

Transport Planning Society

November 2020

HMT Green Book Findings and Response: initial reaction and commentary

The Response document overall is very readable and to the point but some key points are extracted below from the summary. As well as its critical analysis, the Response document discusses the impact on the Green Book and appraisal and contains interesting ideas such as building capability (including local government) partly through a Green Book user network. Another idea is a “Scorecard” for key objectives developed by the Infrastructure Projects Authority which they plan to pilot in 2021. Practitioners may remember similar ideas in the context of Multi-Criteria Analysis.

There is still considerable work to be done, for example, there are statements in the Green Book that appear to criticise Multi-Criteria Analysis and contradict some of the ideas in the Response. This detailed analysis will take much longer since it needs to cross refer to the Business Case guidance and many practitioners will be studying the fine print over the next few weeks. It will thus be even more important than ever to maintain contacts between DfT and Treasury and a wide range of practitioners and academics and TPS is committed to assisting in this process.

Commentary on Chapter 1: Introduction and executive summary

This begins with “**Context and Scope**”: originally levelling up but now specifically includes net zero and impact on equalities. It also includes both methodology and “wider culture surrounding appraisal”.

The **Overview of Findings** restates the point that the Green Book is to assist decision makers and does not determine outcome. It says “core methodology was not found by itself to skew outcomes” but then goes on to make the following very strong criticisms. They are clear and trenchant so we have used quite a lot of extracts rather than summarise them.

Para 1.10 “One of the fundamental issues that the review has identified is the common failure of those writing appraisals to engage properly with the strategic context in which their proposal sits. Specifically, business cases frequently do not demonstrate the necessary understanding of:

- the proposal’s specific contribution to the delivery of the government’s intended strategic goals (such as levelling up or net zero); and
- the specific social and economic features of different places and how the intervention may affect them;
- Other strategies, programmes or projects with which the intervention may interact, including in a particular geographical area.”

1.11 “This results in significant flaws in appraisals and business cases, as well as the process for local authorities bidding for departmental funding. A failure to thoroughly understand and address the contribution of a proposal to strategic policy goals leads to a failure to build in strategic direction from the very first step in the process, the development of the strategic case.....

This means that the first step in assessing options -longlisting- which is designed to identify a range of options that will deliver the proposal's objectives, is fundamentally undermined."

1.12 "With a lack of strategic direction now baked into the appraisal process, the selection of the option to be presented as the best becomes heavily reliant on a Benefit Cost Ratio (BCR) that is not aligned to the decision makers' objectives. The BCR instead focuses on benefits that it is easy to put a monetary value on. This in turn creates an incentive for proposers to artificially boost the BCR with such benefits that are unlikely to be realised, as well as suggesting a level of certainty around the value of those benefits that is not merited by the evidence."

1.13 "This means that instead of illuminating the issues that decision makers need to consider, this process creates something of a "black box""

1.14 "A lack of strategic consideration also causes particular problems in developing proposals to support a specific place or places. For example, it leads to confusion about when a project has the potential to deliver impacts that can bring truly transformational change to a place....."

1.15 "Central government departments also frequently fail to work together across organisational boundaries and ring-fenced funding streams to develop, appraise and deliver truly "place based" strategy....."

1.16 "Finally, there is frequently a failure to carry out robust analysis of impacts in different places or to consider them in decision making, even when it is relevant."

1.17 This para sets out some practical issues:

- lack of transparency and accountability
- over emphasis on the BCR for the Spending Review and bids for Government funding
- lack of capacity in local government and over dependence on consultants and an over emphasis on technical issues and the production of a high BCR
- under investment in evaluation means "lack of good evidence" on what really works
- equalities impacts too often an afterthought.

The **Overview of HMT's response** section sets out a series of actions, first in relation to the Green Book, in a series of bullets in para 1.18 summarised below:

- **A stronger requirement to establish clear objectives from the outset**
- **Stronger and clearer advice on what constitutes value for money**

"only options with a strong strategic case should be short listed for detailed cost benefit analysis. The BCR will then only be calculated for options which pass this test."

