



Northern Ireland
Assembly

Research and Information Service Research Paper

September 2016

Public Finance Scrutiny Unit

The Use of Business Cases in the Public Sector

NIAR 255-16

This Research Paper is prepared at the request of the Committee for Finance, to inform its consideration of the use of Business Cases within the public sector in Northern Ireland. It outlines key aspects of the current guidance governing the preparation of such Business Cases. For a comparative perspective, it also highlights aspects of Business Case use by Government within the remainder of the United Kingdom and the Republic of Ireland.

Paper 62/16

September 2016

Research and Information Service briefings are compiled for the benefit of MLAs and their support staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public. We do, however, welcome written evidence that relates to our papers and this should be sent to the Research and Information Service, Northern Ireland Assembly, Room 139, Parliament Buildings, Belfast BT4 3XX or e-mailed to RLS@niassembly.gov.uk

Key Points

- In Government and its sponsored bodies, a Business Case is used to ensure that Government intervention is informed by robust deliberation and decision-making.
- In Northern Ireland (NI), when preparing such a Business Case, prevailing guidance should be adhered to, including that of Her Majesty's Treasury (Treasury) and the Department of Finance (DoF).
- Such guidance requires a Business Case to: be fully informed; be based on robust evidence; represent value for money; and, satisfy public accountability.
- Non-compliance can result in legal challenges, including judicial review.
- Key aspects to note about the stated guidance when preparing a Business Case include:
 - The Business Case should be appropriate and proportionate to the scale of the given project and quoted expenditure.
 - The Approving Authority for individual expenditure decisions is dependent on the delegated limit¹ (the extent to which a body may commit resources or incur expenditure without DoF approval). The limits, however, may be adjusted by the DoF.

The Committee for Finance may wish to seek clarification that the current delegated limits are appropriate for all types of expenditure.
 - Under existing DoF guidance in this area, the DoF retains the right to review any Business Case below departmental delegated limits.
- For a comparative perspective, it is noteworthy that Treasury provides a simplified Business Case template – the 'Business Justification Case' – for Government projects below £2 million (m) in England and Wales.
- In England there is an agreed time limit (28 days) for projects above delegated limits, which are submitted to Treasury for central approval.
- In addition to the Treasury controls concerning Government Business Cases in England, the Cabinet Office contemporaneously review expenditure proposals to gain an overview of government expenditure throughout England.
- In Scotland the Government's Pre-Expenditure Assessment (PEA), which is completed in addition to a Business Case, sets out the links between the expenditure proposal, the Government Economic Strategy and the National Performance Framework. At the present time there appears to be no plan to link Business Cases to the new Outcomes Based Accountability framework, which is set to be introduced by the Executive in NI.
- Also worth noting is that the Government in the Republic of Ireland does not operate a central system to review Business Cases. Instead expenditure decisions largely

¹ Delegated limits are the parameters under which a body may commit resources or incur expenditure from the money voted to it by the Assembly without specific approval from DoF.

remain with the Government Minister or the Department with sectoral responsibility for that area.

- To assist the Committee for Finance in its deliberations on the Executive's use of Business Cases in NI, 'Issues for Consideration' are highlighted throughout of this Research Paper.

Contents

Key Points	3
Introduction	6
1 Background	7
1.1 Northern Ireland Guide to Expenditure Appraisal and Evaluation	8
2 Executive Business Case Process in Northern Ireland	10
2.1 Strategic Outline Case	11
2.2 Outline Business Case	11
2.3 Full Business Case	12
2.4 Appraisal of Small Expenditures	12
2.5 Business Case Approval	13
2.5.1 DoF Approval of Business Cases	14
2.5.2 Departmental Approval of Business Cases	15
2.4.1 Time Taken to Approve Business Cases	16
3 A Comparative Perspective	17
3.1 England and Wales	17
3.1.1 Business Justification Case for Smaller Projects	17
3.1.2 Delegated Limits in England	18
3.1.3 Cabinet Office Controls	20
3.2 Scotland	21
3.2.1 System of Delegation	21
3.3 Republic of Ireland	22
3.3.1 Sanctioning Authority	23
4 Conclusion	24
Annex A Business Case Approval Process	26
Annex B Decision Points and Approvals required in Republic of Ireland	27

Introduction

This Research Paper is prepared for the Committee for Finance (the Committee), to inform its consideration of Business Case use by Government in the United Kingdom (UK), and the Republic of Ireland (ROI).

The Paper is presented as follows:

- Section 1 - key background information to contextualise Business Case use by Government;
- Section 2 - an overview of the Executive's Business Case process in Northern Ireland (NI);
- Section 3 - an outline of the Business Case process in the rest of the UK and the ROI, to provide a comparative perspective; and,
- Section 4 - key observations and issues for consideration.

1 Background

In NI, the Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) – a Department of Finance (DoF) publication - is the overarching process under which all Government proposals relating to spending or saving public money takes place. It is the primary guide used by Executive Departments, Executive Agencies and Non Departmental Public Bodies (the Executive *et al*). It seeks to assist with appraisal, evaluation, approval and management of policies, programmes and projects, which are the essential elements of expenditure planning and service delivery.²

The NIGEAE is based on Her Majesty's Treasury (Treasury) guidance, tailored specifically to the needs of the Executive *et al*, taking account of local policies and institutional arrangements.³

For spending, i.e. expenditure decisions, the steps involved in the NIGEAE process are supplemented with steps involving value for money and procurement, in order to produce a Business Case.

Business Cases are used by the Executive *et al* to assist in the allocation of scarce resources to competing policy objectives since:

*Any allocative decision will necessarily involve making choices between alternative approaches to the achievement of a specific policy objective and the ranking of priorities.*⁴

In simple terms, there is a finite amount of money available to pay for public services and infrastructure. The Executive *et al* uses Business Cases to help decision-making on how best to spend the money.

The Business Case process therefore:

*..examines alternative uses of resources, focusing on assessment of need, objectives, options, costs, benefits, risks, funding, affordability and other factors relevant to the decision.*⁵

² DoF (2016) Introduction to the Northern Ireland Guide to Expenditure Appraisal and Evaluation available online at: <https://www.finance-ni.gov.uk/articles/introduction-northern-ireland-guide-expenditure-appraisal-and-evaluation-nigeae> accessed on 3 August 2016.

