

CHAPTER 6 EAGGF: [PROJECT APPRAISAL FOR EAGGF (GUIDANCE) PROJECTS IN OBJECTIVE 1 AREAS]

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[SECTION 1 : INTRODUCTION]

1.1 Introduction

1.1.1 For the purposes of this guidance chapter, appraisal means the formal analysis of all project costs and benefits which is used to justify the project proposal.

1.1.2 This chapter provides guidance to Officials in the Objective 1 Monitoring Committee Secretariats (including DEFRA Regional Service Centres where the task is devolved to them) when assessing applications for projects to be funded from the EAGGF (Guidance Section) under either Objective 1 of the Structural Funds, in line with EC Council Regulations 1260/99 and 1257/99. Guidance for project applications is provided in the Guidance Notes accompanying the various Application Forms. Officials in Government Offices and Regional Service Centres should make themselves familiar with the guidance available to applicants, and should use the guidance contained here to help them assess project applications, in particular to help them make their recommendations regarding which projects should be approved for funding.

SECTION 2 : PURPOSE

2.1 THE PURPOSE OF APPRAISAL

2.1.1 Project appraisal is required to ensure that applications fully meet the criteria in the Structural Funds Regulations, the Commission's decision and the Single Programming Document; and that benefits to the area are maximised. It also ensures that Departmental/HMG objectives and requirements are met. Effective appraisal also provides a safeguard against fraud. The immediate need is to ensure that:

- a) only those projects which satisfy the objectives of the Single Programme are offered assistance;
- b) the project offers value for money and, especially where funds are limited, those projects offering the best value are chosen and;
- c) there is a transparent selection process.

2.1.2 An important aspect of appraisal is obtaining an understanding of the anticipated expenditure and benefits of a project, usually expressed in terms of its inputs (costs) and outputs (results). The expected timing of this must also be made clear. The results of appraisal will be translated into the offer letter which will be reviewed at the monitoring stage months or years later. It will be difficult, if not impossible to monitor performance which is not clearly specified. Project records are very likely to be subject to subsequent auditing, which will require clear evidence of satisfactory appraisal.

2.1.3 Whilst detailed appraisal is generally necessary before decisions can be taken and offers made, an initial sift of applications will be made when they are received. This will enable any obviously poor or ineligible ones to be eliminated, avoid duplication and give an early overall view of the success of the measure.

2.1.4 This chapter sets out the underlying principles of appraisal and sets out established best practice. Secretariat recommendations for approval of projects should be based on these guidelines. However, it is recognised that decisions on EAGGF support reflect the influence of a range of participants. Where, in particular, committees or the Commission express views on projects which are not in accord with this chapter inform DEFRA Lead Region so that they can consider the implications.

SECTION 3 : INITIAL CONSIDERATION OF PROJECT APPLICATIONS

3.1 PRINCIPAL ELIGIBILITY AND SELECTION CRITERIA

3.1.1 The provisions of the Commission's decision and the Single Programming Document will enable the Monitoring Committee to establish the detailed criteria appropriate for each Single Programme. "Single Programmes" within these Guidelines is taken to be these provisions and criteria. However, projects must:

- a) meet basic eligibility criteria including the detailed rules for implementation of Council Regulation 1260/99 and state aid rules
- b) occur within the Single Programme area or have the primary purpose of assisting people who live and work in the Objective 1 area;
- c) be within the permitted timescale;
- d) correspond to one or more of the activities (known as measures) defined within the Single Programme;
- e) satisfy key environmental, social and/or market needs

- f) be financially sound and viable
- g) provide additional activity and demonstrate a need for public funding
- h) be well managed
- i) provide good value for money

In addition it should be able to demonstrate that it might

- j) provide benefits to the wider rural economy,
- k) address cross-cutting objectives

or

- l) address environmental and social needs and sustainability or make a positive contribution to the environmental quality, economic strength and/or social equity of future generations

