

The Institutions and Practice of CBA and Project Appraisal in the UK

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Background

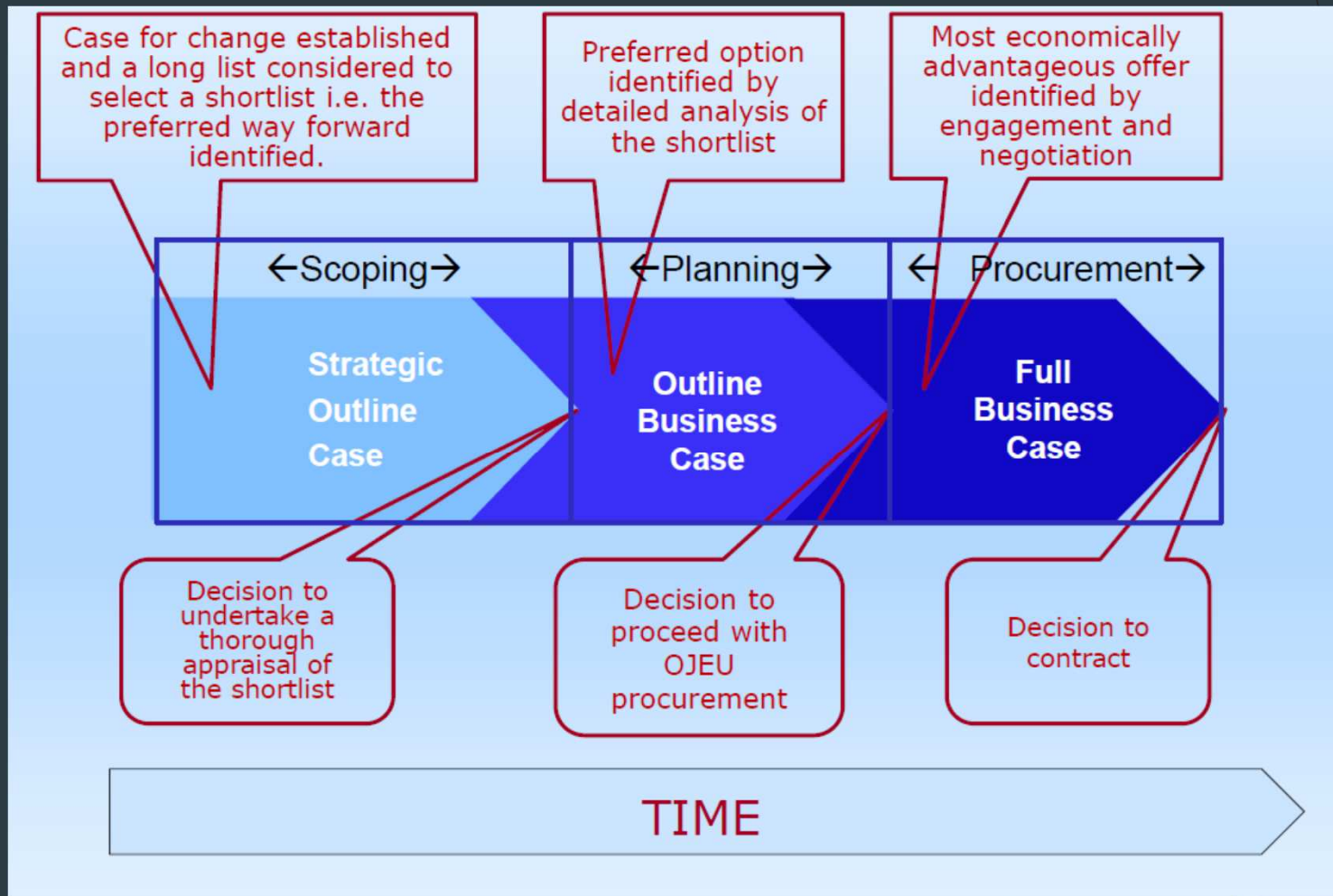
- ▶ Charge Questions on CBA
 - ▶ Process and decision-making
 - ▶ Obligations and practices
 - ▶ Institutions and roles
- ▶ Caveat
 - ▶ Only so much one can know from the outside....

