

# Independent Technical Evaluator - Local Growth Fund Business Case Assessment - Q4 2018/19 Report

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Client ref: F1523058  
Our ref: 22790507

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# 1 Independent Technical Evaluation of Q1 2019/20 Growth Deal Schemes

## Overview

- 1.1 Steer was reappointed by the South East Local Enterprise Partnership in April 2016 as Independent Technical Evaluator. 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 final Business Cases for schemes which are seeking funding through Local Growth Fund Rounds 1 to 3. Recommendations are made for funding approval on 12<sup>th</sup> April 2019 by the Accountability Board, in line with the South East Local Enterprise Partnership's own governance.

## Method

- 1.3 The review provides commentary on the Business Cases submitted by scheme promoters, and feedback on the strength of business case, the value for money likely to be delivered by the scheme (as set out in the business case) and the certainty of securing 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 evidence to the South East Local Enterprise Partnership Board to make such decisions based on expert, independent 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*<sup>1</sup>, and related departmental guidance such as the Department for Transport's WebTAG (Web-based Transport Analysis Guidance) or the DCLG/MHCLG Appraisal Guide. All of these 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 and DGLG/MHCLG Appraisal Guide.

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<sup>1</sup> Source: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220541/green\\_book\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf)

- 1.7 Individual criteria were assessed and the given a 'RAG' (Red – Amber – Green) rating, with a summary rating for each dimension. 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 dimensions of a government business case are:
- **Strategic Dimension:** 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 Dimension:** 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 Dimension:** demonstration of how the preferred option will result in a viable procurement and well-structured deal, including contractual terms and risk transfer.
  - **Financial Dimension:** 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 Dimension:** 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 dimensions, 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 during February 2019 and March 2019.

## Evaluation Results

- 1.11 Eight outline business cases have been assessed for schemes seeking Local Growth Funding. Below are our recommendations to the Accountability Board, including key findings from the evaluation process and details of any issues arising.

### *Recommendations*

- 1.12 The following schemes achieves high value for money with high to medium certainty of achieving this:
- **Maidstone Integrated Transport Package Phase 3 (£6.2m):** The scheme aims to reduce congestion and ease traffic movements through the town with objective of delivering an increase in housing and employment. The package is made up of a number of key corridor/junction locations which are forecast to suffer from congestion and delay and have been identified for improvement. The business case analysis provides a proportionate assessment of the scheme costs and benefits and results in a strong benefit cost ratio representing high value for money for all three components of the scheme. The analysis was robustly carried out using Department for Transport WebTAG and delivers high levels of certainty around this value for money categorisation.

1.13 The following schemes achieves high value for money with medium certainty of achieving this:

- **Thanet Parkway (£14m):** This proposed new railway station will be located approximately 2 miles east of Ramsgate on the Ashford International to Ramsgate line, south of the Manston Airport site and just to the west of the village of Cliffsend. Thanet Parkway will increase rail connectivity between East Kent, London and the wider Kent area by providing access to mainline and high speed services. The project will provide access to more employment opportunities for local residents. It will also improve investment opportunities at Discovery Park Enterprise Zone and surrounding business parks in Thanet.

The business case analysis was carried out using Department for Transport's WebTAG which has shown that the additional revenue generated by the delivery of the scheme will significantly exceed its operating and capital costs combined. This is indicative that the scheme represents high financial value for money.

Department for Transport rail appraisal guidance requires that the revenue generated by a scheme is treated as a negative cost of the project rather than a benefit. Therefore, because the revenue generated by the scheme (negative costs) exceeds the capital costs (positive costs), the net present value of costs is negative. The benefit cost ratio is derived by dividing the scheme benefits by the costs so with a negative net present value of costs this results in a negative benefit cost ratio.

According to the Department for Transport's Value for Money Supplementary Guidance on Categories, for projects with a negative present value of costs, if the net present public value is positive and the benefit cost ratio is negative the project is considered to demonstrate very high value for money.

The economic appraisal for the project shows that the net present public value is £22.342m with a negative benefit cost ratio, therefore the project represents very high value for money.

