

Value for Money Assessments

Value for Money assessments and Value for Money statements are produced by Department for Transport officials, making use of evidence and analysis provided in business cases for proposed transport interventions.

This note is for information only, to provide a summary explanation of Value for Money assessments and Value for Money statements in the Department for Transport.

What is a Value for Money assessment?

The '**Transport Business Case**' sets out the Department for Transport's approach to producing business cases to support Ministerial decisions. This approach ensures decisions are made by taking account of all the relevant information set out in five cases, consistent with the HM Treasury Green Book¹, specifically, to show whether schemes:

- are supported by a robust **case for change** that fits with wider public policy objectives – the 'strategic case';
- demonstrate **value for money** – the 'economic case';
- are **commercially viable** – the 'commercial case';
- are **financially affordable** – the 'financial case'; and
- are **achievable** – the 'management case'.

The **Value for Money assessment** focuses on the economic case, and therefore forms one part of the overall advice to Department for Transport investment boards and Ministers. The information considered in a Value for Money assessment should be obtained through an appraisal that is consistent with the Department for Transport's WebTAG² guidance.

WebTAG's new proportionate update process recommends that scheme promoters agree with the scheme sponsors regarding what updates to WebTAG guidance is reasonable and proportionate to include in the Value for Money assessment. The assessment should therefore highlight the consistency with the latest WebTAG guidance used along with any justification for the approach.

A **Value for Money statement** provides a summary of the conclusions from the Value for Money assessment. The statement should provide a concise summary of the economic, social, environmental, and public account, impacts that transport interventions may have and, based upon these, give advice for investment boards and Ministers about the economic case for a proposal.

Why is a VfM Assessment needed?

¹ http://www.hm-treasury.gov.uk/data_greenbook_guidance.htm

² <http://www.dft.gov.uk/webtag/>

In addition to its role within a Business Case set out above, a VfM assessment is produced to help to support the Department for Transport Accounting Officer's duty to ensure value for money in spending, as set out in HM Treasury guidance 'Managing Public Money'³.

When is a Value for Money assessment needed?

A Value for Money assessment should be produced as part of any business case that is used to support advice to Ministers or an investment board on a proposal requiring expenditure by the Department and/or a decision by Ministers.

How should a Value for Money assessment be undertaken?

The initial Value for Money category is identified based upon the Benefit Cost Ratio (BCR) of the scheme, using monetised impacts in line with WebTAG guidance. These categories are

- poor VfM if the BCR is less than 1.0
- low VfM if the BCR is between 1.0 and 1.5
- medium VfM if the BCR is between 1.5 and 2.0
- high VfM if the BCR is between 2.0 and 4.0
- very high VfM if the BCR is greater than 4.0

However, appraisals that are produced following WebTAG guidance do not necessarily monetise all costs and benefits of a transport intervention. The VfM assessment should take account of quantitative and qualitative assessments of impacts in two stages.

Firstly, an "adjusted" BCR should be constructed, following the Department for Transport's detailed Value for Money guidance, to monetise some of the quantitative and qualitative assessments using evidence for monetisation which is subject to greater uncertainty and not included within WebTAG. Secondly, all other impacts that have not been monetised should be taken into account. Depending upon the expected magnitude of these impacts, an assessment should be reported of whether consideration of these non-monetised impacts is likely to alter the VfM category of the proposal.

How should the Value for Money Statement be Presented?

A VfM statement, summarising the conclusions from the VfM assessment, should be included within the body of submissions to Department for Transport investment boards and Ministers. It is usually included in the Economic Case section of submissions. The VfM statement should report:

- the VfM category of the scheme
- the present value of benefits, present of costs, and the range around the Benefit Cost Ratio (see below for further detail)

³ http://www.hm-treasury.gov.uk/psr_mpm_index.htm

- a concise summary of benefits and costs have been assessed, including any assumptions that influence the results
- assessment of non-monetised impacts
- identification of any key risks, sensitivities and uncertainties

It should also provide an explanation of the reasons why the proposal is considered to fall into a specific Value for Money category.

It is also applicable to include some of the detail in an Annex. Where the Value for Money assessment is supported by an Appraisal Summary Table, this can be included to provide further detail of the results from the scheme appraisal. Any significant social and distributional impacts should also be highlighted to decision makers.

Presentation of a Range for the Benefit Cost Ratio

Given that Benefit Cost Ratios are responsive to changes in key parameters, the presentation of only a central BCR estimate is unlikely to provide a full picture of the VfM of a scheme. Scheme assessments should therefore include a range of sensitivity tests and these can be determined on a case-by-case basis. Typically however, the expectation is that the BCR is reported in a range determined by the high and low demand forecast upon which the appraisal is based and the high and low ranges for the Value of Travel Time Savings. Where cost ranges are available, these should also form the basis of an additional range along with sensitivities around any key assumptions that are material to the decision in a proportionate way.

Contacts

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