

The Green Book 2020 Update

January 2021

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HM Treasury

THE GREEN BOOK
CENTRAL GOVERNMENT
GUIDANCE ON APPRAISAL
AND EVALUATION

2020

Changes to the Green Book

Introduction

Purpose of this document

This document provides an overview of the key changes and updates to the HM Treasury's Green Book guidance 2020 edition, compared to the 2018 edition. Changes to the Green Book follows the review announced at Budget 2020 to *“make sure that Government investment spreads opportunity across the UK”*.

The Green Book Review

Following the Budget 2020 announcement, the review of the Green Book commenced in response to the growing concern the 2018 guidance perhaps undermined the Government's “levelling-up” agenda.

The review was also a direct response to the UK's legal requirement to achieve Net Zero by 2050, revisiting the appraisal of environmental impacts.

The review looked beyond the appraisal methodology, assessing the wider culture surrounding the appraisal and the investment decision-making process.

Defining Value for Money for a Balanced Appraisal

Review Findings

- For business cases that lack a strong strategic case, as a consequence there is a greater reliance on the Benefit-Cost Ratio, unreflective of a compelling strategic case.
- Considerable priority, time and resource is earmarked to 'boost' the BCR, rather than focusing on how to achieve policy objectives that offers best VfM.

Government Response

- For the Spending Review 2020, HM Treasury took a broader approach to proposals, focusing on strategic alignment with the Government's objectives, place-based impacts, and wider relevant considerations including deliverability.
- This approach deviates from simply ranking proposals by BCR
- While the BCR is considered a valuable tool to the appraisal process, the Government recognises a single BCR, developed without a compelling strategic case, is not truly reflective of the social value delivered by an intervention
- Thus, the BCR should not be the sole factor in appraisals

Changes to the Green Book

- Value for Money encompasses all relevant costs and benefits to society, not just the narrowly economic ones
- Strengthened guidance on setting SMART objectives - **greater emphasis on establishing clear objectives and success measures in the strategic case**, demonstrating an objectively based logical process of change as part of the strategic appraisal
- All long-listed options are to be assessed against these objectives. Options that do not deliver them cannot be considered Value for Money, regardless of the BCR
- Reviewers (acting as "gatekeepers") are to challenge any business case which do not meet Green Book standards. Furthermore, business cases should be rejected if they do not include a clear set of objectives for intervention and a clear Theory of Change process to how these objectives will be delivered.
- Reviewers should be open to business cases for projects with low BCRs, given they deliver best VfM for achieving the strategic objectives. The decision-maker will make its own judgement on whether the achievement of the objectives is worth the cost to the Exchequer.

Identifying Objectives for the Delivery of Strategic Outcomes

Review Findings

- Business cases frequently do not demonstrate sufficient understanding of the proposal's specific contribution to the delivery of the government's intended strategic goals (for e.g. levelling up, net zero)
- Failing to demonstrate the proposal's contribution to the strategic policy goals, in turn, leads to a failure to build a strategic direction from the early stages of the process.

Government Response

- Demonstrating the “golden thread” is crucial. This requires appraisers to be able to demonstrate a clear understanding of the specific contribution of the intervention to the delivery of the relevant strategic outcomes.
- The spending review identified several priority outcomes:
 - an outcome to raise productivity and empower places so that everyone can benefit from levelling up
 - an outcome to level up education standards: so that children and young people in every part of the country are prepared with the knowledge, skills and qualifications they need
 - maximise employment across the country to aid economic recovery following Covid-19.
- Interventions also need to be considered against the Government's wider strategic objectives, which can evolve over the course of the appraisal stage.

Changes to the Green Book

- The maintenance of a “golden thread” of strategic alignment from these priority outcomes will be supported by the introduction of a **Project Scorecard**.
- The project scorecard will “*set out a clear framework for understanding and presenting the contribution of an individual project to delivery of priority outcomes, as well as giving decision-makers better information about the extent to which different investment options deliver their objectives*”.
- The project scorecard is due to be launched in 2021, including guidance, templates and training.
- For projects that require approval prior to detailed CBA, the revised Green Book encourages appraisers to focus on cost effectiveness analysis and delivery challenges.
- The strategic alignment must be revisited at the short-listing stage in response to evolving Government wider strategic objectives

Transformational Impacts

Review Findings

- Prior to the revised Green Book 2020, guidance did not provide sufficient emphasis on capturing transformational impacts, hence benefits tend to be understated.

Government Response

- The Government recognises the limited guidance on demonstrating transformational impact hinders the appraisal of interventions that are not only relevant to the levelling up agenda, but also applies more widely.
- Although the term “transformational” can be used and interpreted in a number of ways, the revised Green Book guidance defines “transformational change” as:
 - A fundamental structural change in the nature of the subject undergoing transformation. The scale of the change alone is not a defining characteristic; and
 - Being in practical terms virtually irreversible, in other words the removal of the intervention will not cause the system to revert to its original state

Changes to the Green Book

- The revised Green Book includes an additional annex which sets out how transformational impacts should be appraised robustly within the Green Book framework.
- Transformational change should be assessed and reported at the level of strategy, while appraisal of projects and programmes should illustrate how their specific outputs are necessary for delivering the transformational objectives of the strategy.
- In absence of a step-by-step method to produce precise valuations of transformational impacts, a robust and well evidenced logical process of change should be included.