Comment: This is critical to avoid a high BCR leading to schemes which undermine objectives and needs very tough guidance, in our case including WebTAG.

- **New guidance on the appraisal of transformational changes.**

Comment: This specifically includes "how to handle and present uncertainty in this context."

- **Appropriate emphasis on the analysis of place-based impacts**, including for projects and programmes where these are not the objective of the intervention.
- **Measures to improve analysis on differential impacts**, including in assessments stemming from the Equality Act public sector equality duty, and under the Government's 'family test'.
- **An expert review into the application of the discount rate for environmental impacts.**

Comment: this relates to the way environmental damage costs in future years are discounted at 3.5%. This partly reflects that, as society becomes wealthier, the value of each individual good falls.

This may be fine for consumer goods but not for some others. For example, health is already lower at 1.5% and it is proposed that the same could be used for environmental costs and benefits. There will be an expert review reporting next year. See Treasury Response paras 3.12-3.17.

Secondly, in para 1.19, HMT says it “will take steps to strengthen the approval and decision-making processes and the culture around the development of business cases”. These are summarised as:

- **A new approach to the Spending Review process to reflect the findings of this review.**
- **A new emphasis on the role of business case reviewers as critical gatekeepers.**

*Comment: This includes new training and the statement: “Reviewers in HM Treasury and across Whitehall will be empowered and equipped to **constructively challenge** business cases and appraisals” (my emphasis). Good to see TPP and TPS Code of Conduct wording here.*

- **More extensive and flexible support for users of the Green Book.**

Comment: This will include “establishing active networks to support those who use the Green Book, including in local and regional government.” A clear opportunity for the profession to stay engaged.

- **Greater transparency with a new requirement to publish a summary business case within four months of it receiving final approval.**

Comment: This needs clarifying and “will begin in April 2021”

- **An ongoing commitment to auditing and reviewing business cases to ensure high quality is maintained**

Comment: In the language of our current prime minister qui custodet custodes? Again an area where the professional bodies can be of help.

Finally, in Para 1.21 the HMT Findings document sets out the proposal for a new “Evaluation Taskforce”. This meets another consistent criticism practitioners have made about the failure to monitor real outcomes and compare to forecasts.

Overall the criticisms are profound and ones that TPS has long supported. The promises made for reforms are wide ranging and positive, especially a new emphasis on the Strategic Case, and the importance of carbon, place making and equalities.

The detailed analysis of the changes to the Green Book will take longer, and the promise of an ongoing involvement in evaluating and improving the appraisal process itself will require resources from practitioners across the piece. However this is the best opportunity to reform appraisal since 1997/98. This time there are positive indications that DfT in particular is prepared to fully engage with the profession, building on the more open approach they have adopted in recent years.

In terms of an immediate agenda for discussion, there are several strong contenders to make rapid progress, for example:

- **Creating an absolute requirement that the Strategic Case should take precedence and follow clear objectives**

“only options with a strong strategic case should be short listed for detailed cost benefit analysis”

- **Capacity building and a Green Book transport user group (including practitioners)**
- **New guidance on the appraisal of transformational changes**
- **Appropriate emphasis on the analysis of place-based impacts**
- **Participating in the expert review into the application of the discount rate for environmental impacts**

It is clear that a range of issues will emerge as more people read the Green Book and understand its implications. At first sight the section on cost benefit analysis (in Chapter 5) and the one on presenting results (Chapter 7) doesn't fully address the issues raised in the Treasury review team response. In particular it appears to underrate the importance of non-monetised impacts, and how to treat a scheme which undermines other efforts to achieve the high level objectives. The key point is that schemes which do this should never reach the stage at which cost benefit analysis is applied. Schemes should not reinforce unsustainable patterns of travel and thus undermine objectives such as decarbonisation and improving health and air quality.