

Independent Technical  
Evaluator – Growth Deal and  
Growing Places Fund  
Business Case Assessment  
(Q1 2018/19)

Accountability Board Report  
April 2018

South East Local Enterprise  
Partnership

Our ref: 22790506  
Client ref: F1523058





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# 1 Independent Technical Evaluation of Q1 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. Recommendations are made for funding approval on 27<sup>th</sup> April 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.
- 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.

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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)

1.8 The five cases of a government business case are:

- **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 during March and April 2018.

## Evaluation Results

- 1.11 Only one scheme seeking Local Growth Funding is to be considered at the April 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 achieve high Value for Money with low certainty of achieving this:

- **Dartford Town Centre Improvements (£4.3m):** The project involves delivery of a series of improvements to the pedestrian and walking environment on Market Street, Hythe Street, between High Street and Westgate Road and a series of junction improvements.

The business case presents a well articulated need for intervention focused on catering for a future increase in population and the need to stimulate retailer interest in locating to the town centre, with the principal aim of reversing a longer period of decline.

Within the economic case, the central case scenario indicates that the scheme represents high value for money. However, there is significant residual uncertainty regarding this value for money categorisation as a result of the limited evidence base presented to support many of the key assumptions that underpin the economic appraisal.

For example, assuming that rental values increase by 20% (rather than the 25% assumed in the central case) reduces the BCR from 2.2 to 1.9. Similarly, assuming that rental values increase over ten years (rather than the four years assumed in the central case) reduces the BCR to 2.0. There are also upside risks to the BCR since the treatment of leakage and displacement appears conservative compared with other, similar schemes that have been awarded LGF funding by SELEP.

Notwithstanding the above, we note that traffic disbenefits have not been included within the central case scenario. These are likely to be small but material and would place downward pressure upon the value for money of the scheme.

Table 1.1: Gate 1 &amp; 2 Assessment of Growth Deal Schemes seeking Approval for Funding for Q1 2018-19

Scheme Name	LGF 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
Dartford Town Centre Improvements	£4.3m	Gate 1: 1.2	Red	Red	Amber	Green	Green	Not possible to assess without access to modelling and appraisal resources	Not possible to assess without access to modelling and appraisal resources	High levels of uncertainty associated with modelling, appraisal and supporting evidence base
		Gate 1b: 1.2	Amber	Red	Amber	Green	Green	Access to the appraisal model provides some clarity regarding the methodology applied nevertheless, further clarifications are required	Difficult to assess due to limited evidence base to support key appraisal assumptions	High levels of uncertainty associated with lack of evidence to support key assumptions
		Gate 2: 2.2	Green/ Amber	Amber	Amber	Green	Green	The approach taken to assess scheme benefits is considered to be reasonable. It is based upon the DfT active modes appraisal toolkit and retail rental uplift estimates.	Key assumptions which have a material impact upon the value for money of the scheme remain unsubstantiated. In particular, the % uplift in retail rental values post-implementation.	High levels of residual uncertainty associated with lack of evidence to support key assumptions



## 2 Independent Technical Evaluation of Q1 2018/19 Local Growth Fund Allocation Change Requests

### Overview

- 2.1 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.
- 2.2 In light of the increased costs on the projects below, Steer Davies Gleave have carried out a reassessment of their Value for Money categorisation, comparing the Value for Money upon which the original recommendation to the Accountability Board was made and the current Value for Money of the scheme.

