in the overall appraisal. If the cost of the land acquisition and the other investment

activities taken together subsequently exceeds the RDA's delegation the proposal and valuation report should then be put to BERR before the RDA commits to the acquisition. In these circumstances, acquisitions and disposals should not be split off from the rest of a project so as to artificially separate their appraisals and decisions from subsequent phases. The full appraisal should take account of the cost and implications arising from Equality and Environmental Impact Assessments.

- Where land and property has been acquired and perhaps improved at an earlier stage and on the basis of an appraisal and decision which did not have a specific end project in sight, and is now to be committed to a development project, the opportunity cost to be carried into the economic appraisal should be its current market value. This will be the amount it would fetch if resold in its present condition and on the open market, not its original purchase and improvement cost. Accounting advice should then be sought on the appropriate *financial* treatment of the transaction to comply with Treasury's Consolidated Budgeting Guidance.

3. Informed by market value and conditions

Land and property transactions should normally be appraised and then carried out at market value i.e. a valuation conducted by an Chartered Surveyor/Valuer in accordance with the principles of the RICS Red Book. If the valuation is carried out by a Chartered surveyor/valuer on the RDA staff that person should be independent of the project and appraisal process.

To fully understand what is meant by market value the RICS Red Book should be consulted directly. What is covered here is some additional guidance relevant to RDA land and property transactions.

Acquisitions Where site acquisition valuations are based on development value, as opposed to a lower existing use value, the development appraisal will need to provide the justification. Acquisition valuations may need to take account of any special conditions imposed by the vendor where these are enforceable and acceptable to the RDA. There will be some instances where the RDA may be able to justify paying a higher than market value figure as a special purchaser: for example, as an adjoining landowner or sitting tenant. This would need to be justified in the valuation report.

When making acquisitions on brownfield sites RDAs, as part of their due diligence, should ensure they have carried out an appropriate environmental land/property environmental condition survey and consider the use of a [Land Condition Record](#) (LCR) for contaminated sites.

Disposals the aim in disposals should be to achieve the best value reasonably obtainable which usually means market value determined by a competitive disposal process. In the case of *negotiated* disposals a valuation report conducted on Red Book principles should be prepared, by a Chartered Surveyor/Valuer who is independent of the project.

Market value should be assessed in the context of existing and foreseeable planning constraints. It may however be further modified if the sale and future use is to be constrained by the RDA's own policies and strategies. The RDA may have a legitimate interest in imposing sale conditions which have the effect of

reducing market value to achieve better regeneration outcomes. For example, the planning authority might be insisting on restricting the land to employment use and the RDA might be further restricting it to employment in a particular sector. The market value would need to be determined on that basis.

The RDA Act 1998 (Part 1, Section 5) allows a RDA to dispose of land for less than market value as determined above **if** consent is given by the Secretary of State. This might arise if the RDA proposed selling to a special purchaser – for example a community group – who might be intending to use the land or property for a purpose approved by the RDA but which was worth rather less than market value.

In all cases, appropriate controls, clawback and overage arrangements should be put in place to ensure that any restrictions taken into account in the disposal price are complied with. The process must be transparent, compliant with State aid rules³⁶ and fully documented at each stage.

4. Managed so as to contain risk

In all cases, the RDA should exercise its duty of care and assess the corporate risks.

- Before acquiring land and property Agencies should carry out appropriate due-diligence checks covering the title, site conditions, and, where appropriate, planning, social, environmental, ecological and archaeological issues.
- Where the project depends upon a Compulsory Purchase Order, the RDA should assess the risk of the CPO not being confirmed.
- In managing the asset the RDA should take cognisance of the OGC High Performing Property guidance.³⁷
- Before selling a site the RDA should consider the OGC guidance on [Disposal of Surplus Property](#) e.g. check whether it should be included in [e-PIMS](#)³⁸ and the [Register of Surplus Public Sector Land](#)

Other issues

Compulsory Purchase - Where land and property is to be acquired by use of a Compulsory Purchase Order then any additional payments to owners and occupiers, in line with a statutory compensation code, should be included in the project appraisal and value for money assessment. Where statutory compensation is agreed in advance of a Compulsory Purchase Order being confirmed, the appraisal should explain and justify these additional payments.

Clawback - Whenever an RDA sells land or property subject to conditions – for example, on end use or on subsequent resale – the RDA should use a legal mechanism, for example covenants, warranties or clawback conditions, which enable it to recover money if the purchaser defaults on those conditions. Account

³⁶ Commission Communication on State aid elements in sales of land and buildings by public authorities OJ C 209, 10.7.1997, p. 3–5.

³⁷ http://www.ogc.gov.uk/efficiency_documents_better_asset_management.asp.

