

Independent Technical
Evaluator – Growth Deal
Business Case Assessment
(Q2 2017/18)

Accountability Board Report
September 2017

South East Local Enterprise
Partnership

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1 Independent Technical Evaluation of Q2 2017/18 starting Growth Deal Schemes

Overview

- 1.1 Steer Davies Gleave 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 22nd September 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 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, 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 between June and August 2017.

Business Case Templates

1.11 Steer Davies Gleave were commissioned by South East Local Enterprise Partnership to update the existing Business Case Templates in order to:

- reflect changes in the SELEP Assurance Framework;
- reflect central government business case guidelines;
- place greater emphasis on specific elements of the business case (e.g. monitoring and evaluation);
- provide additional guidance and support to scheme promoters;
- better align the business case template with the Independent Technical Evaluator assessment framework (which in turn may need further refinement);
- encourage 'proportionality' in the preparation of business cases; and
- provide greater flexibility and improve 'ease of use'

1.12 Three new templates have been produced specific for transport schemes; non-transport schemes; and Growing Places Fund.

1.13 Both the transport and non-transport templates incorporate guidance on the (lower) level of detail needed for schemes under £2m.

1.14 In the process of developing the templates we have invited comments from scheme promoters across the four Federated Areas. We received and responded to 69 pieces of feedback on the draft templates and all comments have been recorded together with our response in a detailed comments log which has also been shared with scheme promoters.

1.15 Key points raised were:

- The need for additional guidance regarding specific topics;

- Concerns regarding the level of detail and quantity of material required;
- The need for clarity regarding roles, responsibilities and sign-off;
- The need for clarity regarding treatment of welfare benefits versus GVA-based 'wider impacts'.

1.16 We would welcome further feedback on the strengths and weaknesses of the new templates implemented.

2 Evaluation Results

Gate 2 Results

- 2.1 Table 2.1 below provides the results of our independent technical evaluation of each scheme seeking funding approval on 22th September 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 revised business cases updated in light of our initial feedback ('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.

Recommendations

- 2.3 The following schemes achieve high value for money with high certainty of achieving this:
- **Southend Central Area Transport Scheme (S-CATS) (£2.0m):** The scheme aims to improve the streetscape, public realm and walking/cycling facilities along the segment of London Road, College Way, Queens Road and Elmer Avenue that provide access to the high street, the main library (The Forum), College, University and other key destinations in the Town Centre. The analysis has been carried out in a robust and reasonable manner with the economic case demonstrating that the scheme will provide very high/high value for money. It was noted that the Business Case does not identify or quantify disbenefits to road users, particularly from increased journey times if pathways are widened and the speed limit is reduced from 30mph to 20mph in some sections, although this is unlikely to adversely affect the overall value for money assessment. The value for money of the investment relies heavily on physical activity benefits, which can drop significantly if the take-up of cycling/walking is not achieved. Both of these introduce some residual uncertainty.
 - **A2500 Lower Road (£1.3m):** The proposed scheme is located at the junction of the A2500 Lower Road junction with Barton Hill Drive on the Isle of Sheppey, approximately one mile east from the A2500 junction with the A249. The primary purpose of the scheme is to improve current congestion issues and junction efficiency. The analysis provides a proportionate assessment of the scheme costs and benefits with some, albeit limited, sensitivity testing applied. The value for money of the scheme is robust to changes in the magnitude of transport user benefits, and represents high value for money with high certainty.
- 2.4 The following scheme achieves high value for money with medium certainty of achieving this:
- **Southend Airport Business Park Phase 2 (£19.9m):** Phase 2 of the scheme will deliver the final phase of enabling site infrastructure on the Airport Business Park. The infrastructure works include: on site road infrastructure, drainage, utilities, archaeological works, an off-site sustainable cycle/footpath and a new build 2,600 sqm (28,000 sqft) (GIA) innovation centre. The application provides a comprehensive business case, which is sensible and proportionate to the scale of project and the scale of funding sought. Acknowledgement of the impact of the Airport Business Park on local congestion is omitted and should, ideally, have been made. We do not, however, expect these disbenefits to be material to the value for money of the scheme.

