PROPORTIONATE EFFORT IN BUSINESS CASES (INCLUDING ECONOMIC APPRAISAL) AND EVALUATIONS

INTRODUCTION

Proportionality as a concept to determine the amount of resource and effort to allocate to a business case or evaluation is oft-mooted in guidance (see **Annex A** for some examples from HM Treasury and NI guidance).

DISCUSSION

Despite these and other attempts to define proportionality in guidance stretching back many years, in practice it has been a difficult concept to attempt to distil into a process such as developing a business case as each proposal will have different characteristics. Beyond encouraging the use of pro forma for smaller proposals for change, attempts at embedding proportionality into the process have had limited success and there has been wide variation of interpretation both within and across organisations as to what constitutes proportionate effort.

Business Case guidance is designed to ensure that certain requirements are met when making a proposal to use resources and a fundamental consideration of a proportional approach is considering compliance against this. There should be some proportionality between the magnitude of the proposal being assessed (in expenditure and other terms) and the effort put into its assessment. It is important to seek to adhere as far as possible to the principle so that:

- Business Cases may be of <u>sufficient detail and robustness</u> to inform decision makers that a proposal to allocate expenditure is needed, value for money, affordable and will be properly managed and implemented; and
- <u>Nugatory and excessive resources (human and financial) are not used</u> up in meeting this requirement.

Consequently, proportionate effort involves a <u>trade-off</u> between the understandable pursuit of excellence and the need to manage finite resources to support effective decision making, whilst complying with business case requirements - and to an extent is impacted by the appraisers', reviewers' and approvers' risk appetites.

It is important to seek to adhere to the principle because too much analysis that is not required can delay decision-making (and even overwhelm decision-makers), and can unnecessarily consume considerable resources throughout the appraisal, review and approvals chain. There is even the potential to erode the value for money the initial proposal was intended to deliver (for example where there are inflationary impacts and/or benefit delivery postponement due to unnecessary delays in the process). So, it is crucial we remind ourselves constantly of the need for proportionality and that everyone in the chain has a shared understanding of what it means for the case under consideration.

It is worth remembering there is no such thing as a perfect business case or evaluation, and that going to the nth degree on a particular aspect does not necessarily materially add to the robustness of the analysis. Diminishing marginal returns to effort (cost) set in when there comes a point when it is inefficient to expend more effort on analysis. It therefore may be useful to ask ourselves the question "does the marginal benefit of the extra effort/analysis (in terms of robustness and usefulness to decision making) outweigh the marginal cost of the extra effort (in human and/or financial resource)?"; or more succinctly, "is what it adds to the assessment material/important enough to justify the extra effort/cost?"

An approach may be to begin analyses at as high a level as practical and only perform more detailed analysis in areas where the additional effort will improve robustness and significantly help decision-makers. In general, the more detailed the analysis the greater the confidence and the more certain the conclusions, but the greater the resources invested. It is recognised that there will be variations of effort for a given expenditure level depending on the type of proposal (e.g. capital with a long revenue tail vs revenue spend; simple need projection vs projecting for demand-led services; settled strategic and policy contexts vs novel spend areas; high risk vs low risk proposals, and so on). So, taking risk as an example, the higher the level of risk or magnitude of the consequences, the greater the certainty that is needed from the analysis which would suggest greater effort in this aspect of the appraisal. Nevertheless, the above points to multiple factors playing into the consideration of proportionality, and there is inevitably judgement involved[1] - see key considerations below.

ADVISORS' AND REVIEWERS' ROLE

It is inevitable that different appraisers and spending areas will take different approaches to proportionality, and also it is often the case that many appraisers are first-timers.

Advisors and Reviewers should help guide clients on this issue. This should apply to all aspects of the business case with the relevant advisors/reviewers for example assigned the role for their "case" under the five case model business case.

It is a human trait on the one hand to seek more in a business case when we feel not enough has been done/the case is not robust enough, but on the other hand not to call out when we feel a case is disproportionate. This asymmetric approach can lead to an overly large business case, with iterative advice and reviews adding to its bulk each time. Advisors/reviewers should attempt to identify disproportionate aspects of the case at all stages of advice and review, and in reviewing finalised cases, note whether and where they consider the case to be disproportionate in providing feedback to the client. Advisors and reviewers may even consider going further in requesting superfluous information is taken out of a case before it goes for submission to the approver.

KEY CONSIDERATIONS

Considering the extent to which the business case answers the questions below can be a way to determine whether or not more effort is required and if so where it should be focussed in completing the case. The 'Proportionality Assessment Tool' structured on the five case model format in **Annex B** provides further considerations that could be deployed in determining the amount of effort required.

[1] There is no one size fits all but this High Speed Rail 2 (HS2) example, while accepting it is a GB example and not entirely comparable to the scale at which we operate here, gives a flavour of spend and risk versus effort adopted for this very large (multibillion-pound) infrastructure project.

KEY CONSIDERATIONS

The following questions can help with considering proportionality:

- Has the need for doing something been adequately addressed/shown?
- Are there any options missing?
- Are there any issues with the analysis that may change the choice of preferred option?
- Does the preferred option seem sound or do you need more information to conclude?
- Have reasonable processes been put in place to deliver and manage the proposal?
- Are the financial costs sound, is it affordable and have the funding implications been shown?
- Is an aspect weak/need adjustment/need development/more detail to comply with guidance and inform robust decision making?
- Is an aspect over-done/disproportionate/can it be amended/shortened/removed without weakening case?
- Will combining the above strengthen the case?
- Given the nature/scale, etc is what I am proposing proportionate or is there a more cost/time effective way of getting a robust answer/meeting guidance?

