Report to Accountability Board	Forward Plan reference number: FP/AB/062 FP/AB/064
Date of Accountability Board Meeting: 20th January 2017 **Date of report:** 1st January 2017	
Title of report: Business Case Approvals for LGF Round 3 projects	
Report by: Rhiannon Mort	
Enquiries to: rhiannon.mort@essex.gov.uk	

1. Purpose of report

1.1 The purpose of this paper is to make the Accountability Board (the Board) aware of the value for money assessment of business cases for schemes having been through the Independent Technical Evaluator (ITE) process to support decision making for Local Growth Funding (LGF) to be devolved to scheme sponsors (county and unitary councils) subject to an LGF 3 allocation to these two projects.

2. Recommendations

2.1 The Board is asked to approve the following LGF round 3 allocations following the ITE assessment of each business case. These allocations are subject to LGF round 3 funding being allocated to these projects by Government and sufficient funds being made available to SELEP by Government:

2.1.1 **Approve** the allocation of £8.2m of LGF to East Sussex Strategic Growth Project, to support the delivery of the project as identified in the Business Case and which has been assessed as presenting high value for money, but with low to medium certainty of achieving this, subject to the condition set out in paragraph 4.15.

2.1.2 **Approve** the allocation of £1.6m of LGF to Eastside Business Park, to support the delivery of the project as identified in the Project Business Case and which has been assessed as presenting high value for money, with a medium to high certainty of achieving this.

2.2 **Approve** the recommended option 1 for the management and oversight of the £2m LGF spend on the Coastal Communities Group Housing Regeneration Project via the three upper tier authorities; East Sussex County Council, Essex County Council and Kent County Council.

3. Background

3.1 This report brings forward Eastside Business Park and East Sussex Strategic Growth Project for the allocation of LGF to these projects.

3.2 The two projects have been included as part of SELEP LGF round 3 Growth Deal submission to Government. It is anticipated that an LGF Round 3 funding announcement will be made by Government shortly before or after the Accountability Board meeting. This announcement is expected to confirm the exact amount of funding to be allocated to SELEP through LGF Round 3.

3.3 If Government has not made an LGF Round 3 announcement by the date of the meeting, Accountability Board approval is sought to agree the award of funding to these projects, subject to the successful award of funding by Government as part of LGF Round 3.

3.4 The Eastside Business Park and East Sussex Strategic Growth Projects were included within the SELEPs LGF Round 3 Growth Deal submission to Government in July 2016.

3.5 Subject to Board approval for the projects and a successful LGF Round 3 allocation by Government to these projects, LGF will be transferred based on the quarterly spend forecast submitted to SELEP and agreed by the Board.

3.6 If either project is unsuccessful in securing an LGF allocation through the round 3, no LGF will be transferred in relation to that project without a further decision being sought from the Board.

3.7 The two projects have successfully completed the ITE process, a requirement of the SELEP Assurance Framework, in advance of a LGF Round 3 funding announcement by Government.

3.8 If the Business Cases for these projects are approved by the Board, options to accelerate the spend of LGF on these projects during 2016/17 will be considered and the relevant approvals will be sought from the Board at the next meeting on the 24th February 2017.

3.9 The ITE report sets out the detailed analysis of the projects. This report is included in Appendix A.

4. East Sussex Strategic Growth Package

4.1 The East Sussex Strategic Growth project was ranked 12 in the SELEP submission to Government, and seeks to invest £8.2m of LGF in the delivery of new high quality employment space in East Sussex.

4.2 The primary aim of the project is to help address businesses' dissatisfaction with the appropriateness, quality and/or quantity of premises available by providing quality employment space for existing business to grow and to provide bespoke accommodation options for com1ies seeking to relocate to the area.

4.3 The investment will be targeted at three key locations:

- Bexhill Enterprise Park
- Sovereign Harbour Innovation Park
- South Wealden

4.4 The expected new employment floorspace to be delivered at each location through LGF investment is identified in Table 1 below.