3.2 THE APPRAISAL PROCESS

3.2.1 The Monitoring Committee has an overall monitoring role to ensure that EAGGF grant is spent appropriately. Exact working practices within each Single Programme are normally to be agreed with them. Procedures are, however, likely to follow along the lines of the following:

- a) Application: It is for the Monitoring Committee to decide whether applications may be received continuously or whether they will need to be submitted at specific times in the year. The Secretariat will receive the application form and do an initial eligibility check to ensure that:
 - i) the application form is complete and accurate and contains the necessary enclosures.
 - ii) the key criteria appear to be met
- b) This will be followed by an assessment to determine the level of detailed assessment required, and those best placed to carry it out.
- c) Detailed appraisal on compatibility with the Single Programme objectives is undertaken by those with functions delegated by the Managing Authority (ODPM). This will be undertaken in the main for EAGGF by DEFRA/FRCA. However, if there is a specific policy question

that needs addressing, they may consult the appropriate policy division within DEFRA for advice. In any case, interested government offices must, where appropriate, be consulted on compatibility with government policy and their views taken into account.

d) Approval: the officer with delegated powers within the government office involved has responsibility for making offers. Offers will be made in the name of Minister of Agriculture, Fisheries and Food for EAGGF projects.

3.3 INELIGIBLE ACTIVITIES AND APPLICANTS

3.3.1 Eligibility of projects will need to be considered on the basis of individual applications. In particular, Departmental advice on eligibility will need to be sought. However, projects which should not be assisted include those that fall within the following sectors:

- a) Those covered by EC sectoral restrictions.
- b) Those which do not meet the requirements of the detailed rules implementing Council Regulation 1260/99, when read together with the rules in Council Regulation 1257/99

3.4 ELIGIBLE COSTS

Commission Regulation implementing detailed rules on eligibility under 1260/99 when taken with Council Regulation 1257/99 applies.

SECTION 4 : ASSESSMENT OF ELIGIBLE PROJECT APPLICATIONS

4 INFORMATION REQUIREMENTS

Internal requirements

4.1.1 It is important that all relevant information gathered on a project proposal is recorded. All telephone messages should be recorded and placed on relevant case file, but in the more complex cases the applicant should be asked to put

their enquiry/information in writing so that the applicant's own records are on file. It is similarly important that the reasons for decisions taken during appraisal are made clear. Standard case papers covering all the criteria should be used, showing the reasons for acceptance or rejection.

4.1.2 As appraisal provides the basis for the offer letter and for project monitoring, information in the case paper should point to the essential aspects of the case necessary for these. For instance, if timing of the project is of particular importance, this should be made clear so that it can be taken into account during project monitoring. Similarly, if there are doubts about whether the forecast outputs will be achieved or whether the organisation will be viable, the issues will need to be set out clearly. Where it is not appropriate to include important details in the case paper, eg for confidentiality reasons, these should be clearly noted separately.

Applicant requirements

4.1.3 It is for applicants themselves to provide a clear description and assessment of the project. Applicants will need to provide not only the details of their project, but should also be able to justify their proposal. If such information is not provided, the Secretariat should write to the applicant requesting it; and until received, approval to the application cannot be given. Supporting information such as consultants' reports, business plans or equivalent forecasts and annual accounts - if viability is in question - can help this. In the case of revenue project for business support, in particular, a detailed business plan or equivalent project proposal is essential. The guidance on the application form shows the information a complete proposal should cover, although it should be recognised that much of this will be routinely provided with the application anyway. When checking the eligibility of non-government organisations, details of their aims, articles of association, etc and any local authority or similar guarantees are also likely to be required.

4.1.4 Effective and timely appraisal depends on obtaining clear and relevant information from the applicant at the outset. Requesting full information at the earliest possible stage facilitates appraisal and reduces delay, which benefits both the Secretariat and the applicant.

