

**THE GREEN BOOK –
CONSULTATION PAPER**

**Appraisal And Evaluation In Central
Government**

EXECUTIVE SUMMARY

This consultation paper accompanies the consultation draft of the revised Green Book. It is written to draw attention to the key changes in the guidance from previous editions and to seek views, particularly on issues relating to its implementation.

The main changes in the new draft Green Book are as follows:

- There is much greater emphasis on the identification, evaluation and measurement of benefits (and consequently on their management and realisation) – in order to assess more explicitly whether proposals are worth the resources required to be expended.
- The current discount rate is being ‘unbundled’ so that the new rate reflects only one factor (the social time preference rate), set at 3.5%. The current rate of 6% implicitly allows for such factors as risk, optimism bias, and the cost of variability. It is now proposed that these are dealt with separately and explicitly.
- The proposed guidance recognises the demonstrated tendency of appraisers to be over-optimistic when estimating costs, benefits and time profiles for proposals. Pre-set adjustments, categorised by project type, are proposed to counteract this tendency. These will, by default, increase appraisal options’ estimated capital costs and works’ durations. They should be applied unless other evidence (e.g. specific to the type of project) can be provided which demonstrates that effective project management techniques are employed, in which case alternative adjustments are more appropriate.
- A proposal for consultation is on how to take account of the differential tax liabilities of different options in appraisals, including PFI options.
- There is new guidance on how to take account of the distributional implications in assessments.

Respondents are requested to provide comments by either of the means below. A questionnaire, based on the questions set out in Appendix One, is available at www.hm-treasury.gov.uk/greenbook for those who would find this helpful.

Post: Please send your response to:

‘Green Book Consultation’
Public Service Delivery Analysis (PSDA)
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

E-mail: Please reply to greenbook@hm-treasury.gov.uk

The consultation period will end on 18 October 2002. We aim to finalise the guidance and issue the completed version of the Green Book later in the year.

If you are responding on behalf of others, please provide a summary of the people and organisations you represent. **Please note that your responses may be made public unless you specify that they should remain confidential.**

We aim to provide generic feedback to consultees on the Treasury website. Subject to consultation, the transition period will end on 1 April 2003.

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1 INTRODUCTION AND BACKGROUND

INTRODUCTION

1.1 This consultation paper accompanies the new draft Green Book. It sets out the key changes to the Treasury's guidance on policy, programme and project appraisal and evaluation, contained in the new draft guidance. It describes some specific issues for consultation and says how the consultation process will be taken forward.

1.2 A number of factors have converged in recent years. The main driver of change is the need for a longer-term view of policy, programme and project proposals, which is consistent with the substantial increase in public investment now taking place. This longer-term approach has developed during a period when interest rates and the yield on government debt have fallen significantly. More generally, there is a need to ensure better informed policy making, rooted in a more substantial evidence base. To date, appraisal guidance has not kept in step with these changes.

1.3 The review is intended to tackle the following deficiencies in the current capital appraisal process:

- The methodology needs to be long-term and to tackle key issues, such as the evaluation of benefits.
- There need to be stronger incentives to encourage users to adopt a systematic and thorough approach to appraisal.
- There needs to be strengthened expertise on appraisal techniques within government; the review of the Green Book provides an opportunity to address this.

1.4 Steps to improve the current position include:

- Breaking the culture of short-termism in appraisal by establishing the discount rate close to the social time preference rate, which is used in investment appraisals to compare benefits and costs that arise over different time periods.
- Making the guidance more accessible to specialists and non-specialists alike.

1 INTRODUCTION AND BACKGROUND

- Supporting the adoption of the guidance, coupled with appropriate systems to enforce its use.
- Implementing training programmes to provide enough staff with the right skills to do high quality appraisals.

1.5 These changes should in time contribute to more effective policy-making and implementation.

1.6 Since the 1997 Green Book was drafted, new organisations have been created, supplementary guidance written, and web sites set up to improve the appraisal process. In particular, the Office of Government Commerce has been created to improve the standards of government procurement, and Partnerships UK to co-ordinate, fund and advise on PFI/PPP projects. The iterative planning process, by which projects are developed from high-level strategic outlines to in-depth full business cases, has done much to improve the quality of policy and project appraisal. The OGC Gateway process is also supportive yet challenging, acting as a check on the quality of decision making at all stages of the procurement process. Together with the Green Book, these should provide a comprehensive practical framework for improved appraisal and evaluation.

