

WHAT IS THE TRUE VALUE OF MAJOR PROJECTS?

Highlights from the Major Projects Association event
held on 13th March 2014



The UK needs a robust approach for selecting, prioritising and delivering projects. The Major Projects Association held a debate to consider the extent to which current approaches to major project evaluation fail to value properly the net benefit they bring to the UK. A panel of experts led a discussion that explored a number of questions. These highlights capture the points from the discussion and set out a clear plan for action.

WHAT IS WRONG WITH THE CURRENT APPROACH TO MAJOR PROJECT APPRAISAL?

- Insufficient time is spent setting objectives, leading to a lack of focus on why a project is being proposed. There is a lack of clarity about the level of detail at which clear objectives should be set and how its benefits should be measured, with a poor line of sight from stated benefits to the criteria being used to make the case.
- Major public sector projects have low benefit-cost ratios (BCRs) compared to other expenditure. This is not because the *Green Book* is restrictive but rather because we are not evaluating these projects well and there are some benefits that are being missed completely. This may mean that we need to derive a different method of measuring their relative value or develop more comprehensive guidance on its use.
- It is difficult to make comparisons across sectors and projects of completely different scale, for example HS2 versus faster broadband.
- Some economic and social impacts are not measured because it is very difficult to do so. Evaluation incorporates those elements that can be more easily converted into numbers and underplays those that are difficult to capture but are equally or more important – for example, where the long-term causal relationship is unclear.
- The impact of **not** making the investment is difficult to capture and does not get sufficient consideration. There ought to be an earlier narrowing of options at the most senior level.
- Whilst there are many evaluators, reviewers and scrutineers of major projects they often have a bias towards a project being sanctioned. There is a lack of independent, 'think-tank' style evaluators who can provide objective assessments and have the authority to stop a project.
- Evaluation does not sufficiently take into account **how** the project will be delivered.
- Positive and strong leadership is vital. However, some senior decision makers are being asked to take decisions that they do not have the experience or expertise to make.

'Crossrail and other mega projects like it add an awful lot more than the basic cost-benefit analysis traditionally takes...A review of the property impact of Crossrail on the region around...suggests that there has been an uplift in property value of around £5 billion. That is about a third of the value of the cost of the project, just in terms of uplifting property values alone. That is not included in, as I understand it, the traditional analysis.'

Martin Buck, Commercial Director, Crossrail

The **GREEN BOOK** is HM Treasury guidance for public sector bodies on how to prepare and appraise proposed policies, programmes or projects to obtain best public value and manage risks. It also covers evaluation post implementation, to assess how well the original objectives have been achieved, and how well they have delivered within their original budgets and timescales.

Evaluation should take into account **all** of the costs, including the social and wider economic costs (to the extent that they can be quantified), and **all** of the benefits over the whole term of the project's life. These are discounted at the Social Time Preference Rate and the BCR is calculated. Departments present the BCRs to the Treasury so that the relative value of projects can be assessed.

'How do you assess the relative benefits...to the UK of a £490 million project that is manufactured overseas...with all the intellectual property and economic activity happening overseas, against a £500 million scheme which delivers exactly the same operational benefits...but employs local people, develops skills, gets manufacturing capability into the supply chain that then can be used on other projects and other schemes, and therefore maximises UK economic activity in delivery?'

Keith Waller, Senior Advisor, Infrastructure UK

WHAT CAN THE MAJOR PROJECTS ASSOCIATION, GOVERNMENT, INDUSTRY AND ACADEMIA DO TO PROGRESS THIS AGENDA?

- Develop a 'Green Book plus' approach to evaluating the major projects which will have a really significant impact on UK plc. and fully support those using it.
- Articulate why it is difficult to make comparisons across sectors. (In theory BCR calculations should capture all costs and benefits so this should not be a problem.)
- Identify and define what we want to measure. Consider whether the basis of evaluating success should change over the life cycle of the project.
- Find a way to calculate hidden benefits of major projects so that those making decisions have the evidence, data and analysis for robust decision making. Are there broader benefits that major projects specifically bring which are not so easy to capture? How do we get to a better set of metrics which enable us to include those benefits in our future evaluations?
- Capture evidence relating to the wider benefits of current major projects to form a reference base (database) for future projects – not out of academic interest but to help decision makers.
- Capture local impacts of national projects.
- Support senior decision makers in better articulating the benefits, outcomes and outputs from major projects to achieve the right balance between analysis and leadership. Help them to frame one very clear proposition.
- Support a move towards one or more independent think tanks, that are trusted and neutral, to assess the real post-event benefits of different major projects.

OPTIMISM BIAS, whether formal or informal, is essential; the less common, the less routine the project is, the more important it is. At the early stages of projects, public officials typically overestimate the benefits and underestimate the costs. The figure used can be adjusted to take into account HM Treasury's relative confidence in the ability of different departments to forecast accurately. **BUT** if you can do the risk analysis at a sufficiently detailed level, and give the funders sufficient confidence that you have got a handle on the costs and the risks associated with the project, then the extent of optimism bias can be reduced..

'Let's try to get the proposals right for everyone: understand the need, develop a scheme that addresses that need and absolutely minimise the grounds for objections. It's up to us, the project professionals, to offer a "killer proposition" – Apple don't sell lots of products by coming up with something that's perfectly engineered but really difficult to use, they put up a killer proposition that you want to go and buy. Let's get our big schemes into that space.'

Graham Dalton, Chief Executive, Highways Agency

'Putting in place a water ring main all the way around London enabled us to balance demand and ensure we could provide a resilient supply. However, its biggest benefit was never even conceived of – the London Olympic Games. Without a ring main that enabled us to supply vast quantities of water into a single point in London, on the wrong side of London from where we treat the water, we would never have been able to supply that kind of service.'

Lawrence Gosden, Asset Director, Thames Water

The discussion was led by:

Sir Tim Laurence KCVO CB
Chairman of the Major Projects Association

The panel was made up of:

Geraldine Barker, Director – Transport, NAO
Martin Buck, Commercial Director, Crossrail
Graham Dalton, Chief Executive, Highways Agency
Lawrence Gosden, Asset Director, Thames Water
Geoffrey Spence, Chief Executive Officer, IUK

Participating organisations:

AECOM
Balfour Beatty plc
Bechtel Ltd
Capita Property & Infrastructure Ltd
CH2M HILL
CJ Associates
CMS Cameron McKenna LLP
Copper Consultancy
Costain Ltd
Crossrail Limited
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