4.1.5 The application and supporting information should show that all the necessary conditions for support have been met. If not, the Secretariat will therefore need to ensure that this information is provided during the appraisal process or, as a final resort, that a condition is inserted in the offer letter requiring evidence to be provided before grant is paid. If there is a possibility that sums allocated to a project would be tied up for a long time, eg if planning permission needed to be sought, evidence that the condition had been met must be required before grant is offered.

4.1.6 The application should particularly confirm whether EC public procurement, environmental and publicity requirements are being complied with. A broad explanation of public procurement is given in Annex 4. There are too many environmental and water directives to provide details here. If there are any problems, consult Environmental Protection Division, DEFRA via Lead Region. Publicity requirements where appropriate, are set out in the EAGGF Application Form and Guidance notes and should be referred to in the offer letter.

4.1.7 Where an initial sift of projects is to be undertaken, it may be appropriate for the applicant to provide a shortened summary of the proposed project.

4.2 DEPTH OF APPRAISAL

4.2.1 All applications will need to be checked to ensure that the project involved will meet the single programme selection criteria. It will be for the Secretariat to decide what is required in each case. However, the depth of appraisal will depend on a combination of a number of factors:

a) type of organisation: applications will be received from a wide range of organisations. At one end, national bodies such as the RDC will normally have significant previous experience in the project area, show costs based on competitive tendering, be able to provide supporting consultants' reports and will be viable. Much of the detail they provide will often, therefore, be readily acceptable. At the other end, an individual farmer may be able to provide little evidence of these and the application will therefore require greater scrutiny. See also Viability: 4.8

b) type of project: some projects will have relatively simple, easily assessed costs and benefits. These are likely to require less detailed investigation than other projects. Complexities might include the possibility of time and cost over runs; unreliable broad assessments of internal labour costs and overheads. On the benefits side, difficulties may arise where there is a speculative customer base. Where sales or revenues are uncertain, and where the outputs themselves are difficult to measure and value.

c) size of grant: the depth of appraisal should reflect the amount of funding at risk. Although the same principles apply to small as well as large projects, in general terms the depth of appraisal should reflect the amount of funding at risk.

4.3 FINANCIAL ASSISTANCE AVAILABLE

4.3.1 Assistance is provided as a grant. Grant should not be provided ahead of need and will, in any case be paid after expenditure is defrayed. It will normally be paid at three monthly intervals from the date which a project is approved, although it is at the discretion of offices to reduce this period.

4.3.2 The level of EAGGF grant available is laid down in the Council Regulation 1260/99 and 1257/99.

4.3.3 In all cases, the level of grant will need to be assessed against eligible project costs, not against overall costs. The co-funding involved - ie funding provided by sources other than the Structural Funds against which the level of grant is assessed will need to be considered in the light of the eligibility of participants in the project. This will particularly need to take account of the extent to which private sector funding has been drawn in. As a general rule, it should be noted that EAGGF grant can only be 'matched' by 'matched' public (including government) money.

4.4 VISITS

4.4.1 Visits to a site help check the application and provide a safeguard against fraud. In some cases, such as capital works projects, for instance, a site visit can be highly desirable to ensure that the proposed work is required and is carried out. Meetings can also be efficient in terms of the time it can save in doing the detailed appraisal. Information can be obtained quickly and in cases where the personal capabilities of the applicant are important, such as business support, a judgement about those capabilities can be made.

4.5 PROJECT ADDITIONALITY

4.5.1 The financial additionality requirement that EAGGF grant must provide additional funding to that previously or currently provided ensures that the overall effect of grant is to sponsor additional overall activity. Project appraisal does not involve any further assessment of financial additionality. However, it is a fundamental part of project appraisal that individual projects should also require grant for them to proceed.

The additionality criterion

4.5.2 Projects should be supported only to the extent that the activity is undertaken at all, on a larger scale or earlier as a result of being supported by expenditure under the Structural Funds. When grant payments mean that projects go ahead earlier or on a larger scale, only the incremental benefits can be considered as additional.

