

Report  
February 2020

# Independent Technical Evaluator - Local Growth Fund Business Case Assessment – Q4 2019/20 Report

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The logo for Steer, featuring the word "steer" in a bold, lowercase, sans-serif font.

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# 1 Independent Technical Evaluation of Q4 2019/20 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. Recommendations are made for funding approval on 14<sup>th</sup> February 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*<sup>1</sup>, 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.

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<sup>1</sup> Source:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/685903/The\\_Green\\_Book.pdf](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 during November and December 2019 and January 2020.

## Evaluation Results

1.11 Three business cases have been assessed for schemes seeking a Local Growth 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 LGF 3b schemes achieve **high value for money** with a **high certainty** of achieving this.

#### *University of Essex Parkside Phase 3*

1.14 This project involves constructing a four-storey building with a total area of 4,772m<sup>2</sup> (GIA), which can be subdivided in a flexible manner. The facility is designed to provide further accommodation for growing businesses and will complement phases 1 and 2 of the Parkside Office Village.

1.15 The scheme costs are £10.5m, of which £3.0m is an allocation from the Local Growth Fund (Tranche 1) for which the business case assessed here seeks approval for. A requirement for a further £2.0m (Tranche 2) remains in the pipeline. This amount has been underwritten by Essex County Council, who will recoup this amount if further funding becomes available and approved. The remaining contribution of £5.5m is from the University of Essex.

1.16 The value for money assessment is based on estimating the GVA impacts. A reasonable case has been provided to justify the use of this approach over the Land Value Uplift methodology now recommended by MHCLG, since covenants limit the use to which the land can be put. The approach is also robust, but a more comprehensive Benefits Realisation Plan would be beneficial.

### **High value for money, medium certainty**

1.17 The following LGF 3b schemes achieve **high value for money** with a **medium certainty** of achieving this.

#### *M2 Junction 5*

1.18 The scheme consists of a major junction improvement at the junction of the A249 with the M2 (Junction 5). The A249 is a road managed by the Local Authority carrying substantial vehicle volumes and serving strategic traffic and links the two major economic hubs of Maidstone and Sittingbourne. It is a key link between the M2 and M20 motorways for traffic heading from the Midlands and North to the Channel ports. The A249 leads to the Port of Sheerness at its easternmost extent.

1.19 An improvement scheme at this junction was a commitment in Highways England's Road Investment Strategy 1 (RIS1) and consequently Highways England held a public consultation on scheme options in September 2017. An at grade 'hamburger' roundabout junction was promoted as the only option within budget that met the scheme objectives (Option 12A). However, Kent County Council and other stakeholders stated a preference for the discounted option (Option 4), including a flyover arrangement to permit free-flow on the A249. This is forecast to unlock future housing and employment growth, as well as provide additional safety benefits (the junction is one of the top 50 national casualty locations on Highways England's network).

- 1.20 Consequently, Highways England reviewed Option 4 and produced a revised scheme (Option 4H1) that was forecast to meet the RIS1 objectives, increases safety benefits, and ensures free-flow on the A249. This was the subject of the Department for Transport’s Preferred Route Announcement; however, it remains above the allocated budget.
- 1.21 The estimated total scheme cost is £94.5m and there remains a funding gap of £20.0m of which £17.5m has been sought from the National Roads Fund in a bid made earlier this year to the Department for Transport’s initial Major Road Network (MRN) scheme funding. The outcome of this funding bid to the DfT is expected in Financial Year 2020/2021 and could still revert to RIS2 allocation. The remaining £2.5m will be met from Kent County Council (£0.9m) and SELEP Local Growth Fund (£1.6m).
- 1.22 The value for money assessment has been conducted in a reasonable and robust way, and results in a Benefit-Cost Ratio of 3.28:1. However, further consideration should be given to the maintenance costs and the impact on the value for money assessment. In addition, there remain some areas of uncertainty around the funding gap that exists and particularly the likelihood and timing of the National Roads Fund grant coming forward. There is the additional risk that planning permission has not yet been secured and that application is currently subject to a Public Inquiry (scheduled for March 2020 with the Planning Inspector’s report in June 2020). A Monitoring and Evaluation Plan is required.
- Thanet Parkway*
- 1.23 The proposed station will provide two platforms to cater for 12-car rolling stock. Parking will be provided for 299 cars plus 20 short stay bays for passenger drop off and taxis (319 total car parking spaces including 16 disabled bays and 19 spaces with electric vehicle charging points), motorcycles spaces, 40 pedal cycle parking spaces and a set down area for two buses.
- 1.24 Each platform will be fitted with lighting columns that host CCTV cameras and Long Line Public Address speakers; two customer information displays and one passenger help point; and shelters to provide weather protection. Lifts, stairs and an underpass (a refurbished subway as part of an existing Public Right of Way) will provide access to the platforms.
- 1.25 The station forecourt will include two ticket vending machines, two bus shelters and bus passenger information. A set down area will be provided for buses, taxis and passenger drop off, together with staff parking.
- 1.26 The value for money assessment has been conducted in a reasonable and robust way, and the value for money category is “Very High” (NB. A ‘conventional’ Benefit-Cost ratio is not reported as the scheme generates revenues that are greater than the costs resulting in a net ‘negative’ cost, and, therefore, provides a ‘negative’ benefit cost ratio). Whilst Kent County Council has agreed to bridge the funding gap, should additional funding be required, the scheme is still subject to planning permission and there is uncertainty over the rail franchise and requirement within.