Table 1 – Employment floorspace to be delivered through LGF investment

	Employment Floorspace (Sq. m, NIA)	Construction works to be completed
Bexhill Enterprise Park (Phase 2)	2,348 B1 (a)	2017/18
Bexhill Enterprise Park (Phase 2.5)	1,500 B1 (a)/ B1 (c)	2017/18
Bexhill Enterprise Park (Phase 3)	1,174 B1 (a)	2020/21
Sovereign Harbour Innovation Park	2,344 B1 (a)	2018/19
South Wealden	2,344 B1 (a)	2019/20

4.5 In addition to the employment floorspace set out in Table 1 above, the income generated from this initial investment in employment space will enable further investment. The private sector income generated from the let of the new employment space will be re-invested in projects such as the Priory Quarter Phase 4. This will enable further indirect benefits to be achieved.

4.6 The private sector leverage which will be invested during the lifetime of the project amounts to £13m. This will support the delivery of future phases of the East Sussex Strategic Growth Package to 2020/221.

Outcome of ITE review

4.7 The East Sussex Strategic Growth Project has been assessed as presenting high value for money, but the assessment is associated with a significant level of uncertainty.

4.8 The economic case for the project has been assessed based on the Gross Value Added (GVA) benefits from the new jobs which will be created through the intervention. The BCR value calculated based on the assessment of both direct and indirect benefits is extremely high at 127.6:1. When the impact of only the direct investment is considered, the BCR value remains high at 40:1.

4.9 The uncertainty in the value for money calculation has been highlighted by the ITE due to the assessment of the scheme being based on GVA rather than standard welfare terms. The assessment of project benefits based on welfare benefits is the Government recommended approach set out in the Treasury Green Book.

4.10 Under SELEP's Assurance Framework, "Value for money is assessed on the basis of the methodology outlined in The Green Book published by the Treasury; this assessment includes the calculation of the benefit cost ratio, used as an indicator of VfM".

4.11 The Value for Money assessment which has been completed for the scheme has not strictly complied with the assessment approach set out in the Green Book, but has followed an industry recognised practice to calculate a BCR using the GVA assessment to inform the Value for Money assessment, and there is precedent of using such an approach for SELEP-funded schemes.

4.12 The ITE has advised that if the benefits of the scheme were assessed based on welfare benefits it is expected that the BCR would reduce, but owing to the exceptionally high value for money, the BCR would continue to present high value for money. There is no simple translation between GVA and welfare benefits, but in the context of new jobs welfare benefits are usually 30% – 40% of the corresponding GVA benefits.

4.13 This suggests that the BCR calculated on welfare benefits is likely to be between 12:1 and 16:1, considering the direct impact on the investment only.

4.14 In addition, uncertainty has been raised through the ITE review of the Business Case, as the spreadsheet model developed as part of the Value for Money development was not made available to support the ITE review. Whilst the Gate 2 Business Case submission included an explanation which set out the details of a robust methodology having been followed, the appraisal spreadsheets itself was not made available to the ITE to ensure compliance and to assess the robustness of analysis following this methodology.

4.15 It is recommended that the approval of the project by the Board should include the caveat to the ITE being provided with evidence that the scheme appraisal has been completed using the methodology as has been set out in the project Business Case, such as through sharing the spreadsheet model used to complete the analysis.

4.16 The expected outcomes and project cost will be monitored through the established quarterly monitoring process for all LGF projects. If there are any changes to the project which may impact upon the projects value for money case, the Business Case will be re-assessed and a further decision will be sought from the Board.

5. Eastside Business Park (South), Newhaven

5.1 The Eastside Business Park (South) project was ranked 19 in the SELEP submission to Government, and involves the development of a 2.26ha employment site in Newhaven, East Sussex. Eastside (South) is now one of the undeveloped sited in Newhaven’s new Enterprise Zone.

5.2 A £1.6m LGF investment in the project will bridge a site development viability gap to enable the developers of the site, Westcott Leach Ltd, to unlock the site for development and establish a sustainable business location. The site plays a key role in the successful development of the new Enterprise Zone.

5.3 It is intended that the £1.6m LGF investment will directly fund the development of Phase 1 of the development for two blocks of affordable starter business units, each being 1,191 m²/12,820 ft².

5.4 The Phase 1 development will provide the capacity for 204 gross jobs at the site and create a total of 264 net jobs (when both direct and indirect job creation are considered).

5.5 Should LGF be allocated to support Phase 1, the developers provide a commitment to deliver Phase 2 of the development for the speculative build of 2,382 m² of further commercial employment space.