4.5.3 Justification should be sought for the additionality of each project. For instance, local authorities may be able to demonstrate that particular projects are a lower priority in spending plans. Non-public organisations may clearly be able to demonstrate that they do not have sufficient funding. In all cases, the reasons for accepting the additionality claim should be recorded.

Additionality when project started

4.5.4 The case for additionality is weakened if a project has begun before approval is given. This does not include preparatory work, which is essential for all projects. Where projects have started, the Secretariat will need to assess rigorously whether they are additional in line with paragraph 4.5.2. In addition to the normal need to justify their additionality claim, the applicant will also need to provide a convincing explanation of why the project has started without the commitment of grant. Projects which have been completed are not considered to be additional as grant would not affect their outcome. The only exceptions to these rules on additionality may be those projects considered at the start of the Objective 1 programme, where costs incurred between January 2000 and the start of the programme may be considered eligible.

4.6 STATE AIDS

4.6.1 State aids generally refer to aid provided directly by the state, or indirectly through state resources. Aid can take a variety of forms, although aid for investment is most likely to take the form of grants and loans. In the agriculture sector, the restrictions, that apply to aid financed through the EAGGF apply to state aid.

4.6.2 Where the project supported itself provides subsidised benefits to the private sector, eg through providing a reduced cost business consultancy, the assistance provided by the project will need to conform to EC State Aid rules. If there is no subsidy element, eg if the resulting consultancy was provided at market values, there would be no state aid. If the applicant is a public sector organisation, it will be their duty to ensure the State Aid rules are complied with. Where a non-public sector applicant is involved, this role will fall to the Government Office/Department involved. In either case, the Secretariat should ensure that the applicant is aware of the requirements.

4.6.3 State Aid schemes require prior notification and approval by the Commission unless they fall within the De Minimis rules. Under these, aid awards of up to ECU 50,000 for a given "type of expenditure" in a 3 year period - or schemes limited to such amounts of aid - do not need to be notified to the Commission. Agriculture and the Sectors covered by the Commission's sectoral restrictions are excluded from this. Aid for exports is also excluded. There are two "types of expenditure" as follows:

- a) support for investment in fixed facilities (buildings, machinery, etc) ie, broadly, capital projects;
- b) all other types of support (such as consultancy): basically, revenue projects.

4.6.4 For further detailed guidance on agricultural state aids policy, staff should refer to DEFRA EU Division's guidance document on State Aids

4.7 MINIMUM NECESSARY GRANT

4.7.1 Once additionality (see section 4.5) has been established, financial assistance should be the minimum necessary for the project to proceed. The available non-grant funding for the project and its potential revenue, if any, will need to be considered. Like additionality, the minimum necessary is fundamentally a matter of judgement and similar considerations apply. In some cases, for instance, it may be reasonable to accept that spending constraints on organisations may mean that EAGGF funding will inevitably involve additional activity. In other cases, projects may be more central to the activity of the organisation or those funding it and less grant may be necessary. For instance an applicant whose main business is already business support may have a strong interest in pursuing a business support project. Justification of the level of grant may therefore depend on such factors as evidence of an overall limitation of their funding. In such cases, grant should not be reduced to a level where the viability of the project is jeopardised taking into account, for instance, any provision that may be included for revenue shortfalls, etc.

4.7.2 As mentioned in section 4.7.1, in the majority of cases the Secretariat will be required to make a judgement on the level of grant awarded. Generally, this will be for the applicant to justify. However, for EAGGF aid, DEFRA would expect a higher level of grant to be awarded when the benefits of a project accrued to a wide audience and involved an activity that would not necessarily have been undertaken without assistance; and a lower level of grant where the benefits were to individuals or individual businesses specifically. Where the applicant accrues an economic benefit from the receipt of Structural Fund Grant, the private sector contribution to the project must be at least 50% of the total cost.

