Re-writing the Green Book for levelling up

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Executive Summary

The Government has committed itself to 'levelling up' the country. Such a challenge will require reform, including a simplification of the Treasury's Green Book methodology for appraising the benefits and costs of investment; a Government strategy and the resources to achieve levelling up; and stronger local government that can better respond to local economic priorities.

The context for this report is that in recent years, the Treasury's guide for investment appraisals, the Green Book, has been the subject of comprehensive and thoughtful critiques from city leaders, policymakers, and researchers. These argue that the current design of the Green Book reinforces regional inequality across the country. The Treasury has since launched a review of the Green Book designed to address these criticisms.

The focus of these critiques is the claim that the Green Book's method of calculating Benefit Cost Ratios (BCRs), which estimate the value of potential investment, skews public investment towards London and other prosperous parts of the country. They allege that it fuels and rewards economic growth, while undervaluing the potential of 'transformative' investment in underperforming areas. However, while there are issues with the Green Book, these specific criticisms are misplaced.

First, BCRs themselves are not biased towards the Greater South East. As an example, they measure estimates of the benefits of value of time saved by transport investment using national average wages – this biases the BCRs *away* from the Greater South East as it has above-average wages.

Second, and more importantly, the economic case in which the BCRs are used is only one part of Treasury's Business Case Guidance. It is a tool that exists to inform, not make, the decisions of politicians. The purpose of the BCR is to generate options for policymakers and to sift through a shortlist. It is up to the politician to take this information with other reasons for investment, and the broader goals of the Government of the day, and weigh up where they are going to place public money.

Problems arise long before any BCRs are calculated. The lack of strategic direction at the national and local level frequently hamstring the arguments made for new investment. The strategic rationale and the ability of institutions to deliver complex investments on time and on budget are critical criteria that business cases for new transport schemes and other investments must meet. Certain bodies, such as those that serve Greater Manchester, have repeatedly demonstrated that they can do this.

Yet despite this, many such business cases in other parts of the country are often of poor quality and subsequently fail. This is primarily because local government's capacity as an institution to produce and deliver business cases is underdeveloped. This fuels a damaging arms race in BCRs even as other parts of the business case are neglected. Until now, the discussion has latched onto the Green Book, as the supposed simplicity of BCRs and their quantitative nature is a lightning rod for debate. In contrast, the weakness of strategic cases and the qualitative problems within institutions are harder to discern.

This report sets out the reforms needed at the national and local level required to improve the Green Book and accomplish levelling up. It recommends:

- **The continued use and a simplification of Green Book appraisals**. The Green Book should continue to be used to appraise policies at the local level. But there is a disparity in capacity between places to use the Green Book to develop business cases for investment. Many farm this work out to consultants, reducing transparency and making it harder for local government to build strong strategic cases for investment. The Green Book process itself needs:
    - Simpler cost-benefit models to rebuild trust
    - A standard toolbox of models defined by central government
    - A public database of BCR appraisals for evaluation of models and proposals held by central government
    - Far more Green Book analysis to be done by in-house local government economists rather than outsourced to consultants

- **The Government needs to define levelling up and set a strategic objective.** If Britain's most underperforming economies relative to their potential are to level up, they need to meet an objective. The eight largest cities outside London should aim to close a third of their output gap over the next 10 years relative to trend. If this were met, it would permanently add £16 billion a year to the national economy by 2030. A strategic case can be made for a £100 billion levelling-up fund over the next 10 years to accomplish this objective. Cities that want to access this funding should be prepared to share the costs of it, and public transport schemes should in addition require the implementation of congestion charges.
- **A strengthening of local government and greater self-reliance.** Ultimately, debates about the Green Book emerge from within a centralised public sector funding model where higher BCRs for schemes are seen as a way to access additional investment via Whitehall. Creating a new system – where local authorities argue specifically for the investment needed in their area – requires a strengthening of local government and greater devolution, as Greater Manchester has already achieved. In return for the additional funding provided by central government to achieve levelling up and build local state and analytical capacity, local government reorganisation needs to come with reforms to local taxation. Local areas need to take greater control of their funding, and use local growth to fund local services as part of the justification for levelling up.
- **In most local areas, the first priority should not be transport but skills, housing, or city centre commercial space**. Though transport investment will play an important role, especially in many of the biggest cities such as Manchester and Birmingham, many places will need a wider mix of interventions than just transport. Local government will need to continue using an improved Green Book and consult with local partners and the private sector to identify the top policy priorities and most promising projects for investment.

01

Introduction

Economic inequality between places is one of the most pressing domestic policy problems in Britain. Striking economic divides across the country have existed for at least a century, and have the potential to be worsened by the Covid-19 pandemic and its aftermath.[1]

To fix this, the Government has repeatedly expressed its desire to achieve 'levelling up' across the country. What levelling up means is subject to some debate, but there is a broad consensus that it aims to reduce regional inequality by improving prosperity in struggling places rather than by suppressing growth in successful local economies.[2]

The Treasury's Green Book is relevant to this goal as it sets out the economic appraisal framework used in the Treasury's Business Case Guidance for public investment. The Green Book process, which includes a cost-benefit analysis element, can and should be applied to all areas of national and local government spending, but it is most commonly discussed in the context of investment in public transport and infrastructure.

In recent years however, a critique of the Green Book – that it reinforces regional inequality across the country – has seen growing acceptance. Frustration among academics and commentators is now shared with politicians across political divides. Earlier in 2020, the Labour Mayors of Liverpool City Region, Greater Manchester, Sheffield City Region, and the Conservative Metro Mayor of Tees Valley signed an open letter to the Chancellor demanding "urgent reform to the Green Book methodology".[3] The Conservative Mayor of the West Midlands has also called for Green Book reform.[4]

1 Swinney, P. and Thomas, E., 2015, A century of cities, Centre for Cities

2 For contrasting views, see King, N. and Ives, E., 2019, A Rising Tide: Levelling up left-behind Britain, Centre for Policy Studies; and O'Brien, N, 2020, "So you want to level up. In what way? And how will you do it?", Conservative Home

3 Bounds, A. 2020, North leaders demand rewrite of 'Green Book' spending rules, Financial Times; and Emmerich, M., 2020, Levelling Up: Making Investment Appraisal Fit for Purpose, Metro Dynamics

4 Street, A. 2020, Levelling up for the Midlands and North. Javid must tear up the Treasury rules to make sure it happens., Conservative Home

The clamour for change from politicians and others creates a case for new research which explains how the Green Book functions within the Treasury's business case approach, its relationship to regional inequality and the institutions of local government, and how these should change.

This report will set out what the Green Book is and why it matters to the levelling up agenda, before setting out the changes needed across the Treasury's Business Case Guidance and related institutions. This entails reforms to the economic case for investment within places; the strategic case for investment across the country and within local areas; and the institutional capacity for developing business cases for investment. It has been informed by a series of one-on-one interviews with practitioners and scholars in this area as well as a roundtable discussion.

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Why does the Green Book matter?

The Green Book sets out the Treasury's economic appraisal process for policy and public investment. It is one part of the wider Treasury Business Case Guidance, and sits alongside similar documents, such as the Magenta Book, which provides guidance on evaluation of policies, and the Aqua Book which does so for analytical modelling.

In its own words, the Green Book is "not a mechanical decision-making device."[5] Instead, it aims to help civil servants develop options for government and ensure that consistent and high-quality evidence informs government decisions. The Green Book does not exclude non-economic factors (living and non-living elements of ecosystems are included, as are greenhouse gases),[6] but it does use economic analysis to understand the potential benefits and costs of choices made by the state.

All policies and proposals that affect government spending can and, in theory, should be subject to a Green Book analysis as part of a business case. It provides a framework for thinking about policy and ensuring public money is used efficiently to help as many people as possible.

What are the Green Book and the Treasury's Business Case Guidance?

The Treasury's Business Case Guidance sets out the process by which public investments and policies should be justified. The Green Book helps policymakers who are building such a business case sift through possible options to identify those that best achieve the strategic objectives of the investment or policy. The Green Book sits within the Treasury's Business Case Guidance, although it is sometimes confused or conflated with this wider and overarching framework.

5 HMT, 2018, The Green Book, p. 1
6 HMT, 2018, The Green Book, p. 45

The Treasury's Business Case Guidance sets out five cases that investments and policies are required to meet:

- **Strategic case** – What is the rationale and evidence for change? Is the logic for a public intervention to achieve certain objectives valid?
- **Economic case** – Which option provides the most value for money (VfM) and best fits the strategic case? What are the economic costs and benefits – quantifiable and non-quantifiable – of different choices that can each achieve the objectives? The Green Book sets out how these questions should be answered.
- **Commercial case** - What procurement is required? Can the proposed solution be effectively delivered through a workable commercial deal or deals?
- **Financial case** – How will this intervention be funded? Where are the gaps and risks to funding the scheme?
- **Management case** – Can this be delivered? What is the project management required to procure, fund, and deliver the scheme on budget and on time? Are the resources ready in the public sector to achieve the ambitions of the proposal?

Of these, the strategic and economic cases are the most important for this report. The economic case provides the economic rationale for the intervention, and shows if and how the strategic case can be operationalised.

Different kinds of proposals affect the detail required from different cases. Projects that require new procurement, systems or building construction will need significant commercial, financial and management cases. Other schemes without such elements require less detail. Larger investments will often need to be delivered through partnerships between the public and private sectors, but even smaller schemes will require co-operation between public and private institutions.

