

# Independent Technical Evaluator - Growth Deal and Growing Places Fund Business Case Assessment (Q3 2018/19)

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Contents

1 Independent Technical Evaluation of Q3 2018/19 Growth Deal Schemes ..... 1

Overview..... 1

Method ..... 1

Evaluation Results ..... 3

2 Independent Technical Evaluation of Q3 2018/19 Local Growth Fund Allocation  
Change Requests..... 5

3 Independent Technical Evaluation of Q3 2018/19 Growing Places Fund Schemes..... 6

Overview..... 6

Evaluation Results ..... 6

Tables

Table 1.1: Gate 1 & 2 Assessment of Growth Deal Schemes seeking Approval for Funding for  
Q3 2018-19 ..... 4

# 1 Independent Technical Evaluation of Q3 2018/19 Growth Deal Schemes

## Overview

- 1.1 Steer Davies Gleave were 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 16<sup>th</sup> November 2018 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*<sup>1</sup>, 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.

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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)

- 1.7 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 September and October 2018.

## Evaluation Results

- 1.11 One scheme seeking Local Growth Funding is to be considered at the November 2018 Accountability Board. 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 scheme achieves high Value for Money with medium/high certainty of achieving this:

- **A127 Major Maintenance and The Bell Junction Improvement (Option 1: £11.0m, Option 2: £13.1m):** 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 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.

There remains uncertainty around the preferred option and its selection is subject to a Cabinet decision. When this scheme is assessed at Full Business Case stage the scheme promoter will have an opportunity to present the preferred option. Additionally, the business case shows that all three options represent high value for money. However, we would invite the Board to consider this risk.

Table 1.1: Gate 1 &amp; 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q3 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  |
| A127 Major Maintenance and The Bell Junction Improvement | Option 2: 11.0, Option 3: 13.1 | Gate 1: Option 1: N/A, Option 2: N/A   | Amber                       | Amber                      | Green                        | Green                       | Amber                        | The economic appraisal for the scheme is currently being undertaken using the Department for Transport's WebTAG approach. We have not seen outputs from this analysis yet.                      | The accuracy of the methodology cannot yet be determined.                      | There are high levels of uncertainty around the value for money of the scheme since results from the economic appraisal have not been provided.                        |
|  |                                | Gate 2: Option 1: 17.9, Option 2: 14.9 | Green                       | Green                      | Green                        | Green                       | Green                        | A sensible and proportionate methodology has been employed. The Department for Transport's WebTAG appraisal guidance has been used to calculate the transport costs and benefits of the scheme. | The assessment carried out gives confidence in the robustness of the analysis. | The provision of the economic appraisal has shown that the two options for the scheme have high BCR. This has provided increased certainty around the value for money. |



## 2 Independent Technical Evaluation of Q3 2018/19 Local Growth Fund Allocation Change Requests

- 2.1 There have been no change requests received for assessment by the Independent Technical Evaluator this period.

# 3 Independent Technical Evaluation of Q3 2018/19 Growing Places Fund Schemes

## Overview

- 3.1 As part of its Independent Technical Evaluator role Steer has assessed business cases for schemes seeking a Growing Places Fund loan allocation from SELEP.
- 3.2 SELEP proposed an approach to prioritisation and award of the GPF loan funding. This approach was discussed and agreed upon at the June 2017 Strategic Board.
- 3.3 Schemes being assessed at this stage have already passed through the preliminary qualification phases, namely:
  - Phase 1: Sifting of Expressions of Interest (EOI), and
  - Phase 2: Prioritisation of Strategic Outline Business Case (SOBC)
- 3.4 The prioritisation of GPF projects was considered and approved, via correspondence, by the SELEP Strategic Board during November 2017. Scheme promoters then developed Outline Business Cases (OBC) for independent technical evaluation and subsequent consideration by the Accountability Board.

## Evaluation Results

### Summary Findings and Considerations for the Board

- 3.5 The following list contains recommendations to the Accountability Board, including key findings from the evaluation process and any issues arising.

#### *Recommendations*

- 3.6 The following scheme achieve high Value for Money with high certainty of achieving this:
  - **Javelin Way (£1.6m):** This project aims to develop the Javelin Way site for employment use, with a particular focus on the development of Ashford's creative economy. The scheme consists of two elements: the construction of a 'Creative Laboratory' production space and the development of 29 light industrial units. There is strong alignment with local and national strategic priorities and a robust analytical exercise has taken place to assess the costs and benefits of the scheme. This has shown that the scheme will deliver high Value for Money on the loan investment. The schedule and procedure for payback of the loan demonstrates that contribution to a revolving fund is secure.

## Control Information

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