³⁸ OGC's electronic Property Information Mapping Service.

should be taken of the advice in *Managing Public Money* and DAO(GEN)07/05 in all cases including the third sector.

Overage - Whenever an RDA sells land or property at current market value, it should consider imposing overage conditions to recover a share of any subsequent increase in value not foreseeable at the time. Such increases might, for example reflect:

- a change in the planning status of the land or property; and
- changes in market conditions which increase the end value of the property above the value agreed in at the time of the disposal.

The overage might be an agreed share of the subsequent increase. In the case of a gap funding arrangement the RDA might choose to recover increases up to the value of the RDA's investment in the project or to go further and either take a share in the whole of the value achieved in excess of the forecast or switch from outright disposal to a joint venture arrangement or other form of public/private partnership.

Former owners - The Crichton Down rules apply to public sector property which was acquired compulsorily or under threat of compulsion. Subject to certain exceptions, property must be offered back to the former owner or the former owner's successors or, if residential, to a sitting tenant. Legal advice should be sought.

Historic buildings - The Department for Culture, Media and Sport's guidance on the disposal of surplus historic buildings advises that maximizing receipts in such cases is not an overriding objective. The aim should instead be to obtain the best return for the taxpayer that is consistent with government policies for the protection of historic buildings and areas.

Appendix C – Market Failure

The rationale for government intervention is essentially twofold:³⁹

- the achievement of economic objectives by addressing inefficiencies in the operation of markets and government / institutions (known as market failures, which are described in greater detail below); and
- the achievement of an equity objective, such as local or regional regeneration.

Market failures can occur in many different ways but they can all be classed into four generic categories, which are described in greater detail below.⁴⁰

1. Externalities,
2. Market power,
3. Imperfect information and uncertainty, and
4. Public goods

1. Externalities are often referred to as ‘spillover’ effects. These arise where the absence of property rights mean that actions by a firm or individual create benefits (or costs) that are not captured (or are not borne by) that firm or individual.

- Positive externalities can arise in the case of research and development (R&D), where the ideas generated by one firm’s R&D can be shared by other firms. The problem arises because the firm undertaking the R&D can not appropriate all of the benefit from that investment, creating a disincentive to invest. Consequently, the presence of externalities means that firms will ‘under invest’ in R&D from the perspective of society as a whole.
- Negative externalities can occur, such as pollution generated by a firm, where the public bears the cost of this pollution, not the firm.

2. Market Power where there is effective competition this leads to efficient allocation of existing resources into the most productive areas.

Competition also provides a dynamic incentive to innovate, to produce new products and processes and thereby raise productivity in the future. However, if there are ‘barriers to entry’ – created by private action or public regulation – then new firms with more efficient products, services or processes cannot come to market. This can stymie efficient resource allocation and innovation.

3. Imperfect Information and Uncertainty a lack of information can cause an inefficient allocation of resources. For example, if workers are not aware of the benefits – in terms of higher wages and employability – of training, they will invest less in training. Similarly, levels of uncertainty are usually high when firms invest in R&D and there is the potential for significant information asymmetries.

Difficulties in assessing future cash flows mean that the manager will have a much better idea about performance than outside investors. And the manager of the

³⁹ Communities and Local Government Economics Paper 1: A Framework for Intervention, September 2007 sets out examples of how these concepts can be applied in regeneration.

⁴⁰ See Annex 1 of the Green Book for further information.

risky project, having received external financing, may undertake activities that are not in the financier's best interests. Investors therefore find it difficult to identify good managers. Recognising this, good managers may sacrifice longer-term projects to provide higher short-term returns that less able managers cannot match. As a result profitable (over the lifetime of the project) long-term investments (e.g. R&D) might be sacrificed leading to under-investment.

4. Public goods are those that are:

- 'non-rival in consumption' i.e. one individual's consumption of the good does not mean that there is less of it for everyone else; and
- 'non-excludable' i.e. it is not possible to stop anybody else from using the good once it has been produced.

Once goods with these characteristics e.g. as street lighting or national defence, are provided for one consumer, they are provided for all. This can result in an under-provision because the consumers of public goods have an incentive to 'free-ride', and the producers of those goods may not gain the full returns from their output.

The public good concept provides the rationale for public support for basic scientific research: once they occur basic scientific breakthroughs are available to all; as a result they would be underprovided in a free market.

