

Written evidence submitted by the Chartered Institute of Building

Summary

1. The Chartered Institute of Building (CIOB) is the world's largest and most influential professional body for construction management and leadership. We have a Royal Charter to promote the science and practice of building and construction for the benefit of society, and we have been doing that since 1834.
2. The CIOB are co-leading the Social and Human Capital Relevant Authority of the Construction Innovation Hub's (CIH) Value Toolkit. The Toolkit aims to drive value-based decision making, support the path to net zero, boost productivity and resilience, and deliver higher quality buildings.
3. The CIOB welcomed the Chancellor's announcement in the 2020 Spring Budget that HM Treasury would take action to review the Green Book, updating guidance for how decisions on major investment programmes are appraised to address levels of investment throughout the country.
4. The CIOB's report, *The Real Face of Construction 2020*, finds that the construction industry accounts for around 6% of the UK's total economic output and provides jobs for 2.3 million people – about 7.1% of the UK total. These figures predominantly account for on-site construction, and with the value added by architects, engineers, surveyors and other professionals working within the built environment, the contribution of the sector is closer to 15.3% of GDP.¹ The industry is ideally placed to convert the £600m infrastructure investment announced in the 2020 Spring Budget into a mechanism for sustainable and equitable recovery across the UK.
5. The same report highlights the need to better understand and capture the value derived from construction and we are pleased to see that a shift away from a profit-driven attitude towards procurement within Government methodology and guidance. The appraisal framework must be capable of capturing non-market outcomes if it is to truly evaluate and aid a holistic recovery. Previous iterations of the Green Book have failed to take into consideration the true social value that can be unlocked from the built environment, including positive environmental outcomes, job creation and wider social benefits.
6. We recommend that the Government:
 - Champion an outcomes-based approach to the appraisal of social value and undertake and encourage amongst departmental stakeholders rigorous monitoring and evaluation to determine the effectiveness of CBA and CEA appraisal frameworks.
 - Incorporate learnings from the Construction Innovation Hub Value Toolkit in future iterations of Green Book supplementary guidance.

¹ CIOB, [The Real Face of Construction 2020](#), 24 February 2020

- Makes clear how the revised Green Book is intended to operate alongside the new Construction Playbook to provide a consistent approach to appraising project value.
- Incorporate net zero as a core element of the Green Book appraisal framework.

Analytical challenges raised by the new processes and guidance

7. Significantly, the Green Book 2020 Review² found that the appraisal process often fails to prompt those writing appraisals to engage properly with the context in which their strategic proposal sits. Subsequently, the proposal's contribution to the Government's policy objectives is often overlooked, and appraisals focus overly on benefit cost ratios (BCRs) which prioritise monetary value at the expense of social impact. We welcome the Green Book's move away from prioritisation of BCRs to place and increased emphasis on applicants' creation of high-quality strategic cases that align with the Government's policy objectives, such as levelling up and net zero.³
8. Measures for the robust consideration of social value are long-awaited and welcome, and we believe the Review's recognition of this fact is a positive step forward in establishing a framework for policymakers to ensure that public spending adds value to communities, people and places.
9. However, while the updated Green Book outlines broad analytical models for the identification of non-market objectives and value at the longlist stage of appraisal, we are concerned that the shortlist appraisal process unduly preferences Social Cost Benefit Analysis (CBA).
10. Cost-benefit analysis has been critiqued for its failure to acknowledge "the multidimensional complexity of environmental issues and the inescapable role of uncertainty."⁴ CBA, perhaps reasonably, attempts to assign monetary values to all the costs and benefits of a proposal, to guide decision making by facilitating an assessment of whether total benefits outweigh costs. However, this methodology becomes complicated and opaque when attempting to consider benefits which are not easily defined in monetary terms. The costs and benefits of social and environmental policy outcomes are not necessarily defined in comparable units. While the social and environmental costs of a policy are usually relatively easy to identify, the benefits are often more abstract – the measurement of lives saved over time being one example – and raise questions about the difference between price, or relative worth, and value. Furthermore, CBA assumes that costs or benefits have the same impact on stakeholders, regardless of who is implicated directly in the specific cost or benefit.⁵

² HM Treasury, [Green Book Review 2020: Findings and response](#), November 2020

³ HM Treasury, [Green Book Review 2020: Findings and response](#), November 2020

⁴ Ackerman, F, [Critique of Cost-Benefit Analysis, and Alternative Approaches to Decision-Making](#), January 2008

⁵ Ibid.

