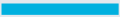


Independent Technical Evaluator - Business Case Assessment – Q2 2020/21 Report



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1 Independent Technical Evaluation of Growing Places Fund and Getting Building Fund Scheme

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 Growing Places Fund and Getting Building Fund. Recommendations are made for funding approval on 18th September 2020 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: Central Government Guidance on Appraisal and Evaluation*¹, and related departmental guidance such as the Department for Transport's TAG (Transport Analysis Guidance, formerly WebTAG) 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 DfT's TAG and MHCLG's Appraisal Guide.

¹ Source:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.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 – this includes the need for a Monitoring and Evaluation Plan and Benefits Realisation Plan.
- 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 between June and August 2020.

Growing Places Fund

1.11 Three business cases have been assessed for schemes seeking a Growing Places Fund allocation. Below are our recommendations to the Accountability Board, including key findings from the evaluation process and details of any issues arising.

1.12 With all schemes at outline business case stage there remains a residual risk to value for money and deliverability until the contractor costs are confirmed, however this should not present a barrier to approval of funding at this stage.

High value for money, high certainty

1.13 The following GPF schemes achieve **high value for money** with a **high certainty** of achieving this.

Green Hydrogen Generation Facility (£3.47m)

1.14 This project involves Ryse Hydrogen Limited installing and operating what will be the UK's largest zero carbon hydrogen production system in Kent. This will be powered by a direct connection to the on-land substation for the existing Vattenfall offshore wind farms. Ryse requires the GPF loan in order to accelerate the pace of development. The scheme promoter has also confirmed that demand for hydrogen is high despite Covid-19 related economic and travel demand impacts.

1.15 The business case analysis provides a proportionate assessment of the scheme costs and benefits and results in a benefit cost ratio of 11.7:1 representing "very high" value for money. The analysis was robustly carried out on the basis of carbon dioxide reduction impacts, drawing on Green Book guidelines, air quality impacts in line with Green Book and Department for Environment, Food and Rural Affairs guidelines and land value uplift in line with Ministry for Homes Communities and Local Government Appraisal Guidance.

1.16 Reasonable and robust assumptions have been used to populate the scheme appraisal and therefore the scheme delivers high levels of certainty for this value for money categorisation.

Observer Building, Hastings (Phase 1) (£1.75m)

1.17 The project will support Phase 1 of the full redevelopment of the 4,000 square metre Observer Building, which has been empty and increasingly derelict for 35 years, into a highly productive mixed-use building, creating new homes, jobs, enterprise space and support. The GPF will fund development of the workspace, retail and leisure element of the building as well as roof repairs to safeguard the future of the building and reduce risk to the public. The scheme promoter has confirmed that revisions to the plan for the workspace have been made to ensure that social distancing can be accommodated.

1.18 A proportionate and robust economic appraisal of the scheme costs and benefits has been undertaken assessing the land value uplift of the scheme in line with Ministry for Homes Communities and Local Government Appraisal Guidance as well as the labour supply impacts with a bespoke assessment approach aligned with Green Book principles. This assessment shows the scheme to have a benefit cost ratio of 2.9:1 which falls within a "high" value for money categorisation.

1.19 The assumptions used in the appraisal are reasonable and robust, therefore the scheme delivers high levels of certainty for this value for money categorisation.

High value for money, low/medium certainty

- 1.20 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 guarantee this outturn Value for money categorisation. Therefore, our recommendation is that there is a low/medium certainty of achieving high value for money.

Wine Innovation Centre (£0.6m)

- 1.21 This project supports the development of a facility to host a wine innovation centre at the East Malling Estate. This will be the first UK research vineyard and will support Kent's wine sector to develop as a global leader in innovation. The GPF will enable the ground and foundations work as well as installation of utilities and services and construction and fit out of building.
- 1.22 A proportionate, GVA-based approach to the economic appraisal has been taken. The business case provides details of the forecast number of jobs and the value of those jobs that will be stimulated by delivery of the scheme. This provides a reasonable indication that, were full, monetised economic appraisal undertaken the scheme would represent "high" value for money however the lack of full, monetised economic appraisal does reduce the certainty of value for money.
- 1.23 We are satisfied that an overwhelming strategic case has been made for the scheme which provides a compelling case for intervention. The scheme promoter has provided assurance that the horticulture sector, and particularly viticulture, have remained very active during the pandemic. There is an increased demand for innovation due to the current labour shortages and this will support realisation of the planned benefits of this scheme.
- 1.24 Moreover, there is minimal risk in the other cases. However, we invite the Accountability Board to consider the risk that a lack of full, monetised benefit cost analysis presents before determining whether or not to approve funding for the scheme.