³ DoF (2016) Introduction to the Northern Ireland Guide to Expenditure Appraisal and Evaluation available online at: <https://www.finance-ni.gov.uk/articles/introduction-northern-ireland-guide-expenditure-appraisal-and-evaluation-nigeae> accessed on 5 September 2016.

⁴ Dept of Public Expenditure and Reform Guide to economic appraisal: Carrying out a cost benefit analysis available online at: <http://publicspendingcode.per.gov.ie/wp-content/uploads/2012/08/D03-Guide-to-economic-appraisal-CBA-16-July.pdf> accessed on 4 August 2016.

⁵ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/what-economic-appraisal-and-when-it-required> accessed on 5 August 2016.

It seeks to ensure that any government intervention: is fully informed; based on robust evidence; represents value for money; is achieved; and, satisfies public accountability. It:

...provides a clear framework for thinking about spending proposals and a structured process for appraising, developing and planning to deliver best public value. [] ..and support evidence based decisions.⁶

The National Audit Office notes that failures to implement prevailing Business Case guidance, or to take account of policy commitments has led to judicial reviews.⁷ This can result in significant increases in project costs and/or delay project implementation. For example, the 2010 High Court judgment that the UK Government's decision to give Heathrow's third runway a green light contained out-dated figures and had not properly considered the UK Government's climate change policy.⁸ This delayed the project starting, and it is not clear at the present time if or when it ever will start.

It is worth noting that Business Cases, albeit to a different standard, are used extensively in the private sector. In 2009 a global survey of over 2,200 business executives identified that the use of an analytical framework by decision-makers led to more satisfactory outcomes. The survey findings noted that this was due to:

... less bias, thanks to robust debate, an objective assessment of facts, and a realistic assessment of corporate capabilities.⁹

In the public sector, it could be argued that the need for structured decision-making is even more important, as market value is not the determining factor. It is one of many, including broader social, environmental and economic considerations.¹⁰

1.1 NIGEAE

The DoF's NIGEAE requires, that **any Business Case (prepared by the Executive et al) be appropriate and proportionate to the scale of the project and expenditure** (a concept that is explored further in sub-section 2.4). Therefore:

⁶ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 5 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016

⁷ NAO (2011) Option Appraisal: Making informed decisions in government Page 6 available online at: <https://www.nao.org.uk/report/option-appraisal-making-informed-decisions-in-government/> accessed on 5 August 2016

⁸ NAO (2011) Option Appraisal: Making informed decisions in government Page 6 available online at: <https://www.nao.org.uk/report/option-appraisal-making-informed-decisions-in-government/> accessed on 5 August 2016

⁹ Dye, Siboney & Truong (2009) Flaws in strategic decision making: McKinsey Global Survey results: McKinsey Quarterly available online at: <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/flaws-in-strategic-decision-making-mckinsey-global-survey-results> accessed on 8 August 2016

¹⁰ NAO (2011) Option Appraisal: Making informed decisions in government Page 4 available online at: <https://www.nao.org.uk/report/option-appraisal-making-informed-decisions-in-government/> accessed on 5 August 2016

...decisions on small expenditures need relatively little appraisal, while those with major spending implications require significant resources devoted to the appraisal.¹¹

Determinations regarding 'proportionate effort' is required to take account of the total resources that are involved in the project. In this way it is hoped that all resources in the economy are put to the best use possible. However, additional importance is assigned to the level of public funds involved, since public bodies are accountable to the taxpayer. Public funds in this context include:

- All expenditure by Departments and their sponsored bodies, including direct spending and all forms of financial assistance;
- European Union (EU) funding;
- International Fund for Ireland (IFI) funding;
- Lottery Fund monies; and,
- District Council spending.¹²

The NIGEAE states that the structured appraisal of different options:

... is a way of thinking which is indispensable even when dealing with small amounts of expenditure or resources.¹³

This is because:

It is always appropriate to establish the need for a proposed expenditure or change of resource use, consider alternative options, and weigh up the costs and benefits of the alternatives.¹⁴

It notes that Business Cases are used by the Executive *et al* to help it to achieve value for money and satisfy public accountability requirements.¹⁵

¹¹ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/what-economic-appraisal-and-when-it-required> accessed on 5 August 2016.

¹² DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/what-economic-appraisal-and-when-it-required> accessed on 5 August 2016.

¹³ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/what-economic-appraisal-and-when-it-required> accessed on 8 August 2016

¹⁴ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/what-economic-appraisal-and-when-it-required> accessed on 8 August 2016

¹⁵ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/introduction-northern-ireland-guide-expenditure-appraisal-and-evaluation-nigeae> accessed on 11 August 2016

2 Executive Business Case Process in Northern Ireland

In NI, Business Cases prepared by the Executive *et al*, should provide decision makers, stakeholders and the public with:

- A tool that supports evidence-based and transparent decision making; and,
- A framework for the delivery, management and performance monitoring of the resultant scheme.¹⁶

The NI process is broadly similar to that adopted in England, Scotland and Wales. However, it has been tailored specifically to the needs of the Executive *et al*, taking account of local policies and institutional arrangements.¹⁷ It involves the following:

- Economic Appraisal;
- Value for Money Assessment of Procurement Options;
- Affordability;
- Output Specification;
- Risk Management and Allocation;
- Project Management;
- Timetable;
- Tendering Process;
- Accounting Treatment;
- Arrangements for Post Project Evaluation and Gateway reviews;
- Benefits Realisation Plan; and,
- Present the Results.¹⁸

The process is iterative in nature, with the level of detail and completeness of each of the above components built up at different stages of the process.

There are three key stages in the evolution of a major project Business Case, i.e. over £20 million (m) of public funds; each with a corresponding stage in the spending approval process.¹⁹ The three stages for a major project Business Case are:

- Strategic Outline Case (SOC);
- Outline Business Case (OBC); and,

¹⁶ HM Treasury (2013) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 8 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016

¹⁷ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/introduction-northern-ireland-guide-expenditure-appraisal-and-evaluation-nigeae> accessed on 11 August 2016

¹⁸ DoF (2009) NIGEAE available online at <https://www.finance-ni.gov.uk/publications/public-private-partnerships-ppprivate-finance-initiative-pfi-business-case> accessed on 9 August 2016.