11. Similarly, CBA requires the attribution of specific monetary values in order to complete analysis, yet this does not account for the uncertainty of many social and environmental policy outcomes. Faced with uncertainty of outcomes and multiple variables, it is near impossible to calculate exact benefits. Conversely, costs are easily defined in monetary terms, yet they are often exaggerated. Several studies have found that advance predictions of cost are far more likely to be overestimated than underestimated.⁶ CBA therefore risks inflating the costs of socially and environmentally valuable proposals at the expense of less tangible benefits, thereby skewing data in the final analysis.
12. We recognise the potential benefits of Cost-Effectiveness Analysis (CEA) in addressing well-documented concerns with CBA by seeking to compare the relative costs and outputs of different proposals, as opposed to assigning monetary value. Key to the effectiveness of CEA is the quality of data used to generate measurements and the assumptions made to determine thresholds. The conclusion of services firm Arup⁷ – that the 2018 Green Book contained an inappropriate use of multiplier effects and therefore an inflation of estimated benefits – highlights the importance of comprehensive ongoing monitoring and evaluation of policy.
13. It is perhaps too early to tell how changes to the Green Book will function in practice, and we encourage the Government to champion an outcomes-based approach to the appraisal of social value, and to undertake and encourage amongst stakeholders rigorous monitoring and evaluation to determine the effectiveness of CBA and CEA appraisal frameworks.

Implementation and impact of the reforms

14. The Public Accounts Committee (PAC), in its lessons from major projects and programmes report,⁸ notes concern about the value for money risks resulting from the significant increase in investment, speed of delivery and changes to how the Government makes investment decisions. The Committee states that spending decisions on major projects should not be made without sufficient demonstration of their value and recommends that: 'Within six months, HM Treasury must write to us setting out how it has assured itself that the public and private sectors have the capacity to deliver on its investment commitments, and how it intends to make rigorous investment decisions in future, in particular, through its commitment to public value statements and amendments to the Green Book.'
15. We believe it is too early to currently judge take-up and knowledge of the updated Green Book for private and public sector businesses in the built environment delivering public services. We therefore support the PAC's recommendation and believe HM Treasury should provide regular updates about private and public sector capacity, and steps it is taking to ensure that businesses are supported to implement

⁶ Ackerman, F, The Unbearable Lightness of Regulatory Costs. Fordham Urban Law Journal, 33(4), 2006

⁷ Arup, '[Levelling up' and revising the Green Book: Where next?](#), June 2020

⁸ Public Accounts Committee, '[Lessons from major projects and programmes](#)', 21 January 2021

Green Book amendments and provide strategic cases that are in line with the Government's key objectives, including net zero and levelling up.

16. The failure of many construction and infrastructure projects to realise their intended value is well-documented and attributed to inconsistencies in approach, a lack of alignment in decision making and a focus on controlling and minimising costs. To address this failure, the Construction Innovation Hub (CIH), together with a network of industry and Government partners including the CIOB, is currently creating a Value Toolkit aimed at driving value-based decision making, supporting the path to net zero, boosting productivity and resilience, and delivering higher quality buildings.
17. The Value Toolkit is a suite of digital tools and processes to inform and underpin outcomes focused on value-based decision making. The Toolkit will provide a practical solution to assist those procuring construction assets and demonstrate clear links between strategic policy drivers and the outcomes that can be created through capital investment. The Toolkit is set to be launched and rolled out in Spring 2021.⁹
18. Although the Green Book discusses theoretical understanding flowing from investment it features little in the mechanisms for measuring impact and outcomes. The Toolkit offers the opportunity for greater analysis of the outcomes desired for construction and infrastructure projects and encourages clients to take a more value-based approach to the lifecycle of a project. As a key resource for industry, we would like to see this Toolkit incorporated into future iterations of Green Book supplementary guidance.

