

Richard Tyndall
Thames Valley Berkshire Local Enterprise
Partnership

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

Dear Richard,

RE: South Reading MRT Phase 3 & 4– Value for Money Statement

This letter is provided in support of the Full Major Scheme Business Case produced by Reading Borough Council for the South Reading Mass Rapid Transit Phase 3 and 4 scheme (SRMRT Phase 3 and 4).

Value for Money Categorisation

The evidence provided within the Full Business Case report for the SRMRT scheme shows that the monetised benefits, which influence the public accounts, can 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 SRMRT scheme will generate a Present Value of Benefits (PVB) of £37.912m 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.

The benefits derived for the SRMRT have been derived from established monetised impacts hence the Initial BCR is 3.30. There has been no adjustment to this BCR as no evolving monetised impacts are included. This ultimately places the SRMRT in the High VfM category with a BCR of 3.30 as discussed further below.

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

Benefit	Present Value of Benefits £m (2010 prices)
Highway Benefits	22.163
Public Transport Benefits	15.749
Total (Comprising of below split in benefits)	37.912
Greenhouse Gases	-0.342
Economic Efficiency: Consumer Users (Commuting)	29.969
Economic Efficiency: Consumer Users (Other)	6.439
Economic Efficiency: Business Users and Providers	2.443
Wider Public Finances (Indirect Tax Revenues)	-0.597
Present Value of Benefits (PVB) - (exc. WI2 and Reliability benefits)	37.912
Broad Transport Budget	11.503
Present Value of Costs (PVC)	11.503
Benefit to Cost Ratio (BCR)	3.30
Net Present Value (NPV)	26.409

Table 1, shows that the scheme benefits exceed the scheme costs as can be seen from the Net Present Value (NPV) of £26.409m. The Benefit to Cost Ratio (BCR) of 3.30 is in the **High Value for Money (VfM) category**. This means that for every £1 invested in the scheme, the return is of the order of £3.30

Non-monetised, Environmental, Social and Distribution Impacts

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 neutral;
- 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
- 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 beneficial.

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

- GVA benefits – the scheme will derive GVA benefits in the form of new jobs created in both the construction period of the scheme and within the operation of the scheme, as improved access to/from Reading will attract investment.
- Benefits linked to increase in 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 SRMRT will improve the bus journey times between Reading town centre, Reading

Station and destinations to the south of Reading including GreenPark which is a major employment site, thus making access to rail more attractive.

- The demand to access rail in Reading is likely to increase in the future with the Elizabeth Line coming forward and the potential Western Access to Heathrow. This has not been monetised.
- The SRMRT Phase 3 and 4 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. SRMRT Phase 1 and 2 is already under construction hence the SRMRT Phase 3 and 4 scheme will further complement the former.

Key Risks, Sensitivities and Uncertainties

A number of assumptions were used in the preparation of the economic appraisal of the SRMRT Phase 3 and 4. 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 with 50% lower 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 indicate that the scheme provides High VfM.

The scheme costs have been subject to the application of optimism bias that is appropriate for the business case stage as well as reflect the level of knowledge of risks to the project construction. All the risks have been identified and quantified by way of a quantified risk register (QRA).

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 SRMRT Phase 3 and 4 scheme.

Yours sincerely



Cris Butler
Acting Head of Transportation and Streetcare