

Independent Technical  
Evaluator – Growth Deal  
Business Case Assessment  
(Q1 2017/18)

Accountability Board Report  
May 2017

South East Local Enterprise  
Partnership

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Prepared by:  
Edmund Cassidy  
Steer Davies Gleave  
28-32 Upper Ground  
London SE1 9PD

+44 20 7910 5000  
[www.steerdaviesgleave.com](http://www.steerdaviesgleave.com)

Prepared for:  
Adam Bryan  
South East Local Enterprise Partnership  
Secretariat  
c/o Essex County Council  
County Hall  
Market Road  
Chelmsford  
Essex  
CM1 1QH

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# 1 Independent Technical Evaluation of Q1 2017/18 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 final Business Cases for schemes which are seeking funding through Local Growth Fund Rounds 1 to 3. Recommendations are made for funding approval on 26<sup>th</sup> May 2017 by the Accountability Board, 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.

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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)

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, April and May 2017.

## 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 26<sup>th</sup> May 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 The following recommendations have been made and reiterated several times, but still need attention by scheme promoters and their advisors:
- 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).
  - 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.
  - The **financial case** is generally providing comprehensive information about the capital funding profile. Where appropriate, however, scheme promoters also need to demonstrate that there is a source of ongoing revenue funding which will ensure that operating, maintenance and renewals costs are covered through the life of the scheme.
  - 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

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

- **Technical and Professional Skills Centre at Stansted Airport (£3.5m):** This scheme will deliver a skills centre that provides training opportunities to meet skills gaps in STEM, aircraft maintenance engineering; operational and plant engineering; logistics; supply chain management; asset management; higher-level customer care service industries and the visitor economy. The analytical work carried out is comprehensive and has been undertaken in a robust and auditable manner, and informs a strong business case.

2.6 The following scheme achieves high value for money with medium certainty of achieving this:

- **Ashford International Rail Connectivity Project (£9.8m):** The Ashford Spurs project aims to ensure that existing and future international trains can continue to call at Ashford International Station to support the continued growth of Ashford and East Kent, and prevent damage to the local economy caused by the loss of international travel links. The analysis has been carried out in a robust and reasonable manner with the economic case demonstrating that the scheme will provide high value for money. The Business Case highlights that there is low, but present risk that Eurostar do not continue to operate services from Ashford International once the infrastructure is in place. This would have a significant downward impact on the the value for money of the scheme. For this reason there remains some residual uncertainty around the value for money of the scheme. As a consequence, we invite the Accountability Board to consider this risk before determining whether or not to approve funding.

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

- **Basildon Integrated Transport Package Tranche 2 (£6.4m):** The intervention involves sustainable transport enhancement which will improve connectivity between Basildon Town Centre, the Railway Station and the Enterprise Corridor. While there is nothing to suggest that the balance of risk points in either direction, we note that the BCR for the scheme is 2.0, and therefore the value for money categorisation will be very sensitive to any net downside risks<sup>2</sup>. As a consequence, we invite the Accountability Board to consider this risk before determining whether or not to approve funding for the schemes.

## Other recommendations

- **Sussex Downs College:** The college was awarded £156,400 (being 33% of the total cost) in a previous bid for the 1st and 2nd phase of the **Refurbishment of the Science Facilities at the Lewes Campus**. Following negotiations with builders and subcontractors overall costs were reduced and therefore the full funding was not required, leaving a total underspend of £79,440 of the original SELEP award. A bid for £39,514. of the underspend, to enhance the first floor laboratory (which is the 3rd phase of the programme) was submitted.

Steer Davies Gleave carried out a proportionate review of the bid. The review found that:

- the scheme has a strong strategic case;
- reasonable and robust analysis had been carried out to demonstrate value for money of the scheme; and
- sufficient evidence had been provided to assure us that the scheme is deliverable.

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<sup>2</sup> For example, assuming that the the distribution of any residual uncertainty around the central case benefit cost ratio suggests a 50% likelihood of medium value to money, and a 50% likelihood of high value for money.



- **Harlow Enterprise Zone:** This intervention is designed to support the development of the Harlow Enterprise Zone in two ways:
  - The delivery of essential enabling infrastructure to the site; and,
  - The design and construction of a 30,000 square foot of speculative office building.

The project will be funded largely by Harlow Council borrowing, with the Council taking the risk on that borrowing. Harlow Council is seeking SELEP endorsement for it to utilise the uplift in business rates accruing from the future development of the Harlow Enterprise Zone to repay the Council's borrowing.

Steer Davies Gleave carried out a Gate 1 review of the Business Case. The review found that:

- there was a **strong strategic case** for the scheme;
- a more detailed and rigorous approach to cost benefit analysis is required. This would involve:
  - evidence that **alternative options have been considered** and demonstration that there is a **strong case for discounting the alternative options**;
  - **appropriate consideration and presentation of the do minimum** scenario. The do minimum scenario should be defined and only benefits derived over and above that level of benefits should be reported to be resulting from the scheme;
  - **sensitivity testing should be carried out** to demonstrate that the value for money of the scheme **is resilient to changes in the underlying assumptions**. For example, the impact on Value for Money of a slower ramp up to full occupancy of the Enterprise Zone could be presented.
  - **accurate use of the DCLG guidance**. Currently the economic case measures the uplift between the original purchase value of the land on which the Enterprise Zone will be built and the forecast value of the development. What should be measured is just the **uplift in the value of land**. What the scheme does is change the land use which should have the effect of increasing the land value.
- there is **uncertainty in relation to infrastructure costs** and the running costs of the office building.

