

Independent Technical
Evaluator – Growth Deal
Business Case Assessment
(Late Q1 2016/17 for Q2
2016/17 starting schemes)

Accountability Board Report
June 2016

South East Local Enterprise
Partnership

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Our ref: 22790505

Prepared by:
Edmund Cassidy
Steer Davies Gleave
28-32 Upper Ground
London SE1 9PD

+44 20 7910 5000
www.steerdaviesgleave.com

Prepared for:
Adam Bryan
South East Local Enterprise Partnership
Secretariat
c/o Essex County Council
County Hall
Market Road
Chelmsford
Essex
CM1 1QH

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1 Independent Technical Evaluation of Q2 2016/17 starting Growth Deal Schemes

Overview

- 1.1 Steer Davies Gleave and SQW were reappointed by the South East Local Enterprise Partnership in April 2016 as Independent Technical Evaluators. It is a requirement of Central Government that every Local Enterprise Partnership subjects its business cases and decisions on investment to independent scrutiny.
- 1.2 This report is for the review of Full Business Cases for schemes which were allocated funding through the Growth Deal process during 2014/15 and are seeking funding in the second quarter (Q2) of 2016/17. Recommendations are made for funding approval on 10th June 2016 by the Accountability Board and the Section 151 Officer at Essex County Council as Accountable Body, in line with the South East Local Enterprise Partnership's own governance.

Method

- 1.3 The review provides comment on the Full Business Cases submitted by scheme promoters, with a focus on the strength of the business case, the value for money being provided by the scheme, as set out in the business case and the certainty of value for money assessment provided.
- 1.4 Our role as Independent Technical Evaluator is not to purely assess adherence to guidance, nor to make 'go' / 'no go' decisions on funding, but to provide information to the South East Local Enterprise Partnership Board to make such decisions based on independent, technically expert, and transparent advice. Approval will, in part, depend on the appetite of the Board to approve funding for schemes where value for money is not assessed as being high.
- 1.5 The assessment is based on adherence of scheme business cases to Her Majesty's Treasury's *The Green Book: Appraisal and Evaluation in Central Government*¹, and related departmental guidance such as the Department for Transport's WebTAG (Web-based Transport Analysis Guidance) or the Homes and Communities Agency's *The Additionality Guide*. The Green Book, WebTAG and The Additionality Guide provide proportionate methodologies for scheme appraisal (i.e. business case development).
- 1.6 Pro forma have been developed based on the criteria of *The Green Book*, a 'checklist for appraisal assessment from Her Majesty's Treasury, and WebTAG. Assessment criteria were removed or substituted if not relevant for a non-transport scheme.
- 1.7 Individual criteria were assessed and the given a 'RAG' (Red – Amber – Green) rating, with a summary rating for each case. The consistent and common understanding of the ratings are as follows:
- **Green:** approach or assumption(s) in line with guidance and practice or the impact of any departures is sufficiently insignificant to the Value for Money category assessment.
 - **Amber:** approach or assumption(s) out of line with guidance and practice, with limited significance to the Value for Money category assessment, but should be amended in future submissions (e.g. at Final Approval stage).
 - **Red:** approach or assumption(s) out of line with guidance and practice, with material or unknown significance to the Value for Money category assessment, requires amendment or further evidence in support before Gateway can be passed.
- 1.8 The five cases of a government business case are, typically:

¹ Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

- **Strategic Case:** demonstration of strategic fit to national, Local Enterprise Partnership and local policy, predicated upon a robust and evidence-based case for change, with a clear definition of outcomes and objectives.
- **Economic Case:** demonstration that the scheme optimises public value to the UK as a whole, through a consideration of options, subject to cost-benefit analysis quantifying in monetary terms as many of the costs and benefits as possible of short-listed options against a counterfactual, and a preferred option subject to sensitivity testing and consideration of risk analysis, including optimism bias.
- **Commercial Case:** demonstration of how the preferred option will result in a viable procurement and well-structured deal, including contractual terms and risk transfer.
- **Financial Case:** demonstration of how the preferred option will be fundable and affordable in both capital and revenue terms, and how the deal will impact on the balance sheet, income and expenditure account, and pricing of the public sector organisation. Any requirement for external funding, including from a local authority, must be supported by clear evidence of support for the scheme together with any funding gaps.
- **Management Case:** demonstration that the preferred option is capable of being delivered successfully in accordance with recognised best practice, and contains strong project and programme management methodologies.