The development of a business case for major projects that access Treasury funding proceeds through three distinct stages:

- **Strategic outline case** – A full strategic case with certain objectives is presented, alongside a scoping of the four other cases. In the scoping for the economic case, a longlist of options is prepared on how to achieve the strategic case, and a shortlist of options then begins to be whittled down in compliance with Green Book guidance.
- **Outline business case** – The full economic case is completed according to Green Book guidance, and a preferred option that can meet the objectives is identified. Greater detail across the remaining cases is also provided.

- **Full business case** – All cases are completed and updated. The commercial case is then completed after interaction with potential partners in the private sector. The Treasury then signs projects off to access central government funding.

As a result, the five different cases do not proceed one after the other. They are in continuous and different stages of development throughout the creation of a valid business case. But the strategic case should be completed first, and its solid evidence base should be strengthened as the other four cases are developed and new evidence is produced.

Subsequently, the actual benefits and costs of the project and the modelling should be evaluated to inform future decisions and build better cases in the future.

How does a Green Book appraisal work?

After the strategic case for an intervention to meet certain objectives has been developed and justified with evidence, options on how to achieve these objectives are drawn up in a longlist. The development of the economic case then narrows this down to a shortlist.

The Green Book sets out how practitioners should use the economic case to produce estimates on the net costs and benefits to society of different options on this list. Arguably, it would be more accurately named the 'social welfare case' rather than the economic case, as it includes the wider social and non-market benefits in terms of VfM, as well as narrowly monetisable economic effects in cost-benefit analysis.

Within this economic case, cost-benefit analysis produces an estimate of the monetisable costs and benefits of the individual options, which are summarised in a single figure known as the Benefit Cost Ratio (BCR).

Box 1: How does a cost-benefit analysis actually work?

Cost-benefit analysis is a technical exercise that produces estimates on trade-offs for decisions or interventions. It includes estimated values of various elements, ranging from the value of time saved from transport interventions and how land values change, through to things such as the cost of air pollution and carbon emissions. If the BCR is greater than 1, then the expected monetisable benefits of a scheme outweigh the expected costs. A BCR of above 2 is generally considered high, but any BCR has to be judged in the wider context of the economic case's VfM. This includes an assessment of the softer costs and benefits to people and the environment that are difficult or impossible to calculate as pounds and pence.

The Green Book process can vary slightly depending upon the project in question. For instance, a transport scheme will require the use of the Department for Transport's detailed advice on how to conduct modelling and appraisal of transport proposals using WebTAG (Web-based Transport Appraisal Guidance).[7]

WebTAG provides specific transport modelling analytical techniques and a range of values required to generate policy options to sift through the longlist and identify a shortlist of transport schemes for decision makers. These are quantified over 30 years (and 60 years for projects with indefinite lifetimes such as rail lines) where they can be compared, along with the costs.

These quantifiable benefits and costs generate BCRs for each option, but non-quantifiable benefits are also provided to support decision makers when considering VfM. Different elements may be included in the BCRs by those doing the modelling (who may be private consultants or in-house local government economists) to understand the impact of different choices within the options, such as whether new land unlocked by investment is made available for office, residential, or industrial uses.

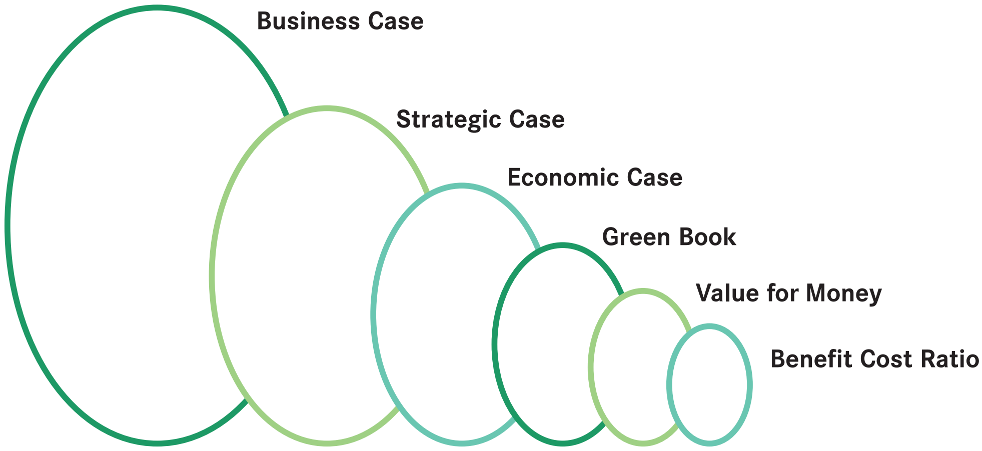
With all projects, VfM is the main metric by which the economic case is assessed, rather than the highest BCR. An option with a lower BCR can therefore be justifiably selected at the economic case if it is seen to achieve higher VfM. Despite this, recent attempts to quantify 'Wider Economic Benefits' in terms of jobs, and even transformational effects at very local geographies within the BCR have added complexity, inconsistency, and uncertainty to the BCRs for certain business cases.

7 Department for Transport, 2018, Transport Analysis Guidance: Guidance for the Senior Responsible Officer

It is possible at this stage for the economic case to fail, and not produce any economic evidence in the BCRs or VfM to support the logic of the strategic case. If so, the strategic case for an intervention collapses. But the opposite is not true – a strong economic case does not automatically guarantee a solid business case. The economic case is a necessary step in the business case, not a sufficient one.

Like a Russian doll, the BCR is a small part of the Green Book process and the wider economic case, which in turn is only a section of the business case which justifies an investment.

Figure 1: The relationship between BCRs, the Green Book, the economic case, and the business case



Why are there calls to change how the Green Book works?

In recent years though, there has been a growing movement for reform of the Green Book, as it has been blamed for worsening regional inequality. The core of this critique alleges that the Green Book process funnels public investment towards places that are already prosperous.[8]

There are two elements to this argument. First, technical aspects of the economic case – BCRs – are supposedly biased against places with lower productivity. Second, there are underlying political biases in the way the Green Book purportedly blocks major, 'transformative' investments that could turn around the fortunes of struggling places. In this telling, the Green Book itself is a barrier to levelling up and needs to change to reflect new strategic priorities.

As part of the research to this report, Centre for Cities spoke to a variety of experts and practitioners to understand how the Green Book is used and the problems that may exist. This qualitative research has informed the reasoning throughout this paper. The main points that emerged were that there was no evidence of bias within the Green Book process, but that strategic elements of the business case and the institutional design and capacity of local government are under-recognised problems.

BCRs are not biased towards the Greater South East

The Green Book process sets out how BCRs should be used to appraise everything from small and local projects up to large public investments of national significance. Their use is typically uncontroversial for smaller transport projects, such as roundabouts. Yet despite this, BCRs are often contested in the debates around public investment in England, primarily for the biggest transport projects.

One argument sometimes made, such as by Coyle and Sensier in their paper *The Imperial Treasury,* is that BCRs are, in their technical methodology, biased towards greater transport investment in the Greater South East of England.[9] As prices are higher in this part of the country, using market prices means that the benefit component of BCRs is supposedly more flattering in more prosperous parts of the country. As public investment then allegedly flows towards these places, this, according to the argument, induces a virtuous circle in the Greater South East, which in turn induces more public investment and a divergence in economic outcomes across geography.

8 Coyle, D. and Sensier, M., 2018, The Imperial Treasury: appraisal methodology and regional economic performance in the UK, University of Cambridge; Forth, T. 2018, Beyond BCR https://www.tomforth.co.uk/beyondbcr/

9 Coyle, D. and Sensier, M., 2018, The Imperial Treasury: appraisal methodology and regional economic performance in the UK, University of Cambridge

However, if anything the Green Book's current guidance is biased towards public transport investment *outside* the Greater South East. Although the *costs* in the BCR for transport projects are determined locally, the value of the *benefits* from time saved on transport are based on average national wages. In essence, this means large transport projects in the Greater South East are appraised on the basis of their high local costs, but not on the basis of high local wages and benefits. This depresses BCRs for transport schemes in the Greater South East.

There also appears to be a misunderstanding of how the BCR is used. The BCRs do not decide which projects should go ahead. Instead they sit as part of the economic case, which in turn is part of one of the five cases that form a business case. This means that individual projects with the 'best' BCRs are sometimes not funded, as other factors – such as VfM, deliverability, and strategic logic – are given as much or more weight by the Government.

Both of these factors can most clearly be seen in the decision to proceed with Crossrail in London. Under the Green Book process and using a national average for the value of time saved, Crossrail had a middling BCR of 2, but it was approved through the Green Book as it had a clear business case and strategic logic, as Box 2 explains. Transport for London's (TfL's) non-Green Book estimates for Crossrail, using higher London values of time saved than the national average, had a higher BCR of 2.8.[10]

10 TfL, 2011, Crossrail Business Case Update: Summary Report July 2011

Box 2: Crossrail

Crossrail is an £18 billion investment to increase capacity in the London rail services by 10 per cent. It is a totemic example of supposed Green Book bias towards London, and frequently brought up when considering 'transformative schemes'.

However, Crossrail responds to clear capacity constraints and fits into London's strategic vision for a strong city centre economy. Although it has been discussed since World War Two, every other major connectivity improvement had already been completed, including upgrades to tube lines and the Congestion Charge.

Crossrail itself will not just save time on journeys, it will also reduce congestion by enabling 250 million extra journeys a year.[11] The line begins and ends outside of London, as well as serving central London and Heathrow.

Limited alternative options and concentrated, high local benefits help to explain why £10 billion will be funded by the private sector, including London businesses, developers, and fare payers in London. Crossrail would not take place without local and private contribution. This local private contribution is a reflection of the underlying private demand for more transport capacity within London.