¹⁹ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 5 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016

- Full or Final Business Case (FBC).

The interaction of the Business Case and expenditure approval process is shown at **Annex A**. Further details on the content and use of each stage of a major project Business Case is addressed in the following sub-sections.

It is important to note that the procedures around Private Finance Initiatives, Public Private Partnerships and External Consultancy differ slightly from the three stage process outlined above, and therefore are outside the scope of this Paper.

2.1 Strategic Outline Case

A SOC – sometimes referred to as a Preliminary Business Case - tends to be required only for major procurement projects, i.e. over £20m of public funds. It makes the initial case for the change/intervention and provides a high level view of the business need and the investment required.

It is usually around only 10 to 12 pages in length, outlining the goals and objectives of the project within the strategic context. It does not provide any detail of the preferred options. Instead it gives a ‘direction of travel’ on how best to develop and implement a potential solution.²⁰

Treasury states that the outcome of the SOC is “*a robust case for change*.”²¹ In NI, the SOC is submitted to the DoF for approval prior to the body expending additional resources on the next more detailed stages of the Business Case process. If approval is not given, the project either will not proceed or the SOC may be revised and re-submitted.

2.2 Outline Business Case

An OBC is required in all cases where the project is ‘high risk.’²² It is the detailed planning stage for the spending proposal, and should be completed prior to the commencement of formal procurement. It normally provides the basis for DoF approval, in circumstances where it is required.²³ The issue of DoF approval is explored further in sub-section 2.5.1.

²⁰ CIPFA (2014) Developing a Business case and Economic Appraisal Course

²¹ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 145 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016

²² The DoF was contacted to define the term high risk, however, at the time of writing this Research Paper a response was not yet available.

²³ DoF (2009) NIGEAE available online at <https://www.finance-ni.gov.uk/articles/business-case-development-process> accessed on 10 August 2016.

The purpose of the OBC is to revisit the SOC assumptions and analysis, to identify a 'preferred option' in terms of the level and form of service provision. It should also recommend a particular procurement route.

Treasury identifies the outcome of the SOC as the "*planned procurement for VFM [value for money] solution.*"²⁴ The OBC tends to be the largest of the three stages of the Business Case process. The NIGEAE states that it may be broken down into two more manageable sections; however, agreement should be sought from the DoF in advance.

The OBC must be formally submitted to DoF for all investments over delegated limits.²⁵ Further information on delegated limits is provided at Section 2.5.

2.3 Full Business Case

The purpose of the FBC is to revisit and where necessary rework the OBC analysis and assumptions, building on and recording the findings of the formal procurement.²⁶

It is documented prior to the financial closure and award of the contract. It outlines all the information needed to support a decision to award a contract and commit actual funding. It provides a basis for the management of the project, monitoring, evaluation and benefits realisation.²⁷

2.4 Appraisal of Small Expenditures

As previously identified within section 1.1, the NIGEAE requires that those staff undertaking the appraisal and evaluation should use 'proportionate effort.' To assist staff in judging what is proportionate, the DoF states that the cost of resources devoted to appraisal normally should not exceed two per cent of the value of the proposal.²⁸

The Public Finance Scrutiny Unit (PFSU) requested information from each of the nine NI departments regarding resources used in the development of Business Cases. This would enable assessment of the application of the principle of 'proportionate effort.' At the time of writing this Research Paper only three, departments responded, with all

²⁴ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 146 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016

²⁵ A standing authorisation by DoF under which a body may commit resources or incur expenditure from money voted by the Assembly without specific prior approval from DoF.

²⁶ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 20 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016

²⁷ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/business-case-development-process> accessed on 10 August 2016

²⁸ DoF (2009) NIGEAE available online at: <https://www.finance-ni.gov.uk/articles/appraisal-and-evaluation-small-expenditures> accessed on 16 August 2016.

three stating that they did not hold information on the resources expended in the compilation of Business Cases.

Issue for Consideration:

1. The Committee may wish to ask the DoF about how departments apply the principle of 'proportionate effort' in the production of Business Cases.

For smaller value proposals the DoF has designed a one-stage proforma for appraisal of mainstream government spending with a lifetime cost of between £50,000 and £1m – the 'General Business Case Proforma for Small Expenditures'.²⁹ The Proforma follows a similar format to the 10 step approach identified in Section 2. However, the guidance notes that there are no rules governing the length of the final business case produced using this Proforma that:

.... it might be anything from a few pages in the simplest cases to 20 pages or so in more complex cases.³⁰

It is not clear therefore whether the use of this Proforma reduces the amount of effort and resources required to complete a Business Case. However, the single stage methodology is likely to reduce the length of time needed to gain the necessary approval.

Issue for Consideration:

2. The Committee may wish to seek information on the estimated time taken by departments to produce a Business Case
 - - using the General Business Case Proforma for Small Expenditures for expenditures between £0.75m and £1m; and,
 - - using the regular three stage approach Business Case model for expenditure between £1m and £1.5m

Such information would enable the Committee to assess whether the effort and resources expended in the production of Business Cases is in fact reduced significantly by the use of the General Business Case Proforma for Small Expenditure.

2.5 Business Case Approval

As noted within Section 2, each of the three stages of the Business Case process corresponds with a stage in the approval process. A flowchart of the approval system is shown at **Annex A**, with details of how it corresponds to the three stages of the Business Case process, along with the DoF approval points highlighted in red.

