



# HM TREASURY

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**DAO(GEN)05/03**

Dear Accounting Officer

27 February 2003

## **GREEN BOOK – APPRAISAL AND EVALUATION IN CENTRAL GOVERNMENT**

### ***Purpose of this letter***

This letter is to:

- Inform departments that the new edition of the *Green Book, Appraisal and Evaluation in Central Government*, has recently been published; and,
- Outline the main changes in the revised guidance, which Accounting Officers are required to implement.

### ***Action and Contacts***

2. Departments are asked to bring the contents of this letter to the attention of their staff, and also to NDPBs and any other sponsored bodies for which they are responsible.

3. Departments, NDPBs and any other sponsored bodies should ensure that all relevant staff have access to the Green Book and associated guidance available on the Green Book homepage.

4. Departments, NDPBs and any other sponsored bodies should ensure that their own manuals or guidelines are consistent with the principles contained in the Green Book, providing supplementary guidance on their specific areas.

5. The names and contact details are:

- o **general:** Jeremy Skinner (020 7270 5482; GTN 270 5482); or Oliver Crane (020 7270 5733; GTN 270 5733); email ([greenbook@hm-treasury.gsi.gov.uk](mailto:greenbook@hm-treasury.gsi.gov.uk);) address as above; and



o general enquiries about obtaining hard copies: TSO  
<http://www.tso.co.uk/bookshop/bookstore.asp?Action=Book&ProductID=0115601074>

o website reference for an online version of the new Green Book, and downloadable pdf versions of the Green Book and supplementary guidance on optimism bias and taxation and the PFI: <http://www.hm-treasury.gov.uk/greenbook>

### ***The new Green Book***

6. A new edition of the Green Book, Appraisal and Evaluation in Central Government, was published on 16 January 2003. This provides guidance to departments and executive agencies on the recommended approach to carrying out appraisals and evaluations of all government policies, programmes and projects.

7. The new Green Book comes into effect in full on 1 April 2003. It constitutes binding guidance. That is:

- the presumption is that its principles should be regarded as best practice;
- the guidance should be applied proportionately and with due regard to materiality;
- as with all guidance, the Green Book should not be followed mechanistically and there may well be circumstances where it is right to depart from the guidance;
- but where there is a departure from the guidance, it should be a conscious decision to do so. Accounting Officers will want to ensure such departures are justifiable in the specific circumstances concerned.

8. The Green Book itself advises that individual assessments should be proportionate to the funds involved, outcomes at stake, and the time available. Judgment will therefore be needed to determine the level of detail required.

### ***Summary of the main changes***

9. The main changes are as follows:

- The discount rate has changed to 3.5% in real terms. The transition arrangements for using the new discount rate should be followed (see below). As a result of the Green Book consultation, the final version

provides a schedule of lower discount rates which should be used for appraisals over the long term (over thirty years).

- Optimism bias. Optimism bias is the demonstrated, systematic tendency of appraisers to be over-optimistic about project parameters, including capital costs and works' duration, leading to cost and time overruns. To redress this tendency, appraisers should make explicit adjustments for this bias, based on the guidance set out in the Green Book. Accounting Officers should ensure that data is collected on cost and time overruns and other instances of bias, and that adjustments are made on the best available empirical evidence. Cross-departmental guidance for generic project categories is available on the Treasury website, and should be used in the absence of more specific evidence.
- Valuing and managing benefits. The Green Book now requires that benefits should be valued unless it is clearly not practicable to do so. Even if it is not feasible or practicable to value all the benefits of a proposal, it is important to consider valuing the differences between options. Weighting and scoring techniques may be used for benefits that remain unvalued. Judgment, in terms of balancing monetary and non-monetary considerations, will always be required.
- Distributional analysis. It is important that the distributional implications of options under appraisal are considered. This type of analysis enhances the understanding of the fairness of proposals, their social impacts, and their scale. Proposals should be assessed in terms of how different socio-economic groups will be affected. Other distributional issues may also arise, and should be considered during appraisal. A proposal may have differing impacts, for instance, according to age, gender, ethnic group, health, skill, or location. These effects should be explicitly stated and quantified where feasible.
- Presentation of results. Appraisers are required to provide the results of sensitivity and scenario analyses in presentations and summary reports to decision makers, rather than just single point estimates of expected values. Decision makers need to understand that there are ranges of potential outcomes, and hence to judge the capacity of proposals to withstand future uncertainty.
- Taxation and the Private Finance Initiative. Where publicly financed options are compared to PFI options, taxation differences should be considered, and adjustments explicitly made if not doing so would materially distort the decision. Specific guidance is available on the Treasury Green Book homepage on how to do this in practice.

### ***Transition arrangements***

10. The guidance will come into effect in full on 1 April 2003. But the new discount rate has applied to all policy appraisals since last July, and this continues to be the case. 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 rate will apply from 1 April 2003 for all other appraisals, although in practice most appraisals should now be moving to the new rate.

11. Project appraisals that have reached the Invitation to Tender (ITT), or Invitation to Negotiate (ITN), stages by 1 April 2003 will be allowed to continue even if they have not been assessed using the new guidance. Projects that have not reached this point should use the new guidance. The Treasury has agreed some specific exceptions to this rule, on the merits of the case. Any further candidates for such a derogation should be discussed with the Treasury as soon as possible.

12. The costs of delays, which could be incurred in moving to the new guidance, may be included in option selection.

**Rob Molan**  
**Second Treasury Officer of Accounts**