TfL's record in successfully delivering projects, such as the Jubilee line extension and various upgrades, built trust in Whitehall that it could handle complex and expensive investments, such as Crossrail. However, the failure to deliver Crossrail on time and on budget has tarnished this. Greater Manchester, meanwhile, has shown that its institutional framework can deliver Metrolink tram extensions ahead of schedule and on budget, such as the one opened this year towards the Trafford Centre.

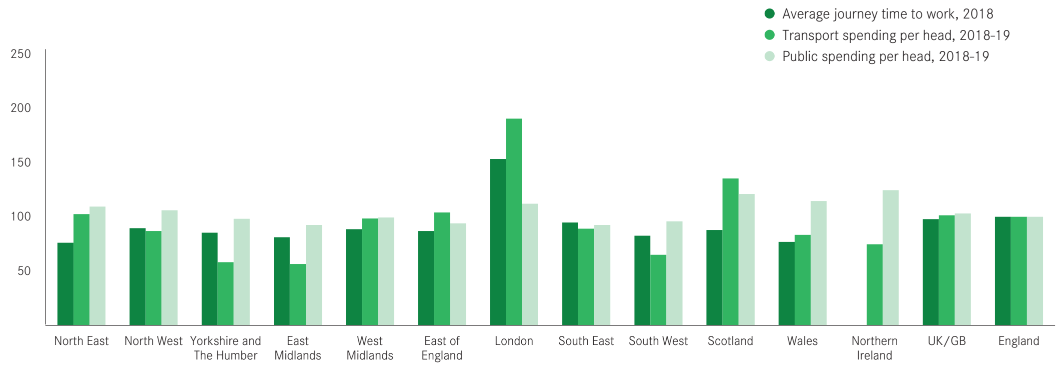
11 At peak times on the Central line, which Crossrail will relieve trains, are running with crowding levels of almost five people per metre squared https://www.london.gov.uk/questions/2019/19838

Public spending flows to places based upon need

To critics of the current process, the example of Crossrail receiving investment despite a middling BCR would suggest an alternative explanation: that the process for allocating investment across the country is politically biased towards London and nearby cities, separate from technical elements in the BCRs. In this framing, the potentially 'transformative' projects with high modelled BCRs that could fundamentally change how underperforming urban labour markets work are blocked by policymakers in Whitehall. The supposed proof of this is that London receives more transport spending per head than any region in England.[12]

The claim that there is a political bias in transport or public spending towards London alongside the Green Book process is though difficult to sustain. Figure 2 shows that London has higher transport spend per person than any other region in the UK, but also that it has the country's longest commutes. The pressure on London's transport infrastructure is greater than anywhere else, and accordingly, public money addresses this need as a local priority for London.

Figure 2 Public spending and transport spending per head, and average commute length, English average = 100



Source: ONS 2019, Country and Regional Analysis (CRA): Chapter A tables; Department for Transport 2019, Table TSGB0111. Data on average journey times to workplaces is Great Britain only.

As the Green Book applies to all public spending, if there were a bias towards London great enough to drive differences in economic performance within it or the political process adjacent to it, it should be observable in public spending in aggregate. Despite large differences in output and tax revenues per head and per worker, public spending per head across the regions of England is broadly similar.

Public spending within local areas is instead responding to local needs. That London spends more on transport than other places is not evidence of an undue bias towards London, but an understanding of the local priorities in London relative to the rest of the country. Paradoxically, if the type and amount of public spending inputs across the country were much more equal then outcomes would

12 Raikes, L. 2019, Transport Investment in the Northern Powerhouse, IPPR North

be less equal, as public money would not be being used efficiently to tackle local priorities. Despite this, the political debate focuses on equalising inputs and outputs rather than equalising outcomes.

The Green Book is not the place to consider 'transformative' impacts

There is of course a case to spend more money in areas that are struggling in order to help turn their economies round. The Green Book is also criticised for not taking account the potential of wider 'transformational' projects that an investment might have on an area.

However, there are two distinct problems here. First, there is a misunderstanding of the role of the Green Book and the economic case. Its purpose is to sift through options, using BCRs, and present a choice on how to best achieve strategic objectives to policymakers in order to maximise social welfare. If there is an argument for a project to meet transformational objectives, the rationale and the evidence for that belongs in the strategic case. If the argument for those objectives and strategy cannot be justified by the evidence, then the logic for investment is weak even if the estimated BCR of a given option is high.

Second, it is not obvious what a 'transformational' scheme would actually entail. The term is usually invoked in the context of public transport investment, but most cities outside of London already enjoy good city centre accessibility by private car. Overall congestion in cities as varied as Newcastle, Milton Keynes, and Glasgow is low. Adding a 'transformational' amount of more public transport capacity into these cities will not actually move many more people from their suburbs into their city centres, because they can already access it quickly by car.[13] Although the Eddington Transport Study back in 2006 identified bottlenecks and room for improvement, its overall assessment was that much of the transport system works well. In many areas, investment in skills or in housing will be a greater economic priority than transport.

Major investments which are justified on the basis of their 'transformational' potential must be plausible in their strategic logic and the capacity of local institutions to deliver. It is not feasible that everywhere in a developed economy can be transformed with a large increase in investment. This underlies some of the problems experienced in other European countries with their strategies and investment in high-speed rail, as Box 3 outlines.

13 Jeffrey, S. and Enenkel, K., 2020, Getting Moving, Centre for Cities

Box 3: High-speed rail strategies in Europe

High-speed rail connections have grown across Europe since the early 1980s. There have been some successes, but disappointments too. There are two lessons for the UK – first, that high-speed rail alone does not fundamentally 'transform' economic geography. Second, a national strategy that extrapolates success based on the best case usage is not enough – there must be evidence and appraisal throughout the public investment process to ensure better outcomes.

Spain now has the largest high-speed rail network in Europe. In Spain, the strategic rationale was to rebalance the economy. But there is little evidence of high-speed rail rebalancing the economy at either end of the line.

While the first high-speed rail line between Madrid and Seville was commercially successful, linking two major conurbations in two and a half hours compared to a previous 10-hour trip, it has not rebalanced the economy. The economic case for high-speed rail is stronger under certain conditions of distance, population size, and existing transport links, which do not apply everywhere. [14]

The desire for all places to get such links, despite the lack of evidence of local economic benefit and weak narrow economic case has loaded huge debt onto the network that can just cover operating costs, but not financing costs. The unintended consequence of a better high-speed rail network in Spain has been a worsening of the local networks, which carry 90 per cent of passengers, but only received 10 per cent of infrastructure investment over the past 30 years.[15]

In France, local economic strategies have pushed for the extension of TGV routes to smaller cities and towns. The initial economic case for the Paris-Lyon line, two major cities with a slow and indirect rail route, was strong and has been borne out. A journey of over four hours has fallen to two, taking market share from car and air traffic.[16]

But local governments pushing for more high-speed rail have had successively weaker cases, and new point-to-point TGV services that branch off onto the non-high speed network have negative economic cases. Slower and less frequent journeys to much smaller population centres cannot support the costs of high-speed rail. The costs of this expansion of this new high-speed network through the 1990s has created huge losses and

14 AIReF, 2020, Spending Review 2019/2020 Transport infrastructures, https://www.airef.es/wp-content/uploads/2020/09/INFRAESTRUCTURAS/Transport-infrastructures.-PPT-2.pdf

15 AIReF, 2020, AIReF reports strong investment in high-speed rail over insufficient investment in suburban rail and proposes shifting focus to mobility criteria

16 Crozet, Y, 2013, High Speed Rail Performance in France: From Appraisal Methodologies to Ex-post Evaluation, International Transport Forum, Discussion Paper 2013 - 26

low investment in local rail services. Existing inter-city lines have been cut, leaving them vulnerable as TGV services are reduced to cut costs.

Recent reports from budgetary watchdogs in European countries have highlighted that the rebalancing effects of high-speed rail are not noticeable, and investment in policies with a clearer strategic and economic rationale, especially maintenance, has suffered.[17]

Many countries make national strategies that drive investment allocation, and pursue more qualitative approaches to appraisal. Grand strategies with long-term vision can eventually deliver the outputs they promise, but leave the outcomes wanting.

There will always be some uncertainty when considering a strategic case as it contains the subjective (though evidence-based) arguments of the business case to protect the technical exercises in the other four cases from these political disagreements. Strong strategic cases with good evidence can still be debated and their objectives contested, and they should be.

Ultimately though, local and national decision-makers need to allocate scarce resources, and major investments should respond to local priorities. Local leaders setting these strategic objectives in a business case to justify investment is a distinct process from using the Green Book to decide the best way to achieve those strategic objectives.

17 Cour des comptes, 2014, High-Speed Rail: A model extended beyond its relevance

03

Issues with the Green Book and the economic case

Although the popular criticisms of the Green Book do not appear to stand up to scrutiny, there are other issues across the economic case that weaken the integrity of the Green Book. These aspects of the economic case need to be reformed, not to reduce bias towards any particular part of the country or to achieve any strategic goals, but to protect and enhance its role within the wider Treasury business case approach.

Some economic cases are too complex

Cost-benefit analysis, to calculate BCRs when building the economic case within a business case, can be done in various ways to capture varying levels of detail. For transport projects it is possible to do relatively simple cost-benefit analysis using estimates of the value of time saved and the impact on land values (so-called first-level effects). But recently, models that claim to capture much more granular and indirect benefits (second- and third-level effects), such as estimates of the number of jobs created within particular neighbourhoods thanks to transport investments, and predicted agglomeration effects from that greater concentration of jobs, have gained popularity.

Among interviewees there was a consensus that some of these models are now too complex. While these models claim to be able to capture a high degree of detail, the confidence in that detail declines as it becomes more specific. Increasingly complicated cost-benefit analyses are therefore becoming less accurate.