1.7 Departments and other public sector bodies are encouraged to revise their own procedures in the light of these initiatives to ensure that they have robust, thorough and integrated appraisal and evaluation processes. In the majority of cases, it is likely that user departments will want to consolidate the guidance in the Green Book and related documents into their own departmental guides.

STRUCTURE OF THIS PAPER

The rest of the paper is structured as follows:

Chapter 2: The structure of the guidance and its accessibility – *describes the guidance and asks whether it is sufficiently clear.*

Chapter 3: Main changes in the guidance – *describes the main changes in the new draft Green Book, and why they have been introduced, and sets out consultation questions on key issues.*

Chapter 4: Training, support and monitoring – *describes the overall approach to training, support and monitoring of the Green Book, which will be fundamental to its successful implementation.*

Chapter 5: Transitional issues – *discusses the timing of the changes to ensure smooth implementation.*

Appendix One: Summary of consultation questions.

2 THE STRUCTURE OF THE GUIDANCE AND ITS ACCESSIBILITY

INTRODUCTION

2.1 The accessibility and ease of use of guidance is critical; guidance that is unnecessarily complex and demanding is unlikely to be widely used. To be effective, guidance must be capable of being used and understood by a wide cross section of users. A major attempt has been made to secure this objective in the draft Green Book.

STRUCTURE OF THE DRAFT GREEN BOOK

2.2 The draft Green Book comprises:

- A *main document* that is intended to provide a comprehensive overview of the assessment process, from the justification for government action through to the development and implementation of lead options. Its aim is to provide non-specialists and senior managers with sufficient information to be comfortable with the structure of a typical appraisal. It should enable them to ask the correct questions, take informed decisions, and become supportive critics of the detailed analysis. The main document contains various examples to illustrate the points in the text.
- *Eight annexes* that concentrate on particular aspects and techniques of appraisal. These are intended to provide the practitioner with a thorough understanding of both how and why the recommended techniques and analyses should be performed. The titles of the annexes are:
 1. The assessment cycle and conducting research
 2. Government intervention
 3. Valuing non-market impacts
 4. Land and buildings
 5. Risk and uncertainty
 6. Distributional impacts
 7. Discount rate
 8. Procurement choices and project implementation

FURTHER GUIDANCE AND LINKS

2.3 Both the Green Book overview and the annexes provide links to other organisations, websites and important guides. For instance, Annex 8, which discusses implementation issues and procurement choices, provides links to the OGC and Partnerships UK websites, where more detailed information can be accessed on issues such as the management of programmes, projects (including specifically IT projects), risks and benefits.

2.4 A major attempt has been made to set appraisal within its practical context, which for many will involve writing business cases that also consider issues such as affordability and project management. Others may be writing Regulatory Impact Assessments or similar documents, within which appraisal may form an important component.

Consultation Questions

- 1. Overall, does the Green Book strike the right balance between accessibility of the guidance and its technical content?**
- 2. How useful are the worked examples provided in the text? Are more or less or different examples required?**
- 3. Is sufficient guidance provided in the Annexes? Do they strike the right balance between theoretical explanation and practical application?**

3 THE MAIN CHANGES IN THE GUIDANCE

INTRODUCTION

3.1 This chapter describes the main changes from the 1997 Green Book.

OVERALL SCOPE

3.2 The most obvious and general change is an increase in the scope of the Green Book guidance. It now describes and discusses more detailed methods and techniques to apply to issues that were examined only cursorily in previous editions. This will enable appraisals and evaluations to be more analytically robust, and accurate. It does not necessarily mean that appraisals will become more complex or time-consuming.

MONETARY VALUATION OF BENEFITS

3.3 This is a central part of the new guidance. In order to conduct a robust Cost-Benefit Analysis, it is important to value benefits wherever possible. This is the only sure way of answering fundamental questions in appraisal: is this goal worth the resources that we would need to expend upon it? How much is it worth spending on these objectives? In the past, there has been insufficient monetary valuation of benefits (and non-Exchequer costs), both in terms of assessing whether projects have positive Net Present Value (NPV), and for assessing the relative benefits under different options in Cost-Effectiveness Analysis (i.e. assessments based on net present cost rather than a net present value.)