Improving Analysis of Regional and Local Impacts

Review Findings

- Lack of consistency in appraisals which assess the impact on different geographical areas, and how these impacts are presented to the decision-makers.
- Place-based analysis tends to be time and resource intensive – national policies are often believed to be “place blind” without considering the potential for differential impacts.

Government Response

- The Government is, and continues, to be committed to the levelling up agenda, hence appraisers must consider the differential impacts on different geographical areas.
- Appraisers must also consider the interaction with other relevant strategies, at UK levels, or more locally.
- Although more clarity has been added on how to account for local employment effects in the revised guidance, a new cross-Whitehall working group will consider options for taking this forward.

Changes to the Green Book

- The revised Green Book contains a new guidance on **place-based analysis**. If an intervention’s objectives have a geographically defined focus, this should also be treated as the principle frame of reference for the analysis. UK analysis should be presented separately.
- Even when the impact on a specific place is unintentional, i.e. not the explicit objective, there is a new requirement to consider the differential place-based impacts. Justification for exclusion of a place-based analysis must be provided otherwise.
- The revised Green Book also clarifies the treatment of local employment effects. When undertaking place-based analysis, appraisers will be able to use **new employment multipliers** to help estimate the local impact.
- Appraisers must consider the potential differential impact on different people within the target area. The revised makes it clear that **business cases should identify costs and benefits falling on relevant groups**.
- All proposals must take equalities impact into account (Public Sector Equality Duty)
- A new requirement for appraisers to consider the impact of decisions on families

Upcoming Updates

To accompany the revised Green Book, new guidance is currently in development and will be published next year on:

- Optimism bias
- The valuation of estate maintenance
- The valuation of legacy IT systems and risks
- Valuation of wellbeing
- Valuation of biodiversity

Furthermore, HMT will lead an expert external review to examine the application of the discount rate to environmental impacts. This review will be completed by next year, with further changes to discounting to be incorporated into future updates to the Green Book.

The Green Book and Appraisal of Environmental Impacts

Achieving Net Zero by 2050

A number of government announcements and environmental policies, including:

- the UK's commitment to achieve Net Zero by 2050;
- the 25 Year Environmental Plan; and
- the Ten Point Plan

had prompted the Green Book guidance to be revisited and scrutinised within the context of Government's environmental aims.



A Green Future: Our 25 Year Plan to
Improve the Environment



The Ten Point Plan for a Green Industrial Revolution

Building back better, supporting green jobs, and accelerating
our path to net zero

November 2020



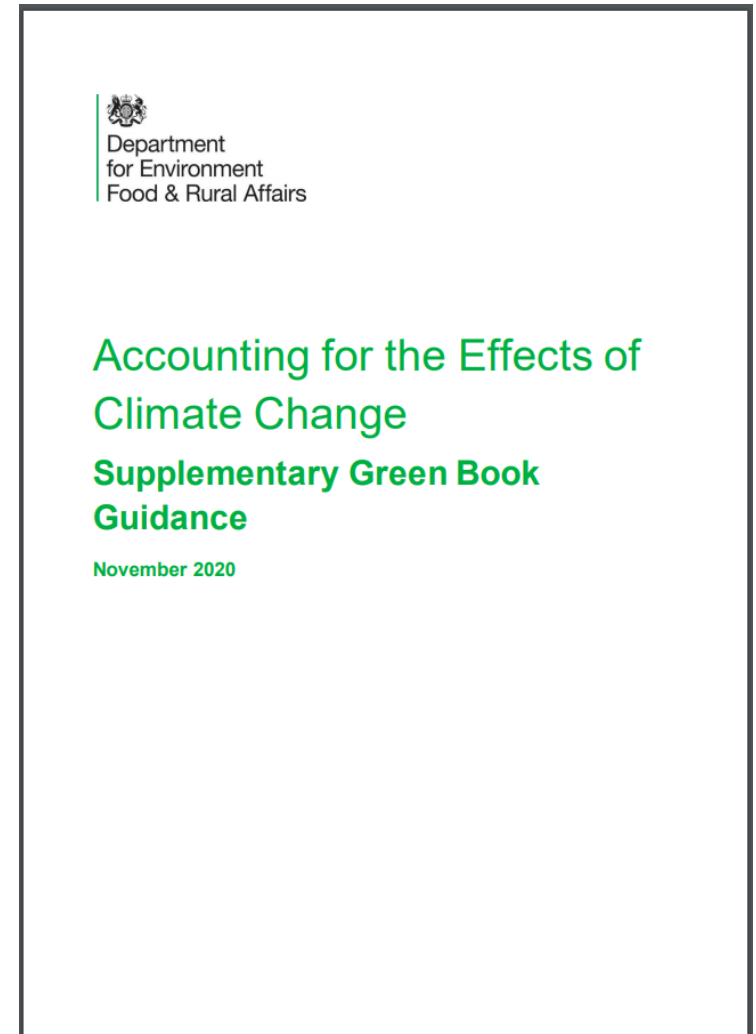
What does Net Zero mean for appraisers?