The Construction Playbook

19. In December 2020, the Cabinet Office produced the Construction Playbook,¹⁰ capturing commercial best practice and specific sector reforms outlining the Government's expectations of how contracting authorities and suppliers, including the supply chain, should engage with each other. The document was born out of the success of the Outsourcing Playbook,¹¹ which outlines a series of key policies for making outsourcing decisions and contracting outside suppliers for the delivery of public services. The Playbook was produced following the devastating collapse of Carillion which exposed several outsourcing flaws including poor service delivery and higher costs to the taxpayer.
20. The central messages of the Construction Playbook are not new and echo many of the findings of the Latham¹² and Egan¹³ inquiries in the 1990s. The Playbook sets out 14 principles guiding how the Government should assess, procure and deliver public works projects and programmes, for which all central Government departments and their arm's length bodies (ALBs) are expected to follow on a 'comply or explain' basis.

⁹ Construction Innovation Hub, [Value Toolkit](#), 2019

¹⁰ Cabinet Office, [The Construction Playbook](#), 8 December 2020

¹¹ Government Commercial Function and Cabinet Office, [The Outsourcing Playbook](#), 20 February 2019

¹² Her Majesty's Stationery Office (HMSO), [Constructing the Team](#), July 1994

¹³ Construction Task Force, [Rethinking Construction](#), November 1998

21. Importantly the Playbook focuses on a longer-term focus on investment and outcomes and thus compliments the work that is being delivered through the CIH's Value Toolkit to offer clients robust guidance and the tools to enable more effective projects. The 14 policies in the Playbook are mandated for central Government departments and ALBs and will be enforced through spending controls. As the largest construction sector customer, the Government is ideally placed to pave the way for delivering value for money and showcasing leadership.
22. We believe that there are strong links between the Green Book and Construction Playbook in their focus for generating social value and measuring impact. We advise the Government to utilise both documents in the assessment and appraisal of projects, to develop a consistent and standardised approach. Currently there are gaps in approach with the Construction Playbook stating that social value should be explicitly evaluated in all central Government procurement, where the requirements are related and proportionate to the subject-matter of the contract. It goes further to state that from January 2021, a minimum weighting of 10% of the total score for social value should be applied in the procurement to ensure that it will be a differentiating factor in bid evaluation and a higher weighting can be applied if justified. Although the importance of social value is raised throughout the Green Book, there is no explicit link to any minimum weighting.
23. We support the Review's conclusion that more extensive and flexible support is needed for users of the Green Book, including accessible online, bite-size training on specific aspects of the methodology. The Green Book itself is a technical and theoretical document, and simplification and training will go far in aiding the implementation of its principles by industry.
24. We believe that the Construction Playbook is a valuable tool for users of the Green Book, and one which can help to guide the development of strategic, high-quality business cases. For example, the application of Playbook principles to the ROAMEF evaluation framework outlined in the Green Book provides a practical guide to the effective monitoring and evaluation of programmes and projects.
25. We recommend that the Government clarify how the revised Green Book is intended to operate alongside the new Playbook to provide a consistent approach to appraising project value.

The guidance on environmental impacts and appraising policy to meet net zero

26. We welcome the Green Book review's recommendation that an expert review be conducted into the application of the discount rate for environmental impacts. It is important that discounting as a method of financial analysis is not used beyond what is appropriate. Environmental outcomes span decades and have inter-generational impacts, and it is crucial that the discount rate accounts truly for the relative importance of the future, compared to the present.

27. While we recognise that the Green Book is not intended to set policy objectives or determine decisions, we are concerned that recent changes might have missed a crucial opportunity to go far enough on net zero, by failing to establish it as a core element of the appraisal framework rather than one of many success factors for consideration.
28. At a recent PAC inquiry hearing, when asked how HM Treasury is ensuring that net zero is driving the work of the department and was a challenge for all in Government, Steve Field, Director of Climate, Environment and Energy at HM Treasury said that the Green Book is reviewed and updated regularly and even if climate change or emission reduction is not the primary concern of a proposal, the department in question would have to consider it as part of their appraisal. However, he went on to note that “it is fair to say that this is not always happening on a consistent basis.”¹⁴
29. Achieving net zero will require a coordinated effort across Government, industry and society, and it must therefore be at the heart of all future policymaking.

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¹⁴ Public Accounts Committee, [Formal meeting \(oral evidence session\): Achieving Net Zero](#), 28 January 2021