It is not clear why these models need to be so complex. If BCRs are being used to help local leaders understand the effects of different choices, greater levels of detail within the models that create them should only result in marginal changes in BCRs, and thereby decisions.

Private sector cost-benefit analysis for local government is problematic

One reason these models have become so complex is the role of private companies that will conduct cost-benefit analysis for Green Book projects that local authorities propose for funding. This creates perverse incentives. Both the local authority and the company have an incentive to 'sweat' the BCR and make it look as high as possible so that their project looks more appealing compared to those prepared by other places.

The proprietary models used are 'black boxes' that the companies do not make open to public scrutiny on the grounds of commercial sensitivity. While academic research standards require that benefit-cost models be published, public money is being spent on models that are produced by the private sector to shape public decision-making, yet cannot be investigated or critiqued.

This is despite the fact that the BCRs are only part of the story, and not even necessarily the most important part. As well as the economic case, the four other cases in the business case - strategic, commercial, financial, and management - also matter. Interviewees reported that private sector consultants are frequently less experienced and sophisticated in their development of strategic cases and the rationale for change it requires.

Evaluation of estimated BCRs is poor

Models to produce estimates of the benefits and costs of a project are only as good as their track record. If a model overestimates benefits or undershoots the estimated costs in the economic case, then this history should be observable in the actual BCRs for the schemes that actually happened.

Unfortunately, evaluation of BCRs is uncommon. Although it does sometimes take place for individual projects it does not take place systematically. Partly, this is because there is no public database available where estimated and actual BCRs for transport projects and their models are collected and made available for analysis. Evaluation of estimates is as important as evaluations of the projects themselves, as it is the modelled estimates that guide decisions by policymakers and local leaders when building a business case for investment.

The BCR arms race needs to end

Altogether, this mix of problems and perceptions in the economic case creates perverse incentives. There is apparently a belief that projects with higher BCRs are or should be more likely to win funding from central government. This encourages the behaviour set out above and creates an 'arms race' in BCR modelling whereby increasingly complex and flattered economic cases are created to win Treasury funding.

This is not how the economic case is supposed to work. Rather than a device that unlocks bonus investment from central government, BCRs should be an accurate tool for local authorities to sift through options to identify the best way to use local money to achieve local objectives. But these misconceptions and activity persist because incentives in local and national institutions create them. Inevitable political choices have bled across from other parts of the Treasury's Business Case Guidance and are damaging the technical elements of the economic case.

04

Problems with the wider business case and institutions

There are more significant problems with the decision-making process in both the creation of strategic cases by local government and the overall strategy of the national government of the day. Their underdevelopment presents a major barrier to achieving levelling up and the investment places need, and fuels the debate about the Green Book. Although strategic cases are intended to protect the rest of the Business Case Guidance from politicised arguments, in recent years this firewall has broken down.

Local business cases and institutions are too weak

When arguing for more investment, local areas all need to create their own business cases in line with Treasury guidance. This will include objectives, a rationale for change, an understanding of the current situation, and a demonstration of the ability of local state institutions – primarily local government – to deliver this investment and control costs. But currently, many local business cases are underdeveloped and flawed. It is at this wider strategic level that proposals for transport investment typically stumble and fail.

Businesses cases for investment sometimes fail

The weakness of local business cases causes at least two problems.

First, as the strategic cases are unable to fulfil their role of reconciling political and policy objectives, politicised arguments bleed across into other bits of the business case, such as the economic case and the BCRs. This damages the confidence that stakeholders have in the Green Book's guidance, and makes it harder to identify how policy changes will achieve the goals set by locally-elected leaders.

Second, strategic cases that are too weak will frequently fail to achieve central government funding or have funding withdrawn by central government, even for projects that initially have a flattering BCR. This may be for a variety of reasons, but will frequently include an underdeveloped rationale or evidence for change, or failures in delivery and cost control.

For example, the South Hampshire Rapid Transit scheme had a high BCR of 3.0 – the benefits were expected to be three times the estimated total costs of £170m – but was not funded by central government as the initial bids to build the project added an extra £100m to those estimated costs. Leeds Supertram with a BCR of 2.3 was initially funded, but likewise was later withdrawn by government when costs grew by 42 per cent.[18]

Differences in institutional capacity explain differences in investment outcomes

These weaknesses in other parts of the business case are why Coyle and Sensier are able to identify that there is no pattern of BCRs between more and less productive areas, or in whether the transport projects they are attached to access central government funding.[19] BCRs are simply one part of a business case, and the Government considers other factors including deliverability and strategic logic.

The weakness of local business cases appears to be primarily an institutional and capacity problem. Some local institutions such as Greater Manchester Combined Authority do regularly produce high-quality strategic cases for further investment, and successfully achieve repeated investment on that basis. They have built a reputation for successful delivery as a result, as Box 4 shows for Greater Manchester.

18 National Audit Office, 2007, Proposed Light Rail Schemes in Leeds, Manchester and South Hampshire
19 Coyle, D. and Sensier, M., 2018, The Imperial Treasury: appraisal methodology and regional economic performance in the UK, University of Cambridge

Box 4: Greater Manchester and West Yorkshire

Similar to South Hampshire Rapid Transit and Leeds Supertram, the initial Greater Manchester Metrolink extension proposal in 2004/05 was withdrawn after funding requirements grew by 81 per cent. But five years later, Greater Manchester did manage to win funding. Ten years after that, in 2020, Metrolink's Trafford Park Line was completed ahead of schedule and on budget, despite a middling BCR of 1.86.

The reason for this change is that Greater Manchester further developed its institutions over this period to build better strategic cases and share the costs and political risks of investment with central government.

Investment in local analytical capacity through New Economy provided high quality, 'Green Book' appraisal of schemes within a clear strategic logic. Local contributions to the Greater Manchester Transport Fund put 'skin in the game' that showed government Manchester was prepared to share risk. The Association of Greater Manchester Authorities (AGMA) and the Manchester Independent Economic Review established and showed a common purpose in strategic direction among the local authorities, and was followed by Greater Manchester Independent Prosperity Review.

This has established a track record of performance and created 'earned autonomy' from central government through 'Earnback' from infrastructure investment. A growing farebox 'fountain' from Metrolink projects that emerged from that strategy also funded future growth in capacity. The result is that Greater Manchester has had a consistent pipeline of investment in transport infrastructure, unlike other cities, over the past decade and a half.

If we look at a timeline comparing Greater Manchester and West Yorkshire from 1986, it is clear how little the BCR could and should have played a role in determining public investment in these two cities. This is not to say that there was a specific moment when Greater Manchester took a single decision that delivered stronger institutions, but that the accumulation of lots of small steps over decades has mattered. Greater Manchester's more developed institutions supported stronger strategic, economic, financial and management cases for public transport investment.

This is likely to have meant that numerous governments have a high level of confidence in Greater Manchester as it had a valid and well-evidenced economic strategy and greater ability to deliver both practically and politically.

The agreement to form a Mayoral Combined Authority in West Yorkshire in March 2020 is set to overcome the political and institutional barrier that central government made explicit as a condition to accessing 'no strings attached' funding. The 'Earnback'-style funding will be worth £1.2 billion over 30 years, in addition to a share of the £4.2 billion devolved transport fund for Metro Mayors.[20]

20 HMG, 2020, West Yorkshire devolution deal, https://www.gov.uk/government/publications/west-yorkshire-devolution-deal

	Manchester	Leeds
1986	Greater Manchester Metropolitan County abolished	West Yorkshire Metropolitan County abolished
	AGMA formed to co-ordinate activity in addition to transport, fire and police activities	Transport, fire and police bodies remain
1989		West Yorkshire Passenger Transport Executive proposal for tram rejected by Leeds City Council
1992	Metrolink opened (six months late, but ridership 50 per cent higher than projection)	
1993		Supertram approval stalls and stumbles within Parliament
2002		Funding for Leeds Supertram finally approved, with a BCR of 2.3 at £500m
2004	Funding for Metrolink extension withdrawn due to cost increases (81 per cent)	Funding for Supertram withdrawn after cost increases (42 per cent)
2005	Greater Manchester prepares congestion charge bid for £3bn	Leeds tram cancelled after estimated public costs double to £1.2bn
2007		Leeds City Region Board formed
2008	Congestion charge rejected in referendum	
2009	Greater Manchester Transport Plan	
	Appraisal of schemes, prioritising different modes, including Guided Busway	
	Manchester Independent Economic Review	
	The creation of a combined authority for Greater Manchester agreed as a local ambition	
	Metrolink extension funding restored	
2011	Greater Manchester Combined Authority formed	Leeds City Region City Deal agreed
	City Deal – including 'Earnback' for revolving transport infrastructure fund	Leeds proposal called for pan-Northern transport improvements
2013-14	Metrolink 'Big Bang' expansion to poorer north and east of city region	
2014	Greater Manchester agrees devolution deal – simplified 'Earnback' as £30m investment fund	West Yorkshire Combined Authority formed
	Greater Manchester agrees to new mayor with new powers, including bus franchising	
2017	First mayor elected	Proposal for One Yorkshire devolution deal
	£250m Transforming Cities Fund	
2020	Trafford Park Line completed ahead of schedule and on budget, despite a BCR of 1.86	West Yorkshire devolution deal
		£40m 'Earnback' fund

For local government to present better strategic cases, they must have more capacity. They need the resources to have enough economists in their staff to do this research in-house and to justify the political leadership required to effectively share risk between local and national government. Ideally, this would be funded by local government itself to show other partners it has 'skin in the game', but austerity, restrictions on local government taxation, and the fragmented nature of local government boundaries make this difficult to achieve from a standing start.

