

Richard Tyndall
Thames Valley Berkshire Local Enterprise
Partnership

Your contact is: Cris Butler, Acting Head of Transportation and Streetcare

Dear Richard,

RE: East Reading MRT – Value for Money Statement

This letter is provided in support of the Full Major Scheme Business Case produced by Reading Borough Council for the East Reading Mass Rapid Transit (ERMRT) scheme. The Value for Money Statement has been produced in line with latest DfT Guidance released in July 2017.

Value for Money Categorisation

The evidence provided within the Full Business Case report for the ERMRT scheme shows that the monetised benefits, which influence the public accounts, along with benefits from dependent development provide a **High Value for Money (VfM) category**.

The VfM is supported by an analysis of the non-monetised benefits that the scheme will provide in addition to monetised benefits.

Present Value of Benefits and Cost

The analysis contained within the Business Case suggests that the ERMRT scheme will generate a Present Value of Benefits (PVB) of £44.22m as shown in Table 1.

The Value for Money Framework (DfT 2017) identifies that some methods for identifying outcomes, impacts and estimating their monetary values are more widely accepted than others because they are well researched, tried and tested, and hence more robust.

In establishing the VfM category, we have followed the Department for Transport (DfT) framework. DfT distinguish between different 'types' of impact/benefits in establishing the VfM category as follows:

- Established Monetised Impacts – these are included in the initial and adjusted VfM;
- Evolving Monetised Impacts – these are included in the adjusted VfM;
- Indicative Monetised Impacts – these are not considered sufficiently widely-accepted, well researched or tried-and-tested to be definitive and do not feed in the Initial or adjusted VfM metrics;
- Non-Monetised Impacts- these also do not feed into the initial or adjusted VfM metrics.

In the case of the benefits derived for the ERMRT in Table 1, WI2 benefits and Reliability benefits have not been included in the calculation of the Initial VfM metrics as they are considered evolving benefits. They have, however, been included in the Adjusted VfM metrics in line with the VfM framework.

Table 1: Summary of Scheme Benefits in £m (2010 prices)

Benefit	Present Value of Benefits £m (2010 prices)
Highway Benefits	7.89
Public Transport Benefits	26.53
Cycle Benefit	1.99
Greenhouse Gases	0.47
Accidents	0.72
Present Value of Benefits (PVB) - Initial (exc. WI2 and Reliability benefits)	37.60
Broad Transport Budget	24.48
Present Value of Costs (PVC)	24.48
Benefit to Cost Ratio (BCR)- Initial	1.54
Net Present Value (NPV) - Initial	13.12
WI2 benefits (Output change in imperfectly competitive markets)	0.46
Bus Journey Time reliability	6.16
Present Value of Benefits (PVB) -Adjusted	44.22
Benefit to Cost Ratio (BCR) -Adjusted	1.81
Net Present Value (NPV) - Adjusted	19.74

As shown in Table 1, when both the established and the evolving scheme benefits are considered, the Net Present Value (NPV) is £19.74m. The Adjusted Benefit to Cost Ratio (BCR) is 1.81, however this does not include the additional benefits discussed below.

Consideration of Other Benefits

The value of benefits accrued will result in a Switching Value of £4.74m to take the project to the high VfM category.

The ERMRT scheme will unlock some dependent developments. The benefit associated with the dependent development has been calculated using the TAG Workbook valuing housing impacts and several sensitivity tests have been undertaken. The core scenario assumes that the number of dependent dwellings that can be directly associated with the transport scheme is 168, which is a conservative estimate. Table 2 shows the sensitivity results and the Net Social Value of the additional housing.

Table 2: Dependent Development Benefits

Dependent Housing Numbers	Net Social Value of housing (£'000)
168	11,963
300	21,360
210	14,954
120	8,549
90	6,405

The benefits from dependent development have been calculated at £11.9m in the core scenario, with the lowest level of dependent development showing a benefit of £6.4m and an upper value of £21.4m.

Given that even at the lowest level, the benefit from the dependent development will exceed the switching value, the proposal should be assigned to the **High VfM category**.

Non-monetised, Environmental, Social and Distribution Impacts

Other benefits of the scheme have not been possible to monetise or are not included within the above BCR calculation, but should be considered when determining the Value for Money category of the scheme.

There are also non-monetised benefits associated with the scheme which would be accrued should the ERMRT scheme be developed, these include:

- Benefits linked to increase usage of rail and potential increased revenues to the train operating companies – Reading is a major rail hub and many people commute into and out of Reading by train. The scheme will offer improved access to the rail network. The success of the Thames Valley Park shuttle bus from the Northern Interchange at Reading Station demonstrates that there is demand to access rail. Surveys undertaken on buses from Woodley showed that in the region of 7% of bus users from Woodley, had onward travel by train. The ERMRT will improve the bus journey more attractive and is therefore likely to increase patronage on rail – some of these trips would be newly generated trips and therefore derive revenue benefits that have not been calculated.
- The demand to access rail in Reading is likely to increase in the future with Elizabeth Line coming forward and the potential Western Access to Heathrow. This has also not been monetised.
- The ERMRT scheme is only part of a much wider scheme to improve public transport use in Reading and surrounding area. This is likely to see additional benefits over and above those monetised when looking at this scheme in isolation.
- Journey quality benefits for bus users have also not been monetised and these will include smoothness of ride and reduction in the fear of accidents, because of the scheme being a segregated route for buses only and removing conflict with other vehicles on a congested network.

Further social and environmental benefits have been derived from qualitative assessment, and whilst these will not provide a monetised benefit for use in this appraisal, the impacts are considered when deriving the Value for Money presented by the scheme:

- The impact to Local air quality is considered to be neutral;
- The impact to Landscape is considered to be slight adverse;
- The impact to Townscape is considered to be neutral;
- The impact to the Historic Environment is considered to be neutral;
- The impact on Biodiversity is considered to be neutral;
- The impact on the Water Environment is considered to be neutral, required Water Environment worksheets were submitted;
- The impact on Severance is considered to be neutral;
- The impact on Personal Security is considered to be neutral; and
- The impact on Accessibility is considered to be slight beneficial.

Key Risks, Sensitivities and Uncertainties

A number of assumptions were used in the preparation of the economic appraisal of the ERMRT. To demonstrate robustness of the economic case to variations in these assumptions, a public transport low patronage scenario in which the patronage was 10% lower and a pessimistic scenario in which Community Infrastructure Levy (CIL) contributions of 50% CIL receipts were also tested. CIL contributions of 50% would imply that the costs to the public sector would be higher. Both these pessimistic scenarios were found to show that the scheme provides medium VfM, but when considered with non-monetised benefits, the scheme is still likely to be High VfM.

The scheme costs have been subject to the application of optimism bias that is the default for Outline Business Case stage with 15% applied to the road elements and 23% to the bridge elements of the scheme. This again is a conservative estimate of optimism bias as these values are attributed to the Outline Business Case Stage, whilst it is felt that the scheme costs are more developed and knowledge of the scheme more advanced than would normally be the case at outline business case stage. Application of what we feel to be more appropriate levels of optimism bias would lead to a higher BCR.

Certification of the Senior Responsible Officer

I certify that the Value for Money Statement provided within this letter to be a true reflection of the work undertaken in preparing the Business Case for the ERMRT scheme.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cris Butler', written in a cursive style.

Cris Butler
Acting Head of Transportation and Streetcare