UK's commitment to achieving Net Zero in effect ***“provides a clearly defined strategic objectives from which to develop strategies for tackling climate change”***.

Changes to the Green Book and decision-making therefore are as relevant to meeting Net Zero as they are to the levelling up agenda. Even if contributing to the Net Zero commitment is not the primary objective of an intervention, appraisers are required to consider the environmental impact.

Guidance on appraising and evaluating environmental impacts have been strengthened in the revised Green Book, as well as additional supplementary guidance including *Accounting for the Effects of Climate Change* guidance recently published by Defra.

HM Treasury's Net Zero Review final report is due to be published in Spring 2021, focusing on how the transition to net zero will be funded, and where the costs fall. The report will also outline a framework for decision-makers to consider the appropriate policy levers to use in different situations, and managing impacts on households, businesses and sectors.



Revised Approach to the Decision-making Process

Incentives and Structures: Spending Review and beyond

Review Findings

- Too much weight has been placed on a simple ranking of proposals by BCR
- Lack of transparency in how different government strategic objectives are considered in the decision-making process

Government Response

- The capital process for the Spending Review 2020 was adapted in response to the criticism of the 'overly BCR-focused culture', in which:
 - Greater emphasis on strategic objectives and alignment with the Government's wider objectives, including the levelling up agenda
 - Departments had to set out priority outcomes and provide a robust theory of change for how their proposals contribute to the achievement of these objectives
 - Proposals included place-based analysis to capture national, sub-national, regional and local level impacts.
 - Proposals were no longer ranked purely by their BCRs
- The Spending Review 2021 process will build upon this.
- Departments will be expected to appoint an official, who is trained and accredited at practitioner level in the Treasury Better Business Cases methodology, to oversee the whole business case. They will support the SRO.
- Departments are expected to engage with HM Treasury spending teams early in the development of business cases. In particular, the case for intervention and its objectives should be agreed, as well as the type of business case required.

Building Capability

Review Findings

- A lack of capacity to engage with the full appraisal process, especially the more technical aspects.

Government Response

- To accompany the new Green Book guidance, a series of measures will be introduced to improve capability.
- Building on existing Better Business Case and reviewers' courses, an expanded range of **new, bespoke training** will be on offer.
- More **digital Green Book content** will be provided, including 'bite-size' sessions on individual aspects of appraisal, as well as online FAQs and case studies
- A new **network of Green Book users** across the UK has been established, promoting continual learning and development. The new network will be led by local users, in collaboration with the What Works Centre for Local Economic Growth to promote the use of high-quality relevant evidence in appraisals.
- HMT's Green Book team is to be expanded to deliver the necessary training and direct support to appraiser, and review business cases in HM Treasury spending teams and Whitehall. **Reviewers in both HM Treasury and departments will be expected to provide feedback to the appraisers, whether it is successful or not.**
- The Green Book team will monitor the effectiveness of the revised approach, including through the **audit of sample business cases**, and continue to develop plans to embed changes to the Green Book in the appraisal process.

Improving Transparency

Review Findings

- Lack of transparency across the appraisal and decision-making process
- Greater transparency -including case studies of good practice- would:
 - support building capability in appraisal by showing what 'good looks like' in terms of business cases
 - support effective evaluation of projects and programmes and help with learning 'what works'
 - increase accountability of project sponsors and SROs
 - increase public accountability of decision-makers.

Government Response

- The Government will set out new requirements for business case publication and greater transparency in the National Infrastructure Strategy.
- This is in response to the National Infrastructure Commission's recommendation that *"all government departments and agencies should therefore collect and publish costs and benefits estimates and outturns for major infrastructure projects"*.

Implications for Towns Fund

Things To Consider for Towns

For Towns transitioning into Stage 2 – Business Case Development, the revised Green Book guidance incorporates a number of key updates Towns need to take into account, including:



Investment decisions will not be solely based on the BCR



Demonstrating the proposal's objectives aligns and contributes to wider strategic objectives, including levelling up and net zero



Clearly illustrating the 'golden thread' is vital, supported with an upcoming project scorecard



Further guidance on capturing and presenting transformational change



Place-based analysis is a new requirement for proposals with a geographical defined focus



Potential differential impact on different people within the target area must be identified

Things To Consider - Checklist

- Are you clear on what needs to be included in your business case to comply with the revised Green Book guidance?
- Do you have the appropriate resources and capacity to deliver a compliant business case(s)?
- Are there any resources, webinar etc. you would find most useful for the TFDP to deliver?
- Does your S151 officer and appraisal team have a shared understanding and expectations of the requirements that need to be met?

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