²⁹ DoF (2009) available online at: <https://www.finance-ni.gov.uk/publications/business-case-template-small-expenditures> accessed on 16 August 2016

³⁰ DoF (2009) DoF General Business Case proforma Page 1 available online at: <https://www.finance-ni.gov.uk/publications/business-case-template-small-expenditures> accessed on 19 August 2016

Delegated limits are the parameters under which a body may commit resources or incur expenditure from the money voted to it by the Assembly, without specific approval from DoF.³¹ It should be noted, however, that the NIGEAE requires that:

*...there should be an early opportunity for approving authorities to consider and influence the choices made.*³²

The following sub-sections provide information on the approval system for Business Cases within the Executive *et al.*

2.5.1 DoF Approval of Business Cases

The approving authority for individual expenditure decisions is dependent on the level of delegation, i.e. whether it remains within the department/body or whether it is necessary for the Business Case to be submitted to DoF. Levels of delegation are detailed in DoF guidance issued to departmental Accounting Officers. The guidance states that unless otherwise agreed with departments, DoF approval is required for:

- IT projects over £1m;
- Capital Projects – All other expenditure on capital projects involving over £2m of central government expenditure, unless other delegations specifically allow;
- Consultants – Expenditure on external consultancy over £75,000. Expenditure on external consultancy assignments co-funded by the Strategic Investment Board over £150,000; and,
- European Union (EU) – All expenditure over £5m under the EU Programmes, for which the Special EU Programmes Body is responsible.³³

The above expenditure limits refer only to levels of Executive *et al* expenditure; expenditure funded by other sources, e.g. councils, and the private or voluntary sectors, does not count toward the DoF approval level.³⁴

The need for DoF to approve a Business Case is likely to increase the total time taken to approve projects. This appears to be supported by the Minister of Finance's announcement in July 2016 that the delegated limit in respect of EU expenditure would be increased from £2m to £5m. He stated:

*To maximise access to EU PEACE IV and INTERREG VA programmes.*³⁵

³¹ DoF (2016) Public Expenditure Terminology Page 16 available online at: <https://www.finance-ni.gov.uk/publications/dfp-public-expenditure-terminology> accessed on 1 September 2016

³² DoF (2009) Business Case Development Section 8.5 available online at: <https://www.finance-ni.gov.uk/articles/business-case-development-process> accessed on 11 August 2016

³³ Dear Accounting Officer (DAO) Letter (Department of Finance and Personnel) 06/12 dated 7 June 2012 and updated 28 July 2016.

³⁴ Dear Accounting Officer (DAO) Letter (Department of Finance and Personnel) 06/12 dated 7 June 2012 and updated 28 July 2016.

³⁵ DoF (2016) O Muilleoir: new procedures will speed up European funding appraisal process available online at <https://www.finance-ni.gov.uk/news/o-muilleoir-new-procedures-will-speed-european-funding-appraisal-process> accessed on 11 August 2016.

And he noted that this would:

*...shorten the approvals process by an average of three weeks.*³⁶

Adjustments to the level of delegation are therefore within the control of DoF. However, the higher the delegated level, the less oversight DoF can exercise over the project.

Issue for Consideration:

3. The Committee may wish to ask the DoF to demonstrate how current delegated limits are appropriate for all types of expenditure, to enable the Committee to assess the level of DoF oversight.

As detailed within **Annex A**, departments are required to submit an SOC to DoF for all major and high profile cases seeking approval, before they develop an OBC. This includes:

- Capital projects with a capital value of £20m or more;
- All revenue projects which fall above the Department's delegated limits and for which total central government costs will be £20m or more over the project's life; and,
- All projects, irrespective of cost, that: set precedents; are novel; are potentially contentious; could cause repercussions elsewhere in the public sector; or, are potentially politically sensitive.³⁷

2.5.2 Departmental Approval of Business Cases

Approval of Business Cases within departments is de-centralised pursuant to the DoF's 'Managing Public Money Northern Ireland.' It states that:

*...authority [within departments] should be delegated to the point where decisions can be taken most efficiently.*³⁸

Each department is responsible for determining its own procedures for the approval of Business Cases and the appropriate level for investment decisions since:

*It is for the Accounting Officer to determine how authority should be delegated to individual managers.*³⁹

³⁶ DoF (2016) O Muilleoir: new procedures will speed up European funding appraisal process available online at <https://www.finance-ni.gov.uk/news/o-muilleoir-new-procedures-will-speed-european-funding-appraisal-process> accessed on 11 August 2016.

³⁷ DoF (2009) Business Case Development Section 8.5 available online at: <https://www.finance-ni.gov.uk/articles/business-case-development-process> accessed on 11 August 2016

³⁸ DoF (2013) Managing Public Money Northern Ireland Chapter 2, Annex 3 available online at: <https://www.finance-ni.gov.uk/publications/managing-public-money-ni-chapter-2-and-associated-annexes> accessed on 11 August 2016.

³⁹ DoF (2013) Managing Public Money Northern Ireland Chapter 2, Annex 3 available online at: <https://www.finance-ni.gov.uk/publications/managing-public-money-ni-chapter-2-and-associated-annexes> accessed on 11 August 2016.

The DoF, however, retains the right to review Business Cases below the delegated limits in sub-section 2.5.1, to ensure Business Case procedures have been followed and ensure departments have systems in place to ensure good decision-making.⁴⁰

Issue for Consideration:

4. The Committee may wish to request that the DoF provide it with statistics on the number of Business Cases below departmental delegated limits which it reviews each year, to enable the Committee to assess the rigour of DoF's review of lower value Business Cases undertaken.

2.4.1 Time Taken to Approve Business Cases

To gain an insight into the approval process for major government projects in NI, the PFSU requested information from the DoF about the time it takes to consider and approve projects at each of the three stages of the Business Case process. At the time of writing this Research Paper, the information was not yet available. Upon receipt the PFSU will bring such information to the Committee's attention.

⁴⁰ CIPFA (2014) Developing a Business case and Economic Appraisal Course

3 A Comparative Perspective

To facilitate the Committee's deliberations, this section provides information about Government's Business Case use in the remainder of the UK and ROI. It sets out the process in each jurisdiction, including relevant guidance relating to preparation.

3.1 England and Wales

Treasury's 'Green Book' for Business Cases uses a 'Five Case Model' comprising:

- The Strategic Case;
- The Economic Case;
- The Commercial Case;
- The Financial Case; and,
- The Management Case.⁴¹

Although this appears to be very different from the process operating within NI, the content of the Five Case Model simply groups the NI requirements in a different manner.⁴²

The process used to develop Business Cases in England is similar to that used in NI, i.e. SOC, OBC and FBC stages. There is, however, a further stage – the Strategic Outline Programme (SOP). This stage is the first one in the process, and it can cover multiple sub-programmes and/or projects. It determines the strategic context, and ensures that the spending proposal is:

*...grounded within an overarching policy, portfolio and programme that provides synergy and holistic fit in support of a well-documented and clearly understood business strategy.*⁴³

3.1.1 Business Justification Case for Smaller Projects

The above process is used for medium and large scale projects. For small and medium scale projects that are likely to cost less than £2m the Business Justification Case (BJC) is used. It is a 'lighter' single stage methodology which is used where the

⁴¹ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 11 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 9 August 2016.