4.8 VIABILITY

4.8.1 The viability of both the project and the applicant need to be considered at the outset of the appraisal.

4.8.2 The depth to which organisational viability will need to be considered will depend on the organisation involved. A local authority or other government sponsored body can be assumed to be fully viable. A small independent organisation may have doubtful viability, however. Where the viability of the organisation is in doubt, copies of most recent annual accounts should be requested covering if possible at least 2 full years. Audited accounts should be required where available, but management accounts will be acceptable. Where an organisation is not required by law to produce full annual accounts, the Secretariat will need to rely on the information the organisation is able to supply. Where an organisation with doubtful viability is guaranteed by another organisation, the grant should be dependent on confirmation of the guarantee. This will either need to be seen during the appraisal or as a condition of grant being paid. Where the applicant has no previous history, their future forecasts will need to be scrutinised carefully.

4.8.3 Project viability will depend on sufficient financing being available to cover the costs involved during the period of the project. The applicant will need to be able to demonstrate that non-EAGGF support will be available. Proof of other funding (apart from revenue from the project) should be made available during appraisal. However, where this is dependent on agreement to the overall financing of the project, the provision of evidence of other funding should be set as a condition of grant in the offer letter. Cost and revenue forecasts will need to be checked to ensure that they are realistic. Firm quotations for costs will obviously be more reliable than guesstimates and will show the professional approach of the applicant. However, quotations are often open to variation and detailed project requirements may change. When viability is dependent on revenue generated by the project, the accuracy of the market assessment will particularly need to be considered. It will normally be prudent for the applicant to have included in their estimated financing requirement some provision to take account of potential costs overrun or revenue shortfall.

4.8.4 If there are doubts about viability, DEFRA Audit Consultancy and Management Services (ACMS) Division should be consulted.

4.9 VALUE FOR MONEY

4.9.1 It is important that projects selected to receive assistance are those which provide good value for money. Scoring systems adopted in each Objective 1 area should be used for this purpose.

4.10 PROJECT OUTPUTS

4.10.1 The application should set out the outputs from the project as anticipated by the applicant. The outputs are fundamental to the project as they measure the benefits required under the Single Programme and so need to be identified, quantified and valued. Outputs therefore need to be clearly stated and the basis for them must be demonstrated. Wherever possible, the applicant should be asked to provide a value for these outputs so that the benefits can be measured.

4.10.2 As outputs are fundamental to project monitoring and eventual evaluation, the applicant must provide outputs which can be practically measured. Applicants must show that they will have adequate monitoring systems and that they will be able to record the outputs effectively. A requirement for applicants to report on progress on the specified targets will be included in the offer letter, as will the requirement that they keep information related to the project for a period after the end of the Single Programme.

4.10.3 Wherever possible, Secretariats should ensure consistent specification of output measures across projects so that the overall effect of the Single Programme can be calculated. It is similarly desirable for project targets to be set which reflect programme priorities, etc. It is also important that, consistent with offer letter needs in paragraph 4.10.4, targets allow clear assessment of benefits without double counting, if possible. Double-counting may reflect benefits included in figures for successive phases of a project, or benefits may be attributed to more than one Structural Funds scheme where several are involved, This would include co-funding by domestic grant regimes. Wherever possible, targets should be defined in a way which either excludes or separates benefits which are attributable to other forms of assistance or other phases of the project. If outputs cannot be readily disentangled, it should be made clear that outputs cover the whole project's funding.

4.10.4 Whilst paragraph 4.10.3 is important in evaluation terms, targets must also be set which ensure that the offer letter retains the power to withdraw grant if essential overall aims are not met.