United Kingdom

Process and Decision Making

- ▶ CBA not mandatory, but *expected* in the UK
 - ▶ Green Book applies to all departments
 - ▶ Infrastructure, programmes, regulations, procurement and policies
 - ▶ Used by National and Local Government
 - ▶ “...effort proportional to the costs and benefits...”
- ▶ Process:
 - ▶ Filters and go/no-go processes
 - ▶ 3 Business cases: 1) Strategic Outline; 2) Outline; 3) Full
 - ▶ 5 Thematic cases: 1) Strategic; 2) Economic; 3) Commercial; 4) Financial; 5) Management
 - ▶ Independent “Gateway Review”, Treasury Approval Points.

Example: 3-Stage Business Case Development in the UK

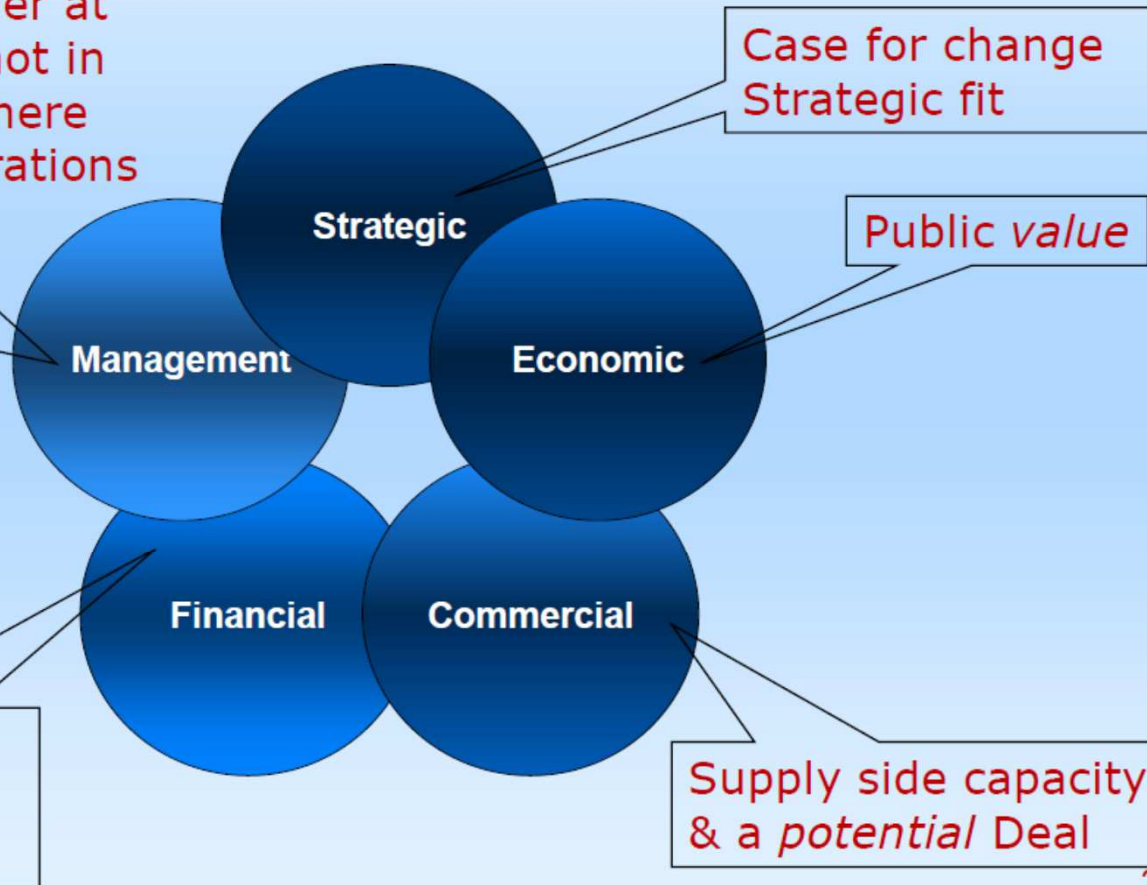


Example: UK 5-Case Model

The 5 dimensions are produced together at the same time not in sequence but there may be many iterations

