

Independent Technical Evaluator - Growth Deal and Growing Places Fund Business Case Assessment (Q4 2018/19)

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1 Independent Technical Evaluation of Q4 2018/19 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 and Growing Places Fund. Recommendations are made for funding approval on 15th February 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*¹, 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.

¹ Source: 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 December 2018 and January 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:
- **S-CATS (£4m):** S-CATS (Southend - Central Area Transport Scheme) Phase 3 will deliver public realm improvements and place-making interventions at Victoria Circus and London Road in the Southend Central Area. 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. The analysis was robustly carried out using Department for Transport active mode appraisal guidance and delivers high levels of certainty around this value for money categorisation.
 - **Fairglen Link Road (£6.2m):** The proposed new link road and slip road form part of the Fairglen Improvement Scheme. The business case analysis provides a proportionate assessment of the scheme costs and benefits which resulted in a strong benefit cost ratio representing high value for money. The analysis was robustly carried out based on WebTAG guidance and delivers high levels of certainty around this value for money categorisation.
 - **Eastbourne Town Centre Movement and Access (£3m):** The scheme centres on providing greater priority and accessibility for pedestrians along the middle section of the town centre's Terminus Road corridor. It builds on and complements phase 1 of the Eastbourne Town Centre Movement & Access Package which supported the extension of the Town Centre's Arndale (now 'The Beacon') shopping centre. The business case analysis provides a proportionate assessment of the scheme costs and benefits which results in a strong benefit cost ratio representing high value for money. The analysis was robustly carried out using Department for Transport's active mode appraisal toolkit and delivers high levels of certainty around this value for money categorisation.
 - **Eastbourne and South Wealden Walking and Cycling (£4m):** The Eastbourne & South Wealden Cycling & Walking Package – Phase 2 includes a combination of dedicated cycle facilities, shared cycle/walking schemes, pedestrian crossings, cycle parking across Eastbourne and Hailsham, and wayfinding. The business case analysis provides a proportionate assessment of the scheme costs and benefits which results in a strong benefit cost ratio representing high value for money. The analysis was robustly carried out using Department for Transport's active mode appraisal toolkit and delivers high levels of certainty around this value for money categorisation.

- **Basildon Flagship Cycle Scheme (£0.5m):** this scheme is the second identified flagship route and runs from Basildon station to the Industrial area and Retail Park at Pipp's Hill to the north of the town with an additional spur to Laindon. The business case analysis provides a proportionate assessment of the scheme costs and benefits which results in a strong benefit cost ratio representing high value for money. The analysis was robustly carried out using Department for Transport's Active Mode Appraisal Toolkit and delivers high levels of certainty around this value for money categorisation.

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

- **Innovation Park Medway Phase 2 (£3.7m):** the scheme is to provide enabling infrastructure for the first section of the northern site of the Innovation Park Medway, unlocked by closing an airport runway. The works will include: Access roads; Lighting and directional signage; Drainage and water; Electricity; Gas; Fibre; Site surveys and associated capital project consultancy. The business case analysis provides a proportionate assessment of the scheme costs and benefits which results in a strong benefit cost ratio representing high value for money. The analysis was robustly carried out using DCLG Land Value Uplift methodology and delivers high levels of certainty around this value for money categorisation.

The wider Innovation Park Medway scheme has secured additional grant funding from previous Local Growth Fund rounds as well as loan funding from the Growing Places Fund. Very limited progress has been made on delivering these projects for which funding has been allocated. There is a requirement to spend this additional funding as well as all other allocated but unspent funding by 2020/21. This presents a deliverability risk which we would invite the Accountability Board to consider before determining whether or not to approve funding for the scheme.

1.14 The following scheme achieves low value for money with high certainty of achieving this:

- **Beaulieu Park (£12m):** This is for a proposed railway station located adjacent to residential and mixed-use developments in north east Chelmsford (4,000+ homes). There are some doubts over the value for money assessment with the transport benefits assessment excluding wider benefits showing low value for money, and some concerns over the robustness and reliability of the assessment of additional wider benefits (including land value uplift).