5.6 The private sector investment in delivering Phase 2 of the development will form part of the £6.2m private sector funding leverage which will enable remaining phases of the business park to be completed.

5.7 The overall objectives of the scheme are to:
- 5.7.1 Bring forward the development of new commercial floorspace; and
- 5.7.2 Meet the identified need for commercial floorspace of an appropriate type and quality for modern business needs.

Outcomes of ITE review

5.8 The assessment of the Business Case for Eastside Business Park confirms that the project presents high value for money and with a medium to high certainty of achieving this.

5.9 The economic case for the project has been assessed based on the economic benefit of the project in creating 264 new jobs through Phase 1 of the intervention. The assessment of the Gross Value Added (GVA) per job created through the investment, indicates a Benefits Cost Ratio (BCR) of 40:1, representing very high value for money.

5.10 The BCR value for this project has also been assessed based on the GVA rather than the social welfare benefits of the project.

5.11 The Value for Money assessment which has been completed for the scheme has not strictly complied with the assessment approach set out in the Green Book, but has followed an industry recognised practice to calculate a BCR using the GVA assessment, to inform the Value for Money assessment.

5.12 As the LGF contribution to the project is below £2m, the project falls within the exemption for a high BCR to be demonstrated for the project following the Green Book methodology, where:

- There is an overwhelming strategic case (with minimal risk in the other cases);

- Scheme benefits are notoriously difficult to appraise in monetary terms and there are qualitative benefits which if monetised would most likely increase the BCR above two-to-one

5.13 The ITE review has indicated that there is a clear strategic case for the project to address a viability issue and to unlock new employment space at the Newhaven Enterprise Zone.

5.14 Given the GVA assessment demonstrating a high Value for Money and the strong strategic case for the project, this project is considered to fall within this exemption.

6. Coastal Communities Housing Intervention Project

6.1 The Coastal Communities Housing Intervention Project was submitted as part of LGF Round 1 as a pan LEP project for housing interventions to be delivered in three coastal communities; Tendring, Thanet and Hastings.

6.2 The project was considered at the last Accountability Board meeting on the 18th November 2016. There was a request at this meeting for further clarity to be provided about where the responsibilities and risk would sit under the two potential options which are being considered for the management of the project.

6.3 An officer meeting was held on the 29th December 2016 involving all three District Authorities and Upper Tier Authorities to discuss the management of the project and the reporting requirements once a funding decision has been made by the Board.

6.4 The project Business Case is currently being developed and it is intended that the project will be brought forward for approval of funding at the next Board meeting on the 24th February.

6.5 To ensure that the appropriate S151 officer provides the letters of assurance alongside the Business Case submission, the Board's approval is sought to agree the governance arrangements for this project in advance of a funding decision being taken.

Context

6.6 In total there is a £2m Local Growth Fund allocation to the project which is matched with £8.8m of local funding contributions.

6.7 The detail of this funding breakdown is shown in Table 2, but the spend profile for 2016/17 may be amended as part of the revised Business Case submission for consideration by the Board on the 24th February 2017.

Table 2 Funding Profile for Coastal Communities Housing Intervention Projects

		2016/17 (£m)	2017/18 (£m)	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	Total (£m)
Thanet District	Local Growth Fund	0.090	0.577	0.000	0.000	0.000	0.667
	Local Funding	0.045	0.395	0.472	0.100	0.000	1.012
	Total	0.135	0.972	0.472	0.100	0.000	1.679
Tendring	Local Growth Fund	0.309	0.358	0.000	0.000	0.000	0.667
	Local funding	0.053	0.080	0.369	1.274	1.274	3.049
	Total	0.362	0.438	0.369	1.274	1.274	3.715
Hastings	Local Growth Fund	0.065	0.602	0.000	0.000	0.000	0.667
	Local funding	0.028	0.053	2.690	0.000	0.000	2.770
	Total	0.093	0.654	2.690	0.000	0.000	3.437
Total Local Growth Fund		0.464	1.536	0.000	0.000	0.000	2.000

6.8 Currently the project is set out as three separate packages. It is intended that the £2m LGF funding allocation will be split equally between the three coastal communities and managed as three separate packages of investment. The specific interventions to be delivered within each of the three coastal communities will differ. The specific interventions to be delivered within the three coastal communities are as follows:

Tendring District	LGF will be invested at the Tendring Mermaid development site, to enable the delivery of 380 new homes to accommodate key workers.
Thanet District	LGF funding will be used to continue the programme of converting empty or problem properties to family accommodation, creating 12 additional homes.