However, there remain areas of the economic appraisal where clarification is required and about which there is currently uncertainty around value for money impact. These include:

- **Inclusion of crowding benefits:** on high speed services, trains in the AM peak are currently at capacity, whilst on classic services, trains are 85-100% full. Adding passengers to these services would increase levels of crowding for existing users, on relatively long journeys into London. The impact of this has not yet been analysed.
- **Certainty of funding requirement:** there remains some uncertainty around the project cost. In order to fully assure value for money, a confirmed, total project cost is required.

We invite the Accountability Board to consider these areas where clarification is required before determining whether or not to approve funding for the scheme.



1.14 The South East Local Enterprise Partnership Assurance Framework states that schemes may be eligible for exemption from quantified benefit cost analysis when the cost of the project is below £2.0m and there is an overwhelming strategic case (with minimal risk in the other cases). The following scheme is subject to this exemption and it is estimated that it will achieve high value for money. However, without quantified benefit cost analysis we cannot assure this outturn value for money categorisation. Therefore, our recommendation is that there is a low/medium certainty of achieving high value for money:

- **Kent Strategic Congestion Management Programme (£1.1m):** The programme involves improvements to maximise the efficiency of the local highway network as traffic levels increase in line with development. Due to small-scale nature of proposed interventions, only one of the components of the scheme has been subject to a quantified assessment methodology. To provide an indication of the Value for Money for other components, a benchmarking exercise was carried out. Based on other schemes and experience, it is estimated that the combination of schemes would represent high value for money.

We are satisfied an overwhelming strategic case has been made for this scheme and that there is minimal risk in the other cases. However, we invite the Accountability Board to consider the risk that a lack of quantified benefit cost analysis presents before determining whether or not to approve funding for the scheme.

- **Kent Sustainable Interventions Programme (£1m):** The 2019/20 and 2020/21 Kent Sustainable Interventions Programme funding bid comprises two schemes that will complement the upgrade of Maidstone East Station. Since the funding request is less than £2m a full Value for Money assessment is not required and a proportionate, high level assessment utilising experience from similar schemes has been undertaken. This analysis indicates high value for money.

We are satisfied that an overwhelming strategic case has been made for this scheme and that there is minimal risk in the other cases. However, we invite the Accountability Board to consider the risk that a lack of quantified benefit cost analysis presents before determining whether or not to approve funding for the scheme.

**Table 1.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q1 2019/20**

Scheme Name	LGF Allocation (£m)	Benefit to Cost Ratio ('x' to 1)	Strategic Dimension Summary	Economic Dimension Summary	Commercial Dimension Summary	Financial Dimension Summary	Management Dimension Summary	Assurance of Value for Money		
								Reasonableness of Analysis	Robustness of Analysis	Uncertainty
Outline business cases										
Maidstone Integrated Transport Package	£6.2m	Gate 1: Component 1: 7.8 Component 2: 2.7 Component 3: 4.3	Amber/ Green	Amber	Green	Amber	Red/Amber	A reasonable approach has been adopted using WebTAG guidance including the active mode appraisal guidance (WebTAG Unit A5-1), with local data being used where available.	Some of the details of the assumptions underpinning the analysis have not been provided.	The provision of a work programme and details on stakeholder engagement would provide greater certainty of deliverability.
		Gate 1: Component 1: 7.3 Component 2: 2.7 Component 3: 4.3	Green	Amber/ Green	Green	Amber/ Green	Amber/ Green	As above.	Identification and justification of assumptions has been provided which gives confidence that the approach is robust.	Additional information around how the project delivery timescales and how stakeholders will be engaged as the project progresses has been provided.
Thanet Parkway	£14m	Gate 1: NPV £28.7m	Amber/ Green	Red/Amber	Amber/ Green	Amber	Amber	A reasonable approach using WebTAG guidance has been used to calculate the transport related benefits. Given the scale of the scheme we would expect the crowding and non user benefits to be calculated.	There is lack of clarity around the assumptions which underpin the analysis.	There is some uncertainty caused by the fact that crowding impacts and non-user benefits have not be robustly calculated.  There is also uncertainty as to the deliverability of the scheme and spending of the LGF within the timescales.