DoF recognises proportionality of effort in developing Business Cases and Evaluations can be a difficult concept to grasp or provide definitive guidance on. This document will be reviewed periodically and DoF would welcome feedback from users that could be used to improve its use for others. Please email any suggestions to: economicappraisal@finance-ni.gov.uk

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ANNEX A: SOME EXAMPLES FROM BUSINESS CASE GUIDANCE

HM Treasury Guidance

The Guide to Developing the Project Business Case states that *"The business case development process is scalable and the guidance should be used proportionately."* The guide includes a template *Project Scoping Document* at Annex C which is intended to assist with this through agreeing the nature, type and content of the business case, although it doesn't really cover the amount of effort to apply to each component part.

There are many references to proportionate effort in the *HM Treasury Green Book Central Government Appraisal and Evaluation Guidance*. One example, paragraph 1.6, states that *"This guidance should be applied proportionately. The resources and effort employed should be related to costs, benefits and risks involved to society and to the public sector as a result of the proposals under consideration."* Again, there is little or nothing by way of practical advice as to what this actually means in terms of expending effort.

DoF Business Case NI Guidance

The DoF guidance *Best Practice in Business Cases* states that proportionate effort *"means that the resources to be devoted to appraisal should be proportionate to the scale or importance of the objectives and resource consequences in view."* It also notes that *"The principle of proportionate effort should be applied to all BCs. Both the BC and advice provided by economists*[2] *should reflect the scale of expenditure and how complex, contentious or novel the BC is considered to be."*

However, the Guidance also acknowledges that *"It is difficult to be prescriptive about an ideal length for a business case. However, it should be drafted with proportionate effort in mind with novel, complex or contentious decisions often warranting a greater level of detail. Furthermore the aim should always be to make them as concise as possible, whilst providing necessary and important detail to enable decisions to be made and expenditure approved. They should not include needless information which unnecessarily bulks up the content."*

DoF's *Better Business Cases NI Plain English Guide* acknowledges that *"How much detail a business case should go into (such as the evidence required to demonstrate need, the number of options considered, the extent to which risks are considered, and so on) will all be a matter of judgement. This judgement should take into account a range of factors - not just the expected cost of the proposal but also its complexity, how novel or routine it is, and so on."*

Lastly, the DoF *Better Business Cases NI Overview of the Five Case Model Standalone Outline Business Case* goes further and advises *"The development of business cases uses up resources. The effort that should go into it and the detail to be considered is a matter for case-by-case judgement, but the general principle is that the resources to be devoted to appraisal should be in proportion to the scale or importance of the objectives and resource consequences in view. Decisions on small expenditures need relatively little appraisal, while those with major spending implications require significant resources to be devoted to appraisal. Similar principles apply to ex post evaluation. Judgement of proportionate effort should take into consideration the totality of the resources involved in a proposal. However, particular weight should be given to the total public funds involved, since it is primarily for these that public bodies are accountable to the taxpayer."*

[2] Note, while the current guidance refers to economists, the principle applies to all specialists reviewing and advising on the business case.

ANNEX B: PROPORTIONALITY ASSESSMENT TOOL[3]

	Less Detail	⟷	More Detail
General			
Proposal scale/value	Small scale low value	⟷	Large scale high value
Novel, contentious or setting precedent	No	⟷	Yes
Nature of decision	Straightforward	⟷	Complex
Significance	Local	⟷	Regional/national
Innovation	Low	⟷	High
Experience delivering/appraising similar proposals	High	⟷	Low/ no experience
Strategic Case			
Case for change	Easy to determine and define	⟷	Less obvious or more challenging stakeholder buy-in
Enabler of other projects or transformational change	Local impact	⟷	Transformational change
Stakeholder picture	Simple	⟷	Complex
Key dependencies with other proposals	No dependencies	⟷	Strong dependencies
Economic Case			
Options framework	Low number of alternatives	⟷	Large number of alternatives
Certainty re costs and benefits	High certainty	⟷	Low certainty
Monetising benefits as dictated by proportionality	Easy to monetise	⟷	Difficult to monetise
Negative social or environmental impacts	None or negligible	⟷	Large level impacts or complex in nature
Risk	Low	⟷	High

[3] Adapted from [Appendix 1 - Draft Redditch Digital Manufacturing and Innovation Centre FBC v2.pdf (redditchbc.gov.uk)]

	Less Detail	⟵⟶	More Detail
Commercial Case			
Number of parties	1 or 2	⟵⟶	3 or more
Procurement experience	Procured before	⟵⟶	Never procured
Risks and allocation	Clear and obvious	⟵⟶	Shared and need defining
Market Assessment	Sufficient capacity/expertise	⟵⟶	Limited capacity/expertise
Procurement route	Framework	⟵⟶	Negotiated deal
Contract conditions	Standard, used before	⟵⟶	Modified, complex
Payment mechanisms	Cost reimbursement	⟵⟶	Target price
Incentives	None	⟵⟶	Pain/Gain
Financial Case			
Funding	Clear funding approach	⟵⟶	Uncertain or complex funding approach
Financial constraints	None or low	⟵⟶	Some
Financial affordability, viability, and risk	Affordable, viable and low risk	⟵⟶	Uncertainty and high financial risk
Tax and accounting treatment	Clear	⟵⟶	Complex or to be defined
Management Case			
Technical complexity	Low	⟵⟶	High
Novelty	No novel aspects	⟵⟶	Little experience
Delivery risks	Few and manageable	⟵⟶	Many, likely and resource-intense
Dependencies	Few	⟵⟶	Many
Delivery model	Single body	⟵⟶	Multi-party
Project team	1-3	⟵⟶	More than 3
Project model	Single	⟵⟶	Part of a programme
Stakeholders	Passive management	⟵⟶	Active management