Achievable –
can be successfully delivered

Affordable –
within the budget



Obligations and Practices

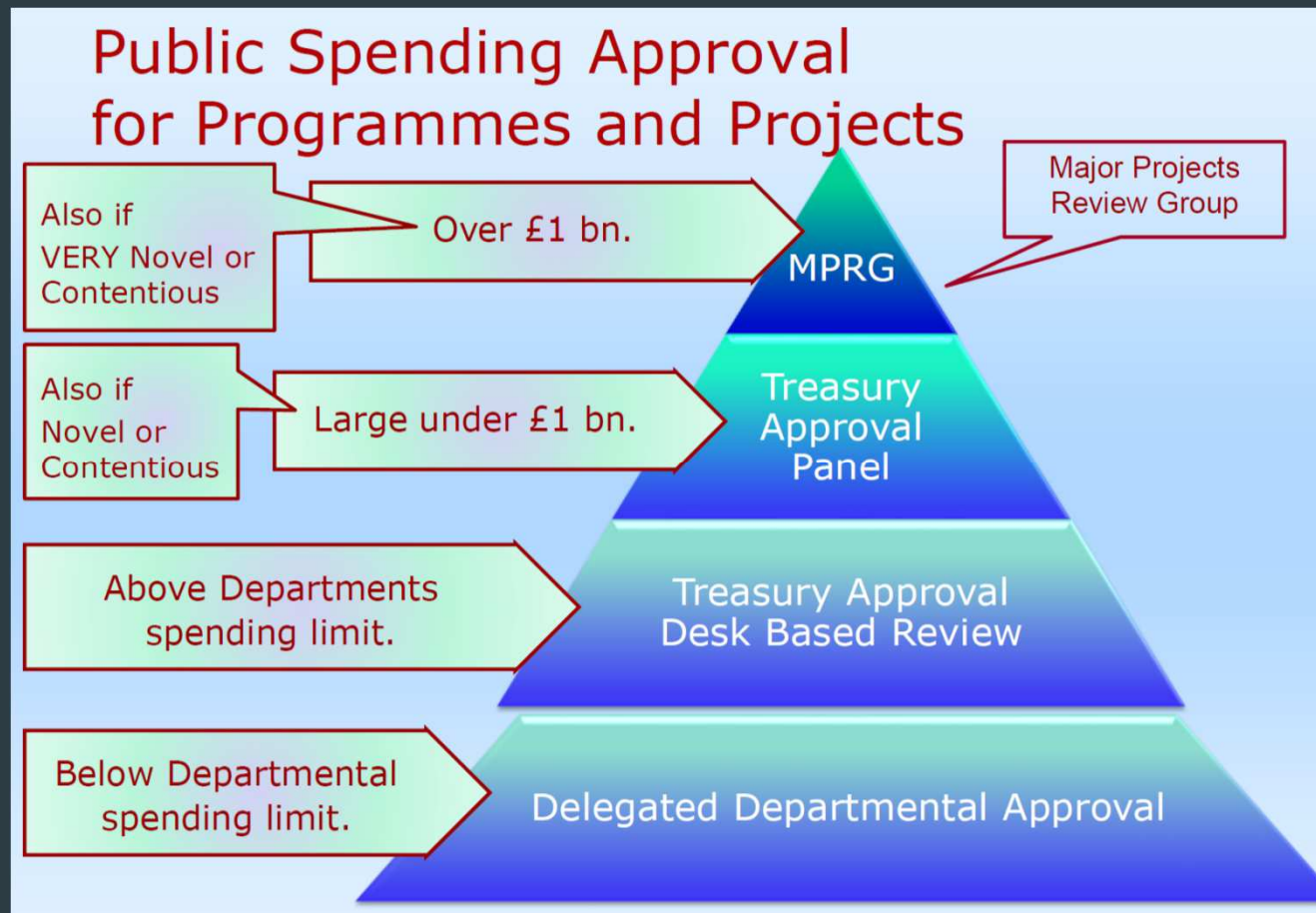
▶ Obligations in appraisal:

- ▶ No legal requirement for CBA, no legislation per se
- ▶ Treasury is powerful (Chancellor is 2nd in command), common-law tradition
- ▶ Accounting officers in ministries and departments (Permanent Secretaries) are accountable to the Treasury for value for money
- ▶ Ministers must heed advice of accounting officers (ministerial code)
- ▶ 1998 Code for Fiscal stability (not a law!): efficiency, value for money

▶ Practices

- ▶ Green Book and supp. guidance should be followed, or deviations justified
- ▶ Treasury reviews and approves all ex ante evaluations
- ▶ Which body provides final approval depends on the £ size of the project
- ▶ National Infrastructure Commission provides impartial expert advice
- ▶ No specific “counter-expert” but “independent” review process: Gateway Review closely linked to the business case process.

