

Independent Technical Evaluator - Local Growth Fund Business Case Assessment – Q1 2019/20 Report

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Prepared by:

Steer
28-32 Upper Ground
London SE1 9PD

+44 20 7910 5000
www.steergroup.com

Prepared for:

South East Local Enterprise Partnership
c/o Essex County Council
County Hall
Market Road
Chelmsford
Essex
CM1 1QH
Client ref: F1523058
Our ref: 22790508

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1 Independent Technical Evaluation of Q1 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 7th June 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' decision 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 then 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 March, April and May 2019.

Evaluation Results

- 1.11 Six 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 achieve high value for money with medium to high certainty of achieving this. 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.
- **Basildon Digital Technologies Campus (£2.2m):** The project involves development of a new South Essex College campus in the centre of Basildon to support an aspiration to increase skills levels in south Essex and to fill a skills gap in a growing industry. 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 Education and Skills Funding Agency's appraisal methodology and delivers high levels of certainty around this value for money categorisation.
 - **Bexhill Enterprise Park North (£1.9m):** The project will deliver the site and servicing infrastructure required to enable development of the site to proceed. 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 Ministry for Homes, Communities and Local Government appraisal guidance and delivers high levels of certainty around this value for money categorisation.
 - **Colchester Institute: Groundworks and Scaffolding Training Centre (£0.1m):** This investment would enable the development of a standalone Groundworks and Scaffolding Training Centre at Colchester Institute supporting the construction sector. 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 Education and Skills Funding Agency's appraisal methodology and delivers high levels of certainty around this value for money categorisation.
 - **Flightpath Phase 2 (£1.4m):** Funding is sought for the second Phase of a new build commercial, mixed use employment workspace development in Thornwood, to the South of Harlow. 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 a GVA-based appraisal methodology and delivers high levels of certainty around this value for money categorisation.
 - **Plumpton College: Skills and business support for rural businesses post Brexit (£2.9m):** Plumpton College is the regional specialist in training and education to support the rural economy. This scheme will enable the college to offer AgriFood productivity and processing skills training and knowledge transfer centre to help ensure resilience post Brexit. 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 Education and Skills Funding Agency's appraisal methodology and delivers high levels of certainty around this value for money categorisation.

- 1.13 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 monetised benefit cost analysis we cannot assure this outturn value for money categorisation. Therefore, our recommendation is that there is a low/medium certainty of achieving high value for money:
- **Sidney Little Road Business Incubator Hub (£0.5m):** This scheme involves the development of 28 new incubator units on a currently redundant site identified for industrial development in the Hastings Local Plan adopted in 2015. The proposed site is located on a well-established industrial estate within an area of three estates. Since the funding request is less than £2m a full Value for Money assessment is not required and proportionate, high level analysis of economic benefits arising from the scheme has been undertaken. This analysis indicates high value for money.
- 1.14 We are satisfied an overwhelming strategic case has been made for this scheme and that there is minimal risk in the other cases. However, we invite the Accountability Board to consider the risk that a lack of monetised benefit cost analysis presents before determining whether or not to approve funding for the scheme.

Table 1.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q1 2019/20

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										
Basildon Digital Technologies Campus	2.2	Gate 1: 7.7	Amber/ Green	Amber	Green	Amber/ Green	Amber/ Green	A reasonable approach has been adopted using the Education and Skills Funding Agency appraisal methodology.	Some of the details of the assumptions underpinning the analysis have not been provided.	The provision of a work programme and details on stakeholder engagement would provide greater certainty of deliverability.
		Gate 2: 7.7	Green	Green	Green	Green	Green	As above.	Identification and justification of assumptions has been provided which gives confidence that the approach is robust.	Additional information around the project delivery timescales and how stakeholders will be engaged as the project progresses has been provided.
Bexhill Enterprise Park North	1.9	Gate 1: 3.3	Green	Amber/ Green	Green	Amber/ Green	Green	A reasonable approach using Ministry for Homes, Communities and Local Government appraisal guidance has been adopted.	The methodology has been applied accurately. Justification for the displacement assumption should be provided.	The business case analysis provides assurance of the deliverability of the scheme.
		Gate 2: 3.3	Green	Green	Green	Green	Green	As above.	Justification of displacement assumption has been provided which gives confidence that the approach is robust.	As above.

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
Colchester Institute: Groundworks and Scaffolding Training Centre	0.1	Gate 1: 5.6	Green	Amber	Green	Amber	Green	A reasonable approach has been adopted using the Education and Skills Funding Agency appraisal methodology.	Identification and justification for the optimism bias allowance should be provided.	Further information on the availability of other funding sources would provide greater assurance on the deliverability of the scheme.
		Gate 2: 5.6	Green	Green	Green	Green	Green	As above.	Details of optimism bias allowance have been provided which gives further confidence that the approach is robust.	Additional information around availability and security of other funding sources has been provided.
Flightpath Phase 2	1.4	Gate 1: 3.0	Green	Green	Green	Amber/ Green	Amber/ Green	A reasonable approach has been taken using a GVA-based appraisal methodology.	The methodology has been applied accurately.	A stakeholder engagement plan has not been developed. This would provide greater assurance of deliverability.
		Gate 2: 3.0	Green	Green	Green	Green	Amber/ Green	As above.	As above.	As above.
Plumpton College: Skills and business support for rural businesses post Brexit	2.9	Gate 1: 3.5	Amber	Amber/ Green	Green	Amber/ Green	Green	A reasonable approach has been adopted using the Education and Skills Funding Agency appraisal methodology.	The methodology has been applied accurately. Presentation of sensitivity testing would provide evidence of the resilience of the VfM.	Further information on the availability of other funding sources would provide greater assurance on the deliverability of the scheme.
		Gate 2: 3.5	Green	Green	Green	Green	Green	As above.	Some commentary around sensitivity testing has been provided.	Additional information around availability and security of other funding sources has been provided.

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
Sidney Little Road Business Incubator Hub	0.5	Gate 1: Not derived	Green	Amber/ Green	Green	Green	Amber/ Green	A sensible and proportionate methodology has been applied. The scheme is subject to an exemption from monetised economic appraisal.	Economic impacts have been quantified at a high level. This is appropriate and proportionate.	The economic approach results in less certainty around the Value for Money of the scheme.
		Gate 2: Not derived	Green	Amber/ Green	Green	Green	Green	As above.	As above.	As above.

Control Information

Prepared by

Steer
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London SE1 9PD
+44 20 7910 5000
www.steergroup.com

Prepared for

South East Local Enterprise Partnership
c/o Essex County Council
County Hall
Market Road
Chelmsford
Essex
CM1 1QH

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Author/originator

ETC

Reviewer/approver

SGB

Other contributors

Scheme assessors

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