

# Independent Technical Evaluator - Growth Deal and Growing Places Fund Business Case Assessment (Q2 2018/19)

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# 1 Independent Technical Evaluation of Q2 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 15<sup>th</sup> September 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 July and August 2018.

## Evaluation Results

- 1.11 Two schemes seeking Local Growth Funding are to be considered at the September 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 schemes achieves high Value for Money with medium/high certainty of achieving this:
- **Leigh and Hildenborough Flood Mitigation (£2.3m):** This scheme increases the capacity of the Leigh Flood Storage Area in order to achieve greater protection for both existing homes and businesses and to unlock new residential and commercial development. 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. The Environment Agency have led the business case development and will lead the flood mitigation works. This provides high levels of certainty around the deliverability of the scheme. The scheme is in Environment Agency's 6 year consented programme and assurance has been provided that it is highly prioritised. However, delivery of the project is still subject to the approval by the Environment Agency and we would invite the Accountability Board to consider this risk.
  - **Southend Airport Business Park Full Business Case (£19.9m):** The scheme will deliver the 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 innovation centre.

The scheme was initially split into two parts with Phase 1 being approved funding at the Accountability Board in April 2016. Given the interdependencies between Phases 1 and 2, they were then brought together as one scheme.

The Southend Airport Business Park Outline Business Case was provisionally approved funding at the September 2017 Accountability Board. At this stage the business case provided a comprehensive assessment of the scheme, which was sensible and proportionate to the scale of project and the scale of funding sought. Our assessment was that, at this stage, the scheme represented high value for money with a medium certainty of achieving this value for money.

The additional work carried out as part of Full Business Case development has involved further consideration of the impact of the scheme upon the local transport network which has increased the robustness of the economic appraisal. The procurement of the works has not yet taken place which we would expect at Full Business Case stage and we would invite the board to consider this risk. However, through cost benchmarking and market testing the revised business case has provided significantly increased levels of certainty around the scheme costs and deliverability.

Table 1.1: Gate 1 &amp; 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q2 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
Leigh and Hildenborough Flood Mitigation	2.3	Gate 1: 9.8	Green/Amber	Red/Amber	Green	Green/Amber	Green/Amber	A sensible and proportionate methodology has been employed. The FCERM appraisal guidance has been used and in addition the value of jobs and homes enabled by the work has been identified.	The accuracy of the methodology cannot yet be determined because the assumptions which underpin the economic appraisal have not been stated or justified.	There are high levels of uncertainty around the value for money of the scheme. However, the involvement of Environment Agency in the development of the scheme gives high levels of assurance around its deliverability.
		Gate 2: 9.8	Green	Green	Green	Green	Green	No change	The assumptions used within the appraisal have been provided which gives confidence in the robustness of the analysis.	The provision of the Economic Appraisal developed by Environment Agency has provided increased certainty around the value for money



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
Southend Airport Business Park Full Business Case	19.9	Gate 5: 4.3	Green	Green	Green/Amber	Green	Green	The application provides a comprehensive business case, which 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.	The full business case has removed elements of uncertainty which were present at OBC stage.

## 2 Independent Technical Evaluation of Q2 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 Q2 2018/19 Growing Places Fund Schemes

## Overview

- 3.1 As part of its Independent Technical Evaluator role Steer Davies Gleave 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 schemes achieve high Value for Money with high certainty of achieving this:
- **Innovation Park (£0.7m):** The proposed scheme involves enabling works for the delivery of the Innovation Park site which will make up part of the North Kent Enterprise Zone. Works include construction of an access road with shared footpath, cycle route, lighting and signage. 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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