

Rt Hon Mel Stride MP
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[By email]

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Dear Mr Stride

RE: GREEN BOOK 2020

Thank you for your letter of 11 May and the opportunity to update you on our work following the Green Book Review. We are pleased that many of your respondents have welcomed both the conduct and outcome of the Review.

Environmental Appraisal and Net Zero (Q1-4)

1. When will the methodology for assessing environmental benefits under the Green Book be finalised?
2. When is the expert external review examining the application of the discount rate to environmental impacts expected to report on its findings, and when will these findings be incorporated into the Green Book?
3. Does the Government plan to incorporate Net Zero as a core element of the Green Book appraisal framework, and to include Net Zero-related criteria in the options appraisal? If so, when?
4. How will the Government undertake rigorous monitoring and evaluation to determine the effectiveness of cost benefit analysis (CBA) and cost-effectiveness analysis (CEA) appraisal frameworks, to guard against any risk that CBA and CEA do not take into account fully the benefits of environment projects which are difficult to measure?

The Green Book sets out guidance on how to appraise policies, programmes and projects, to help public servants give objective advice to decision makers. It is based around the internationally recognised 'Five Case Model' which sets out the five dimensions for examining proposals.

The Green Book does not outline the government's policy objectives; it provides a framework for ensuring that they are properly taken into account when carrying out policy or project appraisal, and that the relevant costs, benefits and risks of alternative approaches are considered.

Achieving net zero in greenhouse gas emissions is both a policy objective and a legal requirement. In the Green Book, it is therefore viewed as a constraint on all proposals and an objective for relevant proposals when considering the strategic case. Additionally, any environmental costs and benefits should be included as part of the economic case.

The methodology for assessing environmental costs and benefits in appraisal under the Green Book will always to some extent be 'work in progress' as we look to incorporate the latest best practice. There are three key updates that are currently in progress.

First, BEIS's carbon values are used across government for valuing impacts on greenhouse gas emissions resulting from policy interventions. The valuation framework is based on the marginal cost of meeting emissions pathways. More ambitious emissions pathways increase the marginal cost of meeting a given emissions trajectory. BEIS updates the Green Book Supplementary Guidance on the valuation of energy use and greenhouse gas emissions on an annual basis. The next update later this year will incorporate changes to carbon valuation to reflect recent increases in the UK's domestic and international targets.

Second, the Treasury is working on producing guidance on Biodiversity Valuation, with more details to be announced as part of the response to the Dasgupta Review.

Third, as you note, the Treasury is leading a review with academic experts into the application of the social time preference rate to environmental impacts. The government is committed to concluding the review this year and any changes will be incorporated into Green Book guidance at that point.

These changes show the government's commitment to staying at the forefront of best practice. In terms of evaluation and monitoring, as well as engagement of the type listed above, analysts across government engage in a constant process overseen by the Chief Economists' Appraisal Group. This group peer reviews all changes to guidance and provides a forum for departments to learn from each other on appraisal.

Construction Playbook (Q5)

5. How is the revised Green Book intended to operate alongside the new Construction Playbook in order to provide a consistent approach to appraising project value?

The Treasury worked closely with the Cabinet Office on developing the Construction Playbook. While the Green Book provides overarching guidance on appraisal, the Construction Playbook provides specific guidance on how to contract with the private sector for construction projects. Having additional guidance on specific issues is typical

of how the Green Book interacts with other guidance issued across government. In particular, the Construction Playbook supports contracting authorities that are developing business cases and commercial arrangements in a way that is consistent with the Green Book – and specifically the commercial dimension on viable procurement options.

Business Case Feedback (Q6)

6. What is the Treasury doing to ensure that there is clear and consistent feedback on why some business cases might be approved and some rejected?

The Green Book review focused on the role of business case reviewers as ‘gatekeepers’ in this process, with additional support and training being provided. The government is also going to publish a summary business case for all infrastructure projects and programmes on the government’s Major Projects Portfolio within four months of it receiving final approval and is auditing and reviewing business cases to ensure high quality is maintained.

Separately, the *Treasury approvals process for programmes and projects* guidance explains arrangements for the scrutiny and approval of all spending proposals that are outside Delegated Authority Limits set by the Treasury. The guidance is set to ensure good practice is applied consistently through business cases, with final decisions on approvals being communicated to departments in writing at the appropriate level (official or ministerial depending on the project under consideration).

