

Independent Technical
Evaluator – Growth Deal and
Growing Places Fund
Business Case Assessment
(Q1 2018/19)

Accountability Board Report
June 2018

South East Local Enterprise
Partnership

Our ref: 22790507
Client ref: F1523058



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1 Independent Technical Evaluation of Q1 2018/19 Growth Deal Schemes

Overview

- 1.1 Steer Davies Gleave were 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 15th June 2018 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*¹, and related departmental guidance such as the Department for Transport's WebTAG (Web-based Transport Analysis Guidance) or the DCLG 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. 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:

- **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 during April and May 2018.

Evaluation Results

- 1.11 Two schemes seeking Local Growth Funding are to be considered at the June 2018 Accountability Board. 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 scheme achieves very high Value for Money with high certainty of achieving this:

- **A131 Braintree to Sudbury Route Based Strategy (£1.8m):** The project involves a series of highway interventions to improve road layout and safety at various locations on Marks Farm, Broad Road, High Garrett junction with A1017 and Plaistow Green and Bulomer Tye.

The expected housing growth in the area underpins the case for highway capacity improvements and investment in road safety measures. The business case provides a clear rationale for the need for intervention supported by evidence regarding congestion and safety concerns along the corridor.

The economic case indicates that the scheme represents very high value for money (10:1). The alignment of the economic case with WebTAG Guidance together with the demonstrated experience in delivering schemes of similar size and complexity indicate that the scheme has high certainty around its expected value for money.

- 1.13 The following scheme achieves high Value for Money with low certainty of achieving this:

- **Maidstone Integrated Transport Package – Phase 2 (£2.7m):** The project proposes to enlarge Coldharbour Roundabout by providing additional entry lanes and allowing lane designation that better aligns with the volume of traffic.

The Strategic Case makes reference to the urban area of Maidstone and the wider issues affecting the county identified in the Kent LTP. Nevertheless it does not forge sufficient linkages between these current and future problems, and the need for intervention at this particular location. There is also a weak evidence base regarding the current and projected level of congestion relative to the current and proposed roundabout capacity, and the wider network implications are not considered.

The Economic Case demonstrates high value for money, but there is a high level of uncertainty regarding the key assumptions and approach taken. Following the Gate 2 review there is residual uncertainty regarding the appraisal period (assumed to be 15 years), projected demand growth (no growth is applied), value of travel time savings (these do not grow in-line with output per capita), and consideration of impacts on the wider road network (there is a considerable risk of double-counting benefits from this scheme with other schemes delivered in the vicinity).

Alignment of the Strategic Case with the Economic Case is weak because the intervention is predicated on future growth in demand coming from housing development in the area, but the Economic Case does not incorporate any such future growth, nor does it test the future capacity of the scheme. While we acknowledge this comes from a desire to offer a conservative assessment of scheme benefits, it also limits the assurance that can be provided regarding the fitness for purpose of the intervention and its long term resilience.

Table 1.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q1 2018-19

Scheme Name	LGF 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
A131 Braintree to Sudbury Route Based Strategy	£1.8m	Gate 1: 10.5:1	Green	Green	Green	Green	Green	The approach taken to assess scheme benefits is considered to be reasonable. TUBA 1.9.9 has been used to estimate the user benefits associated with the scheme.	Analysis rooted in robust assumptions and local evidence, where available.	High level of certainty demonstrated by the robustness of analysis and assumptions used.
		Gate 2: 10.5:1	Gate 2 review not considered necessary							
Maidstone Integrated Transport Package – Phase 2	£2.7m	Gate 1: 1.9/2.1:1 (without/with developer contribution)	Amber	Amber	Red	Amber	Green	Insufficient evidence provided to ascertain reasonableness of the approach taken.	Insufficient evidence provided to ascertain robustness of the approach taken.	High level of uncertainty.
		Gate 1b: 2.4/2.9:1 (without/with developer contribution)	Amber	Amber	Red	Amber	Green	Additional information provided nevertheless not sufficient to clarify all concerns previously raised.	Additional information provided nevertheless not sufficient to clarify all concerns previously raised.	High level of uncertainty
		Gate 2: 2.5/2.9:1 (without/with developer contribution)	Amber	Amber	Green	Green	Green	Additional information provided and further clarifications added in the main body of the business case, nevertheless the link between the Strategic and Economic Case remains weak.	Additional clarifications provided demonstrating feedback has been incorporated. There are remaining concerns regarding the robustness of assumptions on growth and wider network impacts.	High level of residual uncertainty remains.

2 Independent Technical Evaluation of Q1 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.
- 2.2 In light of the increased costs on the projects below, Steer Davies Gleave have carried out a reassessment of their Value for Money categorisation, comparing the Value for Money upon which the original recommendation to the Accountability Board was made and the current Value for Money of the scheme.

Rochester Airport Innovation Park – Phase 1

- 2.3 Medway Council has submitted a change request to reduce the scope and amend the delivery timescales of Phase 1 of the Rochester Airport scheme, allocated £4.4m LGF funding at the June 2016 Accountability Board. This change request has been triggered by significantly higher construction costs for Phase 1, which estimated to have increased by £4.6m since the original Phase 1 business case was submitted. The reasons for these cost increases are detailed within the accompanying report to the Accountability Board *Rochester Airport LGF Progress Update Report*.
- 2.4 In light of these revised costs, the Council has undertaken a reassessment of the scope of the scheme to remain within the initial allocated LGF budget. The revised scope of the scheme proposes maintaining the grass air strip instead of replacing it with a hard-paved runway (the runway lighting will be replaced and the existing helipads relocated but no other works will be undertaken) and delivering one new hangar instead of the two initially planned.
- 2.5 In considering the Value for Money of the Rochester Airport Innovation Park scheme following these changes, it is necessary to consider the case for investment across all three phases. Phase 1 is explicitly designed to safeguard the financial viability of the airport site following the closure of one of the two grass runways which, in turn, will release 17 hectares of commercially developable land. In isolation, phase 1 does not deliver significant monetisable benefits (safeguarding 25 existing jobs and relocating 37 jobs through construction of a new headquarters for the Kent, Surrey and Sussex Air Ambulance service). The case for investment across all three phases, therefore, hinges upon successful delivery of the Innovation Park campus, the benefits of which are only marginally affected by the change in scope of works to the runway and hangar provision at Rochester Airport.
- 2.6 The business case prepared by Medway Council states that, in order to proceed with Phases 2 and 3 of the Innovation Park scheme, it is imperative that Rochester Airport remains a going concern following closure of one of its runways. Correspondence received by the Independent Technical Evaluator from Rochester Airport Ltd (dated 1 June 2018) confirms that this will be the case, and notes that demand for engineering services and hangarage is currently suppressed by the limited and ageing facilities currently available at the airport. As a consequence, the airport will continue

to operate as-is albeit with a single grass runway which, as at present, will close for three months of the year.

- 2.7 It should be noted that as an enabling scheme, Phase 1 in isolation offers poor Value for Money, and is reliant upon successful completion of subsequent phases of work. There is, therefore, a risk to SELEP if these phases do not proceed as planned.
- 2.8 On the basis of the assurances provided by Rochester Airport Ltd we do not consider the revised scope of Phase 1 to materially affect the Value for Money of the Innovation Park proposal, which continues to offer very high VfM. In turn, this suggests that the previous scope for Phase 1 may have been over-specified.

3 Independent Technical Evaluation of Q1 2018/19 Growing Places Fund Schemes

- 3.1 There have been no Growing Places Fund business cases received for assessment by the Independent Technical Evaluator this period.

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