Appendix D – Glossary of Terms⁴¹ and Acronyms

Term	Definition
Additionality	An impact arising from an intervention is additional if it would not have occurred in the absence of the intervention.
Affordability	An assessment of whether proposals can be paid for in terms of its cashflow and resource costs.
Appraisal	The process of defining objectives, examining options and weighing up the costs benefits, risks and uncertainties.
Contingency	An allowance of cash or resources to cover unforeseen circumstances.
Contract	A legally enforceable agreement between two or more parties for which a consideration is given.
Corporate Plan	A strategic medium to long-term plan of activities to deliver aims/goals/objectives. In the context of the Agency, it is the document which sets out the way in which the Agency will deliver government policy and achieve outcomes.
Cost benefit analysis	Analysis which quantifies in monetary terms as many of the costs and benefits of a proposal as feasible, including items for which the market does not provide a satisfactory measure of economic value.
Discounting	A method used to convert future costs or benefits to present values using a discount rate. HMT recommends using a discount rate of 3.5% for short- to medium-term projects.
Equalities impact assessment	A tool used to assess whether projects and programmes have any discriminatory consequences and/or positively promote equalities and to recommend action should negative consequences be identified.
Evaluation	Retrospective analysis of a project, programme or policy to assess how successful or otherwise it has been, and what lessons can be learnt for the future. The terms “policy evaluation” and “post-project evaluation” are often used to describe evaluation in those two areas.
Grant	A grant is a conditional gift of money for a consideration. It includes payments to public bodies or other delivery agents which are carrying out a recognisable public sector activity or provides funds to bridge the gap between a requesting party’s own resources and those needed to carry out an activity.
Market failure	An imperfection in the market mechanism that prevents the achievement of economic efficiency.
Market value	The price at which a commodity can be bought or sold, determined through the interaction of buyers and sellers in a market. In relation to land, market value is calculated following guidance in RICS’s Red Book.
Opportunity cost	The value of the most valuable of alternative uses.
Optimism bias	The demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery.
Present Value	The future value expressed in present terms by means of discounting.
Procurement	Procurement is defined as being the acquisition of goods, services or works from third party suppliers under legally binding contractual terms where all the conditions necessary to form a legally binding contract have been met (eg where one party promises to deliver/do something in return for a consideration (payment)).
Programme	A group of projects and activities that are coordinated and managed as a unit such that they achieve outcomes and realise benefits.
Project	A unique set of coordinated activities with definite starting and finishing points undertaken by an individual or team, to meet specific objectives with defined time, cost and performance parameters.
Proposal	An idea for a programme or project.
Reference Case	The do minimum/nothing option where the minimum amount of statutory

⁴¹ Adopted from Treasury’s Green Book and other HMT guidance.

	action necessary is taken.
Risk	The probability that a particular event will occur and its impact.
Sensitivity analysis	Analysis of the effects on an appraisal of varying the projected values of important variables.
Sustainable Development	Meeting the needs of the present without compromising the ability of future generations to meet their own needs.
Sunk costs	Costs that have already been made and cannot be reversed. Used in economic appraisal but not normally in a financial appraisal unless a marginal cost comparison is undertaken for viability.
Undertaking	An individual or legal entity carrying out an economic activity.
Weighting and scoring	A technique that involves assigning weights to criteria, and then scoring options in terms of how well they perform against those weighted criteria. Weighted scores are then summed, and can then be used to rank options.
Write-down	A reduction of the value of an asset entered in the Accounts.

Acronyms

BERR	Department for Business Enterprise and Regulatory Reform
BE	Better Regulation Executive
CBA	Cost Benefit Analysis
CLG	Department for Communities and Local Government
CMEF	Common Monitoring and Evaluation Framework (EAFRD)
CMS	Common Minimum Standards for the Procurement of the Built Environment by the Public Sector)
CPO	Compulsory Purchase Order
DAO	Dear Accounting Letter
DCMS	Department for Culture, Media and Sport
DTI	Department for trade and Industry, now BERR
EAFRD	European Agriculture Fund for Rural Development
EP	English Partnerships
ERDF	European Regional Development Fund
ESF	European Structural Funds
EU	European Union
HMT	Her Majesty's Treasury
ICT	Information Communications Technology
ITT	Invitation to Tender
LA	Legal Agreement
LCR	Land Condition Record
LDA	London Development Agency
MSP	Managing Successful Programmes
NAO	National Audit Office
NPV	Net Present Value
OGC	Office of Government Commerce
OffPAT	Office of Project Advice and Training
OJEU	Official Journal of the European Union
PAN	Project Advice Note
PID	Project Initiation Document
PSA	Public Sector Agreement
PRINCE2	Projects in a Controlled Environment
R&D	Research and Development
RAB	Resource Accounting and Budgeting
RDA	Regional Development Agency
RDPE	Rural Development Programme for England
RES	Regional Economic Strategy
RICS	Royal Institution of Chartered Surveyors
ROAMEF	Rationale, Objectives, Appraisal, Monitoring, Evaluation, Feedback
RPA	Risk Potential Assessment
SAV	Strategic Added Value
SFIE	Selective Finance for Investment in England
SMART	Specific, Measurable, Achievable, Realistic, Timed
SPAG	Single Programme Appraisal Guidance
SRO	Senior Responsible Owner
VAT	Value Added Tax
VFM	Value for Money

Appendix E – Mandatory Programme & Project Guidance

A list of mandatory, central government guidance used in developing this guidance which applies to RDAs as NDPBs. It is provided to support RDAs to identify more detailed requirements in support of complex projects.