UK Treasury Approval for projects



Institutions and Roles

▶ HM Treasury (HMT)

- ▶ Planning, develops evaluation principles, reviewing and approving projects and policies, critical decision points, prioritises capital spending.
- ▶ Planning and prioritising: Treasury spending teams for different departments, ad hoc teams for big projects
- ▶ **Does not** formulate proposals or do the evaluation

▶ Infrastructure and Projects Authority (IPA)

- ▶ de-risking, oversight of implementation, cost effective delivery, Government project portfolio
- ▶ Planning: National Infrastructure Delivery Plan (2016-2021)

▶ National Infrastructure Commission (NIC)

- ▶ Executive agency of the treasury
- ▶ Impartial expert advice on infrastructure projects and

Institutions and Roles

▶ CBA

- ▶ Treasury Magenta Book, Green Book, and supplementary guidance housed by HMT
- ▶ HMT provides the “independent” advice on projects and approval
- ▶ Unit values for CBA (Discount rate, QALY values, value of time, etc.)
 - ▶ Department inputs to Green Book (Health, Transport, Environment) via different research centres
 - ▶ Some departments deviate consistently: WebTAG in transport
 - ▶ No system of standing academic expert committees, Ad Hoc relationships
- ▶ Major Projects Review Group: IPA, HMT, Project team

Additional Information

UK: 5 Themes

Key Review Criteria	Main Evidence Required
Strategic Case	
Is the proposed scheme an integral part of the organisation's business strategy?	<ul style="list-style-type: none"> Extracts from business and other relevant strategies Reference to relevant government and organisational policies
Is the proposed scheme sufficiently large and stand alone to form a project or could it be more sensibly be undertaken as part of another programme or project?	<ul style="list-style-type: none"> Relevant extracts from business and other strategies Reference to scoping documentation Relevant extracts from strategy board meetings
Are the spending objectives and underpinning business needs defined clearly and supported by the key stakeholders and customers?	<ul style="list-style-type: none"> 'SMART' spending objectives Evidence of stakeholder and customer involvement and support
Is the scope for potential change to current services and business processes clearly defined?	<ul style="list-style-type: none"> Clear statement of business outcomes and service outputs Statement of any security and confidentiality issues
Have the main benefits been clearly defined by stakeholders and customers, alongside arrangements for their realisation?	<ul style="list-style-type: none"> Outline of benefits realisation plan Direct and indirect to the organisation and wider public sector Cash and non-cash releasing Ranking of benefits by key stakeholder
Have the main risks been identified, alongside arrangements for their management and control?	<ul style="list-style-type: none"> Outline of risk management strategy - business risks & service risks Likely probabilities and impact (high, medium or low)
Have the key organisational constraints and business dependencies been identified?	<ul style="list-style-type: none"> Evidence of critical path Related programmes and projects Assessment of internal and external constraints

Economic Case	
Have the critical success factors (CSFs) for options appraisal been identified?	<ul style="list-style-type: none"> Prioritised CSFs (high, medium or low) Relevant performance measures
Has a sufficiently wide range of options been identified and assessed within the long list?	<ul style="list-style-type: none"> Use of any feasibility study 10-12 main options – full description Use of the 'options framework' <ul style="list-style-type: none"> For business scope For potential solutions For service delivery For implementation For funding
Has a preferred way forward been identified following robust analysis of the available options?	<ul style="list-style-type: none"> SWOT analysis of options against <ul style="list-style-type: none"> Spending objectives Critical success factors Benefits criteria Evidence of likely support from key stakeholders
Has a preferred way forward been unpacked within a short list for further examination and appraisal?	<ul style="list-style-type: none"> Minimum of four options, including: <ul style="list-style-type: none"> Do nothing or do minimum Public sector comparator

Commercial Case	
Has a high-level assessment of the potential deal and its likely acceptability to the supply side been undertaken?	<ul style="list-style-type: none"> Description of potential deal Market soundings Existing service providers

Financial Case	
Has a high-level assessment of affordability and source(s) of required funding been undertaken?	<ul style="list-style-type: none"> Indicative costs Likely sources of organisational funding

Management Case	
Has a high-level assessment of the achievability and deliverability of the project been undertaken?	<ul style="list-style-type: none"> Indicative time-scales Use of special advisers Feasibility study Peer review
Are all the necessary arrangements in place for the successful completion of the next phase?	<ul style="list-style-type: none"> Outlined programme and project board and reporting arrangements Project manager and team Project plan and agreed deliverables Budget allocation and resources

OECD CBA GUIDE

- ▶ Public Lecture
- ▶ 22nd of November 2018.
- ▶ 1830 UK time.
- ▶ Streamed and Podcast



Cost-Benefit Analysis and the Environment

FURTHER DEVELOPMENTS AND POLICY USE

Giles Atkinson, Nils Axel Braathen, Ben Groom
and Susana Mourato