3.4 It is recognised that some benefits may be impossible to value either in monetary or non-monetary terms, or that the process of valuation would be too costly or too time consuming to be worthwhile. The general rule is that every effort should be made to value benefits, commensurate with the nature of the proposal. The Green Book provides guidance on how this can be done in practice. Where cost effectiveness is being analysed, it will still be important to value benefits, as the differential benefits between options may, when valued, become important to the assessment outcome.

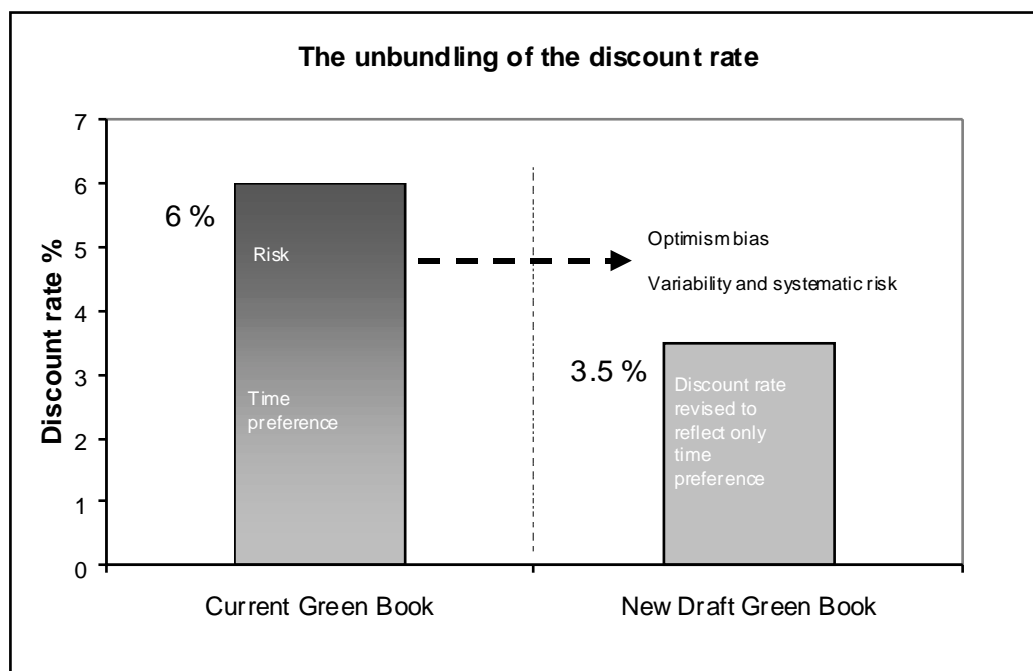
Consultation Question

4. Does the revised Green Book strike the right balance in advocating the importance of valuing benefits while recognising the practical challenges of doing this?

CHANGES RELATED TO THE DISCOUNT RATE

Introduction

3.5 A central feature is the un-bundling of the discount rate so that it now reflects only one factor (the social time preference rate). This means that the rate is now set at 3.5%, while new guidance is introduced to account for those factors implicitly included in the 6% figure, including optimism bias and variability (or systematic risk). This is shown illustratively below:



The Discount Rate and the Social Time Preference Rate

3.6 The discount rate is used to compare costs and benefits arising at different times. This is important in assessments because many proposals and activities involve streams of costs and benefits that arise over long periods of time. Without discounting, the assessment process is distorted.

3.7 The revised guidance explicitly equates the discount rate solely to the social time preference rate (STPR). The STPR is based on the decline in value that society places on costs and benefits as they arise in future. It is the rate at which society is willing to exchange consumption now for consumption in the future. A fuller derivation of the 3.5% discount rate, based on the STPR, is given in Annex 7 to the Green Book.

3.8 At 6%, the current figure is much higher than would be justified if it only reflected time preference. This is because it includes elements intended to compensate for risk and uncertainty. Rather than attempt to tackle these effects by uplifting the discount rate to compensate, the revised guidance recommends specific and explicit provision for them separately in the appraisal process.

3.9 The impact of new discount rate will be to increase the present value of future costs and benefits. This will encourage a longer-term approach to appraisal and evaluation. Proposals and options that deliver long term benefits, and long term cost savings, will therefore become relatively more attractive.

Optimism bias

3.10 There is an empirically observed, systematic tendency for appraisers to be over-optimistic in assessing projects. This takes the form of underestimating the costs involved and timescales required, and overestimating the actual benefits of particular options. For appraisal to provide an accurate picture, this tendency should be recognised and taken account of.