Scheme Name	LGF Allocation (£m)	Benefit to Cost Ratio ('x' to 1)	Strategic Dimension Summary	Economic Dimension Summary	Commercial Dimension Summary	Financial Dimension Summary	Management Dimension Summary	Assurance of Value for Money		
								Reasonableness of Analysis	Robustness of Analysis	Uncertainty
		<b>Gate 1: NPV £22.3m</b>	<b>Green</b>	<b>Amber</b>	<b>Green</b>	<b>Amber/ Green</b>	<b>Amber</b>	As above. The impact of crowding has not been considered which is expected to have a material impact on the value for money of the scheme.	Identification and justification of assumptions has been provided which gives confidence that the approach is robust.	As above
<b>Kent Strategic Congestion Management Plan</b>	<b>£1.1m</b>	<b>Not derived</b>	<b>Amber</b>	<b>Amber</b>	<b>Amber/ Green</b>	<b>Amber</b>	<b>Amber</b>	A sensible and proportionate methodology has been applied. The scheme is subject to an exemption from quantitative economic appraisal.	A qualitative approach to economic appraisal has been employed which is typically less robust than a quantitative approach.	A qualitative approach results in less certainty around the Value for Money of the scheme.
			<b>Amber/ Green</b>	<b>Amber</b>	<b>Green</b>	<b>Amber/ Green</b>	<b>Amber/ Green</b>	As above.	As above.	As above.
<b>KSIP</b>	<b>£1m</b>	<b>Not calculated</b>	<b>Amber</b>	<b>Amber</b>	<b>Amber</b>	<b>Green</b>	<b>Green</b>	Given the funding level the scheme a full value for money assessment has not been provided.	An indicative BCR is quoted, but with a lack of evidence concerning its appropriateness.	A risk is identified relating to the removal of some mobile buildings.
			<b>Green</b>	<b>Green</b>	<b>Amber/ Green</b>	<b>Green</b>	<b>Green</b>	As above	Sufficient information on appraisal assumptions has been provided.	The severity of the identified risk has been allayed through clarifying its nature risk and mitigations. There is some minor uncertainty given that Southeastern is the delivery partner.

## 2 Independent Technical Evaluation of Q4 2018/19 Local Growth Fund Allocation Change Requests

### Overview

- 2.1 The SELEP Assurance Framework states that any variations to a project's costs, scope, outcomes or outputs from the information specified in the Business Case must be reported to the Accountability Board. When the changes are expected to have a substantial impact on forecast project benefits, outputs and outcomes as agreed in the business case which may detrimentally impact on the Value for Money assessment, it is expected that the business case should be re-evaluated by the ITE.

### Maidstone Integrated Transport Package Phase 1

- 2.2 Kent County Council is seeking approval to reduce the scope of the Maidstone Integrated Transport Package Phase 1 project and to increase the Local Growth Fund contribution by £700,000.
- 2.3 The scope of the Phase 1 project is to improve the operation of the junctions at either end of Willington Street, including the junction with A20 Ashford Road to the northern end and A274 Sutton Road at the southern end. Phase 1 was intended to deliver improvements to the existing signalised junctions at either end of the Willington Street junction to reduce traffic delays along the corridor.
- 2.4 The original business case for Maidstone Integrated Transport Package Phase 1, as reviewed by Steer in January 2016 was based on a scheme cost of £1.3m, with a BCR of 4:1. This represented very high value for money, with a medium/high level of certainty of that value for money.
- 2.5 While the original benefits of tackling congestion at the A274 Sutton Road/ Willington Street will no longer been achieved, the improvements to A20 London Road/ Willington Street will now provide additional capacity relative to the original proposal. The journey time benefits remain in line with the initial proposal. However, given the increase in costs for delivering the revised Phase 1 Project, the BCR value is lower at 2.65:1.
- 2.6 Given the fact that the scheme is in its delivery phase, any uncertainty about the delivery and benefits realisation can be reduced. Therefore, this scheme, with the reduced scope considered, represents high value for money with high certainty of achieving that value for money.

