

Independent Technical
Evaluator – Growth Deal
Business Case
Assessment (Q2
2015/16 Starting
Projects)

Gate 2 Report
June 2015

South East Local Enterprise
Partnership

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1 Independent Technical Evaluation of Q2 2015/16 starting Growth Deal Schemes

Overview

- 1.1 Steer Davies Gleave and SQW were appointed by the South East Local Enterprise Partnership in February 2015 as Independent Technical Evaluators. It is a requirement of Central Government that every Local Enterprise Partnership subjects its business cases and decision on investment to independent scrutiny.
- 1.2 This report is for the second gateway review ('Gate 2') of Full Business Cases for schemes which were allocated funding through the Growth Deal process in July 2014 and are seeking funding in the second quarter (Q2) of 2015/16, and recommendations are made for funding approval by 12th June 2015 by the Accountability Board and the Section 151 Officer at Essex County Council as Accountable Body, in line with the South East Local Enterprise Partnership's own governance.

Method

- 1.3 The Gate 2 review provide comment on the Full Business Cases submitted by scheme promoters, and to comment on the strength of business case and the value for money being provided by the scheme, as set out in the business case.
- 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 information to the South East Local Enterprise Partnership Board to make such decisions, based on independent, technical expert, clear, 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 Homes and Communities Agency's *The Additionality Guide*. Both The Green Book, WebTAG and The Additionality Guide 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 planning professionals, and feedback and support has been given to scheme promoters throughout the process through workshops, meetings, telephone calls and emails during weeks commencing 11th May 2015 to 25th May 2015.

2 Evaluation Results

Gate 2 Results

2.1 Table 1.1 below provides the results of our independent and technical evaluation of each scheme seeking funding approval on 12th June 2015 by the South East Local Enterprise Partnership Accountability Board. It is an interim assessment of each business case, as submitted by scheme promoters as an Outline Business Case. 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.

2.3 The strategic case has typically been made effectively by scheme promoters, as expected as strategic fit was a key criteria of government in the allocation of the Local Growth Fund. For the majority of schemes, some form of recognised and proportionate economic appraisal has taken place, supported by technical expertise from consultants. The analysis and underlying assumptions have typically been provided with the Outline and Full Business Cases, which is an improvement from the last round of business case assessment.

2.4 **RECOMMENDATION 1:** Approve the following schemes for funding achieving high value for money (i.e. Benefit Cost Ratio equal to or greater than two-to-one) and medium to high certainty of achieving this:

- Newhaven Flood Defences
- Chelmsford Station/Station Square/Mill Yard
- A414 Maldon to Chelmsford
- Colchester Integrated Transport Package
- Harlow A414 Pinch Point Package

2.5 **RECOMMENDATION 2:** Approve funding for the following scheme achieving high value for money (i.e. Benefit Cost Ratio equal to or greater than two-to-one) and medium to high certainty of achieving this, subject to the following conditions:

- Sittingbourne Town Centre (Subject to completion and application of a Quantified Risk Assessment and appropriate application of inflation assumptions to the Economic and Financial Cases; retaining a Benefit Cost Ratio equal to or greater than two-to-one; and greater consideration given to approvals, project management, and monitoring and evaluation in the Management Case to satisfy the Independent Technical Advisor.)

2.6 **RECOMMENDATION 3:** Approve a one year funding allocation for the following ‘package’ schemes where there is insufficient certainty of the scheme components beyond 2015/16, their costs, and their benefits:

- Eastbourne and South Wealden Walking and Cycling Package
- A26 London Road

2.7 **RECOMMENDATION 4:** Approve the following schemes where the Benefit Cost Ratio is unknown from ‘first principles’ calculations, where two or more of the criteria below are met in line with exemptions contained within the South East Local Enterprise Partnership’s Assurance Framework:

- Kent Sustainable Interventions Supporting Growth Programme (15/16 Local Growth Fund allocation only)

CRITERIA: As agreed at SE LEP Board on 22nd March 2015, a scheme with ‘medium’ value for money should be approved for funding:

- where there is an overwhelming strategic case (with minimal risk in the other cases);
- where scheme benefits are notoriously difficult to appraise in monetary terms and there are qualitative benefits which if monetised would most likely increase the BCR above two-to-one; and
- where schemes are less than £1.0m and to conduct further quantified and monetised economic appraisal would be disproportionate.