### A414 Harlow to Chelmsford reallocation to A414 Harlow Pinch Point Package

- 2.3 Essex County Council (ECC) has submitted a change request to increase the LGF allocation for the A414 Harlow Pinchpoint Package. It is anticipated that the increase in LGF allocation will be £487k. This £487k will be transferred from the separate A414 Harlow to Chelmsford scheme which provides corridor highway and public transport improvements.
- 2.4 The £487k diverted from A414 Harlow to Chelmsford is a transfer of provisional funding allocated to the scheme as part of Growth Deal Round 1. The A414 Harlow to Chelmsford Project was originally allocated £3.66m LGF. The A414 Harlow to Chelmsford business case was approved by the Accountability Board in November 2017, for the award of £2.17m, noting that the final business case submitted to the Accountability Board required funding significantly less than initially allocated.
- 2.5 A separate report presented to the Accountability Board on 17 November 2017 outlined that ECC would be seeking to reallocate the funds between Mercury Theatre and Harlow projects. The reallocation of £1m of the LGF to the Mercury Theatre was approved at a subsequent Accountability Board. This change request seeks to reallocate the remaining £487k to LGF projects in Harlow.
- 2.6 The original business case for A414 Harlow Pinchpoint Package, as reviewed by Steer Davies Gleave in May 2015, was based on a scheme cost of £14.92m (and a LGF award of £10.20m) which delivered a BCR of 4.2:1. This represented high Value for Money, with a medium/high level of certainty of that Value for Money.
- 2.7 Total scheme costs have now risen from £14.92m to £18.26m. Assuming that the benefits of this project have not changed and that the revised, higher costs will be incurred according to the same time-profile as stated in the original business case, the revised BCR falls to 3.4:1.
- 2.8 Given the fact that the scheme is in its delivery phase, uncertainty about procurement, delivery and benefits realisation can be reduced. Therefore, this scheme, with the increase costs considered, continues to represent high Value for Money with high certainty of achieving that Value for Money. However, it should be noted that had the cost overrun not occurred the

reallocated funds could have been used to invest in other LGF projects which could deliver additional benefits. There is an opportunity cost associated with the reallocation.

### **Harlow Advanced Manufacturing and Engineering Centre (HAMEC)**

- 2.9 Harlow College received £2.5m Local Growth Funding through the first round of skills capital funding (2015-17) towards total HAMEC project costs of £7.5m. In December 2017 Her Majesty's Revenue and Customs advised Harlow College that the project's construction phase was VAT refundable based on HAMEC's current usage. This resulted in a VAT rebate of £1,022,667.
- 2.10 The proportion of the VAT rebate which is being considered to be Local Growth Funding is £234,815. This represents 23% of the overall rebate which is consistent with the percentage contribution of Local Growth Fund to the overall cost of the scheme. The LGF proportion of the rebate will be used to enable investment in areas of HAMEC that were value engineered out of the original project (total cost £485,230).
- 2.11 In turn this will allow HAMEC to expand delivery of apprenticeships in priority growth sectors and industries. By broadening the equipment that its learners can access, HAMEC will develop their skills across a wider range of technologies and make them more employable across a growing number of advanced manufacturing and engineering disciplines.
- 2.12 It should be noted by the Accountability Board that the Local Growth Fund element of the VAT rebate can only be used for capital expenditure, must provide additional benefits to the HAMEC and cannot be used on any other schemes. On the basis of the funding request received we are content that this will be the case.
- 2.13 Separately, the College will use its proportion of the VAT rebate (£600,000) to meet budget challenges in the Stansted Airport College project. In monitoring and evaluation of the Stansted Airport College project these budget challenges should be noted.
- 2.14 Economic appraisal has been carried out and indicated that there will be annual (i.e. single-year) economic benefits of £251,334 as a result of the purchase of the additional specialist equipment. While a multi-year scheme appraisal was not carried out (in order to generate a Net Present Value estimate of benefits) this single year estimate provides assurance that the benefit cost ratio of the additional scheme element would be greater than 2:1. The additional funding is considered to deliver very high value for money, with high levels of certainty.

## 3 Independent Technical Evaluation of Q1 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:
- **Fitted Rigging House (£0.8m):** The project is to convert a former industrial building into office and public space providing workspace for over 350 individuals. The conversion will provide 3,473sqm of office space, of which 2,184sqm is allocated (subject to contract) to two expanding businesses employing 300 people that would otherwise have relocated outside of Medway.

There is a clear strategic rationale for the scheme, and the schedule and procedure for payback of the loan demonstrates that contribution to a revolving fund is secure. The quantifiable benefits of the scheme support a good economic case for the scheme and the wider impact of keeping businesses in Medway which may otherwise leave the South East strengthens the Value for Money case. Proportionate and sensible economic appraisal modelling has been carried out. This has demonstrated that the scheme represents high Value for Money.

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