

Independent Technical
Evaluator – Growth Deal
Business Case Assessment
(Q2 2016/17)

Accountability Board Report
September 2016

South East Local Enterprise
Partnership

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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. Recommendations are made for funding approval on 16th September 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, and comment on the strength of business case, the value for money being provided by the scheme, as set out in the business case and the certainty of that value for money.
- 1.4 Our role as Independent Technical Evaluator is not to purely assess adherence to guidance, nor to make a '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, technical expert, clear, 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 (i.e. where a benefit to cost ratio is below two to one and / or where information and / or analysis is incomplete).
- 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*. Both 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 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 July and August 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 16th September 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 inclusion 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.
- 2.6 If scheme promoters submit appendices or business cases that contain commercially sensitive material, could it be made clear to Steer Davies Gleave (Independent Technical Evaluator) and Rhiannon Mort (Capital Programme Manager) to ensure that these sections are redacted before the business case is published.

Recommendations

- 2.7 The following scheme achieves high value for money and medium to high certainty of achieving this:
- A127 Bridge & Highway Maintenance (£1.0m)
- 2.8 The following scheme achieves high value for money but with low to medium certainty of achieving this:
- Ashford International Rail Connectivity (£5.6m) – it should be noted that the funding will allow the scheme to progress to Network Rail stage GRIP 3a and the production of a more detailed business case to unlock the further funding should it be granted through the Local Growth Fund 'Round 3' submission.

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
A127 Bridge & Highway Maintenance	1.0	Gate 1: N/A	Green	N/A	Green	Amber	Green	Reasonable methodology has been employed	The assumptions framing the financial case need to be clarified to ensure sufficient contingency has been allowed	A few inaccuracies within the financial case reduced the certainty provided by the business case.
		Gate 2: N/A	Green	N/A	Green	Green	Green	Reasonable methodology has been employed	Financial case has been updated and accurate methodology has been employed.	Clarification of the economic case was provided. The analysis is reliable.
Ashford International Rail Connectivity	5.6	Gate 1: 9.0	Red/ Amber	Green/ Amber	Green	Red/ Amber	Amber	WebTAG methods not well suited to estimating the benefits of non-marginal changes to service levels.	Errors identified within spreadsheets underlying transport user benefit calculations.	High level of uncertainty due to non-marginal nature of scheme and lack of transport model
		Gate 2: 3.6	Green	Green	Green	Green	Green/ Amber	WebTAG analysis supplemented with HCA additionality analysis. Both methods are reasonable, but simplistic.	The assumptions used to inform the methods used are reasonable and robust. However, the absence of a transport model places a limit on the robustness of behaviour change assumptions	There remains a high level of uncertainty associated with the value for money assessment, although upside risks are expected to outweigh downside risks.

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