The planned profile of Local Growth Fund spend extends to financial year 2022/23. It has not yet been made clear to SELEP that Local Growth Fund monies can be spent beyond 2020/21. In addition, the scheme as presented in the business case represents low value for money with an initial benefit cost ratio of 1:1. An adjusted benefit cost ratio has also been presented which indicates that the scheme represents medium value for money however, there is less certainty around the assumptions and analysis underpinning the adjusted BCR.

We would invite the Accountability Board to consider the risk that the spend profile and the low value for money of the scheme presents before determining whether or not to approve funding for the scheme.

1.15 One full 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.

- **A127 Major Maintenance and The Bell Junction Improvement (£10.9m):** This scheme brings together two projects, (The Bell Junction and Essential Highways Maintenance) which have a high level of interdependency. Improvements to The Bell Junction will increase highway capacity and reduce journey times on the A127 and the wider network. The maintenance works will enhance the previous, ongoing and future junction improvements along the A127 (including the Bell) by providing a carriageway that is both robust and fit for purpose. They will keep the ensure that this major artery continues to support delivery of the Airport Business Parks and new housing in Southend and Rochford.

The business case analysis provides a proportionate assessment of the scheme costs and benefits which results in a strong benefit cost ratio representing very high Value for Money. The analysis was robustly carried out and delivers high levels of certainty around this Value for Money categorisation.

The additional work carried out as part of Full Business Case development has involved further consideration of the impact of the scheme upon the local transport network which has increased the robustness of the economic appraisal. The procurement of the works has not yet taken place which we would expect at Full Business Case stage and we would invite the board to consider this risk. However, through cost benchmarking and market testing the revised business case has provided significantly increased levels of certainty around the scheme costs and deliverability.

Table 1.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q4 2018/19

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										
S-CATS Phase 3	£4m	Gate 1: 1.3	Amber	Amber	Amber	Amber/ Green	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. Any additional impacts on the visitor economy have not been quantified.	Full details of the assumptions behind the analysis have been provided giving confidence that the approach is robust.	Whilst a risk register has been created there is uncertainty created by a lack of commentary to explain the key risks and how they will be mitigated. The low BCR (<2:1) creates substantial uncertainty.
		Gate 2: 3.4	Green	Green	Green	Green	Green	The interaction between the scheme and visitors/tourists is acknowledged (though remains unquantified).	As above	A High BCR and additional commentary on risks has reduced the uncertainty leaving no significant concerns.
Fairglen Link Road	£6.2m	3.2	Green	Amber/ Green	Green	Green	Green	A reasonable approach using WebTAG v1.10 has been used.	Assumptions are clearly recorded, and guidance followed resulting in robust analysis.	Sensitivity tests have not been undertaken (awaiting DfT growth scenarios).
			Green	Green	Green	Green	Green	As above	As above	In the absence of approved growth scenarios, a no-growth (worst case) scenario has been used as the central case. This is a reasonable (conservative) way of dealing with uncertainty.

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
Eastbourne Town Centre Movement and Access	£3m	3.4	Green	Green	Green	Amber/ Green	Green	A reasonable approach has been used based on Urban Realm benefits using VURT, and active mode appraisal using WebTAG Unit 5-1.	Assumptions are clearly recorded, and guidance followed resulting in robust analysis.	There was some uncertainty over the availability of matched from ESCC.
			Green	Green	Green	Green	Green	As above	As above	The funding allocation has been reflected in the County Council's financial planning programme reducing uncertainty.
Eastbourne and South Wealden Walking and Cycling	£4m	2.4	Green	Green	Green	Amber/ Green	Green	A reasonable approach has been used to calculate value for money (active mode appraisal toolkit WebTAG Unit 5-1), with other non-quantified benefits also considered including indirect support for new jobs and homes.	Assumptions are clearly recorded, and guidance followed resulting in robust analysis.	There was some uncertainty over scheme costs.
			Green	Green	Green	Green	Green	As above	As above	Cost uncertainty has been managed through a QCRA process.