Proposals to unitarise English local government - where the common two-tier structure made up of small district councils sitting below larger county councils would be replaced by single, unitary councils - are currently under serious debate. If these plans come to fruition, all local authorities will finally have the scale to begin this kind of internal reform and identify priorities for investment in their local area alongside the private sector and other local institutions such as universities. But they will still need resources to do so.

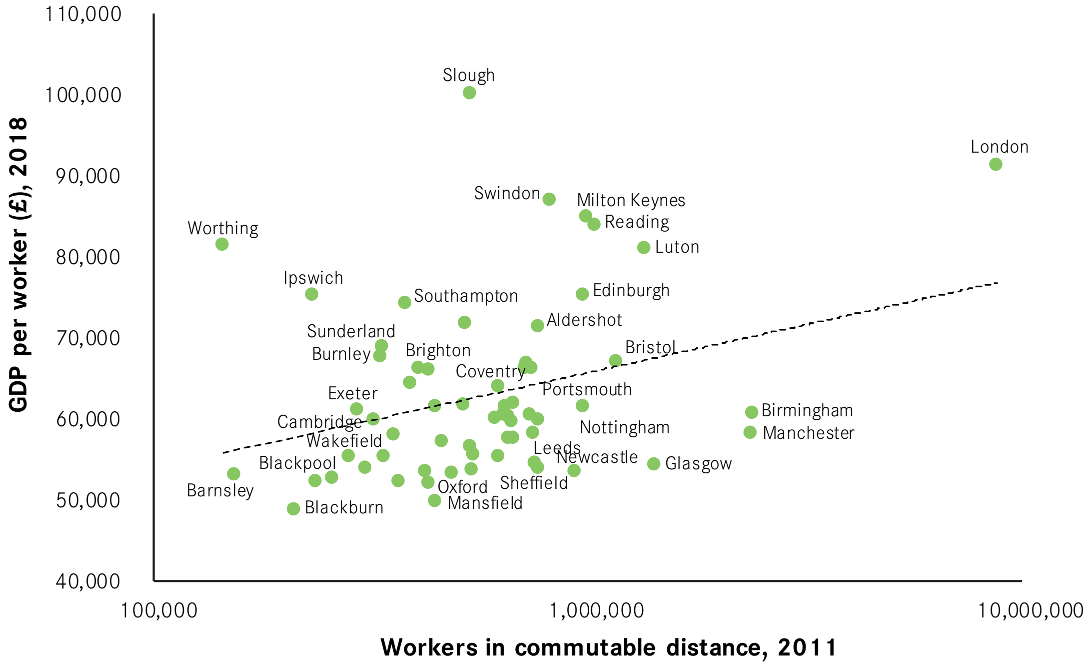
There needs to be a national strategy to accomplish levelling up

The Green Book's role in shaping investment choices will always be subordinate to the Government's broader strategy. It is at this strategic stage, when objectives are set, that the decision about where to direct public investment should be made. Defining this strategy is the job of politicians, not the Green Book.

One problem is that this strategy has not been well defined in the past, and this continues today. The current government has been clear that it wants to level up the UK. But it is not clear yet what this actually means in practice. Without this clarity it is difficult to build business cases for investments that can help achieve this goal.

Centre for Cities would define levelling up as ensuring every place reaches its potential as a place of production. This definition implies a focus on the places that currently have the widest output gaps, which if closed would make the greatest contribution to both local and national prosperity. Previously, Centre for Cities has identified evidence, shown in Figure 3, that some of the largest cities in the UK, including Manchester, Birmingham, and Glasgow, have some of the widest output gaps relative to their size.

Figure 3: Productivity and city size, adjusted for workers in commutable distance



Source: ONS, Regional gross domestic product (GDP) reference tables; ONS, Census 2011

Resolving the productivity problems of these bigger cities would have particularly large national benefits. If the eight largest cities closed their output gaps, the UK economy would be £47.7 billion larger every year, compared to £22.5 billion larger every year if the output gaps of all small- and medium-sized cities were closed.[21] Furthermore, the economic success of these large cities is connected to the economic prosperity of neighbouring towns within commutable distances.[22]

As an objective for levelling up, Centre for Cities proposes closing a third of this £47.7 billion output gap in the eight biggest cities outside London over the next decade. This would add a permanent £16 billion a year to the national economy, and would be a 'SMART' objective – Specific, Measurable, Achievable, Realistic, and Time-limited – such that progress on the strategy can be held to account. If met, it would make cities outside of London more self-reliant and better able to fund their own public services.

Levelling up will require more funding

Levelling up cannot be done for free. It will necessitate more resources from central government, for two distinct uses. First, capacity needs to be improved within local government across the country, to build the analytical strength needed for local government to develop rigorous and feasible business cases for the investments right for their area.

21 Swinney, P. and Enenkel, K., 2020, Why big cities are crucial to 'levelling up', Centre for Cities
22 Swinney, P. and McDonald, R., and Ramuni, L. 2018, Talk of the Town, Centre for Cities

Second, the actual investment needs to be made by central government. This in turn implies a choice of where the investment should go. The Government could choose an explicitly political approach, where national public investment is allocated to different places to meet the objective of levelling up. This would be similar to the existing local government finance settlement, which allocates funding from central to English local government every year, but over a longer time horizon.

Alternatively, the Government could establish an automatic formula for allocating investment within England, such as the Barnett formula, or the 'Soli' solidarity tax framework in Germany, which is a specific levy on former West German states to pay for investment in the former East Germany.

Although debate on the Barnett formula is focused on the amount of spending it applies to, the important difference is how it changes decision making within state institutions. As a commitment is set in advance, and autonomy on how funding can be used is granted, responsibility for achieving efficient outcomes and using scarce resources efficiently is shifted from Whitehall to the devolved governments. Debates about bias in the Green Book favouring London are therefore absent in the devolved nations.

Box 5: The Barnett formula and Scottish investment

The devolved nations receive a block grant every year to fund devolved powers, such as education and transport. This block grant is set by the Barnett formula, which is based upon population and the level of devolution for each department. Funding is then set from the level of spend on these activities in England.

The formula makes devolution of powers easier by formalising the funding mechanism. This avoids annual negotiations and conflict over budgets as well as Westminster involvement in devolved areas.[23] Block grants allow devolved governments to use the funding as they see fit to respond to local or national priorities. An increase in education funding in England that leads to a higher block grant to Scotland can, for example, be used for transport or energy.

Block grants do not lead to profligacy. Scotland has created strong institutions and clear systems for appraising public spending even without Treasury or departmental oversight of spending. Pre-Expenditure Assessments (PEAs) perform a similar role to the Treasury business case and appraisal and evaluation processes have adopted the Green and Magenta books.[24] The Scottish government provides central support for the preparation of PEAs and appraisals.

23 Keep, M., 2020, The Barnett Formula, House of Commons Library
24 Scottish Public Finance Manual, Annex 2: pre-expenditure assessment guidance

In transport, the Scottish Government has its own ScotTAG and Scottish Transport Model to inform investment, using indicators and values suitable for Scotland which can be different to WebTAG.[25]

These devolved systems ensure Scottish Ministers are held accountable when major projects are subject to criticism, such as CalMac ferries or the Edinburgh tram system. Extra funding for cost overruns or underwhelming benefits of schemes must be found from the rest of the Scottish Budget. Devolution of funding alongside clear political risk recreates Treasury rigour while avoiding debates about bias towards London.

Within England, a block grant to fund local growth and autonomous, accountable local leadership in local growth policy should be expected to also recreate Treasury-standard business case development and economic appraisal. Within this context, BCRs will play their correct and limited role in informing public spending and investment at the local level.

In exchange for additional investment, government should make clear two things. First, there must be some degree of local contribution for any such investment, whether that comes from the public or private sectors, or a mix. This will ensure local authorities are sharing risk with central government as Greater Manchester does today, to build up trust with government and sharpen the incentive to pick productive investments.

Second, the long-term trajectory of local government funding and finance towards greater levels of tax devolution must be set. The UK has unusually centralised taxation for a developed, unitary state of its size, with only 5 per cent of tax revenue in 2014 raised by local government, compared to 13 per cent in France and Poland, 17 per cent in Italy and South Korea, and 24 per cent in Japan.[26]

By advancing tax devolution alongside the investment required for levelling up, local government will be incentivised to invest in the policy areas that have the greatest potential to improve local economic growth and provide a tax base for local services. The focus should be on improving outcomes, not producing 'shiny' outputs.