In light of the observations above we recommend that endorsement by SELEP for the retention of business rates be conditional upon further business case work being undertaken. This should demonstrate that the scheme provides high value for money with a reasonable level of certainty of that value for money.

Table 2.1: Gate 1 &amp; 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q1 2017/18

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
Technical and Professional Skills Centre at Stansted Airport	3.5	Gate 1: Not derived	Amber	Red/ Amber	Amber	Amber	Red/ Amber	More analysis is required to demonstrate that there is local demand for the skills provided by the facility.	Insufficient quantification of the benefits has been carried out. More robust cost benefit analysis is required to demonstrate the value for money of the scheme.	The business case is clear and well considered. More evidence of demand from employers for technical and professional skills is required to give certainty that the new learner places will be taken up.
		Gate 2: 3.1	Green	Green/ Amber	Green	Green	Green/	A demand assessment report has been produced which addresses our concerns about the need for the scheme.	There is now a substantial body of evidence, both quantitative and qualitative, to demonstrate that the scheme provides high value for money.	The case has provided assurance of a strong demand for these skills in the local area which gives us greater assurance that the forecast benefits will be realised.
Ashford International Rail Connectivity Project	9.8	Gate 5: 2.86	Green	Green/ Amber	Green	Green	Green	Reasonable methodology has been employed to proportionately demonstrate the value for money of the scheme.	The methodology appears robust, but clarification of the assumptions underpinning the economic appraisal is required.	There is still some uncertainty as appraisal spreadsheets have not been provided and we cannot confirm compliance of the methodology.
		Gate 5 update: 2.27	Green	Green	Green	Green	Green	No further information is required.	Clarification of the economic appraisal assumptions has been provided. The analysis has been robustly undertaken.	Appraisal spreadsheets have been provided which has given us assurance that the scheme will provide high 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
Basildon ITP Tranche 2	6.4	Gate 1: Not derived	Green	Red	Amber	Amber	Green	No economic assessment of the scheme has been carried out so we cannot determine the reasonableness of the analysis.	No economic assessment of the scheme has been carried out so we cannot determine the robustness of the analysis.	No economic assessment of the scheme has been carried out. As a result there is significant uncertainty about the value for money of the scheme.
		Gate 2: 2.01	Green	Green/ Amber	Green	Green	Green	Reasonable and proportionate analysis has been carried out to demonstrate that this is a deliverable scheme which will provide high value for money.	The analysis has been robustly carried out. Relevant appraisal toolkits have been used and provided to us for compliance assurance.	Qualitative and quantitative analysis demonstrate that the scheme will provide high value for money however the BCR is 2.01:1 so the BCR VfM is particularly vulnerable to downside risks.
Harlow Enterprise Zone	N/A	Gate 1: 2.44	Green/ Amber	Red/ Amber	Amber	Amber	Amber	A more detailed and rigorous approach to cost benefit analysis is required for the project. This should demonstrate the quantified benefits of the scheme, but should also outline how the revenue costs of the facility will be covered.	The DCLG methodology has not been applied accurately. Significant work is required in relation to establishing accurate and relevant BCR, NPV and VfM calculations. In particular, the calculations need to include the value of the £14.8m loan, as this forms the basis of the request to ring-fence business rate income.	There is uncertainty in relation to infrastructure costs and the running costs of the office building, which require further investigation in order to demonstrate that the scheme is deliverable.

# Our offices

**Bogotá, Colombia**

+57 1 322 1470

colombiainfo@sdgworld.net

**Bologna, Italy**

+39 051 656 9381

italyinfo@sdgworld.net

**Boston, USA**

+1 (617) 391 2300

usainfo@sdgworld.net

**Denver, USA**

+1 (303) 416 7226

usainfo@sdgworld.net

**Leeds, England**

+44 113 389 6400

leedsinfo@sdgworld.net

**London, England**

+44 20 7910 5000

sdginfo@sdgworld.net

**Los Angeles, USA**

+1 (213) 337 6790

usainfo@sdgworld.net

**Madrid, Spain**

+34 91 541 8696

spaininfo@sdgworld.net

**Mexico City, Mexico**

+52 (55) 5615 0041

mexicoinfo@sdgworld.net

**New York, USA**

+1 (617) 391 2300

usainfo@sdgworld.net

**Rome, Italy**

+39 06 4201 6169

italyinfo@sdgworld.net

**San Juan, Puerto Rico**

+1 (787) 721 2002

puertoricoinfo@sdgworld.net

**Santiago, Chile**

+56 2 2757 2600

chileinfo@sdgworld.net

**São Paulo, Brazil**

+55 (11) 3151 3630

brasilinfo@sdgworld.net

**Toronto, Canada**

+1 (647) 260 4860

canadainfo@sdgworld.net

**Vancouver, Canada**

+1 (604) 629 2610

canadainfo@sdgworld.net