1.9 In addition to a rating for each of the five cases, comments have been provided against Central Government guidance on analytical assurance – **reasonableness** of the analysis, risk of error (or **robustness** of the analysis), and **uncertainty**. Proportionality is applied across all three areas.

1.10 Assessments were conducted by a team of transport and economic planning professionals, and feedback and support has been given to scheme promoters throughout the process through workshops, meetings, telephone calls and emails in April/May 2016.

2 Evaluation Results

Gate 2 Results

- 2.1 Table 2.1 below provides the results of our independent and technical evaluation of each scheme seeking funding approval on 10th June 2016 by the South East Local Enterprise Partnership Accountability Board. It includes both our interim assessment ('Gate 1 Assessment') of each Outline Business Case and the subsequent final assessment of the Full Business Case ('Gate 2 Assessment'). More detailed feedback has been issued to each scheme promoter and the secretariat of the South East Local Enterprise Partnership using a standard transport and non-transport assessment pro forma.

Summary Findings and Considerations for the Board

- 2.2 The following list contains recommendations to the Accountability Board, including key findings from the evaluation process and any issues arising.

Business Case Development

- 2.3 The **strategic case** continues to be well made, but we would ask scheme promoters to give greater consideration to the powers and consents required for the implementation of the works. This may include, planning permission for dependent housing developments, required land take or Transport Works Act Orders.
- 2.4 Scheme promoters are often carrying out well considered **economic appraisals** to assess the value for money of the scheme. However, in order to show the resilience of the value for money, sensitivity testing is a requirement that is often overlooked, as well as explicit consideration of optimism bias and contingency (informed by experience and/or a quantified risk assessment).
- 2.5 The **management case** is often lacking a full benefits realisation plan and more consideration should be given to monitoring and evaluation plans.

Recommendations

- 2.6 The following schemes achieve high value for money and medium to high certainty of achieving this:

- Purfleet Centre (£5.0m)
- Rochester Airport (£4.4m)
- A127 Kent Elms Corner Junction (£4.3m plus £0.8m vired from A127 Essential Highways Maintenance)
- Southend Central Area Transport Scheme (S-CATS) (£1.0m)

Other Considerations

- 2.7 Gate 1 and Gate 2 reviews have been carried out for the following schemes and there is further information required before assurance can be provided that schemes achieve high value for money and medium to high certainty. The scheme promoters have opted to bring the schemes to the extraordinary Accountability Board on the 24th June 2016.
- Sturry Link Road (£5.9m)
 - Tunbridge Wells Junction Improvement Package (previously A264 / Hall's Hole Road / Blackhurst Lane Junction Improvement) (£1.2m)
- 2.8 Gate 1 review has been carried out for the following schemes and there is further development of the business case required before assurance can be provided that schemes achieve high value for money and

medium to high certainty. The scheme promoters have opted to bring the schemes to the Accountability Board on the 16th September 2016.