⁴²CIPFA (2014) Developing a Business case and Economic Appraisal Course.

⁴³ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 18 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 8 September 2016.

proposal is neither novel nor contentious, and where pre-competited procurement schemes are available.⁴⁴

Treasury provides a simplified Business Case template in circumstances where the BJC is deemed appropriate. The reduced information requirements and the single stage process adopted by the BJC is likely to significantly reduce the planning and approval time significantly for projects / proposals using this methodology.

While both the BJC and the (NI) Executive's Business Case Proforma for Smaller Expenditures have a single stage methodology, some elements of the BJC appear to be less detailed. For example, the NI Proforma requires the sponsor to identify the risks and uncertainties associated with each proposed option; while the BJC simply requires a "*summary of the main risks associated with the investment.*"⁴⁵ Additionally, the BJC may be used for expenditure up to £2m; while the limit for the use of the Executive's Profoma is £1m.

Issue for Consideration:

5. The Committee may wish to ask the DoF whether it would be appropriate for it to increase the limit on the single stage Business Case Proforma for Smaller Expenditures to £2m, in line with the process in place in England and Wales, which would help reduce the time taken to approve lower value Business Cases.
6. The Committee may wish to ask the DoF whether it would be appropriate for it to adopt the Business Justification Case template in line with England and Wales, since the BJC appears to be less detailed than the similar NI Business Case for Smaller Expenditures, which would help reduce the time taken to produce lower value Business Cases.

3.1.2 Delegated Limits in England

The approving authority for individual expenditure decisions in England, like in NI, is dependent on the level of delegation, i.e. whether it remains within the department/body or whether it is necessary for the Business Case to be submitted to Treasury.

The expenditure delegations for each department are agreed individually with Treasury. However, Treasury retains the right to modify delegations or remove them completely if it is not "*satisfied that the department is using them responsibly.*"⁴⁶

⁴⁴ HM Treasury (2015) Public Sector Business Cases using the Five Case Model Green Book: Supplementary Guidance On Delivering Public Value from Spending Proposals Page 22 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 12 August 2016

⁴⁵ HM Treasury (2015) Public Sector Business Cases using the Five Case Model: Templates Page 185 available online at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> accessed on 19 August 2016

⁴⁶ HM Treasury (2015) Managing Public Money Annex A 2.2 available online at: <https://www.gov.uk/government/publications/managing-public-money> accessed on 22 August 2016

The PFSU, requested information from Treasury about the levels of delegation. At the time of writing this Research Paper, the information was not yet available. Upon receipt the PFSU will bring such information to the Committee's attention.

The system to gain Treasury approval is called the 'Treasury Approval Point' (TAP). It applies only to projects that exceed departments delegated authority. It has an agreed end date:

...usually 28 days from when the business case is received, after which Treasury will communicate a decision to the department in writing.⁴⁷

Issue for Consideration:

7. The Committee may wish to ask the DoF whether its Business Case approval system has an agreed timeframe similar to that operated by Treasury which would help departments to enable planning.
8. If there is no agreed timeframe for Business Case approvals between DoF and departments, what would be the potential for DoF to introduce one?

The TAP process has five key principles:

- **Consistency:** It is applied across Whitehall with final decisions signed off at Ministerial, Treasury Director or Deputy Director level, and communicated in writing by Treasury;
- **Discrete process:** It has an agreed end date, allowing departments to fit the TAP process around their project timelines;
- **Improve VFM:** It focuses on Value for Money and deliverability, in addition to the traditional issues of affordability and economics;
- **Clear Process:** Treasury and departments have a clearer idea when a project requires Treasury approval; and,
- **Green Book:** It requires departments to prepare Business Cases in line with the best practice Five Case Model outlined in Green Book guidance.⁴⁸

Treasury also operate a Major Projects Review Group (MPRG) to help:

...scrutinise the largest and most complex major government projects.⁴⁹

⁴⁷ HM Treasury (2011) Major Project Approval and Assurance Guidance Page 13 available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/179763/major_projects_approvals_assurance_guidance.PDF.pdf accessed on 22 August 2016.

⁴⁸ HM Treasury (2011) Major Project Approval and Assurance Guidance Page 13 available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/179763/major_projects_approvals_assurance_guidance.PDF.pdf accessed on 22 August 2016.

⁴⁹ HM Treasury (2011) Major Project Approval and Assurance Guidance Page 13 available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/179763/major_projects_approvals_assurance_guidance.PDF.pdf accessed on 22 August 2016.

The MPRG challenges projects on the grounds of deliverability, affordability and value for money, at key points in the Treasury approvals process (SOC, OBC, FBC), and as required. Projects selected for MPRG review include:

- Projects with a whole life cost over £1bn;
- Projects that are high risk and complex in their procurement and delivery of benefits;
- Projects that set a precedent, or are highly innovative; and,
- Other projects 'of concern'.⁵⁰

3.1.3 Cabinet Office Controls

In addition to the Treasury approvals detailed within sub-section 3.1.2, the Cabinet Office operate a system of controls to:

- Deliver savings by tackling wasteful spend;
- Encourage a smarter, cross government approach to spend by leveraging central expertise to improve outcomes, identifying duplicative spend and identifying potential for re-use;
- Deliver sustainable, long-lasting reforms across Whitehall by supporting ambitious transformation of public services; and,
- Implement specific government policies.⁵¹

These controls operate alongside, and contemporaneously with, the Business Case approval system operated by Treasury, to provide an overview of government expenditure. This together with a 28-day service level agreement ensures that the additional oversight should not increase the approval time required for expenditure.⁵²

Issue for Consideration:

9. The Committee may wish to ask the DoF and the Executive Office for their views on whether it would be appropriate for the Executive Office to operate an oversight function in a similar manner to that operated by the Cabinet Office, which would serve to assist the Executive in adopting a more cross-departmental approach, thereby aligning Programme for Government outcomes with planned expenditure.
10. The Committee may wish to refer this issue to the Committee for the Executive Office, given its remit.