## Change requests

- 1.27 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.
- 1.28 One scheme has come forward for this Accountability Board for decision – Colchester Institute's 'Groundworks and Scaffolding Training Centre' project (to be renamed 'Groundworks Training Academy').
- Groundworks Training Academy*
- 1.29 Essex County Council is seeking approval to reduce the scope of 'Groundworks and Scaffolding Training Centre' project (to be renamed 'Groundworks Training Academy') and to reduce the Local Growth Fund contribution by £50,000 from £100,000 to £50,000.
- 1.30 The original of scope the project was to fund site clearance and preparation, design and planning approvals, plant and machinery purchase, signage, modular storage units and secure compound, tools and equipment, scaffolding sets, car park re-instatement, and reconfiguration and upgrade of classrooms to develop a standalone Groundworks and Scaffolding Training Centre at Colchester Campus.
- 1.31 The original business case for Groundworks and Scaffolding Training Centre, as reviewed by Steer in June 2019 was based on a scheme cost of £250,000, with a BCR of 5.64:1. This represented very high value for money, with a medium/high level of certainty of that value for money.
- 1.32 As a result of the change to scope the project outcomes relating to the scaffolding training would not be delivered. However, the groundworks element delivered the majority of the project outcomes. Given the fact that outputs are reducing by one third while project costs are reducing by more than a third, we are confident that the scheme, in its changed form, will continue to represent very high value for money.
- 1.33 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 very high value for money with high certainty of achieving that value for money.

**Table 1.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q4 2019/20**

Scheme Name	LGF 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
<b>Outline business cases</b>										
University of Essex Parkside Phase 3	£3.00m, but up to £5.00m if required and available (of a £10.50m scheme).	Gate 1: Initial BCR: 0.96 Adjusted BCR: 72.1	Amber	Red	Amber	Green	Red	The value for money assessment is based on the GVA impacts of additional jobs. The rationale for following such an approach is not clear/convincing.	Justification for assumptions in the Economic Case required.	Considerable uncertainty in Economic Case, particularly regarding additionality and the double-counting of job and GVA impacts.
		Gate 2: Adjusted BCR 7.3:1	Green	Amber	Green	Green	Amber	A reasonable case has been provided to justify the use of a GVA-based approach over the LVU methodology (recommended by MHCLG).	Some outstanding queries regarding the assumed level of additionality included within the business case.	Despite clarifications, some uncertainty remains over the double-counting of benefits between the GVA approach and the jobs approach used. Also, uncertainty over the case for LGF funding given the anticipated operating surplus. A benefits realisation plan has not been provided.
		Gate 2 Update: 11.2:1	Green	Green	Green	Green	Green	A reasonable case has been provided to justify the use of a GVA-based approach over the LVU methodology (recommended by MHCLG).	Outstanding queries have been addressed and approach is now robust with assumptions made clear and justified.	Low levels of uncertainty and strong track record of delivery.

Scheme Name	LGF 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
M2 Junction 5	£1.60m (of a £94.50m scheme)	Gate 1: 3.28:1	Green	Green/Amber	Green	Amber	Amber	A reasonable approach has been followed in line with the Department for Transport's Transport Assessment Guidance, and benefits, costs and assumptions are reasonable and justified.	The methodology has been applied accurately, however, maintenance costs have not been included in the Cost Benefit Analysis.	Uncertainty still remain regarding maintenance costs, securing funding, planning permission and Public Inquiry outcome. A Monitoring and Evaluation Plan is also required.
		Gate 2: 3.28:1	Green	Green/Amber	Green	Amber	Amber	As above.	As above.	As above.
Thanet Parkway	£14.00m (of a £34.50 scheme)	Gate 5: Very High (if revenues assumed to be a 'negative cost')	Green	Green	Red	Red	Red	A reasonable approach has been followed in line with the Department for Transport's Transport Assessment Guidance, and benefits, costs and assumptions are reasonable and justified.	The methodology has been applied accurately.	Certainty would be improved with confirmation of funding from KCC.
		Gate 6: Very High (if revenues assumed to be a 'negative cost')	Green	Green	Green	Green	Amber	As above.	As above	Uncertainty still remain regarding planning permission and from the uncertain future of rail franchising.

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