25 Transport Scotland, Scottish Transport Analysis Guide (Scot-TAG)
26 OECD, 2016, Revenue Statistics 2016 – Chapter 1, Table 1.4. Tax revenues of sub-sectors of general government as percentage of total tax revenue, OECD

A national strategy needs to respond to local needs

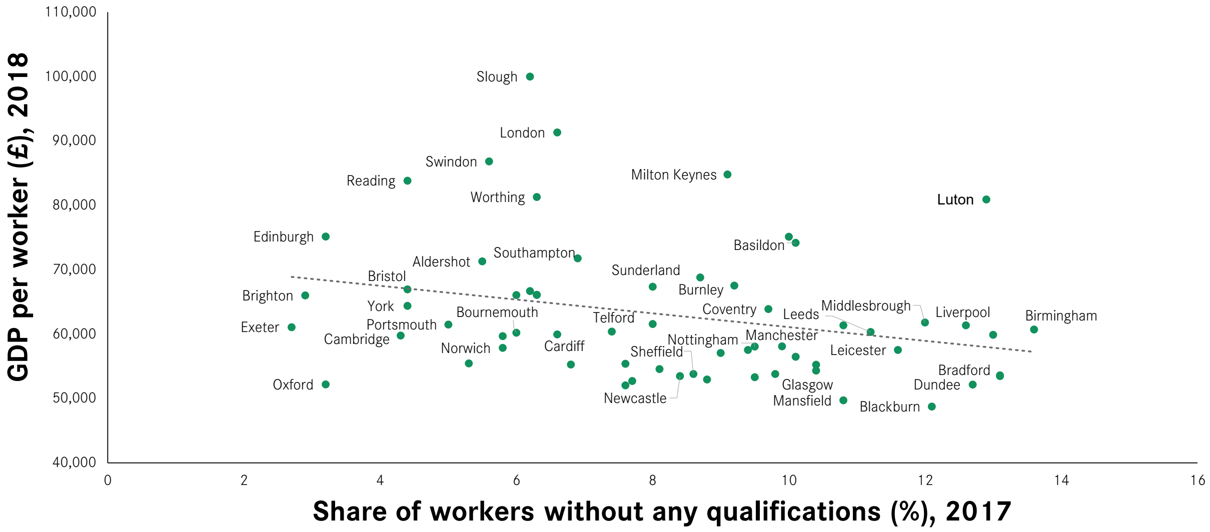
To accomplish this, investment must be spent on local priorities to fix local problems. This will necessitate the Green Book to be used at the local level, and for business cases to be guided by need and outcomes within local government to avoid repeating the mistakes seen in other countries.

These issues go beyond transport. To summarise into a simple typology, policy areas including skills, housing, and city centre commercial space (including a lack of office relative to retail) will be higher priorities or as important as public transport investment within many cities and large towns. The funding made available to achieve levelling up must be flexible enough to allow places to tackle the individual problems within their area, rather than attempting to decide local priorities centrally.

Skills are a major problem in many underperforming cities and large towns

The amount and quality of skills within a local economy is much more closely associated with differences in economic performance between cities than is transport. As Figure 4 demonstrates, even some of the biggest cities outside London have an above-average share of workers without any formal qualifications, and accordingly below-average GDP per worker.

Figure 4: Working age population without any qualifications and GDP per worker



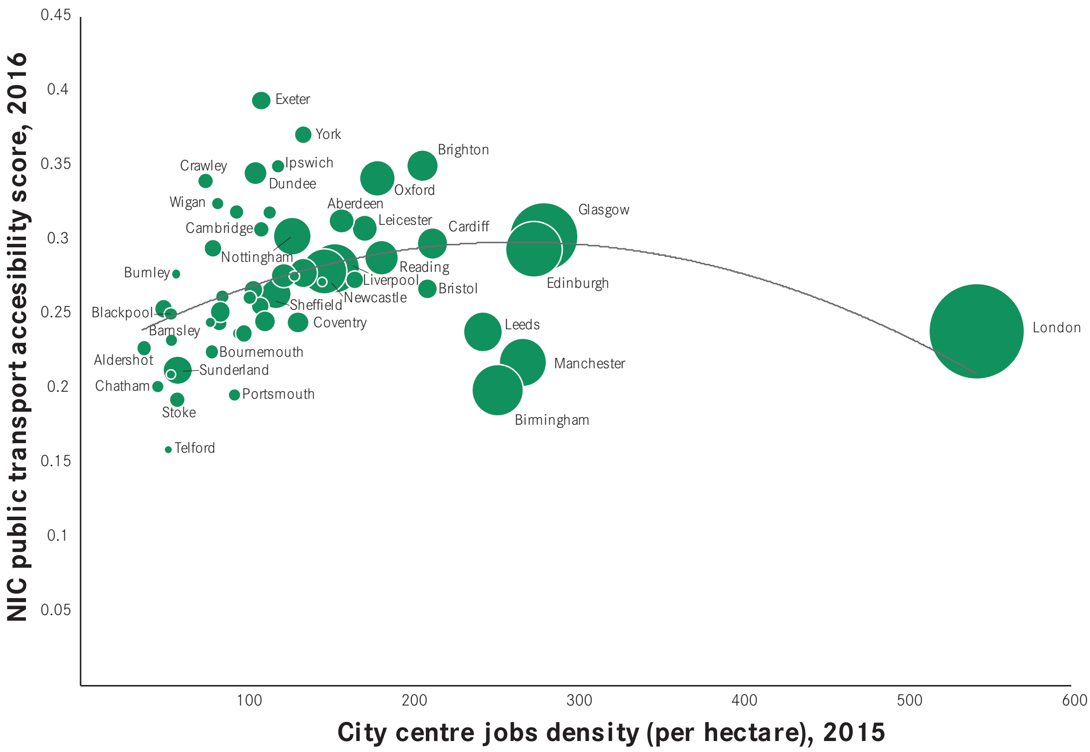
Source: ONS 2019, Regional Gross Domestic Product (GDP) at current market prices. ONS 2019, Business Register and Employment Survey. ONS 2018, Annual Population Survey, resident analysis.

There is a wealth of evidence indicating that skills, and particularly adult further education, need to be a priority for local economies. When looking for a new location for their businesses, private sector investors particularly prioritise the number of skilled workers available within a local economy who can do the kind of specialised work their firm requires.[27]

Transport is an issue in big and congested cities

Although transport has been the focus of critiques of the Green Book and debates about public spending across the country more generally, investment in public transport is not as big a priority as skills in many cities and large towns. This can be most clearly seen when considering the transport accessibility of city centres as a measure for congestion and demand on transport infrastructure, as in Figure 5.[28]

Figure 5: National Infrastructure Commission's (NIC's) employment accessibility score by public transport against city centre jobs density



Source: ONS, Business Structure Database; National Infrastructure Commission

27 See: McDonald, R. and Bailly, A., 2017, What investors want: a guide for cities, Centre for Cities; Magrini, E. and Clayton, N., 2018, Can Cities Outsmart the Robots? Centre for Cities; and Magrini, E., 2019, Opportunity knocks? Economic outcomes for low-skilled people in cities, Centre for Cities

28 Jeffrey, S. and Enenkel, K., 2020, Getting Moving, Centre for Cities

The chart shows that city centres in larger cities generally tend to have better public transport accessibility, because they have the population to support more comprehensive services. Smaller cities and large towns tend to have excellent accessibility by car as they have fewer congestion problems. The exceptions to this are London – which has a massive public transport challenge and the infrastructure to meet it – and notably, Manchester, Birmingham, and Leeds.

These big cities now have the worst of both worlds, as they possess large labour markets without the public transport infrastructure to easily get workers to the city centre, and travelling by car is no longer efficient. In these and a few other larger cities, there is now a strategic case for more urban public transport investment to improve the city centre's accessibility to the city region as a whole.

Unaffordable cities and large towns need to build more housing

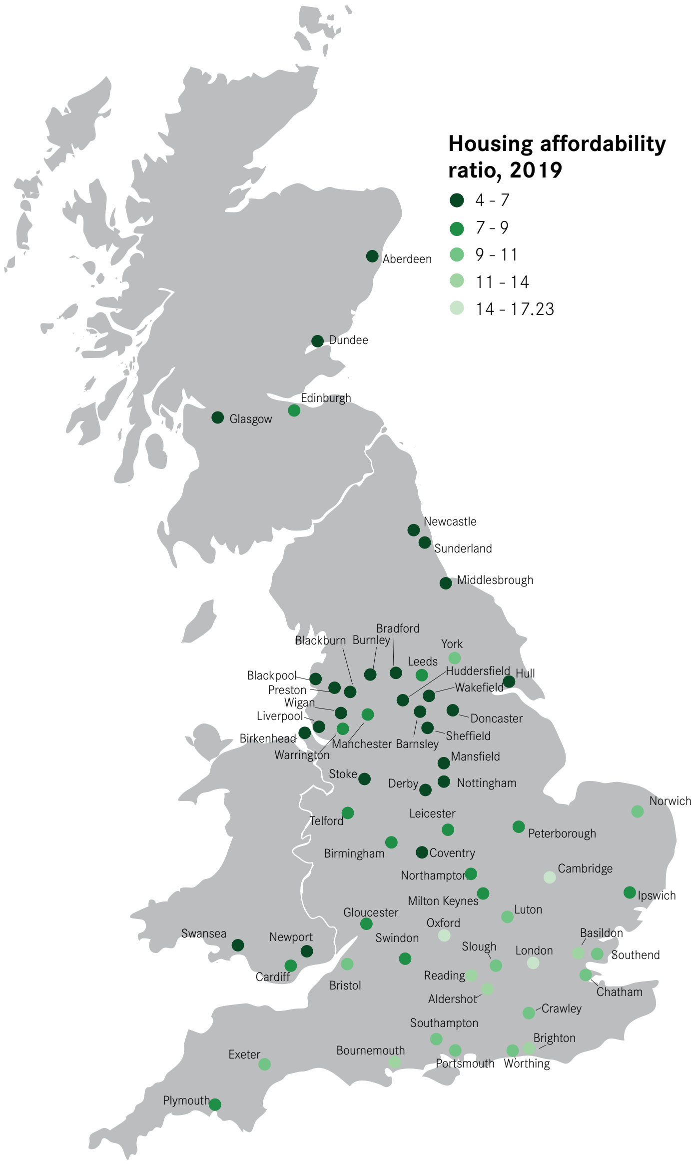
With the radical reforms to the planning system recently launched, the exact nature of housing policy five years from now is in flux. It currently does appear as if a type of a flexible zoning system will be introduced, which will more closely connect the supply of new housing to local demand.[29]

This is a positive development, and building more homes in the most expensive places is the economic priority in many cities and large towns. Not only will it help improve affordability, but by providing new homes in highly-productive local economies it improves both national economic performance and the outcomes for the individuals who get to live in this new housing.