⁵⁰ HM Treasury (2011) Major Project Approval and Assurance Guidance Page 13 available online at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/179763/major_projects_approvals_assurance_guidance.PDF.pdf accessed on 22 August 2016.⁵⁰

⁵¹ Cabinet Office (2014) Cabinet Office Controls Guidance available online at:

<https://www.gov.uk/government/publications/cabinet-office-controls/cabinet-office-controls-guidance-version-40> accessed on 25 August 2016.

⁵² Cabinet Office (2014) Cabinet Office Controls Guidance available online at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408147/2_2_Operating_Principles.pdf accessed on 25 August 2016.

3.2 Scotland

The Scottish Government adopted Treasury's Green Book guidance when preparing Business Cases. In addition to the information requirements for a Business Case, the 'Scottish Public Finance Manual' states that a 'Pre-Expenditure Assessment' (PEA) is required for all expenditure. Business areas do, however, have the option to waive the requirement for a PEA for smaller expenditure proposals. The thresholds above which a PEA has to be completed are:

- £5m for capital projects; and,
- £1m per annum for new resource expenditure proposals.⁵³

A PEA is broadly similar to a Green Book Business Case. Relevant guidance states that:

*...where proposals have been developed in line with good practice on policy development little additional work should be required to produce a comprehensive Pre-Expenditure Assessment.*⁵⁴

The PEA, however, is required to link back to the outcomes set out in the Government Economic Strategy and the National Performance Framework.

Issue for Consideration:

11. The Committee may wish to ask the DoF as to whether it should introduce an additional information requirement for Business Cases to be linked to the outcomes framework set out in the Programme for Government.

3.2.1 System of Delegation

The approving authority for Business Cases in Scotland system differs from that in place within England and NI. This is due to the fact that the Scottish Government is a single entity, with one Permanent Secretary and six Director Generals who each manage a number of directorates and agencies.⁵⁵ There is therefore no separate DoF or Treasury for submission of Business Plans, to gain the necessary approvals.

However, expenditure proposals outside the priorities agreed in the Draft Budget and over £250,000 require approval from the Director of Financial Management. The need for Director of Financial Management approval is subject to a number of exceptions. This includes proposals funded from Ministerial decisions made during the year and accompanied by additional budget allocations.⁵⁶

⁵³ Scottish Government (2011) Scottish Public Finance Manual Annex 2 available online at: <http://www.gov.scot/Topics/Government/Finance/spfm/Intro> accessed on 24 August 2016

⁵⁴ Scottish Government (2011) Scottish Public Finance Manual Annex 2 available online at: <http://www.gov.scot/Topics/Government/Finance/spfm/Intro> accessed on 24 August 2016

⁵⁵ Scottish Government available online at: <https://beta.gov.scot/about/how-government-is-run/> accessed on 1 September 2016.

⁵⁶ Email from SPICE dated 31 August 2016.

3.3 Republic of Ireland

Public bodies in the ROI are required to follow the 'Public Spending Code' (the Code). The Code was introduced in 2013 and brought together all the separate elements of the value-for-money framework that had been in force in the public sector up to that time. It is managed by the Central Expenditure Evaluation Unit (CEEU) of the Department of Public Expenditure and Reform.

The Code requires that all spending proposals should be appraised. However, the resources expended on the appraisal should be "*commensurate with the cost of the project, and the degree of complexity of the issues involved.*"⁵⁷ The process is undertaken in stages to ensure that where circumstances warrant:

*It should be possible to revise or drop the proposal during the planning process without incurring all the planning costs or any of the more substantial liabilities associated with the project itself.*⁵⁸

There are a number of appraisal levels operating within the ROI.

- Expenditure less than €0.5m;
- Expenditure between €0.5m and €5m;
- Expenditure between €5m and €20m; and,
- Expenditure over €20m.

The guidance states that for expenditure below €0.5m a simple assessment should be carried out and should be completed "*within a matter of days.*"⁵⁹

For expenditure between €0.5m and €5m, it states that a single appraisal system should be operated.

For projects over €5m, the flowchart at **Annex B** provides details of the individual stages of the appraisal system and the approvals necessary for a project proposal to proceed to contract award in the ROI.

For projects over €20m a Cost Benefit Analysis⁶⁰ is required to be submitted to the CEEU for its views. This is to be done prior to the 'Sanctioning Authority'⁶¹ granting an 'Approval in Principle' and allowing the project to progress.

⁵⁷ Department of Public Expenditure and Reform (2011) the Public Spending Code: B. Expenditure under Consideration Approvals required and Scale of Appraisal available online at: <http://publicspendingcode.per.gov.ie/b-03-approvals-required-and-scale-of-appraisal/> accessed on 23 August 2016.

⁵⁸ Department of Public Expenditure and Reform (2011) the Public Spending Code: B. Expenditure under Consideration Approvals required and Scale of Appraisal available online at: <http://publicspendingcode.per.gov.ie/b-03-approvals-required-and-scale-of-appraisal/> accessed on 23 August 2016.

⁵⁹ Department of Public Expenditure and Reform (2011) the Public Spending Code: B. Expenditure under Consideration Approvals required and Scale of Appraisal available online at: <http://publicspendingcode.per.gov.ie/b-03-approvals-required-and-scale-of-appraisal/> accessed on 23 August 2016.

⁶⁰ Cost-Benefit Analysis; an assessment of whether the social and economic benefits associated with a project are greater than its social and economic costs.

⁶¹ The Sanctioning Authority is responsible for granting the approvals required as projects/schemes, funded with public assistance, proceed through the project/expenditure life cycle.

3.3.1 Sanctioning Authority

The Code states that the 'Sanctioning Authority' is:

...normally the Government Minister or Department or public body with sectoral responsibility for implementing Government policy and for providing public financial assistance in that sector.