3.11 The Treasury commissioned consultants Mott MacDonald to investigate the scale and causes of optimism bias in public sector procurement and to offer potential guidance as to how it could be allowed for in appraisal¹.

3.12 The new guidance suggested by Mott MacDonald is intended to encourage the adoption of good practice in procurement, such that the above risks are mitigated. To this end, based on the observed optimism bias, they recommend that pre-set uplifts should be applied, initially at least, to planned capital costs and works' duration. If project appraisers can demonstrate that good practice has been adopted (i.e. that the risk areas contributing to optimism bias have been effectively managed) then the adjustments may be reduced.

¹ Mott MacDonald, 'Review of Large Public Procurement in the UK' (July 2002) (available at www.hm-treasury.gov.uk/greenbook)

3 THE MAIN CHANGES IN THE GUIDANCE

3.13 There is a relationship between the proposed adjustments for optimism bias and the identification, valuation and mitigation of risks specific to the particular project being appraised. The optimism bias adjustments are not designed to replace work relating to project specific risks. On the contrary, this work should now explicitly show how optimism bias has been considered. This should be done by ensuring that the project specific work also addresses the generic issues identified as causing optimism bias.

3.14 It is important to recognise that although excessive optimism in appraisal can take a number of forms, the approach recommended by Mott MacDonald covers only overruns in capital costs and works duration. The consultants recognise that ideally potential overruns in respect of other costs, and the possibility of projects not delivering the benefits that were initially expected, should also be recognised. The Treasury is consulting on how these further developments of optimism bias should be incorporated into appraisal.

3.15 While recognising the need for these adjustments, it is important to ensure that the guidance incorporated in the Green Book will be both usable and realistic in terms of their magnitude.

Consultation Question

5. Is the approach proposed by Mott MacDonald for dealing with optimism bias in appraisal sensible in terms of (i) usability and (ii) accuracy?

6. How should optimism bias in respect of non-capital costs and benefit shortfalls be accounted for in the guidance?

Systematic Risk

3.16 This is a relatively minor technical change. The current discount rate contains an uplift to take account of the risks associated with random variability in project costs and benefits. For most public sector projects, this risk is spread too widely and thinly throughout the population to be significant except when it is correlated with future incomes. The revised draft Green Book contains a formula to enable the cost of such random variation to be calculated, and there is a slightly changed formula for systematic risk. Annex 5 to the draft Green Book contains further information on this specialized and highly technical area, which will not concern appraisers in the vast majority of cases.

TAXATION

3.17 The new guidance reflects an evolution in respect of the treatment of tax. The current Green Book recognises that different tax treatments could, in principle, bias the choice in favour of certain types of provision, and is clear that option appraisal should not be affected as a result.

3.18 The new draft Green Book builds on this. The key point is that when projects have different tax liabilities but are compared gross of tax, there is the danger that those that are more efficient in an economic sense could be wrongly ruled out.

3.19 Allowing for tax in practice, however, is not generally straightforward and a key part of the consultation process is to explore how this is best achieved. There may be a number of areas where such an adjustment is required. Following the current Green Book, however, a starting point is to focus on private finance initiative (PFI) projects. The existing guidance reflects the likelihood that private finance initiative project structures, by their nature, have different tax structures from non-PFI options, and that this should be allowed for in appraisals.

3.20 As one of the building blocks to take this forward, the Treasury commissioned KPMG to look at the different tax liabilities of PFI and non-PFI projects with a view to developing guidance which might be incorporated in the new Green Book². KPMG concluded that the differences in tax revenues potentially stem from two sources: corporation tax on the profits of the Special Purpose Vehicle (SPV); and tax liabilities on SPV debt-holders. The first is referred to as the ‘primary effect’, the second as the ‘secondary effect’. KPMG modelled a number of projects to assess the determinants of these tax liabilities. On the basis of this analysis, KPMG was able to develop potential guidance for project appraisers seeking to derive the magnitude of these tax liabilities. KPMG has prepared this potential guidance in the form of text that they suggest might be included in the new Green Book when issued.