- **A26 Cycle Route (£1.0m):** The scheme aims to improve cycle infrastructure on the A26 between its junctions with Grosvenor Rd, Tunbridge Wells and Brook St, Tonbridge and bring these together to establish a single, consistent, cycle route between the two towns. The value for money methodology has been applied accurately, with the use of the DfT Active Mode Appraisal Toolkit. For future reference, more work on sensitivity tests should have been undertaken to reduce uncertainty around the assumed cycling uptake.
- **Kent and Medway Engineering, Design, Growth and Enterprise (EDGE) Hub (£6.1m):** The scheme requires funding for the construction and equipment costs of Kent and Medway EDGE Hub. This will be a new 3,588 sqm facility in Canterbury, with satellite facilities at Discovery Park, Kent Science Park, Medway Campus and other parts of Kent, to support high value employment, growth and investment in Engineering and Technology businesses. The appraisal methodology has been applied sufficiently accurately given the structural constraints faced in framing a project of this type within the investment appraisal parameters stipulated for this assessment process i.e. it is difficult to capture the ‘capability-building’ aspects of such an investment within standard value for money estimates. There is still scope for some improvement in the clarity of the presentation of the quantitative estimates, nevertheless the underlying vision and ambition to make a difference to local industrial base is serious in intent and the strategic management commitment to the project offsets remaining limitations in the quantitative aspects of the proposal.

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

- **Innovation Centre (Phase 1) – University of Essex Knowledge Gateway (£2.0m):** The University proposes to build an Innovation Centre as the focal point on its Knowledge Gateway Research Park. The development is designed to increase the University’s ability to realise its ambition of driving local and regional economic growth through becoming a globally recognised centre for data analytics. The Strategic Case is compelling. It demonstrates demand from SMEs for the type of work space planned as well as the research credentials and spinout potential of the University. An explicit description of problems and how the scheme can address them is provided together with a consideration of alternative land uses, including why the innovation centre is the preferred option.

A sensible methodology has been applied, providing supporting evidence appropriate to making the case for investment, however, the case would benefit from a more formal demand assessment for the sectors the case is looking to target in order to reduce residual uncertainty. Ideally, the case would provide greater assurance that the current cost estimates can be verified, that the level of funding is proportionate and that this intervention will meet demand and address local problems and strategic imperatives. Finally, the value for money case is made in GVA terms which are not strictly compliant with the Green Book methodology, but are detailed in alternative (and supplementary) Government guidance. Using a broad ‘rule of thumb’ for converting jobs-based GVA into the social accounting framework used by the Green Book indicates that the scheme would still generate high value for money, albeit with lower certainty than if a direct ‘welfare’ calculation had been performed.

Table 2.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q2 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
Southend Central Area Transport Scheme (S-CATS)	£2.0m	Gate 1: 4.01	Amber	Amber/Green	Green	Amber/Green	Amber	The methodology is proportionate to the type and size of scheme nevertheless additional sensitivity tests would be useful. There is no objective to specifically reduce traffic congestion even though this is identified as a key issue now and in the future.	The analysis does not consider disbenefits to road users. There is reliance on physical activity benefits – which could drop significantly if the take-up of cycling/walking has been miscalculated.	The financial and commercial cases are generally well developed, with minor comments should be addressed in future iterations of the business case. The management case requires further work on risk management strategy and benefits realisation plan.
		Gate 2: 4.06	Green	Green	Green	Green	Amber/Green	Generally the comments from Gate 1 still apply particularly regarding sensitivity and objectives to reduce congestion.	The appraisal methodology seems to have been accurately applied and comments from Gate 1 have been addressed.	The analysis has helped reduce uncertainty regarding the value for money of the proposed intervention.

Scheme Name	Local Growth Fund	Benefit to Cost Ratio (v'to 1)	Strategic Case Summary	Economic Case Summary	Commercial Case Summary	Financial Case Summary	Management Case Summary	Assurance of Value for Money		
A2500 Lower Road / Barton Hill Drive Junction	£1.3m	Gate 1: 2.47	Green	Red/Amber	Green	Amber/Green	Green	The methodology has been applied accurately, with appropriate junction modelling undertaken to justify the BCR.	All the economic appraisal calculations seem in line with WebTAG guidance except for the discounting which needs to be clarified due to its potential impact on BCR.	The analysis has helped reduce uncertainty. The business case is largely complete and only some very minor amendments are required.
		Gate 2: 2.58	Green	Amber/Green	Green	Green	Green	Gate 2 has addressed some of the issues outlined within Gate 1 review, predominantly those related to the economic case BCR calculation.	The methodology appears to have been applied accurately. However, the appraisal spreadsheet is not fully auditable and therefore it is not possible to provide full assurance regarding the application of WebTAG.	The analysis provides a proportionate assessment of the scheme costs and benefits with some, albeit limited, sensitivity testing applied. The value for money of the scheme is robust to changes in the magnitude of transport user benefits, and represents high value for money with medium to high certainty.
Southend Airport Business Park Phase 2	£19.9m	Gate 1: 2.19	Green	Red/Amber	Green	Red/Amber	Amber/Green	The business case is comprehensive, with analysis that is sensible and proportionate to the scale of project and the scale of funding sought.	The BCR methodology has been applied accurately – with two methods applied to meet previous requirements and DCLG's current guidance on land value uplift. There are significant concerns that business rate costs to the private sector and congestion impacts have not been considered as disbenefits.	More information needs to be provided on the benefits to increase certainty. In addition, more information could be provided in relation to stakeholder engagement and management in the future, as well as a benefits realisation plan. Copy of S151 office letter to be provided.
		Gate 2: 2.19	Green	Amber/Green	Green	Amber/Green	Green	The application provides a comprehensive business case, which is sensible and	Acknowledgement of the impact of the Airport Business Park on	The analysis has identified risk and uncertainty, assigned owners of the risks and