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
Basildon Flagship Cycle Scheme	£0.5m	3.9	Green	Amber	Green	Amber	Green	A reasonable approach has been used to calculate value for money using the active mode appraisal toolkit (WebTAG Unit 5.1) plus locally collected data.	Not possible to tell given the lack of information concerning assumptions used.	Considerable uncertainty given the lack of information concerning assumptions used.
			Green	Green	Green	Green	Green	As above	Additional information provided provides assurance that a robust approach has been taken and that the guidance has been followed.	Additional information provided has reduced uncertainty over scheme costs, risks, funding commitment, and results of sensitivity analysis.
Innovation Park Medway Phase 2	£3.7m	2.6	Green	Amber	Green	Green	Amber	A reasonable approach using the DCLG Land Value Uplift method has been used.	There is a lack of clarity concerning the scheme being evaluated	The lack of clarity around the basis of the BCR calculation creates uncertainty.
			Green	Green	Green	Green	Amber	As above	Separate assessments for different scheme phases has clarified the basis of the analysis.	Uncertainty has been reduced by the provision of an estimated BCR for Phase 2 alone. There is some outstanding uncertainty given the dependence on completion of enabling works, and potential delays being caused by opponents of the airport development.

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								Reasonableness of Analysis	Robustness of Analysis	Uncertainty
Beaulieu Park	£12m	1.2 (1.8 including Land Value Uplift)	Green	Red	Green	Amber	Red/Amber	A reasonable approach using WebTAG guidance has been used to calculate the transport related benefits. The adjusted BCR takes into account wider benefits though it is not clear that these are appropriate.	Sensitivity analysis indicates that the VfM assessment is not robust in that it is subject to substantive variability.	There is some uncertainty caused by the appropriate treatment of car parking revenue and wider economic benefits. There is also uncertainty over whether the LGF fund will be spent by March 2021.
			Green	Amber	Green	Amber	Red/Amber	Clarification of the calculation of wider benefits has helped, but some doubts remain over the reasonableness of the higher estimate.	As above.	Concerns around the spend profile of the scheme raised at Gate 1 have not been addressed.
Full Business Case										
A127 Essential Major Maintenance and The Bell Junction Improvement	£10.9m	Gate 5: 17.9	Green	Green	Green	Green	Green	A reasonable approach using WebTAG guidance has been used to calculate the transport related benefits.	Both scheme elements (major maintenance and junction improvements) represent very good value for money.	The provision of the economic appraisal results and the underlying assumptions used has shown that the scheme has a very high BCR. This has provided certainty around the value for money.

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.

A133 Colchester to Clacton

- 2.2 Essex County Council (ECC) is seeking approval to reduce the scope of the A133 Colchester to Clacton Route Based Strategy (RBS) project to accommodate reductions in ECC's capital spending.
- 2.3 The scheme comprises two main elements (Frating Roundabout and Weeley Roundabout) plus four complementary elements (Frating to Progress Way Safety Measures, Bromley Road/Clacton Road Junction Improvements, Signage Review, Salary Brook to Slough Lane Cycle Way). Approval is being sought to continue with the two primary elements but not the above complementary elements.
- 2.4 The de-scoping would have no effect on the LGF allocation, but would reduce local contributions. There would be some impact on outputs and outcomes (largely qualitative/unquantified benefits associated with improved safety, signage and facilities for cyclists).
- 2.5 The original business case for A133 Colchester to Clacton, as reviewed by Steer in October 2017 was based on a scheme cost of £5.5m, with a BCR of 5.9:1. This represented very high value for money, with a medium/high level of certainty of that value for money.
- 2.6 The components of the scheme which remain within scope are those components with the highest value for money: Frating Roundabout with a BCR of 11.6:1 and Weeley Roundabout with a BCR of 12.9:1 therefore, there is high level of certainty that the overall value for money categorisation will remain very high despite the de-scoping.
- 2.7 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.

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