Getting Building Fund

1.25 One business case has been assessed for a scheme seeking Getting Building Fund allocation. Below are our recommendations to the Accountability Board, including key findings from the evaluation process and details of any issues arising.

1.26 With all schemes at outline business case stage there remains a residual risk to value for money and deliverability until the contractor costs are confirmed, however this should not present a barrier to approval of funding at this stage.

High value for money, high certainty

1.27 The following GBF scheme achieves **high value for money** with a **high certainty** of achieving this.

Connecting Rural Kent and Medway (£2.29m)

1.28 This project aims to provide broadband connectivity greater than 30 Mbps to rural businesses and residents who currently experience very poor (or no) connections. It will do this by providing a top-up voucher to the existing Rural Gigabit Voucher scheme funded by Government and delivered by Broadband Delivery UK. This will mean that residents and businesses in the 'hardest to reach' areas will be able to get a voucher worth up to £7,000 to obtain connectivity, with the value of the voucher capped at the actual cost of connection.

1.29 A compelling strategic case has been developed demonstrating that the scheme is well aligned with the strategic objectives of the Getting Building Fund. The implementation of the scheme will generate fifteen construction jobs and then it is forecast that a further fifteen permanent jobs will be created as an outcome of the increased broadband connectivity. It is also a scheme which will support the Green Recovery enabling more people to work remotely and reducing the number of car journeys taken.

1.30 The economic analysis a proportionate assessment of the scheme costs and benefits. A bespoke assessment approach has been taken aligned with 'Green Book' principles and drawing on the most up to date evidence around the impact of improved connectivity on productivity and employment. The analysis results in a benefit cost ratio of 2.7:1 representing "high" value for money.

1.31 Reasonable assumptions have been used to populate the scheme appraisal and a reasonable and robust programme has been provided which demonstrates that spend of the Getting Building Fund allocation and delivery of the scheme will be completed before March 2022. Therefore, it has been assessed that the scheme delivers "high" value for money with high levels of certainty.

Table 1.1: Gate 1 & 2 Assessment of Growing Places Fund and Getting Building Fund Schemes seeking Approval for Funding for Q2 2020/21

Scheme Name	Allocation	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
Growing Places Fund										
Green Hydrogen Generation Facility	£3.5m	Gate 1: 11.7	Amber /Green	Amber /Green	Amber /Green	Amber	Green	A reasonable approach has been adopted using MHCLG guidance as well as DEFRA air quality and carbon reduction appraisal guidelines.	The methodology has been applied accurately. Justification for some assumptions in the Economic and Financial Case is required.	Certainty would be improved with further detail on how the works will be procured and how operating costs will be funded by Ryse Hydrogen Ltd.
		Gate 2: 11.7	Green	Green	Green	Green	Green	As above.	Justification has been provided which gives confidence that the approach is robust.	Clarification has been provided on procurement strategy and non-capital funding sources.
Observer Building, Hastings (Phase 1)	£1.75m	Gate 1: 2.3	Green	Amber	Amber /Green	Amber /Green	Green	A reasonable and proportionate approach to monetising benefits and costs of the scheme has been taken assessing land value uplift and labour supply impacts stimulated by the scheme.	There are some assumptions which are the basis of the economic appraisal for which better justification is required.	Certainty would be improved with the application of some sensitivity tests to demonstrate the resilience of the Value for Money.
		Gate 2: 2.9	Green	Green	Green	Green	Green	As above.	All assumptions are now well documented and justified.	Sensitivity testing has been undertaken and this has shown that the high Value for Money is relatively resilient to downside risks.

Scheme Name	Allocation	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
Wine Innovation Centre	£0.6m	Gate 1: Not monetised	Amber /Green	Amber	Amber	Amber	Amber /Green	A reasonable and proportionate approach has been taken to economic appraisal for a scheme seeking less than £2m.	Assumptions within the economic case are clearly set out, but are not currently justified.	A greater consideration of risk and identification of mitigation strategies would increase certainty of deliverability.
		Gate 2: Not monetised	Green	Amber	Green	Green	Green	As above	Appropriate justification has been provided for the assumptions in the economic case.	An enhanced risk register has been provided giving great assurance that risk are being appropriately managed.
Getting Building Fund										
Connecting Rural Kent and Medway	£2.3m	Gate 1: 2.6 (initial), 2.7 (adjusted)	Amber /Green	Green	Green	Green	Amber	A reasonable and proportionate approach to monetising benefits and costs of the scheme has been taken.	The analysis has been undertaken using a bespoke approach aligned with Green Book principles.	More information is required in how the programme will be managed and the interdependencies BDUK's national Rural Gigabit Voucher will be optimised.
		Gate 2: 2.6 (initial), 2.7 (adjusted)	Green	Green	Green	Green	Green	As above.	As above	Additional information has been provided with addresses these areas of uncertainty.

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