



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

Gate 2 Report
April 2016

South East Local
Enterprise Partnership

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1 Independent Technical Evaluation of Q4 2015/16 for 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 first quarter (Q1) of 2016/17. Recommendations are made for funding approval on 8th April 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 in March 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 8th April 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 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.

Recommendations

- 2.6 The following schemes achieve high value for money and medium to high certainty of achieving this:
- West Kent LSTF: Tackling Congestion (£4.2m)
 - Eastbourne Town Centre Movement & Access Package (£2.5m)
 - Thurrock Cycle Network (£1.8m)
 - Kent Rights of Way Improvement Plan (£0.8m)
 - Kent Strategic Congestion Management Programme (£0.7m)
- 2.7 The following schemes achieve high value for money and low to medium certainty of achieving this:
- Kent Sustainable Interventions Programme (£0.5m)

Other Considerations

- 2.8 **A13 Widening – Project Development:** This is a major project within the Local Growth Fund. The Department of Transport confirmed that £75 million would be transferred to the South East Local Enterprise Partnership to fund the project. Due to the size and complexity of this project, it is a 'retained scheme'. Retained schemes require full sign off by the Department of Transport and they will continue to hold oversight of the project. In addition to this £75 million a further £5 million has been allocated to allow Thurrock Council to carry out the development work necessary to build the full business case to be submitted to the Department for Transport. This funding formed part of the standard Local Growth Fund investment pot. As this funding is for the development of a business case there is no business case to go through an Independent Technical Evaluation. Funding approval for development projects without an Independent Technical Evaluation is permissible under the Assurance Framework.

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
West Kent LSTF: Tackling Congestion	4.2	GATE 1: 8.1	Green/ Amber	Red/Amber	Red/Amber	Red/Amber	Amber	Reasonable methodology with a need for a more detailed economic case.	There is some confusion over the economic case	A few inaccuracies within the economic case.
		GATE 2: 8.2	Green	Green/ Amber	Amber	Green	Green	A proportionate business case, with a clear and comprehensive economic case.	Confusion has been cleared up and accurate methodology has been employed.	Clarification of the economic case was provided. The analysis is reliable.
Eastbourne Town Centre Movement & Access Package	2.5	GATE 1: 4.65	Amber	Amber	Amber	Red/Amber	Amber	Reasonable methodology employed with improvement required in the commercial case	More clarity required over the assumptions used in the economic case	There are minor inaccuracies in the business case which reduce certainty.
		GATE 2: 4.65	Green	Green	Green	Green	Green	Methodology followed is reasonable and proportionate throughout.	Robust analysis has been carried out in this business case.	Inaccuracies have been cleared up and the business case provides a high level of certainty.
Thurrock Cycle Network	1.8	GATE 1: 2.9 (Middle Scenario)	Red/ Amber	Amber	Red	Red/Amber	Amber	Reasonable and proportionate method, but lacking significant sections of necessary analysis	Some sections are lacking sufficient robustness of analysis	There is some uncertainty, particularly around the commercial case.
		GATE 2: 2.9 (Middle Scenario)	Green/ Amber	Green	Green	Amber	Green/ Amber	Reasonable and proportionate method followed throughout.	Additional analysis has ensured that the analysis is robust.	The analysis gives a good degree of certainty.

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								Reasonableness of Analysis	Robustness of Analysis	Uncertainty
Kent Rights of Way Improvement Plan	0.8	GATE 1: 9.0	Green	Green/ Amber	Green/ Amber	Green/ Amber	Green/ Amber	Reasonable and proportionate method followed..	Robust analysis performed.	Some clarity required around funding requirement
		GATE 2: 9.0	Green	Green/ Amber	Green/ Amber	Green/ Amber	Green/ Amber	Reasonable and proportionate method followed.	Robust analysis performed.	The analysis gives a good degree of certainty.
Kent Strategic Congestion Management Programme	0.7	GATE 1: 2.9 (3.3 with reliability benefits included)	Green	Red/Amber	Red/Amber	Amber	Green/ Amber	Reasonable methodology with a need for improved economic and financial cases.	Robust analysis with a more comprehensive commercial case required	Some uncertainty about the resilience of the value for money.
		GATE 1: 3.0 (3.4 with reliability benefits included)	Green	Green/ Amber	Amber	Green/ Amber	Green	Reasonable and proportionate methodology has been carried out.	Improvements have been made and have provided robustly developed business case.	The analysis gives a good degree of certainty.
Kent Sustainable Interventions Programme	0.5	GATE 1: Assumed to be high based on comparable case studies	Amber	Red/Amber	Green	Green	Green	A reasonable and proportionate approach to the assessment of the scheme.	Use of benchmarking is sufficiently robustness give the low value of this scheme.	There is low certainty of the value for money of this scheme, but further economic appraisal would be disproportionate to the value of the scheme.
		GATE 2: Assumed to be high based on comparable case studies	Amber	Red/Amber	Green	Green	Green	A reasonable and proportionate approach to the assessment of the scheme.	Use of benchmarking is sufficiently robustness give the low value of this scheme.	There is low certainty of the value for money of this scheme, but further economic appraisal would be disproportionate to the value of the scheme.

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