

Independent Technical  
Evaluator – Growth Deal  
Business Case Assessment  
(Early Q4 2016/17)

Accountability Board Report  
January 2017

South East Local Enterprise  
Partnership

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Enterprise Partnership

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# 1 Independent Technical Evaluation of Q4 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 are seeking funding through the 2016/17 Local Growth Fund Round 3 process which, at the time of writing, remains unallocated to individual Local Enterprise Partnerships. Recommendations are made for funding approval on 20<sup>th</sup> January 2017 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 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*<sup>1</sup>, 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:

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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)

- **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 October, November and December 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 20<sup>th</sup> January 2017 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 Steer Davies Gleave's commission as independent technical evaluator includes a role to conduct 'Gate 0' discussions with scheme promoters prior to submission of the business case to offer advice on business case approach and compliance. These meetings allow early identification of any material issues within draft or preliminary business cases and have been observed to improve the quality of submissions to the formal gate review process. Scheme promoters should contact Rhiannon Mort (Capital Programme Manager) if they would like to have a 'Gate 0' discussion.
- 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 In addition, as part of **economic cases**, scheme promoters are reporting the headline figures from the appraisal modelling that has been carried out, but often the appraisal spreadsheets are not being submitted. We recommend that scheme promoters provide **appraisal spreadsheets** alongside their gate 1 submission. Providing this information any later in the process reduces the time available to resolve any issues identified.
- 2.6 The **management case** is often lacking a full benefits realisation plan and more consideration should be given to monitoring and evaluation plans. As far as possible scheme promoters should align monitoring and evaluation frameworks to the metrics which SELEP is required to report back to central government at a programme level.
- 2.7 Finally, if scheme promoters submit appendices or business cases that contain commercially sensitive material, we request this is made clear to Steer Davies Gleave (Independent Technical Evaluator) and Rhiannon Mort (SELEP Capital Programme Manager) to ensure that these sections are redacted before the business case is published.

#### Recommendations

- 2.8 The following scheme achieves high value for money and medium to high certainty of achieving this:

- **Eastside Business Park (South) (£1.6m)**

The benefits of the scheme are expressed in GVA terms rather than the standard welfare terms required by the HMT Green Book. Adjusting for this would reduce the BCR of the scheme, but it would remain high value for money.

2.9 The following scheme achieves high value for money but with low to medium certainty of achieving this:

- **East Sussex Strategic Growth Project (£8.2m)**

East Sussex Strategic Growth Project is a scheme which uses LGF funding to stimulate further private sector investment. A compelling case is made for this investment but there is some uncertainty around the appraisal modelling. While the methodology applied was described in full within the business case, appraisal spreadsheets were not provided so we could not check them for compliance. Moreover, the benefits of the scheme are expressed in GVA terms rather than the standard welfare terms required by the HMT Green Book. Adjusting for this would reduce the BCR of the scheme, but it would remain high value for money. For these reasons there remains some uncertainty around the value for money of the scheme.



Table 2.1: Gate 1 &amp; 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q4 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
Eastside Business Park (South)	1.6	Gate 1: 29	Green/ Amber	Green/ Amber	Green/ Amber	Green	Green/ Amber	Analysis carried out is reasonable and proportionate.	Robust methodology has been employed in the business case, though some work is required on the approach to construction impacts.	The business case is clear and well considered. It provides a high level of certainty. Some clarification is required around the role of Coast to Capital LEP.
		Gate 2: 40	Green	Green	Green	Green	Green	No change required.	Further clarity has been provided regarding the treatment of construction impacts.	Clarification has been provided around the role of Coast to Capital LEP. This case provides a high level of certainty of value for money.
East Sussex Strategic Growth Project	8.2	Gate 1: 99	Green/ Amber	Red/ Amber	Green	Red/ Amber	Green	Reasonable proportionate methodology has been employed though we would like to see a more extensive articulation of the need for LGF funding	Explanation of a robust methodology has been provided, but we would like to see appraisal spreadsheets to ensure compliance and robustness of analysis.	There is uncertainty due to the fact that funding for the no LGF phases of the programme rely on the success of the first (LGF funded) phase. Revenue from the development will be reinvested. For the LGF investment alone certainty is provided of the value for money.

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
		Gate 2: 99	Green	Amber	Green	Red/ Amber	Green	Clarity has been provided of the specific need for the funding at this time.	Access to appraisal spreadsheets was not given though further explanation of the analysis was provided.	The uncertainty around the later stage funding remains, but the situation is comprehensively explained which helps to provide greater assurance of value for money.

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