But this is not the whole of the story. The key requirement for appraisal is to assess the net resource cost of each option. So, several other issues have to be considered:

- 1) It is important that the adjustment is based on a realistic expectation of the eventual net tax payment to the UK Exchequer. To what extent might tax management, displacement and other financial impacts reduce this below the nominal figure implicit in KPMG’s report
- 2) The adjustment should not encourage the distortion of the financial structure of bids. One suggestion is to apply the same adjustment to all bids.
- 3) The procedure must clearly be practicable and not unduly burdensome to appraisers.

² KPMG, ‘Report on Identifying and Measuring the Differential Tax Receipts from Private Finance Initiative Schemes for the Purpose of Economic Evaluation against a Public Sector Comparator’ July 2002 (available at www.hm-treasury.gov.uk/greenbook)

3 THE MAIN CHANGES IN THE GUIDANCE

3.21 An underlying issue – in appraising all schemes, not only PFI ones - is the extent to which differences in the tax liabilities of different schemes should properly be taken into account. To the extent that they represent pure transfer payments, there is a case for not doing so, even if they benefit the Exchequer. If, however, they reflect genuine differences in the economic efficiency of the respective schemes, the case would seem stronger.

3.22 In cases where different options have different implicit tax liabilities, and insofar as these represent transfer payments, comparisons gross of tax will be misleading.

Consultation Questions

7. In formulating final guidance on how differences in tax liabilities should be treated in appraisals, are the considerations set out above the relevant ones?

8. How, therefore, should the KPMG approach be incorporated into comprehensive, usable guidance?

9. Do the flowcharts drawn together by KPMG present a workable, yet accurate, framework for assessing the different tax liabilities that arise directly from PFI and non-PFI options?

10. The current guidance, as noted above, focuses on the PFI in dealing with tax considerations. Are there other areas where the same issues arise?

DISTRIBUTIONAL ADJUSTMENT

3.23 The guidance includes, for the first time, adjustments to the valuation of monetary benefits to reflect differences in their value to people with differing degrees of affluence – generally, an extra pound will give more benefit to a person who is deprived than to someone who is well-off.

3.24 This should enhance understanding of the fairness of proposals, their social impacts and of their scale. Application of this approach will not be mandatory but is strongly encouraged. Guidance is supplied on those circumstances when it should be applied.

Consultation Question

11. Is the approach taken in the revised Green Book to distributional issues the right one?

PFI

3.25 The Treasury is committed to ensuring that capital projects are assessed in an objective way to ensure that they achieve the best value for money. It regards PFI as an important vehicle for delivering public sector objectives, but there is no reason to favour it *a priori* over other forms of procurement. Procurement guidance is available from OGC to help departments in their choice of procurement route.

3.26 Financing costs of PFI projects reflect the market assessment of risk in such projects. Such projects are appropriate where efficiency gains from private sector management of risk and use of innovative techniques are decisive.

3.27 The new methodology should lead to a clearer, more transparent and more robust assessment of value for money by:

- Placing greater emphasis on the valuation of benefits.
- Using a discount rate that reflects more closely the social time preference rate.
- Ensuring that good practice in procurement is followed by imposing evidence-based adjustments for optimism bias.
- Requiring implementation issues to be dealt with explicitly during the appraisal process.
- Moving towards an explicit recognition of differential tax treatment.

3 THE MAIN CHANGES IN THE GUIDANCE

3.28 It is not possible, however, to replicate past value for money assessments using the new regime. First, benefits valuation would have been performed on many past value for money assessments that have been carried out on a cost-effectiveness basis. Secondly, bid structures, and in some cases the terms of assessment, would be altered. Thirdly, the exact magnitude of certain adjustments under the new regime will not be known until the end of the consultation.

IMPACT ON RESOURCE ACCOUNTING AND BUDGETING (RAB)

3.29 Resource Accounting and Budgeting (RAB) was fully introduced on 1 April 2001. Previously, government had accounted and budgeted on the basis of cash spent and cash received. The introduction of RAB provides information on the full resource cost of government activity. Budgets, Parliamentary Estimates and Accounts are prepared on an accruals basis in accordance with Generally Accepted Accounting Practice, used in the private sector.

3.30 As part of the RAB accounting rules, each government department is charged for the use of its assets, by applying a cost of capital charge (CCC) at a percentage rate on its net assets. The CCC is meant to reflect the annualised opportunity cost of the assets owned by departments. At 6%, it is equivalent to the current discount rate (subject to variations set out in the Resource Accounting Manual).

