

Application Form Guidance on Annex A - Demonstrating Value for Money

The Department for Communities and Local Government will be assessing whether the proposed project demonstrates Value for Money (in terms of efficiency, effectiveness and economy), in line with Treasury guidelines as laid down in the Treasury Green Book. It is necessary for successful proposals to demonstrate that the grant provided will deliver efficiency savings over and above the cost of the project.

In order to aid assessment we are asking all proposals demonstrate value for money in a standard format which includes both a narrative section and a spreadsheet.

Part 1 – Completing a bid financial summary narrative

Your bid should include a clear narrative description that demonstrates:

- All costs associated with the project have been identified
- An explanation of why you believe the costs to be reasonable
- An explanation of how you have quantified the benefits
- The rationale underpinning assumptions and estimates
- The level of commitment where funding is contributed from other sources, including any dependencies
- That financial risks have been identified and mitigation plans are in place
- The sustainability of savings in future years

Part 2 – Calculating Net Present Value and Benefit Cost Ratio - Annex A

The template spreadsheet in Annex A will help you demonstrate the value for money of your proposed project. Annex A is divided into two sections:

- Most costs and benefits can be quantified and monetised. These will need to be included in **Section 1**.
- However, there may be some instances where the costs and benefits are sufficiently large but difficult to quantify. These should be set out explicitly in **Section 2** with a qualitative explanation.

The following notes and steps will help you complete the template.

2.1 Identification of costs and benefits

Costs

The costs in the “Breakdown of Fire Transformation and Other Funding” area in Section 1 should include all costs associated with the bid. This will include the bid amount, but we also require fire and rescue authorities to identify any funding which is being bid for or has been secured from other sources or co-funded by the applicant. This helps to demonstrate sustainability of the project in question (projects should not rely on further grants of transformation funding).

Any indirect costs arising as a result of the bid, costs beyond the time period being considered or costs to resource budgets will also need to be included.

Savings

The savings need to be identified by comparing outcomes of the project with outcomes if the project had not taken place. These need to be genuine cost savings delivered as a direct result of the investment in the project. It is intended that projects will deliver savings without negatively affecting existing service quality. If any deterioration in service quality is expected it should be included as a cost in Section 1 (where quantifiable) or a qualitative explanation in Section 2 (where the costs and benefits are sufficiently large but at this time are difficult to quantify or monetise).

Timing of cost and benefits

Our assumption is that costs and savings should be calculated over a 10 year period. Clear justification will need to be given where costs and benefits in a bid are calculated over a longer time period. Our assumption is that the costs will be likely to fall in the early part of that period and that the investment will generate ongoing annual savings (and savings may accrue over time).

2.2 Treatment of costs and benefits

In order to ensure consistency, the detailed breakdown of costs and benefits will require fire and rescue authorities to sign up to the following principles in costing (or ‘scoring’) costs and savings. Value for money of bids will be assessed taking account of these:

Scoring income

Income included as “savings” will be removed from Net Present Value calculations due to the uncertain nature of future revenues.

Scoring land sale receipts

Where the land sale receipts are only able to be released as a direct result of our capital investment (e.g. our grant enables a fire and rescue authority to

build a new station which allows them to sell old sites) we will allow the income to score.

Inflation

For consistency any inflationary assumptions should be stripped out of Net Present Value calculations.

Genuine invest to save decisions

Project proposals must demonstrate real savings in future years from investment. Savings will not be considered genuine where there is a simple budget choice in 2015/16 to take one course of action over another. An example could be a lease payment – that is, where an authority has included as a saving the lease payments that would have been made if a grant had not allowed them to buy the good outright. This is not a saving but a budget choice about how to manage assets.

Scoring borrowing savings

Borrowing savings (the interest payments that would have otherwise been made on borrowing in lieu of grant being available) should not be included and will be stripped out if included. This is because interest payments not made are not counted as savings since a grant will free up the fire and rescue authority to borrow for other investment so it is not guaranteed that the fire and rescue authority will save on all interest costs.

Scoring “non-replacement” costs

Savings identified because new kit doesn't have to be purchased as a result of capital spend will require further consideration as to whether this is a genuine efficiency saving or simply a budget decision. If possible, real cashable savings should be demonstrated.

Prevention work

Projects focusing on prevention work should demonstrate how the project will deliver real cashable savings and not just focus on investment that delivers economic benefits as a result of reduced fires.