It appears therefore that expenditure decisions largely remain within the individual Department. It is only where the value of the expenditure increases significantly that a central decision is required. The Code states that for large projects the Government may be the Sanctioning Authority:

As a rule the Government will be the Sanctioning Authority for very large projects, costing more than €100m, but the Government could also be the Sanctioning Authority for projects below this value.

However, it is not clear from the information currently available in the Code as to what other circumstances the Government may consider expenditure decisions.

4 Conclusion

Business Cases are designed to help decision-makers make informed choices by providing a structured process for appraising, developing and planning expenditure decisions. In the past non-compliance with government's Business Case guidance have resulted in judicial reviews, incurring costs to the public purse and causing delays.

NI's NIGEAE governs the overarching process for the Executive *et al* proposals relating to spending or saving public money. It is derived from Treasury guidance. Executive *at al* Business Cases follow the NIGEAE guidance with additional information included in respect of value for money and procurement.

The NIGEAE employs a three stage approach to most public expenditure decisions. **Annex A** provides details of how the process operates. As noted earlier the initial stage is the SOC, which should provide a robust reason for the intervention. The second stage is the OBC - the detailed planning stage for the proposal - identifies the preferred option. The final stage, the FBC revisits, and where necessary, reworks the OBC analysis approach.

The NIGEAE states that project sponsors should use appropriate and proportionate resources in the compilation of Business Cases, with particular importance attached to the level of public funds involved. The Committee may wish to clarify the method by which departments judge the principle of 'proportionate effort.'

For smaller value expenditures (up to a maximum of £1m), the DoF has designed a single stage Proforma. There is no guidance regarding the level of detail required to complete the Proforma. The DoF states that it could be anything from a few pages to 20 or more in complex cases.⁶² It is not clear therefore whether the use of the template for smaller expenditures actually reduces the time taken to complete a Business Case. However, the single stage methodology is likely to reduce the time taken to receive an approval for the expenditure.

The approving authority for expenditure decisions is dependent on the level of delegation, which is laid down in the DoF guidance. The Minister of Finance recently announced that the delegated limit for departments in respect of EU expenditure would be increased from £2m to £5m.⁶³ The Committee may wish to request that the DoF demonstrate how the current delegated limits are appropriate for all types of expenditure.

⁶² DoF (2009) DoF General Business Case proforma Page 1 available online at: <https://www.finance-ni.gov.uk/publications/business-case-template-small-expenditures> accessed on 19 August 2016

⁶³ DoF (2016) O Muilleoir: new procedures will speed up European funding appraisal process available online at <https://www.finance-ni.gov.uk/news/o-muilleoir-new-procedures-will-speed-european-funding-appraisal-process> accessed on 11 August 2016.

The Business Case process in England and Wales is broadly similar to that operated by the Executive, i.e. SOC, OBC and FBC. However, for larger projects with multiple strands, there is an additional stage - the SOP, which determines the strategic context of the programme and how it fits within the departmental strategy.

The process operated by Treasury includes a template called a 'Business Justification Case' for smaller projects where costs are likely to be less than £2m. The template appears to be less detailed than the equivalent Proforma used by the Executive.

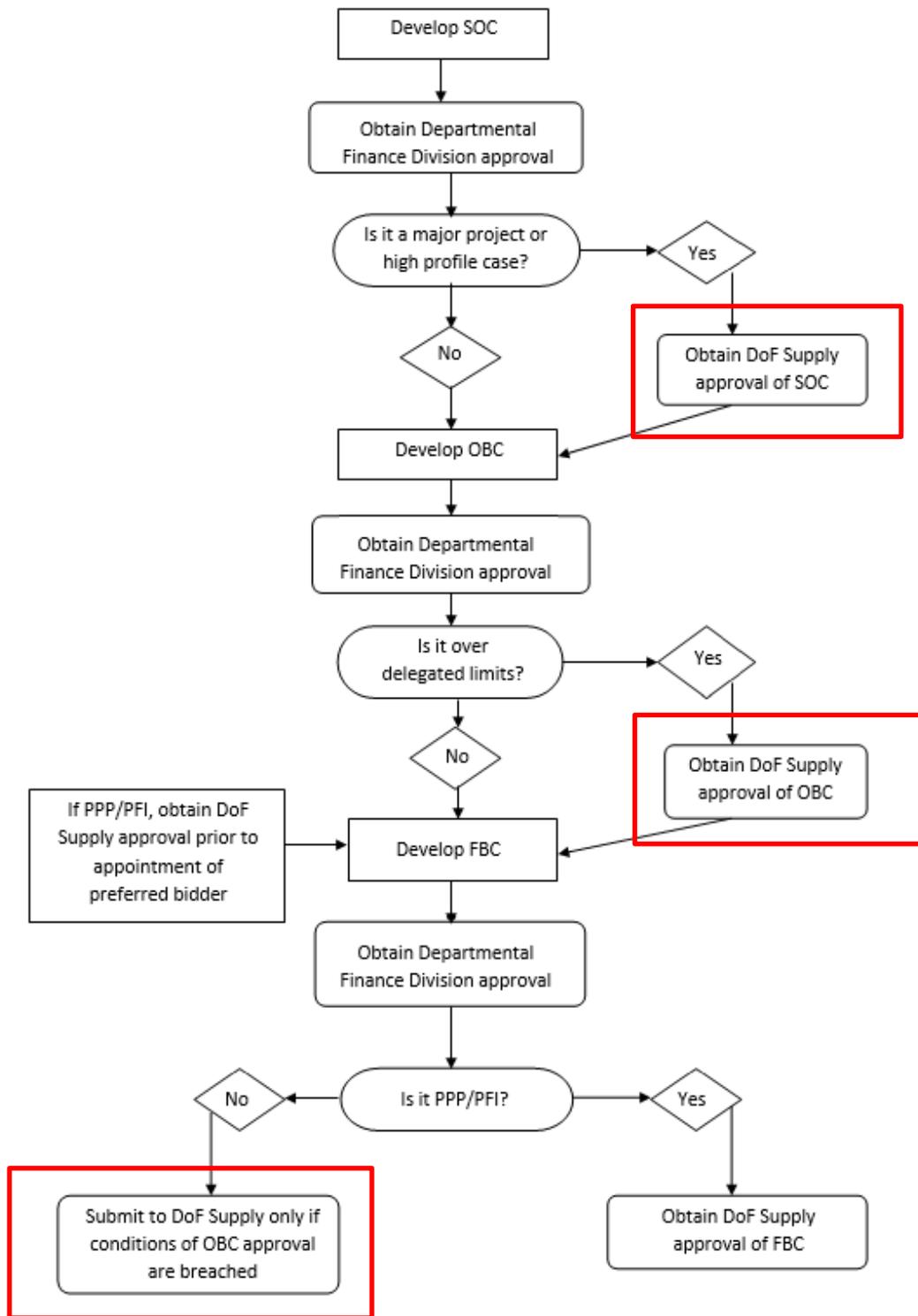
The PFSU requested information from Treasury about the levels of delegation. At the time of writing this Research Paper, the information was not yet available. Upon receipt the PFSU will bring such information to the Committee's attention. In addition to the regular approval process for expenditure decisions, Treasury operates a MPRG to help scrutinise the largest most complex public sector projects.