SECTION 5 : DECIDING WHICH PROJECT TO RECOMMEND FOR FUNDING

5.1 RANKING OF PROJECTS

5.1.1 It is an obvious principle that a supported project must be provide benefits to the region. This will normally be determined by ensuring that a project meets the objectives of the Single Programme document. To ensure that these objectives are met, it is therefore fundamental that the benefits of a project are clearly assessed and that only the best projects are selected for support. In addition, there is the principle that the benefits derived from the project are greater than the cost in terms of EAGGF grant.

5.1.2 In a competitive situation where the total value of projects exceeds the budget, individual projects will therefore need to be chosen which most closely promote the aims of the region and which provide the best value for money. A number of factors should be taken into account. It will normally be appropriate to give greater weight to benefits that are clearly identified as opposed to potential benefits flowing indirectly from the project. In any case, benefits should be quantified whenever possible and, provided it can be done meaningfully, linked to the provision of grant.

5.1.3 In order to meet the above objectives, the scoring systems adopted within each individual Objective 1 area should be used to score and rank projects. It would normally be advisable to rank projects into three categories.

- i) High -
- ii) Medium -
- iii) Low -

Individual arrangements in each Objective 1 area will provide an indication of how this scoring system can be integrated with each Objective 1 area's scoring system so that the PMC can decide how projects should be ranked.

5.2 PROGRAMME BENEFITS

5.2.1 Ultimately, the success of a project is reflected in the long term benefits obtained for the area. Appraisal must therefore ensure projects provide real benefits. This will primarily be met by ensuring that projects provide benefits to the area in line with those set out in the Single Programme. The benefits of projects should therefore be clearly defined during appraisal and checked to ensure that measurable outputs where possible meet agreed SPD indicator targets.

5.2.2 The cost of the project will need to have been checked to ensure that they are reasonable and are, for instance, roughly in line with similar costs for expenditure in similar areas. Similarly, applications will need to have been scrutinised to ensure that the forecast benefits are realistic. Projects can also be checked by comparing the cost of obtaining the level of benefit in the project with other projects and, where possible for other schemes. The cost per job, for instance can be compared with other Government job assistance schemes.

5.2.3 The benefits from projects should be checked to ensure that they will not simply compete with existing work being undertaken in the area or with other projects already being supported. There may be limited need for additional business consultancies, for instance. Similarly, increased Support for a new Marketing Group may already be being provided by support to an existing Marketing Group in the area. Where there are other Government schemes operating within a similar field in the area, the Secretariat will need to ensure that the aims of such schemes are not undermined. In addition it may be necessary to see how the project would complement similar projects operating outside the Objective 1 area under the England Rural Development Programme.

5.2.4 There is an underlying principle that projects should not be supported if the costs involved are greater than the benefits that are anticipated from it. Similarly, the grant should be cost effective. If the anticipated benefits of large project are a handful of jobs, an assessment of the cost per job levels might reveal enormously high rates of assistance. On the other hand, a seemingly low cost set of business conferences might, on investigation, prove to be aimed at a specific industrial sector for which there are few local suppliers. The result may be that the cost per supplier attending the conferences is unrealistically high.

5.2.5 Job creation should measure the number of Full Time Equivalent jobs created or the number of Full Time Equivalent jobs preserved. Guidance will be forthcoming on whether the use of multipliers to examine the effect on jobs upstream and downstream should be used.

Glossary of terms

- Single Programming Document- 1 (SPD) The document submitted by each Objective 1 area to the Commission setting out the activities proposed for funding.
- Commission Decision - The Commission's formal document approving the Single Programming Document and setting out the level of funding for individual measures in the (SPD).
- Programme Monitoring Committee -The formal body in each 1 area charged with the responsibility for implementing the Single document. Membership to cover Regional partners and government departments and chaired by the RD, GO.
- Secretariat - The body with responsibility - delegated from the Monitoring Committee - for the approval of projects. Membership to cover government officials. Chaired by the GO.
- VFM - Value for money.

[Plus application guidance, and project appraisal mechanism and flow chart in Annex]