## 3 Independent Technical Evaluation of Innovation Park Medway Phase 3

### Overview

- 3.1 At the meeting of the SELEP Investment Panel on the 8<sup>th</sup> March 2019 it was resolved that a provisional Local Growth Fund allocation of £1,518,000 be awarded for the delivery of Innovation Park Medway Phase 3 on the condition that the scheme promoter could credibly address the deliverability concerns raised by the Independent Technical Evaluator. It was agreed that the extent to which these deliverability concerns had been addressed would be considered by at the Accountability Board meeting on the 12<sup>th</sup> April for a provisional funding award.

### Initial assessment

- 3.2 In the assessment of Innovation Park Medway Phase 3 undertaken as part of the LGF3b prioritisation process there were three primary areas of concern in relation to the deliverability of the scheme:
- the period within which judicial review claim could be made regarding the planning decisions upon which the delivery of the wider Innovation Park Medway package of schemes is dependent had not elapsed;
  - a developer partner had not been confirmed which raised concerns around certainty of delivery, but also security of match funding for the scheme; and
  - limited progress had been made on the delivery of the other components of the wider Innovation Park Medway package of scheme, which are also in receipt of LGF or GPF funding from SELEP. This raised concerns about whether Medway Council would be able to spend the additional LGF3b funding allocation before March 2021.

### Revised assessment

- 3.3 Additional information has been provided to the Independent Technical Evaluator seeking to address these deliverability concerns.
- 3.4 On the 22<sup>nd</sup> March 2019 it was confirmed that the six week period which judicial review claims regarding the two planning decision notices issued by Medway Council in relation to the Innovation Park Medway package of schemes could be made had elapsed.
- 3.5 On the 22<sup>nd</sup> March 2019 it was confirmed that the contract for works had been awarded to Kier and that the contract would be signed in early April.

- 3.6 Additional information provided by the scheme promoter shows that good progress has been made on the other components of the wider Innovation Park Medway package of schemes and that planning permission for Phases 2 and 3 (LGF3 and LGF3b components) will be awarded through a Local Development Order which reduces the risk of planning objections being made. Moreover, to date, there have been no objections raised during the masterplan consultation/adoption process, nor have the objectors to the Phase 1 scheme attended any Accountability Board meetings with regards to the Phase 2 scheme or submitted any public questions.
- 3.7 Additional information provided has indicated that Delivery of Phase 2 and initial work on Phase 3 is on target, and achievable by March 2021 even if LGF3b funding is not awarded until February 2020. To demonstrate commitment to delivery of the scheme elected members have agreed that design work can proceed in advance of a funding decision, work is underway to progress this.
- 3.8 Additional information provided has drawn attention to the Medway Council's track record of delivery. The Strood Waterfront flood defence works are made up of two phases of work. The Strood Civic Centre Flood Defence Works (funded by LGF3 funding) is running in parallel with the Strood Riverside Flood Defence Works. The same approach was used as is proposed for Innovation Park Medway Phases 2 and 3, with regards to the contractor delivering a programme to complete within the funding period across two sites. The Strood project has kept to programme and the LGF3 funding has been spent in advance of the predicted spend profile timescales in the Business Case.
- 3.9 There remains some uncertainty around the security of the match funding which is made up of the private sector investment from a commercial developer of £80,352,000. This match funding will take the form of building commercial units on the Innovation Park Medway site.
- 3.10 In light of the additional information provided by the scheme promoter we are satisfied that sufficient certainty of deliverability has been demonstrated. However, we invite the Accountability Board to consider the risk that uncertainty around security of match funding presents before determining whether or not to approve provisional funding for the scheme.

## Control Information

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### Steer project/proposal number

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Our ref: 22790507

### Client contract/project number

---

Client ref: F1523058

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### Distribution

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Client: South East Local Enterprise Partnership      Steer: Project team

### Version control/issue number

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V1 Draft for Review  
V2 draft for Client

### Date

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22 March 2019  
28 March 2019