Scottish Government bodies are required to complete a PEA, in addition to a Business Case based on Treasury's Green Book. The PEA information requirements are broadly similar to a Business Case. However, the PEA specifically links the project to the outcomes set out in the Scottish Government's Economic Strategy and its National Performance Framework.

The Business Case process in ROI is largely devolved to individual departments, with central oversight required only for large projects in excess of €100m.

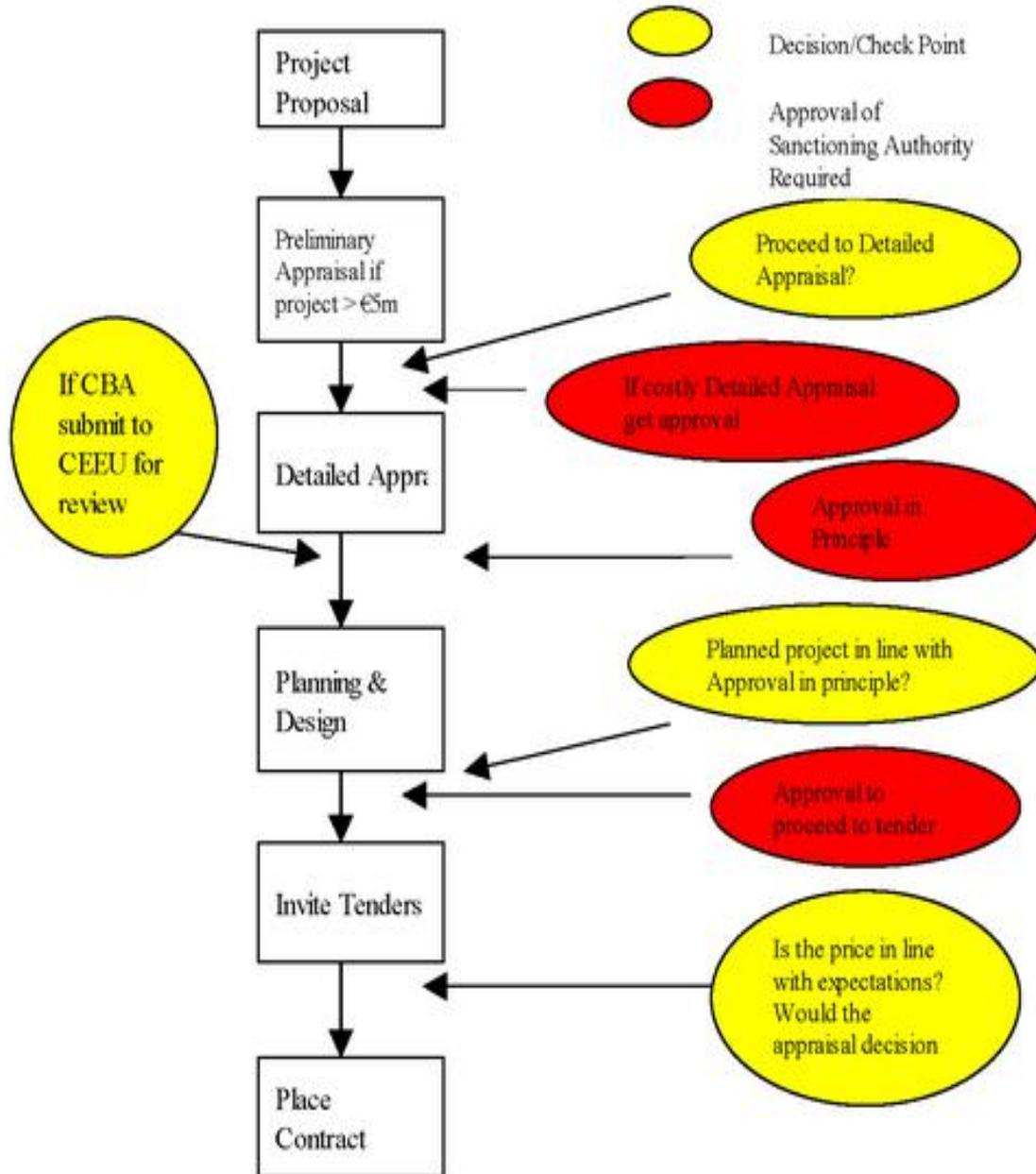
The Business Case process is designed to ensure that decision-makers have sufficient knowledge for them to make an informed decision. However, the more information that is required to complete a Business Case and the more decision-makers that are involved, the more time it takes to plan and deliver (if approved). Balance is therefore necessary: the established controls should be no more than what is necessary to safeguard public funds.

Annex A: Business Case Approval Process⁶⁴



⁶⁴ DoF (2015) Business Case Approvals process available online at: <https://www.finance-ni.gov.uk/publications/business-case-approvals-process> accessed on 4 August 2016

Annex B: Decision Points and Approvals Required in ROI⁶⁵



⁶⁵ Department of Public Expenditure and Reform (2011) the Public Spending Code: B. Expenditure under Consideration Approvals required and Scale of Appraisal available online at: <http://publicspendingcode.per.gov.ie/b-03-approvals-required-and-scale-of-appraisal/> accessed on 23 August 2016.