

Independent Technical
Evaluator – Growth Deal
Business Case Assessment
(Q3 2017/18)

Accountability Board Report
November 2017

South East Local Enterprise
Partnership

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1 Independent Technical Evaluation of Q3 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 17th November 2017 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*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:

- **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 September and October 2017.

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 17th November 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:
- **Colchester to Clacton (£2.7m):** The scheme aims to deliver a package of schemes to provide highway capacity, cycling and safety improvements for the Colchester to Clacton corridor. 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. The absence of sensitivity tests means that it is has not been possible to assess the resilience of the value for money of the scheme to alternative inputs, assumptions and parameters. However, the scheme has a strong benefit to cost ratio and only very large detrimental changes would lead to a degrading of the value for money category of the scheme.
 - **M11 J8 (£2.7m):** The proposed scheme involves improvements at Junction 8 of the M11, which provides access to Bishops Stortford and Stansted Airport via the A120. Improvements include revised slip roads and replacement of the A1250 / A120 roundabout with a signalised junction. The analysis provides a proportionate assessment of the scheme costs and benefits which resulted in a strong benefit cost ratio representing high value for money. The analysis was robustly carried out ensuring high levels of certainty around this high value for money.
- 2.4 The following scheme achieves high value for money with medium/high certainty of achieving this:
- **A414 Chelmsford to Harlow (£2.2m):** The scheme will deliver a package of interventions to provide highways capacity, passenger transport and safety improvements for the Chelmsford to Harlow corridor. The absence of sensitivity tests means that it has not been possible to assess the resilience of the value for money of the scheme to alternative inputs, assumptions and parameters. However, the scheme has a reasonable benefit to cost ratio and relatively large detrimental changes would be required to lead to a degrading of the value for money category of the scheme.
- 2.5 The following scheme achieves high value for money with medium certainty of achieving this:
- **Open Golf Sandwich Station Extension (£1.0m):** The scheme components include the extension of platforms and construction of a new footbridge that will allow longer trains to stop at the station. The platform extensions will enable a new walking route to the golf course to be established. The appraisal methodology has been applied correctly. However, the omission of maintenance and renewal costs and the lack of justification regarding the level of optimism bias applied to capital costs reduces the level of certainty that can be attributed to the value for money of the scheme. In

addition, very little sensitivity analysis has been undertaken. This would help to determine the resilience of the scheme's value for money to changes in input assumptions and model parameters. The GVA-based estimates of the impact of the tournament have been converted into welfare-based benefits using an appropriate methodology. This analysis has demonstrated that the scheme would represent high value for money.

- **Mercury Rising (£1.0m):** The scheme involves the expansion and redevelopment of the Mercury Theatre. Components include theatre capacity increase, expansion of the foyer and development of rehearsal space. The absence of sensitivity tests means that it has not been possible to assess the resilience of the value for money of the scheme to alternative inputs, assumptions and parameters. Additionally, there is no evidence that the impact of displacement or leakage has been considered. However, the BCR is sufficiently high that we would expect it to remain above 2 if these cost uplifts had been applied.

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
Colchester to Clacton	2.7	Gate 1: 5.93	Amber	Amber	Green	Green	Green	The methodology is proportionate to the type and size of scheme	There are some inaccuracies in the appraisal spreadsheet and clarification around the assumptions underpinning the appraisal is required.	Evidence of sensitivity testing would increase the certainty around the value for money.
		Gate 2: 5.93	Amber/Green	Green	Green	Green	Green	As above	Clarification has been provided of the appraisal assumptions. This now represents a robust analytical exercise.	There remains no evidence of sensitivity testing, but the BCR is sufficiently high to demonstrate resilience of value for money.
M11 J8	2.7	Gate 1: 3.2	Green	Green	Green	Green	Green	A sensible and proportionate methodology has been carried out.	The analysis is robust with a clear and compliant appraisal using up to date assumptions	The analysis has helped reduce uncertainty. The business case is complete with no amendments required.
		Gate 2: 3.2	Green	Green	Green	Green	Green	As above	As above	As above

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		
A414 Chelmsford to Harlow	2.2	Gate 1: 3.31	Amber/ Green	Amber/ Green	Green	Green	Amber/ Green	A standard TUBA-based transport appraisal has been undertaken, which is both sensible and proportionate.	The analysis has been carried out in a robust manner. There are a few assumptions which require further evidence.	Evidence of sensitivity testing would increase the certainty around the value for money. A monitoring and evaluation plan have not yet been developed.
		Gate 2: 3.31	Green	Green	Green	Green	Green	As above	Clarification has been provided of the assumptions underpinning the appraisal. This now represents robust business case analysis.	Evidence of sensitivity testing has been provided and a monitoring and evaluation plan has been outline.
Open Golf Sandwich Station Extension	1.0	Gate 1: 11.69	Amber	Red/ Amber	Amber/ Green	Red/ Amber	Red/ Amber	The methodology is proportionate to the type and size of scheme. GVA based appraisal has been carried out, so further analysis needs to be conducted to convert this to welfare benefits.	Further clarification and breakdown in calculations and assumptions is required to increase confidence in the analysis.	There is significant uncertainty around some of the key assumptions in the economic appraisal. Additionally, evidence of sensitivity analysis should be provided to demonstrate the resilience of the value for money.
		Gate 2: 3.9	Amber/ Green	Amber	Green	Red/ Amber	Amber	Additional analysis has been carried out to convert GVA benefits into welfare terms.	Additional information has been provided though there remain gaps in the analysis.	Key assumptions have been clarified and limited sensitivity testing has been carried out.

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		
Mercury Rising	1.0	Gate 1: Not derived	Red/ Amber	Red	Amber	Red/ Amber	Amber	The case requires considerable additional detail to evidence the benefits which are driving the scheme. The data and description on inputs/costs and outputs/ benefits requires greater detail.	There is a lack of clarity around the basis for calculation of the scheme benefits.	Significantly more information is required to demonstrate the value for money of the scheme. There is also uncertainty around the security of the funding sources
		Gate 2: Not derived	Red/ Amber	Red/ Amber	Amber	Red/ Amber	Amber	There remains significant gaps in the analytical methodology which make it difficult to assess whether it constitutes reasonable analysis. Additional information should be provided to clarify how the benefits of the scheme are being forecast.	The lack of clarity remains and additional information about assumptions underpinning the economic appraisal are still required to aid assessment of analytical robustness.	Uncertainty around value for money and funding sources remains.
		Gate 2.2: 1.79	Amber/ Green	Red/ Amber	Amber	Amber	Amber/ Green	Additional information has been provided strengthening the strategic case. Further improvements need to be made to the economic appraisal methodology.	Some work has been done to clarify the assumptions in the economic appraisal.	There remains uncertainty around value for money of the scheme.
		Gate 2.3: 3.44	Amber/ Green	Amber	Amber	Amber	Amber/ Green	Additional work has been done to demonstrate that the scheme represents high value for money.	Work has been carried out to demonstrate that the economic appraisal has been accurately undertaken.	Uncertainty around the value for money of the scheme has been reduced by additional analysis carried out.

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