Scheme Name	Local Growth Fund	Benefit to Cost Ratio (b/c to 1)	Strategic Case Summary	Economic Case Summary	Commercial Case Summary	Financial Case Summary	Management Case Summary	Assurance of Value for Money		
A26 Cycle Route	£1.0m							proportionate to the scale of project and the scale of funding sought.	local congestion should, ideally, be made although we do not expect these disbenefits to be material to the value for money of the scheme.	identified risk mitigation strategies. A copy of the S151 officer letter was provided with the revised business case.
		Gate 1: 3.27	Amber/ Green	Amber/ Green	Green	Amber/ Green	Green	The methodology is proportionate to the type and size of scheme. The business case is generally well developed with additional information required to strengthen the case and certainty.	The methodology seems to have been accurately applied, with the use of the DfT Active Mode Appraisal. Further clarification and breakdown in calculations and assumptions would be required to increase confidence. In addition sensitivity analysis should be undertaken.	The analysis has helped reduce uncertainty. The business case is largely complete and only some very minor amendments are required.
		Gate 2: 2.94	Green	Amber/ Green	Green	Green	Amber/ Green	The business case has been strengthened to address Gate 1 comments around articulation of constraints and risks and option consideration.	More work on sensitivity should be undertaken together with a clearer split of the risk and inflation applied to the cost breakdown.	The BCR is slightly lower than in the previous iteration of the business case (although remains high), and it would have been useful to provide clarification to understand what changes have occurred.

Scheme Name	Local Growth Fund	Benefit to Cost Ratio (v' to 1)	Strategic Case Summary	Economic Case Summary	Commercial Case Summary	Financial Case Summary	Management Case Summary	Assurance of Value for Money		
Kent and Medway Engineering, Design, Growth and Enterprise (EDGE) Hub	£6.1m	Gate 1: Not derived	Amber	Amber	Amber	Amber	Green	The methodology deployed is broadly sensible, although it would benefit from greater clarity over specific technical assumptions and the specific challenges of CCCU.	Particular concern has been raised regarding the choice of a high multiplier of 2.3 for the local context.	The analysis of the methodology itself has not exposed or helped in the understanding of uncertainty. However, the assessment of the narrative and implied logic model/theory of change that frames the quantitative estimates and modelling has exposed and clarified significant uncertainties that should now be focussed on and addressed.
		Gate 2: 2.28 (including 'other quantified benefits')	Amber/ Green	Amber/ Green	Amber/ Green	Amber	Green	The G2 proposal reflects a serious and concerted effort by the university to respond effectively to G1 feedback and these improvements result in a sensible and proportionate methodology being applied for a project of this type.	The nature and extent of the updates applied in the G2 proposal is evidence of a serious effort to learn, adapt and therefore optimise the funding case being developed.	The G2 proposal has made significant improvements in the robustness of the funding case made via doing more to expose, understand and respond to uncertainties.

Scheme Name	Local Growth Fund	Benefit to Cost Ratio (v'to 1)	Strategic Case Summary	Economic Case Summary	Commercial Case Summary	Financial Case Summary	Management Case Summary	Assurance of Value for Money		
Innovation Centre (Phase 1) – University of Essex Knowledge Gateway	£2.0m	Gate 1: Not derived in welfare terms	Amber	Red/ Amber	Amber	Amber/ Green	Amber	A more formal demand assessment is required. The business case provides a good level of detail on the potential benefits of the scheme, although no BCR or NPV values are reported. In a number of places more detail or greater clarity should be provided to strengthen the case.	The methodology appears to have been applied accurately. On the whole the requirement is for additional information to reinforce the case, particularly in terms of the demand for this specific type of intervention as well as the needs and problems that it addresses.	The case needs to provide greater assurance that the current cost estimates can be verified, that the level of funding is proportionate and that this intervention will meet demand and address local problems and strategic imperatives.
		Gate 2: Not derived in welfare terms	Amber/ Green	Amber/ Green	Green	Amber	Green	Overall it is an improvement and a stronger case all round. The revised business case still states that VfM is difficult to calculate. However, a GVA-based approach to estimate direct and indirect economic impacts has been followed.	Cost estimates have been verified and links to meeting demand, addressing problems and strategic imperatives are provided.	This analysis has reduced uncertainty and is stronger than at Gate 1.

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