DOCUMENT	ISSUE DATE	ISSUING DEPARTMENT	DESCRIPTION
APPRAISAL			
The Green Book Appraisal and Evaluation in Central Government and Supplements	2003	HMT	High-level appraisal guidance for all public sector-funded programmes and projects.
Public Sector Business Case Resources	2007	HMT	Template for the tool kit for developing business cases.
Additionality Guide - A Standard Approach to Assessing Additional Impacts of Projects	2004	EP for CLG	Guidance on using additionality techniques and reference cases?
Assessing the Impacts of Spatial Interventions – Regeneration, Renewal and Regional Development – the 3Rs	2003	CLG	Best practice guidance on design, appraisal, delivery or evaluation of 3R interventions across a spectrum of activities.
The State Aid Guide: Guidance for state aid practitioners	2007	BERR	Introduction to State aid rules
RISK MANAGEMENT			
The Orange Book: Management of risk - Principles and Concepts	2004	HMT	Source of guidance on identification, assessment and management of risks. DAO(GEN) 18/04
Management of Risk Guidance for Practitioners	2007	OGC/TSO	A generic framework for the management of risk across all parts of an organisation - strategic, programme, project and operational
Managing Risks with Delivery Partners	2005	OGC	The guide draws on the experience of the OGC, HMT and the NAO.
PROCUREMENT			
Transforming Government Procurement	2007	HMT	A range of public procurement reforms to equip the UK with the capability to deliver world class public services.
Gateway Reviews		OGC	
PROGRAMME AND PROJECT MANAGEMENT			
Introduction to Projects		OGC	Sets out roles and responsibilities for delivery (governance) of individual projects, milestones and resources; identifies stakeholders; interdependencies; manages delivery; manages project budgets
Introduction to programmes		OGC	As above for programmes
DAO(GEN) 07/04 Delivering Success In Government Acquisition-Based Programmes & Projects	2004	HMT	Requirements to meet improved deliver of acquisition based programmes and projects

DOCUMENT	ISSUE DATE	ISSUING DEPARTMENT	DESCRIPTION
FINANCIAL BUDGETING, REPORTING AND EXPENDITURE			
Managing Public Money	2007	HMT	The principles for managing public money. It will incorporate DAO guidance
RDA Management Statement and Financial Memorandum	2005	DTI	Guidance to RDAs on financial and management responsibilities
Improving Financial Relationships With The Third Sector: Guidance To Funders And Purchasers	2006	HMT	The guidance sets out the wider context for providing funding to bodies delivering services on behalf of the Government and the stability of relationships.
Audit of Grants to Local Authorities and NHS Bodies	2004	HMT	DAO (GEN 12/04) sets annual audit assurance required in respect of grant payments.
EVALUATION			
Evaluating the impact of England's Regional Development Agencies: Developing a Methodology and Evaluation Framework	2006	DTI	Explains the purpose and methods for the evaluation of the impact of the Agency.
BUILT ENVIRONMENT			
Common Minimum Standards (CMS)	2006	OGC	Standards for the procurement and grant funding of built environments in the public sector
DAO (GEN) 07/05 Clawback: Disposal of publicly funded assets	2005	HMT	Guidance on terms to be included in grants for acquisition or improvement of assets
Guide for the disposal of surplus property	2005	OGC	Consolidates changes since PACE Estates Service Guide (2001)
DAO(GEN) 08/05 Recording Property on e-PIMS	2005	HMT	Mandatory requirement to record property on the OGC system
e-PIMS		OGC	Electronic property information and management system
Register of Surplus Public Land		OGC/EP	Electronic database where all surplus public assets are listed
EUROPEAN PROGRAMMES			
ERDF Official Documents		EC	Website with ERDF documents
ERDF Site for England		CLG	Website containing guidance issued by the English Managing Authority
Rural Development Programme for England 2007-13		Defra	Website with UK official guidance
UK National Strategic Framework EU Structural Fund Programmes: 2007-13	2006	BERR	Sets the main priorities for spending the EU Structural Funds the UK from 2007 to 2013. Provides the high-level strategy for Structural Funds Operational Programmes
European Agriculture Fund for Rural Development	2006/7	EC	Introduces a single instrument to finance rural development policy

