

Transport for London

Projects and Planning Panel

Subject: Business Case Development

Date: 13 November 2013

1 Purpose

- 1.1 The purpose of this paper is to update the Panel on business case developments within TfL.
- 1.2 The Panel is asked to note this paper.

2 Background

What is a business case?

- 2.1 A business case is a document that sets out the justification for a project or a particular option for a project. It should reflect the true drivers of a project and be a combination of:
 - (a) strategic narrative;
 - (b) multi-criteria analysis; and
 - (c) formal cost benefit analysis.
- 2.2 If a project is not able to demonstrate a good benefit to cost ratio but is felt to be good value for other reasons, then the benefits and rationale need to rely on the strategic narrative and multi-criteria analysis for justification.
- 2.3 The pan-TfL multi-criteria assessment process utilises the Strategic Assessment Framework (SAF) that assesses a project against the Mayor's Transport Strategy.
- 2.4 It is important to remember that the amount of effort put in to a business case should be proportional to the size and importance of the project and should be sufficient to provide a robust justification.

Department for Transport Methodology

- 2.5 Business cases at TfL largely follow the national methodology as prescribed by the Department for Transport's (DfT) web based appraisal guidance WebTAG. The framework as set out in paragraph 2.1 is entirely consistent with this. The only differences between the approaches of TfL and the DfT is that TfL weights values of time to take account of average London earnings compared to average national earnings used by the DfT. TfL has also undertaken extensive research through willingness to pay surveys to obtain public valuations for useful transport attributes

such as information, cleanliness, directional signage, ambient temperature and levels of comfort.

- 2.6 While the appraisal approach can be tailored to meet TfL requirements, business cases do need converting to the DfT values of time for Spending Reviews to ensure that all business cases can be compared nationally on a level playing field.

3 TfL Developments

- 3.1 Several work streams are ongoing to improve business cases at TfL.

Within current framework

- 3.2 The first is to improve business cases within the current framework. This involves encouraging sponsors to use good strategic narrative and multi-criteria analysis alongside the traditional benefit to cost ratio. This is necessary because there is a perception that the benefit to cost ratio is “the business case” but, as described in paragraph 2.1, it should be much wider than this. This is particularly important where a good benefit to cost ratio does not exist but the scheme is still felt to be good value for other reasons. Guidance, templates, training material and support has been changed to reflect this emphasis.
- 3.3 Alongside this, it is also necessary to develop staff so that they are able to make use of the existing methodological framework for calculating a benefit to cost ratio. In some parts of the business there has not been a long history of a sponsor type role and these positions are fundamental to the quality of a business case and in obtaining data and developing models that can be used for estimation. Significant targeted support has been put in place for certain business cases where expertise can be drawn from across the business to support the sponsor in producing a business case. The Cycling Portfolio business case has been supported in this way and the effect should continue for the individual business cases that sit within this portfolio.
- 3.4 There are also several work streams underway that are focussing on particular areas rather than specific business cases:
- (a) **Modelling** – benefits in some areas are not able to be captured because the demand response and resulting benefits of an intervention are not able to be modelled with current tools. This work stream will help to address those deficiencies;
 - (b) **Urban Realm** – a group has been established to focus on getting the Urban Realm Toolkit better embedded in the business and to discuss future methodological requirements;
 - (c) **Reliability** – discussions have been held to establish what different areas of the business have been doing to address reliability, in terms of modelling, data and monitoring. This will help inform how reliability can be more formally incorporated into the business case process. The accepted methodology allows reliability impacts to be valued into the benefit to cost ratio if it can be converted to time (lost customer hours for example) or the standard deviation of time.

Work streams for other areas can be established as required.

- 3.5 These work streams include staff from across TfL with different expertise that can help contribute to improved business cases via modelling, research and data collection, strategy formation or appraisal knowledge.
- 3.6 Staff are also developed in a generic way through the standard TfL business case course that has been redeveloped this year. Eight full day courses have been arranged between September and December 2013, with all 96 places being booked. Further dates will be agreed from January 2014 at fortnightly intervals to ensure that demand is met. The courses are customisable to particular groups and discussions with targeted areas will be held to assess the need.
- 3.7 A Business Case Special Interest Group has been established with representation from across the business to ensure that there is a forum for informing, discussing and approving changed methodology. This should allow the free flow of ideas, establish cross-business buy-in to the methodology and provide a network of support.
- 3.8 There are also many other areas across the business where modelling development, research, data collection, analysis and processes are being improved within the current framework.

Outside the current framework

- 3.9 Discussions are taking place on whether the current framework is appropriate and some parts of the business have been looking specifically at economic benefits.
- 3.10 The DfT is open to methodological change if robust evidence is presented and it does look to other transport agencies, such as TfL, to guide the accepted methodology. If the DfT is reluctant to include any methodology that TfL would like to include, then it is possible to have a differing approach so long as business cases are converted to the DfT approved method for Spending Reviews. The ease of doing this depends on how much divergence there is.
- 3.11 An informal group has been established to progress this work stream. The first steps have been to identify key individuals around the business to take part and to identify academics suitable to invite to a seminar to discuss the issues. Some theoretical discussions have already taken place internally.
- 3.12 Many areas are to be included in this. Examples of areas to be discussed are listed below, but this is not a limited list:
 - (a) journey time elements (including reliability, small time savings, effects not captured, productivity of time, forces at work eroding benefits);
 - (b) economic benefits;
 - (c) health/quality of life; and
 - (d) urban realm/environment.
- 3.13 This work stream is not quick to progress, although it is hoped to hold the seminar with academics within four months. Thought needs to be applied to the theory of benefits, then areas of data collection and model development need to be identified

followed by implementation. Only then can the benefits be included in any business cases, followed by further embedment in the business.

4 Recommendation

4.1 The Panel is asked to note this paper.

5 Contact

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