But the geographic differences in housing demand and shortages must be recognised. New homes are not a priority everywhere – while the average house costs 13.5 times average incomes in Brighton, it costs just 5.6 times average incomes in Middlesbrough. As the map of this ratio in Figure 6 shows, most cities and large towns in the Greater South East have severely unaffordable housing, but only a few outside such as Bournemouth, Exeter, Bristol, and York do as well.

29 Breach, A. 2020, "How will reform improve the planning system?", Centre for Cities https://www.centreforcities.org/blog/how-will-reform-improve-the-planning-system/

Figure 6: Housing Affordaibility Ratio



Source: Land Registry 2019, Market Trend Data, Price Paid. Scottish Neighbourhood Statistics 2019, Mean house prices. ONS 2019, Annual Survey of Hours and Earnings (ASHE), average gross weekly workplace-based earnings.

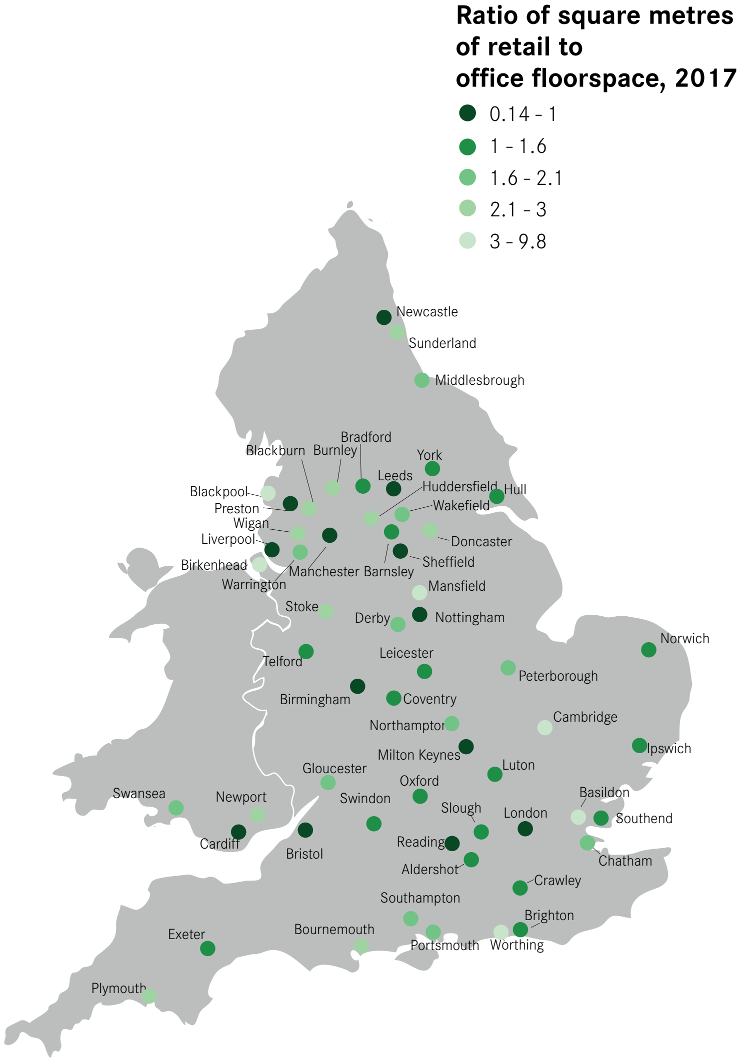
City centres need more office space

British high streets and the retail sector as a whole have experienced difficulties in the past few years, and high retail vacancy rates in certain cities have contributed to a sense that local areas feel 'left behind' and are in economic decline. It is a priority for many local authorities as they seek to improve economic outcomes and foster a sense of community.

However, high streets are a barometer of local economic health rather than a driver of it. Retail and hospitality and other similar such businesses are local services. They serve the local community, but do not provide many high-skilled, high-paying jobs that sell to other markets and bring money into the local economy.[30] These 'exporting' jobs are closely associated with economic outcomes across the country, and high-skilled exporting services prioritise city centre locations.[31]

Such exporting jobs require distinct types of commercial space, either industrial or office space. However, many cities and large towns across the country have far more retail space in their centres than offices, as Figure 7 demonstrates. For instance, while the average city centre has just half as much retail space as office space, places like Basildon have almost five times as much retail space than office space in their centres.

Figure 7: Ratio of retail space to office space in city centres



Source: Valuation Office Agency 2018

30 Clayton, N., 2017, Trading Places 2, Centre for Cities
31 Swinney, P., 2018, The Wrong Tail, Centre for Cities

Some of these places are over-reliant on retail.[32] Improving the performance of their economies and their high streets will entail a reduction in retail space, and at least a small increase in higher quality office space to attract more exporting jobs that can support the high street through the working week.[33] Although the relationship between city centres and office space could potentially be altered thanks to the changes brought by the Covid-19 pandemic, cities and large towns will need to work with and listen to the private sector to understand employer needs.

A typology for investment priorities

Together, the priority each of these four areas - skills, transport, housing, and city centre commercial space - merits within cities and large towns can be used to develop a straightforward typology indicating how each place's priorities compare. The data in Figures 3-7 has been used to identify which policy area is a priority for each city and large town in Figure 8. The methodology is described in the Appendix.

Figure 8: Typology of investment priorities

Skills	Housing	Public Transport	City Centre Commercial Space	Mix
Bradford	Aldershot	Portsmouth	Birkenhead	Aberdeen
Dundee	Brighton	Southampton	Burnley	Barnsley
Glasgow	Bristol	Swindon	Doncaster	Basildon
Hull	Crawley	Telford	Gloucester	Birmingham
Ipswich	Exeter		Newport	Blackburn
Leeds	London		Plymouth	Blackpool
Leicester	Norwich		Sunderland	Bournemouth
Liverpool	Oxford		Warrington	Cambridge
Luton	Reading		Wigan	Cardiff
Middlesbrough	York		Worthing	Chatham
Milton Keynes				Coventry
Newcastle				Derby
Nottingham				Edinburgh
Peterborough				Huddersfield
Sheffield				Manchester
Swansea				Mansfield
Wakefield				Northampton
				Preston
				Slough
				Southend
				Stoke

32 Breach, A. and McDonald R., 2018, Building Blocks, Centre for Cities
33 Swinney, P. and McDonald, R., 2019, City centres: past, present and future, Centre for Cities

This typology suggests as a starting point for discussion a more nuanced picture in places' needs for investment than is sometimes portrayed. Public transport is the single biggest priority in only a few cities and large towns, while skills remain the biggest priority in a plurality of places, including Leeds, Liverpool, and Glasgow. Some 21 cities and large towns, including Birmingham and Manchester, have relatively more complex needs and will require a greater mix of investments in their local economies.

In practice, every local area will need some amount of investment in each area, but this typography can help as a starting point for strategic discussion and ordering local priorities. The precise interventions will need to be decided by local governments themselves, responding to local problems that cannot be captured in such a national high-level typography.

Local government is best informed and suited to identify the specific solutions their places require, while using the Green Book as a tool to help them do so. Business cases, including consultation with the private sector, and local institutions such as universities and further education colleges, should be developed by local authorities in the context of their Local Industrial Strategies and the levelling up agenda.

05

What needs to change

The Green Book should be simplified and subjected to more rigorous evaluation

All five cases - strategic, economic, financial, commercial, and management - matter within the Treasury's Business Case Guidance. The Green Book, and the BCRs it helps produce, are only a small part of the economic case, and by extension the wider business case.

Improving the Green Book requires that political uncertainty be shifted out of the economic case and into the strategic case. Altering its methodology or those of BCRs to reflect, say, regional inequality, or potential for transformation, or trying to introduce a levelling up bias into the BCRs would be the wrong approach. It is not the role of the economic case and would damage trust in the Green Book and its use as a tool. These political decisions should be contained inside the strategic case where political objectives can be negotiated and reconciled with each other.

Local government will continue to need to use the Green Book to ensure politicians can make choices so that the money they control can help the most people. However, there are changes that can be made to the economic case that will help rebuild trust in it, and change and improve the incentives for local government when conducting business cases:

- **Simpler cost-benefit models.** National and local government should prioritise and prefer simpler cost-benefit models that, for transport projects, should focus on time-saved and land value effects. Increasingly complex models that attempt to pursue second- and third-level effects should be avoided.

- **A universal standard of Green Book approved models**. The Treasury and relevant Whitehall departments should set a standard of simple models approved for Green Book analysis. By consistently using the same models between different projects, it becomes easier to make comparisons both between projects and the models themselves.

  This would not prevent the additional use of models and frameworks not included in this standard – the requirements for local projects will vary and there will need to be flexibility. But no 'black box' models should be used in a Green Book appraisal process – all models used to appraise decisions involving public money should be open to scrutiny.

- **A BCR database.** The Government should establish and operate a public database on BCR estimates, evaluations, and their models. This would allow practitioners to better assess models and policymakers to have more confidence in their cost-benefit analysis as a tool to guide decision-making.
- **Local government to run more Green Book appraisals internally.** One benefit of simpler models is that they are easier for local and combined authorities to run themselves. Instead of paying private consultants to conduct overly-complicated analysis, local government should build up greater capacity and more substantial staffs of economists, initially with the assistance of central government. Not only will this allow local government to conduct more appraisals, but it will also help economic thinking and methods guide local government decision-making more widely.

The Government should explicitly define what it means by levelling up, and provide £100 billion to do so

If the Government is to achieve its levelling up objectives, it both needs to define what it wants to achieve and how it thinks this will be achieved.