- Coastal Communities Housing-led Regeneration (£2.0m)
- Ashford International Rail Connectivity (£2.0m)

Table 2.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q1 2016/17

Scheme Name	Local Growth Fund Allocation (£m)	Benefit to Cost Ratio ('x' to 1)	Strategic Case Summary	Economic Case Summary	Commercial Case Summary	Financial Case Summary	Management Case Summary	Assurance of Value for Money		
								Reasonableness of Analysis	Robustness of Analysis	Uncertainty
Purfleet Centre	5.0	Gate 1: 6.1	Green/ Amber	Amber	Green	Amber	Amber	Reasonable methodology has been employed	The assumptions framing the economic case need to be updated to reflect changes in Government guidance.	A few inaccuracies within the economic case reduced the certainty provided by the business case..
		Gate 2: 5.6	Green	Green	Green	Green	Green	Reasonable methodology has been employed	Economic case has been updated and accurate methodology has been employed.	Clarification of the economic case was provided. The analysis is reliable.
Rochester Airport	4.4	Gate 1: 1.7	Green/ Amber	Green/ Amber	Green/ Amber	Amber	Green/ Amber	Reasonable methodology employed with improvement required in the financial case	More clarity required over the allocation of benefits in the economic case due to the fact that this is phase one of a multiphase scheme.	There are minor inaccuracies in the business case which reduce certainty.
		Gate 2: 2.2	Green	Green	Green	Green	Green	Methodology followed is reasonable and proportionate throughout.	Clarity has been provided resulting in robust analysis being carried out in this business case.	Inaccuracies have been cleared up and the business case provides a high level of certainty.
A127 Kent Elms Corner Junction	4.3 plus 0.8 vired from A127 Essential Highways Maintenance	Gate 1: 6.0	Green/ Amber	Red/Amber	Green	Red/Amber	Green	Reasonable and proportionate method, some more analysis required.	There is some confusion over the economic case. Clarification is required.	There is some uncertainty, particularly around the financial and economic cases.
		Gate 2: 4.5	Green	Green	Green	Green	Green	Reasonable and proportionate method followed throughout.	Additional analysis has ensured that the analysis is robust.	Additional analysis has provided a good degree of certainty and assurance.

Scheme Name	Local Growth Fund Allocation (£m)	Benefit to Cost Ratio ('x' to 1)	Strategic Case Summary	Economic Case Summary	Commercial Case Summary	Financial Case Summary	Management Case Summary	Assurance of Value for Money		
								Reasonableness of Analysis	Robustness of Analysis	Uncertainty
Southend Central Area Transport Scheme (S-CATS)	1.0	Gate 1: 21.3	Amber	Red/Amber	Green	Red/Amber	Green	Reasonable methodology with a need for a more detail in the economic case.	More clarity required over the assumptions used in the economic case	Further clarity is required around the economic and financial cases.
		Gate 2: 24	Green	Green	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis has been carried out.	The analysis gives a good degree of certainty.

Our offices

Bogotá, Colombia

+57 1 322 1470

colombiainfo@sdgworld.net

Bologna, Italy

+39 051 656 9381

italyinfo@sdgworld.net

Boston, USA

+1 (617) 391 2300

usainfo@sdgworld.net

Denver, USA

+1 (303) 416 7226

usainfo@sdgworld.net

Leeds, England

+44 113 389 6400

leedsinfo@sdgworld.net

London, England

+44 20 7910 5000

sdginfo@sdgworld.net

Los Angeles, USA

+1 (213) 337 6790

usainfo@sdgworld.net

Madrid, Spain

+34 91 541 8696

spaininfo@sdgworld.net

Mexico City, Mexico

+52 (55) 5615 0041

mexicoinfo@sdgworld.net

New York, USA

+1 (617) 391 2300

usainfo@sdgworld.net

Rome, Italy

+39 06 4201 6169

italyinfo@sdgworld.net

San Juan, Puerto Rico

+1 (787) 721 2002

puertoricoinfo@sdgworld.net

Santiago, Chile

+56 2 2757 2600

chileinfo@sdgworld.net

São Paulo, Brazil

+55 (11) 3151 3630

brasilinfo@sdgworld.net

Toronto, Canada

+1 (647) 260 4860

canadainfo@sdgworld.net

Vancouver, Canada

+1 (604) 629 2610

canadainfo@sdgworld.net