

FOI2016/17535: first email chain for release

From: [REDACTED – S40] [HMT]

Sent: 26 July 2011 16:19

To: [Tony Pedrotti - RPC] [REDACTED – S40]'

Cc: [Donald Franklin - DH] [REDACTED – S40] ;Richardson, James - HMT

Subject: [RESTRICTED] FW: Clarification request from the RPC regarding the use of a 2.4 multiplier by the Department of Health

Tony

I am sorry I could not respond to your initial email of 13th June, [REDACTED – S40]. There remained some uncertainty I understand and James Richardson has asked me to look at it.

As I understand it you need an HMT view on the applicability of the benefit cost ratio that DoH are using to prioritise spending projects within their department. I have looked at this and met with Donald Franklin to go through DoH methodology.

As a result the HMT view is this ratio is a means of optimising choices within DoH budgets through a form of cost benefit ratio but it is not a true measure of a SOCEF and it is not intended to be one. IT should not be used outside of the DoH spending optimisation context. I don't think it is applicable to IA appraisal even in DoH since it is not an integral part of the cost benefit analysis as such but is but is a rule of thumb standard against which the results of the CBA are prioritised

The Treasury recognises that in order to appraise individual proposals within a budget constraint (when it's not a simple matter of optimising a given complete portfolio) on a consistent basis, it is sensible for departments to adopt appraisal rules that capture the value foregone. The use of a standard multiple, the estimated Benefit to Cost ratio of the department's marginal unspecified project, to apply to budgetary impacts is a technically sound approach to capturing the opportunity cost of new proposals. Given that much of its spending is devoted to generating health gains, it is appropriate for the DH to deploy the evidence base regarding respectively the social value of a QALY and the marginal cost of NHS production of a QALY to calculate a marginal B:C multiple, this being the source of the 2.4 multiple currently in use.

Notwithstanding that the Treasury advises great caution in adopting this multiple elsewhere in DoH (i.e. outside a QALY context), HMT does advise that DoH should use it consistently across all spending proposals that it reviews, and in application both to impacts on its own budget and to impacts on other departmental budget or upon tax revenues, lest its decision making be distorted to favour health impacts or to favour the DH budget relative to other government goals and budgets..

I hope this helps very happy to discuss.

Best regards [REDACTED – S40]

[REDACTED – S40] | [REDACTED – S40] | PSG | Public Spending Group

[REDACTED – S40] | HM Treasury | 1 Horse Guards Road | London SW1A 2HQ | [REDACTED – S40]

| [REDACTED – S40] | Blackberry email:- <[REDACTED – S40]>

Green Book Web Page <<http://www.hm-treasury.gov.uk/greenbook>>

Business Case Resources Web page

<http://www.hm-treasury.gov.uk/data_greenbook_business.htm>

[REDACTED – OUT OF SCOPE]

From: [REDACTED – S40]

< To
"Pedrotti Tony (RPC)"
> <[REDACTED – S40] >

cc

17/06/2011 15:14 "Richardson, James - HMT"

<[REDACTED – S40]

[REDACTED – S40] [REDACTED – S40]

Donald Franklin [DH] [REDACTED – S40]

Subject

[RESTRICED] RE: Clarification
request from the RPC regarding the
use of a 2.4 multiplier by the
Department of Health

Tony

Many thanks for your email.

I'm afraid HMT is unable to endorse DH's valuation of the opportunity cost of £1 of public funding at £2.40.

The issue is partly one of how to allocate funds when faced with a budget constraint. HMT's Green Book does not advocate adjusting the NPV figures to take account of the budget constraint (either by uplifting the value of the stream of costs as this piece of DH recommends, or they might also argue for a higher discount rate as a means of achieving the same thing).

Instead we think the budget constraint should be externalised. This means that the department is free to take account of its budget constraint in its internal decision making through the setting of a hurdle rate (e.g. a NPV/£ or a BCR threshold), but not to adjust the cost-benefit figures themselves. This is consistent with the approach that HMT took to the allocation of capital budgets in the 2010 Spending Review.

The issue is secondly one of whether the fact that a QALY can be purchased for £25K but bring benefits of £60K can be extended to other areas of government spend. We recommend that the benefits of government spend are valued directly in all cases, as opposed to estimated on the basis of a multiplier.

We have consulted with the BRE who are happy with our view on this issue advising that, in the context of regulation, costs and benefits should be estimated on a case by case basis, supported by the most appropriate evidence available.

Thanks

[REDACTED – S40]

[REDACTED – S40]

[REDACTED – S40] ½ HM Treasury ½ 1 Horse Guards Road ½ London ½ SW1A 2HQ

Tel: [REDACTED – S40]

From: Pedrotti Tony (RPC) [mailto: [REDACTED – S40]]

Sent: 13 June 2011 10:05

To: [REDACTED – S40] - HMT

Subject: FW: Clarification request from the RPC regarding the use of a 2.4 multiplier by the Department of Health

From: Pedrotti Tony (RPC)

Sent: 13 June 2011 10:01

To: '[REDACTED – S40] [HMT]; [REDACTED – S40] (BRE)

Cc: [Donald Franklin - DH][REDACTED – S40]; [DH] [REDACTED – S40]; [REDACTED – S40] (RPC); [REDACTED – S40] (BRE)

Subject: Clarification request from the RPC regarding the use of a 2.4 multiplier by the Department of Health

[REDACTED – S40] CC: [REDACTED – S40]

I am writing on behalf of the Regulatory Policy Committee to seek official confirmation that the attached technical guidance from the Department of Health (DH) is fully consistent with the current Central Government Guidance (the Treasury Green Book and IA Guidance).

In particular, the Committee has asked me to seek confirmation that the methodology that the Department adopts to measure the opportunity cost of exchequer funding (an opportunity cost of £2.40 for every £1 of financial cost to the exchequer) is suitable for Cost-Benefit analysis and Impact Assessments. It appears that the Department has discussed this issue with you previously (see Donald Franklin's email below). However, the Committee has asked me to seek a formal confirmation from HM Treasury and the Better Regulation Executive, regarding this issue.

Over the past year the Committee has raised its concern regarding this issue in various opinions on DH IAs, and has questioned whether the use of the 2.4 multiplier is justified and correct. The Committee is concerned about the precedence it sets, and the message it could send about the relative value of spending by the government compared to spending by individuals, business and charitable organisations.

While previously the Committee has not issued a "not fit for purpose"

Opinion solely on this ground, it may well decide to do so if there is no confirmation from HMT and BRE that the approach is valid and under what circumstances the use of the multiplier is correct. This has become an even bigger issue with the introduction of the One-in, One-out system, where the Committee is asked to validate the estimates of costs and benefits presented in the IAs for comparison across Government. The Committee does not wish to encumber the process by continuing to question the validity of the 2.4 multiplier, and so would be grateful for a clear steer from HM Treasury and the BRE on its use.

I will look forward to receiving your response.

Thanks

Tony Pedrotti

Tony Pedrotti

Regulatory Policy Committee
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e-mail: [REDACTED – S40]

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