In Centre for Cities' view, the economic goal of levelling up should be to allow all places to achieve their economic potential. As a specific objective, a third of the output gap in the eight biggest cities should be closed over the next 10 years. If this were met, it would permanently add £16 billion every year to the national economy by the end of 2030, and would benefit the residents of those cities as well as towns within commutable distance.[34]

34 Swinney, P. and McDonald, R., and Ramuni, L. 2018, Talk of the Town, Centre for Cities

This will require resources and funding. There should be a new £100 billion fund over this decade to achieve levelling up and provide the public investment that places can decide they need. Part of this funding will be used to expand the analytical capacity in a newly-reorganised system of local government within England. Everywhere in 2030 should have the same ability and staffing to be able to do what Manchester does today.

Local investment must though be paired with local 'skin in the game'. Proposals must be at least 25 per cent funded locally, either publicly or with a mix of public and private funding. Investment for transport projects for the eight biggest cities outside London under this fund should be conditional on introducing a congestion charge, to show that local government is prepared to take on political risks to achieve economic growth and efficient transport policy.

The next round of the local finance settlement must also be more generous and provide local authorities with additional capacity to develop business cases in-house. It is not plausible to expect the state to lead on a programme of economic renewal across dozens of cities and large towns, when local government services and capacity have been depleted to the point of providing their minimum statutory services. Local government austerity in revenue spending must also decisively come to an end.

This will not only achieve better outcomes for places that experience levelling up, but it will also strengthen the Green Book within the business case process. Rather than being contested as it is at the moment, the Green Book will be used by local policymakers to help them use their new funding most efficiently and justify the political risks they are taking.

Institutional change is required to increase local capacity

National government needs to set a strategy for how much and where public investment will flow, and the rules set out in the Green Book. Local government needs to have the local state capacity to do a Green Book process in-house, and take on more of the political risk that development and good urban policy can involve.

To do this requires three main things. The first is **substantial local government reorganisation** to remove duplication between the myriad of local authorities and local enterprise partnerships that cover single labour markets, which weakens the overall capacity of the public sector in these areas to produce good strategies or Green Book appraisals, for example. Centre for Cities recently set out detailed proposals for this, establishing 69 English unitaries and mayoral combined authorities at the level of economic geography in 'Levelling up local government in England'.[35]

35 Jeffrey, S., 2020, Levelling up local government in England, Centre for Cities

Second, while a new finance settlement is imminently needed, **in the longer term there must be greater tax devolution.** This is the quid pro quo for £100 billion in the levelling-up fund. It will help rebuild local government capacity and provide the investment needed to drive local economic growth as we emerge from the recession. And in return, local government should expect a decade from now to be more self-reliant and funding more local services from local economic activity. This will deepen the incentive to use the levelling-up monies as efficiently as possible, improving prosperity everywhere.

The third is to develop a clear system for allocating national public investment within England. One of the major problems with the Green Book debate is confusion around the role of BCRs in deciding whether schemes receive public investment. This can only be clarified by clearly separating out the process by which the quantity of funding for different places is decided from the process by which the highest quality projects and best use of public money are identified.

This in turn implies a choice. The Government could choose an explicitly political strategic allocation of national public investment to different parts of the country. This would be similar to the local government finance settlement, but over a longer time horizon. Alternatively, the Government could establish a formula, such as the Barnett formula or the 'Soli' solidarity tax framework in Germany.

In both cases, the amount and distribution of funding would be agreed before the BCRs of specific projects are discussed. The purpose would be to help separate the strategic case from the economic case at the local level, and ensure local leaders can use the Green Book to choose the priorities that are right for their area. The Green Book should be a tool for mayors and other local leaders to choose between projects, not the Chancellor to choose between places.

Appendix

The typology developed in Figure 8 used the data contained in Figures 3-7 to set out an introductory comparison in investment priorities between places. Like the Green Book, it is not an algorithm for deciding where investment should take place, but it is a starting point for strategic discussion within the public and private sectors.

To organise this typology, this data was ordered into a table shown in Figure 9, and each city or large town was scored on how well it performed, as shown in Figure 10. For every policy area, each city or large town received one of four scores – in effect, "very strong", "strong", "weak", and "very weak" depending upon how it compared to others.

Investment priorities were then decided such that, any place with a single "weak" score in a policy area and three "strong" or "very strong" for the others had the "weak" area as an investment priority. For example, Bristol has a "very strong" skills base and commercial space in the city centre, and an "accessible" city centre by public transport, but it has "unaffordable" housing. The investment priority for Bristol is therefore housing.

For instances in which there were multiple or no "weak" areas, such as Chatham or Cardiff, the investment priority was determined as "mixed". Cities and large towns with a "very weak" score in one policy area, such as Wakefield for skills, saw that policy area trump the others and become the local investment priority in the typology. Cities and large towns with multiple very weak scores were again classified as having "mixed" priorities.

Data is for Great Britain only, with the exception of that for commercial property, which it is limited to England and Wales.

Figure 9: Investment typology chart

	Skills	Housing	Public Transport	City Centre Offer
Aberdeen	Strong	Affordable	Accessible	N/A
Aldershot	Strong	Very Unaffordable	Inaccessible	Strong
Barnsley	Weak	Very Affordable	Inaccessible	Strong
Basildon	Very Weak	Very Unaffordable	Inaccessible	Very Weak
Birkenhead	Weak	Affordable	Inaccessible	Very Weak
Birmingham	Very Weak	Affordable	Very Inaccessible	Very Strong
Blackburn	Very Weak	Very Affordable	Inaccessible	Very Weak
Blackpool	Weak	Affordable	Inaccessible	Very Weak
Bournemouth	Strong	Very Unaffordable	Inaccessible	Very Weak
Bradford	Very Weak	Affordable	Inaccessible	Strong
Brighton	Very Strong	Very Unaffordable	Very Accessible	Strong
Bristol	Very Strong	Unaffordable	Accessible	Very Strong
Burnley	Weak	Very Affordable	Accessible	Very Weak
Cambridge	Very Strong	Very Unaffordable	Accessible	Very Weak
Cardiff	Strong	Affordable	Accessible	Very Strong
Chatham	Strong	Unaffordable	Inaccessible	Weak
Coventry	Weak	Affordable	Inaccessible	Strong
Crawley	Strong	Unaffordable	Accessible	Strong
Derby	Weak	Affordable	Inaccessible	Weak
Doncaster	Weak	Very Affordable	Inaccessible	Very Weak
Dundee	Very Weak	Very Affordable	Accessible	N/A
Edinburgh	Very Strong	Affordable	Accessible	N/A
Exeter	Very Strong	Unaffordable	Very Accessible	Strong
Glasgow	Very Weak	Very Affordable	Accessible	N/A
Gloucester	Strong	Affordable	Accessible	Weak
Huddersfield	Very Weak	Affordable	Inaccessible	Very Weak
Hull	Weak	Very Affordable	Accessible	Strong
Ipswich	Very Weak	Affordable	Accessible	Strong
Leeds	Very Weak	Affordable	Inaccessible	Very Strong
Leicester	Very Weak	Affordable	Accessible	Strong
Liverpool	Very Weak	Very Affordable	Accessible	Very Strong
London	Strong	Very Unaffordable	Inaccessible	Very Strong
Luton	Very Weak	Unaffordable	Accessible	Strong
Manchester	Weak	Affordable	Inaccessible	Very Strong
Mansfield	Very Weak	Affordable	Inaccessible	Very Weak
Middlesbrough	Very Weak	Very Affordable	Inaccessible	Weak
Milton Keynes	Weak	Affordable	Accessible	Very Strong
Newcastle	Weak	Affordable	Accessible	Very Strong
Newport	Weak	Affordable	Accessible	Very Weak
Northampton	Weak	Affordable	Accessible	Weak
Norwich	Strong	Unaffordable	Accessible	Strong
Nottingham	Weak	Affordable	Accessible	Very Strong
Oxford	Very Strong	Very Unaffordable	Accessible	Strong
Peterborough	Very Weak	Affordable	Inaccessible	Weak
Plymouth	Strong	Affordable	Accessible	Very Weak

	Skills	Housing	Public Transport	City Centre Offer
Portsmouth	Strong	Unaffordable	Very Inaccessible	Weak
Preston	Strong	Affordable	Accessible	Very Strong
Reading	Very Strong	Very Unaffordable	Accessible	Very Strong
Sheffield	Weak	Affordable	Accessible	Very Strong
Slough	Strong	Unaffordable	Inaccessible	Strong
Southampton	Strong	Unaffordable	Very Inaccessible	Weak
Southend	Weak	Unaffordable	Accessible	Strong
Stoke	Very Weak	Very Affordable	Very Inaccessible	Very Weak
Sunderland	Weak	Very Affordable	Inaccessible	Very Weak
Swansea	Very Weak	Affordable	Inaccessible	Weak
Swindon	Strong	Affordable	Inaccessible	Strong
Telford	Weak	Affordable	Very Inaccessible	Strong
Wakefield	Very Weak	Affordable	Inaccessible	Weak
Warrington	Strong	Affordable	Accessible	Weak
Wigan	Weak	Very Affordable	Accessible	Very Weak
Worthing	Strong	Unaffordable	Very Accessible	Very Weak
York	Very Strong	Unaffordable	Very Accessible	Strong

Figure 10: How cities were scored in the typology

	Skills	Housing	Public Transport	City Centre Offer
Very Strong	<5%	<6	>0.35	<1
Strong	>5%	>6	>0.26	>1
Weak	>7%	>9	>0.2	>1.6
Very Weak	>10%	>11	<0.2	>2.1

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