Hastings District	LGF will be used to fund new build development on the site of a former prominent and large problem property in the St Leonards intervention area (Hillesden Mansions). The development will deliver 17 new affordable homes.

6.9 There is currently no lead authority or lead Accountability Board Member responsible for the delivery of this project. The two options available for the transfer and management of LGF include; the transfer of LGF to the three upper tiers authorities involved for transfer to the relevant District (Option 1) or for the transfer of LGF directly to the District Authorities (Option 2).

Option 1 – Transfer to Upper Tier Authorities (preferred option)

6.10 Under Option 1 the £0.666m LGF allocation for each of the three Coastal Communities will be transferred to the three upper tier authorities (Essex, Kent and East Sussex) under the current Service Level Agreement (SLA) with SELEP Accountable Body. The upper tier authority would then transfer LGF to the District Authority and provide reporting back to SELEP on the delivery of the project.

6.11 The responsibility for spend of LGF and project delivery would sit with the Upper Tier Authorities. It is expected that the conditions of LGF spend, included within the Service Level Agreement between SELEP and the Upper Tier Authorities would be transferred to the District Authorities through Grant Agreements or Service Level Agreements between the Upper Tier and District Authority.

6.12 The interventions being delivered by Thanet, Hastings and Tendring would be managed as three separate projects. Project reporting would be presented to each of the Federal Boards in relation to the project.

6.13 The management of the projects via the County Councils will give the opportunity for scheme promoters to learn from the experience of the County Councils in delivering LGF projects.

6.14 It is also expected that the SELEP Coastal Communities Group would have a role in overseeing project delivery and sharing lessons between the projects being delivered in the three Districts.

Option 2 – Transfer direct to District

6.15 Under Option 2 new Service Level Agreements would be developed between SELEP Accountable Body and each of the three District Authorities to enable the funding to transfer directly. Project updates would be directly reported to SELEP Secretariat and SELEP Accountability Board. There would be no board member to represent the project at SELEP Accountability Board.

6.16 There are currently no LGF projects which are managed directly by District Authorities. This would set a new president and deviate from the current management of LGF projects by upper tier authorities.

6.17 It is recommended to Accountability Board that the Coastal Communities Housing Interventions project is managed under Option 1. This would follow a consistent approach to the management of other LGF projects which are being delivered by District Authorities, but the LGF spend is overseen by the County Council/ Unitary Authorities under the current Service Level Agreements with SELEP Accountable Body.

7. Financial Implications

7.1 The projects requesting funding approval form part of the request to Government for LGF3 funding which has yet to be confirmed. Subject to approval, any funding for these projects will be subject to confirmation of future year grant payments from Government.

7.2 There are SLAs in place with the relevant sponsoring authorities which make clear that future year funding can only be made available when the Government has transferred LGF to the Accountable Body.

8. Legal Implications

8.1 There are no legal implications of the recommendation set out at 2.1.1 and 2.1.2.

8.2 If Accountability Board approve the management of the LGF spend for the Coastal Communities project under Option 1, the funding will be transferred under the existing Service Level Agreements set up between SELEP Accountable Body and the respective County Council. This already provides the required assurances around monitoring and reporting and has been signed by the respective upper tier authorities. However, if the funding is approved under Option 2, new Service Level Agreements will be required between SELEP Accountable Body and each of the three District Authorities, and whilst these should seek to mirror those assurances and monitoring requirements as contained in the upper tier authorities SLA's, there is always the possibility that there could be local variation to individual SLA's or a failure to sign up on agreed terms.

9. Staffing and other resource implications

9.1 None at present.

10. Equality and Diversity implications

10.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:

(a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
(b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

11.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

11.3 In the course of the development of the project business case, the delivery of the project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and were possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

11. List of Appendices

11.1 In support of this paper is Appendix 1 - Report of the Independent Technical Evaluator.

12. List of Background Papers

- Business Case for Eastside Business Park
- Business Case for East Sussex Strategic Growth Project

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	**Date**
Accountable Body sign off Lorna Norris (On behalf of Margaret Lee)	12.01.2017