3.31 There is a strong case for the CCC and the discount rate being the same. If parity between them is to be maintained, the change in the discount rate will require a reduction in the cost of capital charge. The proposed new CCC is therefore 3.5%, to be applied from 1 April 2003. Further consideration is given to the timing of this change in Chapter 5.

4 TRAINING, SUPPORT AND MONITORING

INTRODUCTION

4.1 This chapter describes the approach to training, support and monitoring.

TRAINING

4.2 Training in Green Book appraisal will always be the primary responsibility of the department concerned, not least with regard to its resourcing. The incentive for departments to provide training programmes should be the prospect of greater value for money if training leads to more effective appraisal. But this must be backed up by support from OGC and from the Treasury.

4.3 The Treasury intends to pilot an approach to training that can be used as the basis for training across government. Development of appropriate training resources (courses, course materials etc.) will be a particularly important component of this approach. Lessons have been learned from other major government training programmes in recent years, such as experience with departmental training for the introduction of RAB. Accordingly, training will be segmented and targeted at the interests of the different types of users of the guidance.

4.4 Under this approach, the Treasury will accredit training programmes and trainers, whether internal or external, to ensure consistency with the Green Book. It will provide a benchmark level of performance which trainers will be expected to meet before they can become authorised Green Book trainers.

SUPPORT

4.5 Departments are encouraged to review and revise their own internal procedures in the light of the new guidance, to ensure that they have sufficient resource, review and support capabilities to appraise projects and policies to the standards required. In most cases, this will involve updating existing departmental guidance and internal training courses.

4.6 Departments are also encouraged to consider how best to co-ordinate the activities of their procurement teams, project and programme management offices, internal and external auditors, economic advisers, training departments, and policy and project teams.

Consultation Question

12. What training and support is needed to implement the Green Book, including the changes? How should training be delivered and support provided? Is the accreditation approach set out above the best way to go forward?

MONITORING - OGC GATEWAY PROCESS

4.7 The Office of Government Commerce's (OGC) Gateway process examines projects at critical stages in their lifecycles to help determine whether they should proceed. There are five main gates at which the Gateway review team will assess the position:

1. Business justification for a project.
2. Procurement method and source of supply.
3. Contract award.
4. State of readiness of the project to go live.
5. Extent to which planned benefits have been delivered.

4.8 The reviews seek to minimise the risk of failure of major government projects by ensuring that at each stage they comply with best practice in procurement. Gateway reviews are now applied throughout government on many types of programmes and projects. Compliance with the Green Book is incorporated into the first and second gateways and responsibility for assessing compliance on any particular project will be the responsibility of the Gateway Team. Team members will therefore have to demonstrate some familiarity with the Green Book guidance and this will be one of the criteria for membership of the teams. The OGC receives copies of review reports, from which generic lessons are drawn and good practice disseminated.

4.9 In particular, the Gateway assessments should in future include an assessment of the extent of the mitigation of optimism bias in the light of the new guidance.

4.10 The Gateway process is necessarily resource intensive, and it will not be possible to work all the 'gates' for all proposals. An additional consideration is the extent to which internal monitoring systems within Departments are adequate to ensure compliance with the revised guidance.

Consultation Question

13. Is the Gateway process a good means to ensure compliance with the Green Book? Are there additional steps that could and should be taken?

5 TRANSITIONAL ISSUES

INTRODUCTION

5.1 The introduction of the revised guidance will take time to bed down and this is a key aspect on which consultation is required. It will also have an impact on the RAB cost of capital charge, which is used widely throughout both central and local government. There is rarely a good time to introduce any significant change, and this is no exception. A major aim of the consultation process is therefore to consider how to implement the new guidance as smoothly and quickly as possible.

5.2 There is a balance to be drawn here. On the one hand, introduction of the changes has to have full regard to what is possible, given the practicalities of implementation. On the other hand, it is important to minimise the uncertainties and disruption by not drawing out the process of change unnecessarily.

RAB COST OF CAPITAL CHARGE

5.3 If parity with the discount rate were to be maintained, the RAB cost of capital charge (currently 6%) would need to be reduced to 3.5%. Most departments have indicated that the best time to introduce a new CCC is at the beginning of a financial year. The proposed timetable therefore recommends that the new CCC be used for accounts and budgets from 2003/2004 onwards. This will mean that the Spending Review settlements would need to be restated in November, once the consultation period is over.