HM Treasury and the Infrastructure and Projects Authority (IPA) are also introducing changes to the system for the assurance of major projects. IPA assurance reviews are conducted alongside the approvals process, supporting the Treasury and Accounting Officers in assessing delivery confidence and risks. IPA Assurance Reviews now conclude with a 3 level ‘Green’, ‘Amber’ or ‘Red’ Stage Gate Assessment, providing a clear and definitive assessment of a project's status.

Appraisal of Employment and Place Impacts (Q7-8)

7. How does Government appraisal take into account impacts on local areas of programmes which cut across several localities (e.g. such as the roads programme)?

8. How does the Government and Green Book guidance take into consideration the longevity and quality of jobs created when appraising projects?

For projects or programmes that cut across several localities, appraisal accounts for these impacts through the new place-based analysis section in the Green Book. The specific geographic areas that should be considered are not defined by the Green Book as this depends on the objectives of the intervention and the expected scope of its impacts. For

example, if a road investment affects three local areas, then Green Book guidance would require an analysis of impacts across all these areas as well as an appraisal of any UK wide effects. The Green Book also requires an analysis of local and geographic effects even when an intervention is not targeted at specific geographic areas, but where the intervention is expected to have different impacts and implications for certain areas.

The new Green Book provides guidance on assessing employment effects, for UK and place-based appraisal. The guidance requires appraisers to consider employment effects arising from an intervention – such as whether it would lead to increases in labour productivity – as part of their assessment of overall social value. A necessary part of estimating these effects will also require consideration of job longevity (i.e. how long they can be reasonably expected to persist for). Other wider employment effects (including non-monetised effects) that may be related to the quality of jobs supported can be considered in appraisal if they can be objectively demonstrated.

When appraising employment impacts at a more local level, place-based effects should be adjusted for any ‘leakage’ out of a target area into others, and any displacement in economic activity that might occur. And if the intervention is targeted at a specific place, the employment impact there can be considered in isolation (alongside the UK wide effect) and employment multipliers (i.e. jobs generated in the wider supply chain) can be included at a local level.

Levelling Up (Q9-10)

9. Which investment appraisal decisions does the Treasury judge should now be devolved to local areas and which ones should the Treasury or central Government retain? Does the Treasury believe that it should devolve more investment appraisal decisions to local areas and, if so, which ones?

10. In the Treasury Committee Report, The Economic Impact of Coronavirus: the Challenges of recovery, we stated: In order to prevent “levelling up” becoming an empty slogan, the Government should produce a strategy underpinning it that defines clear objectives and includes the indicators it will use to gauge success at the next fiscal event.” The Government has not yet done so. What plans does the Government have to define “levelling up” and to clarify the indicators or metrics used to gauge its success?

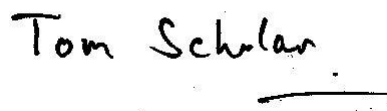
The government is committed to levelling up the economy, ensuring strong employment and increasing productivity across the regions and nations of the UK. The 2020 Spending Review established a set of provisional priority outcomes and metrics across all departments and policy areas which have been published on gov.uk.

Later this year, the government will publish a Levelling Up White Paper, building on work to date - including the National Infrastructure Strategy, Green Book Review and the Plan

for Growth - and setting out how the government will improve livelihoods across the country as the UK recovers from the pandemic.

As part of this, the government recognises the important role of local decision-making and spending alongside central government, demonstrated through the active role taken in devolution deals. Nine deals have been agreed with city-regions since 2014, devolving significant funding and powers to allow local areas to make long-term plans and invest in local priorities.

Through these agreements, the government has committed £7.5bn of 'gainshare' investment over 30 years for nine Mayoral Combined Authorities, to be spent on local priorities. Additionally, the 2020 Spending Review confirmed a £4.2bn commitment to five-year consolidated transport settlements for eight city-regions (subject to appropriate governance). The Levelling Up White Paper will set out plans to strengthen local accountable leadership, and the Treasury is working with MHCLG and the new joint No 10/Cabinet Office Levelling Up Unit on this.

A handwritten signature in black ink that reads "Tom Scholar". The signature is written in a cursive, slightly informal style. Below the signature is a short, horizontal black line.

Tom Scholar