

Independent Technical
Evaluator – Growth Deal
Business Case Assessment
(Q4 2015/16 and Q1
2016/17 Starting Projects)

Gate 2 Report
February 2016

South East Local Enterprise
Partnership

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Our ref: 22790502

Prepared by:

Steer Davies Gleave
28-32 Upper Ground
London SE1 9PD

+44 20 7910 5000
www.steerdaviesgleave.com

Prepared for:

South East Local Enterprise Partnership
Secretariat
c/o Essex County Council
County Hall
Market Road
Chelmsford
Essex
CM1 1QH

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Contents

| | | |
|----------|---|----------|
| 1 | Independent Technical Evaluation of Q4 2015/16 starting Growth Deal Schemes..... | 1 |
| | Overview | 1 |
| | Method | 1 |
| 2 | Evaluation Results | 3 |
| | Gate 2 Results | 3 |
| | Summary Findings and Considerations for the Board | 3 |

1 Independent Technical Evaluation of Q4 2015/16 and Q1 2016/17 starting Growth Deal Schemes

Overview

- 1.1 Steer Davies Gleave and SQW were appointed by the South East Local Enterprise Partnership in February 2015 as Independent Technical Evaluators. It is a requirement of Central Government that every Local Enterprise Partnership subjects its business cases and decision on investment to independent scrutiny.
- 1.2 This report is for the second gateway review ('Gate 2') of Full Business Cases for schemes which were allocated funding through the Growth Deal process during 2014/15 and are seeking funding in the fourth quarter (Q4) of 2015/16 to start in that quarter or in the first quarter (Q1) of 2016/17. Recommendations are made for funding approval on 12th February 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 Gate 2 review provide comment on the Full Business Cases submitted by scheme promoters, and to comment on the strength of business case and the value for money being provided by the scheme, as set out in the business case.
- 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 Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

1.8 The five cases of a government business case are, typically:

- **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 between December 2015 and February 2016.

2 Evaluation Results

Gate 2 Results

- 2.1 Table 1.1 below provides the results of our independent and technical evaluation of each scheme seeking funding approval on 12th February 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 of alternative options and a stronger rationale for dismissing certain options related to the objectives of the scheme.
- 2.4 For the majority of schemes, some form of recognised and proportionate **economic appraisal** has taken place, typically supported by consultants. For non-transport schemes or schemes being brought forward by non-local government partners, scheme promoters have found this a greater challenge, and initial discussions with scheme promoters who are at the early stages of this process demonstrates significant knowledge gaps which could jeopardize successful scheme development and delivery.
- 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

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

- Folkestone Seafront (£5.0m)
- Southend and Rochford Joint Area Action Plan (Airport) (£3.2m)
- A28 Chart Road (£10.2m)
- Maidstone Integrated Transport Package (£8.9m)
- Rathmore Road Link (£4.2m)
- Swallow Business Park (£1.4m)
- Middle Deal Transport Improvements (£0.8m)
- Sovereign Harbour (£1.7m)

Table 2.1: Gate 1 Assessment of Growth Deal Schemes seeking Approval for Funding for Q4 2015/16

| 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 |
| Folkestone Seafront | 5.1 | GATE 1: 61 | Amber | Amber | Red | Red | Red | A reasonable business case, but lacking clarity in several areas. | More evidence of deliverability and affordability required. | More auditability required in economic case. |
| | | GATE 2: 64 | Green/Amber | Green/Amber | Green | Green/Amber | Green/Amber | Reasonable and proportionate method followed. | Robust analysis performed. | The analysis gives a good degree of certainty. |
| Southend and Rochford Joint Area Action Plan (Airport) | 3.2 | GATE 1: 117 | Amber | Red | Amber | Green | Red | Reasonable methodology with a need for improved economic and management cases. | Robust analysis with a few improvements required in the management case | Inaccuracies within the economic case. |
| | | GATE 2: 117 | Amber | Green/Amber | Green | Green | Green/Amber | Reasonable and proportionate methodology has been carried out. | Robust analysis throughout. | The analysis gives a good degree of certainty. |
| A28 Chart Road | 10.2 | GATE 1: 2.86 | Amber | Amber | Amber | Amber | Green | Reasonable methodology with a need for a more extensive strategic case. | There is some confusion over the financial case | A few inaccuracies within the economic case. |
| | | GATE 2: 2.86 | Green | Green | Green | Amber | Green | A reasonable business case, with a transparent appraisal modelling. | Accurate methodology carried out. | Clarification of the economic case was provided. The analysis is reliable. |
| Maidstone Integrated Transport Package | 1.3 | GATE 1: 3.97 | Amber | Amber | Green / Amber | Green / Amber | Green/Amber | Reasonable and proportionate method followed though. | Some inaccuracies in the economic case | The analysis gives a good degree of certainty. |
| | | GATE 2: 3.97 | Green | Green | Green / Amber | Green / Amber | Green | Reasonable and proportionate method followed though. | Robust analysis performed. | The analysis gives a good degree of certainty. |

| 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 |
| Rathmore Road Link | 4.2 | GATE 1: 2.2 | Amber | Amber | Green | Green | Green | Generally reasonable but more clarity is required in the economic case. | There are inaccuracies in the economic and strategic case | The analysis gives a good degree of certainty. |
| | | GATE 2: 2.2 | Green | Green | Green | Green | Green | Reasonable and proportionate analysis has been carried out. | Robust analysis, although improvements required in the economic case. | The analysis gives a good degree of certainty. |
| Swallow Business Park | 1.4 | GATE 1: 27.5 | Green | Green | Green | Green | Green | A sensible and proportionate methodology has been applied. | Robust analysis although improvements required in the strategic and management case.. | Reliable analysis has been carried out. |
| | | GATE 2: 27.5 | Green | Green | Green | Green | Green | A sensible and proportionate methodology has been applied. | Robust analysis although improvements required in the strategic and management case.. | Reliable analysis has been carried out. |
| Middle Deal Transport Improvements | 0.8 | GATE 1: N/A | Amber | Amber | Amber | Amber | Amber | Sensible and proportionate methodology. | Inaccuracies in the HCA methodology employed. | Management case does not sufficiently demonstrate the deliverability of the scheme. |
| | | GATE 2: 12.3 | Green | Amber | Green | Green | Green | Sensible and proportionate methodology. | Robust analysis has been carried out to support the case with all issues clarified | There is adequate certainty about the value for money and strategic need for this scheme. |

| 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 |
| Sovereign Harbour | 1.7 | GATE 1: 83:1, 32:1 and 21:1 | Green | Amber | Green | Red | Amber | Some inaccuracies in the methodology | Quantitative analysis is required to make a robust case. | Some analysis still required to reduce uncertainty. |
| | | GATE 2: 83:1, 32:1 and 21:1 | Green | Green | Green | Green | Green | Reasonable and proportionate analysis has been carried out. | Robust analysis has been carried out to support the case. | Low levels of uncertainty in the business case |

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