TRANSITION PATH

5.4 A number of policies, programmes and projects will already be under development when the new guidance is promulgated. A critical issue is therefore at what point along a proposal's lifecycle should the new guidance be applied. For instance, if a major capital project has nearly reached contract award, it may not be appropriate to suspend that award on the basis of new guidance about to be introduced. On the other hand, all new development work from now on should clearly take account of new guidance. For proposals that are in an intermediate stage, the decision will be more difficult; for instance, if an invitation to tender has already been produced or some budgeting work has already been carried out.

5.5 When the new guidance is finally promulgated, a cut-off point for project lifecycles will need to be agreed, i.e. the point beyond which projects must have reached if the new guidance is not going to be applied. For most projects, key milestones include the invitation to tender (ITN) and the OJEC notice. Based on advice provided by the OGC, the most suitable cut-off point may be the ITN. This implies that, as a general rule, projects that reach ITN stage by the beginning of the next financial year should still be appraised under the current regime. There may however be variations of this depending on circumstances, and different practices may need to be adapted in these cases.

Consultation Questions

14. At what point in a proposal's lifecycle should the new guidance be applied?

15. When should the guidance be implemented in full for all assessments?

POLICIES AND PROJECTS

5.6 A different approach seems in order, however, for 'policies' and 'projects'. In this context, policies are defined as those proposals that do not involve additional physical assets, or where the use of physical assets is not a material element of the overall cost. The immediate implementation practicalities have less effect in these cases. The proposal is therefore that, for policies, the new discount rate will apply, with the associated changes, with immediate effect.

5.7 By contrast, projects are defined as those proposals that will involve additional physical assets (or where the use of physical assets is material to the overall cost). In these cases, practical implementation issues are liable to be more important, so for these proposals, the new guidance will not come into effect until the consultation and transition periods have ended, and the revised guidance promulgated in its final form.

TIMETABLE

The proposed timetable for implementation, with the major milestones, is as follows:

24 July 2002	Public consultation begins
24 July 2002 – 18 October 2002	Consultation period
18 October 2002	Public consultation ends
By the End of the Year	Final version of Green Book issued
1 November 2002 – 1 April 2003	Training on revised Green Book
1 April 2003	Revised accounting arrangements introduced (e.g. new CCC)
	Current Green Book withdrawn and new guidance to be applied in full

Consultation Questions

16. Is the proposed timetable for transition about right? Should the transition period be shorter or longer? If so, why?

17. Is the approach to handling the transitional issues appropriate?

APPENDIX ONE - Consultation Questions

Accessibility

1. Overall, does the Green Book strike the right balance between accessibility of the guidance and its technical content?
2. How useful are the worked examples provided in the text? Are more or less or different examples required?
3. Is sufficient guidance provided in the Annexes? Do they strike the right balance between theoretical explanation and practical application?

Benefits

4. Does the revised Green Book strike the right balance in advocating the importance of valuing benefits while recognising the practical challenges of doing this?

Optimism Bias

5. Is the approach proposed by Mott MacDonald for recognising Optimism Bias in appraisal sensible in terms of (i) usability and (ii) accuracy?
6. How should Optimism Bias in respect of non-capital costs and benefit shortfalls be accounted for in the guidance?

Taxation

7. In formulating final guidance on how differences in tax liabilities should be treated in appraisals, are the considerations set out above the relevant ones?
8. How, therefore, should the KPMG approach be incorporated into comprehensive, usable guidance?
9. Do the flowcharts drawn together by the consultants present a workable, yet accurate, framework for assessing the different tax liabilities that arise directly from PFI and non-PFI options?
10. The current guidance, as noted above, focuses on the PFI in dealing with tax considerations. Are there other areas where the same issues arise?

CONSULTATION QUESTIONS

Distributional Issues

11. Is the approach taken in the revised Green Book to distributional issues the right one?

Training and Support

12. What training and support is needed to implement the Green Book, including the changes? How should training be delivered and support provided? Is the accreditation approach set out above the best way to go forward?

Transition and Implementation

13. Is the Gateway process a good means to ensure compliance with the Green Book? Are there additional steps that could and should be taken?

14. At what point in a proposal's lifecycle should the new guidance be applied?

15. When should the guidance be implemented in full for all assessments?

16. Is the proposed timetable for transition about right? Should the transition period be shorter or longer? If so, why?

17. Is the approach to handling the transitional issues appropriate?