2.3 Steps for doing the calculation

The template will automatically calculate the Net Present Value of the costs and benefits of the project once the values requested have been entered. A positive Net Present Value indicates that the project will deliver value for money. A negative Net Present Value indicates that the costs outweigh the benefits and the project will not deliver value for money. The assumption is that all bids submitted will generate savings and will therefore have a ***positive Net Present Value***.

Please check that your project has a positive net present value before submitting your bid.

The following steps offer guidance on entry of quantified costs and benefits to the Annex A template spreadsheet, when opened at Worksheet 1 (labelled “Section1 – Costs and Benefits”).

Step 1: Enter the applicant fire and rescue authority name, together with the total amount bid for, and this amount broken down into capital and resource amounts.

Step 2: Enter the total amount of bid, distributed on a per annum basis – only allocate amounts to the years in which the grant will be spent. These amounts should then be broken down according to type of cost (some initial examples are provided).

Step 3: Enter the amount of co-funding your fire and rescue authority will be contributing (where applicable). *Further supporting information on co-funding will need to be entered into Section 2 of the spreadsheet under the Additional Funding Sources heading.*

Step 4: Enter the amount of funding which has been secured from other funding sources. *Further supporting information on other funding will need to be entered into Section 2 of the spreadsheet under the Additional Funding Sources heading.*

Step 5: Enter the annual savings to be secured by the project on a per annum basis. Savings could arise from efficiency savings in different cost categories. It is very important to set out the assumptions for the basis on which the savings have been estimated. We expect that savings will be estimated on an average time period rather than a single point in time (the spreadsheet will calculate the total Annual Cost Savings of the proposed project for you).

The row titled Wider Benefits (£) will be completed by the Department based solely on the wider costs and benefits information provided in Section 2 of the spreadsheet.

Step 6: Calculate discounted annual cost savings (the spreadsheet will calculate this for you). This is the annual cost saving multiplied by the discount factor for the year in question as set out on the third Worksheet of Annex A. The discount factor takes into account the fact that the value of money is less the further out in time it is realised.

Step 7: Calculate the total present value of savings (the spreadsheet will calculate this for you) – this is simply the sum of discounted annual cost savings over the time period.

Step 8: Calculate the discounted amount of bid costs per annum (the spreadsheet will calculate this for you) – this is the cost of the bid per annum multiplied by the discount factor per annum as shown on Worksheet

Step 9: Calculate the total discounted amount of bid costs of the bid (the spreadsheet will calculate this for you) – this is the sum of all years' discounted bid costs.

Step 10: Calculate annual total costs (the spreadsheet will calculate this for you). This is the total cost to the public sector of the bid and includes total costs of the bid plus the costs to the fire and rescue authority if co-funding, plus any other funding being secured.

Step 11: Calculate discounted total costs (the spreadsheet will calculate this for you) – this is the sum of all discounted total costs to the public sector per annum multiplied by the discount factor per annum (as set out on the third Worksheet of the spreadsheet).

Step 12: Calculate total present value of costs. This is the sum of all discounted total costs per annum.

Step 13: Calculate the net present value for the Department for Communities and Local Government (the spreadsheet will calculate this for you). This is the total present value of savings minus the total discounted amount of the bid costs.

Step 14: Calculate the net present value for the public sector (the spreadsheet will calculate this for you). This is the total present value of savings minus the total present value of costs.

2.4 Treatment of wider cost and benefits in Section 2

Additional funding sources: Section 2 requires a breakdown of other funding sources that make up the total cost of the project and whether these have been secured or are expected. The totals for each source of additional funding need to match the values provided in Section 1 for Steps 3 and 4.

Wider costs: Any deterioration in service quality that cannot be quantified should be clearly explained in Section 2. Any other cost identified, taking into account environmental or social considerations should be included.

Wider economic benefits: In addition to immediate savings generated by investment in projects there may be wider economic benefits. For example there is wider benefit from any *release of land for public sector development*. This consists of the private benefit associated with the change in the use of land and the net external impact of the resulting development.

Where possible the Department will use established and consistent methodology to estimate the economic benefits based on the information provided. If we are able to calculate these wider economic benefits we will include them in Section 1 of the spreadsheet according to Step 5.

Other qualitative benefits: There is also an opportunity to provide a narrative assessment of any qualitative benefits and / or a description of benefits that will arise from the project but which cannot at this point be quantified or monetised. This may include for example any environmental benefits associated with the bid.

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