2.8 **RECOMMENDATION 5:** Approve the transfer of £300k from the Hailsham/Polegate/Eastbourne Sustainable Transfer Corridor to the Eastbourne and South Wealden Walking and Cycling LSTF package and to advise Government of this transfer

2.9 **RECOMMENDATION 6:** Approve the funding request to the Department for Transport for the following components, to instruct the Department for Transport to release the funding:

- A127 Essential Highways Maintenance (2015/16 Local Growth Fund allocation only) (Southend-on-Sea Borough Council)
- A127 Kent Elms Corner Junction (2015/16 Local Growth Fund allocation only) (Southend-on-Sea Borough Council)
- A127 Capacity Enhancements, Road Safety and Network Resilience (Essex County Council)

NOTE: *The A127 Corridor Enhancements is a ‘portfolio scheme’ with funding for a core component retained by the Department for Transport. As such, funding for the full scheme currently sits with the Department for Transport which requires receipt of business cases to release funding for the smaller components (subject to the SELEP’s own Assurance Framework being adhered to), but approval is required from the Department for Transport for funding of the core component.*

2.10 **RECOMMENDATION 7:** Agree publication of all outline and final business cases as required by the national Assurance Framework, noting that to date scheme promoters have led engagement at a local level.

Table 2.1: Gate 1 Assessment of Growth Deal Schemes seeking Approval for Funding for Q2/Q3 2015/16

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
A414 Maldon to Chelmsford	4.0	GATE 1: 2.2	Amber	Amber	Green	Green / Amber	Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Lack of clarity on assumptions.	Lack of costs and economic appraisal of Well Lane (1 of the 4 junction improvements)
		GATE 2: 2.1	Green / Amber	Green	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis performed.	The analysis gives a good degree of certainty, however, uncertainty has been injected into this project from the recent news that the Maldon Local Plan has been deemed 'unsound' by the Inspector, albeit on non-transport grounds. Some uncertainty over the merit of the Eve's Corner component, but as part of a package the value for money case has been made well.
Chelmsford Station/Station Square/Mill Yard	2.9	GATE 1: 1.7	Amber	Amber / Red	Red	Red	Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Greater clarity on QRA and economic appraisal assumptions required.	Uncertainty over how BCR has been reached.
		GATE 2: 2.0	Green	Green	Green	Green	Amber	Reasonable and proportionate method followed.	Robust analysis performed.	The analysis gives a good degree of certainty, but some minor residual issues within the Management Case.

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 Integrated Transport Package	5.0	GATE 1: N/K	Red	Red	Amber	Red	Amber	Economic and Financial Cases not provided.	Some analysis and assumptions missing.	Lack of costs, economic appraisal and funding details.
		GATE 2: 2.0	Green / Amber	Green	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis performed.	The analysis gives a good degree of certainty.
Harlow A414 Pinch Point Package	14.9	GATE 1: 4.2	Amber	Amber	Amber	Amber / Red	Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing.	The Gilden Way PVB, PVC, NPV and BCR do not match to the spreadsheet provided.
		GATE 2: 4.2	Green / Amber	Green	Green / Amber	Green / Amber	Amber	Reasonable and proportionate method followed.	Robust analysis performed.	The analysis gives a good degree of certainty, but some minor residual issues within the Management Case.
A26 London Road	1.8 (0.85m in 2015/16)	GATE 1: 7.3	Amber	Amber	Amber	Amber	Green / Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing.	Lack of cost breakdown for Phase 2. Clarification needed around adjusted BCR/VfM statement. Issue of promoter seeking funding to cover optimism bias
		GATE 2: 7.3	Amber	Green / Amber	Green / Amber	Amber	Green / Amber			

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
Kent Sustainable Interventions Programme	3.0	GATE 1: N/K	Amber	Amber	Amber	Green / Amber	Green / Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Lacking in robust analysis - assumptions made on a small component scheme of the package and generally qualitative.	Exec Summary document wasn't provided and may cover some of the outstanding issues including additional detail required in Financial case.
		GATE 2: Est. High (>2.0)	Green	Amber	Amber	Green	Green / Amber	Reasonable and proportionate method followed, but with a qualitative appraisal given the small scale of the component measures.	Robust qualitative analysis, but evidence missing of risk allocation and stakeholder engagement.	High levels of uncertainty as Benefit Cost Ratio based on comparable schemes, but this is proportionate with the value and nature of the component parts and the Assurance Framework.
Sittingbourne Town Centre	2.5	GATE 1: 5.0	Amber	Green / Amber	Amber	Green / Amber	Amber / Red	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing.	Wider governance and project timescales.
		GATE 2: 5.0	Green / Amber	Green / Amber	Green / Amber	Green / Amber	Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing.	Some uncertainties generated in the economic and financial case which require resolution, particularly regarding a Quantified Risk Assessment, sensitivity testing and inflation assumptions. More attention is required on the management case.

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
A127 Improvements – Kent Elms (Southend)	4.3 (0.5 in 2015/16)	GATE 1: N/A	Amber	Amber / Red	Amber	Amber	Green	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing including optimism bias.	The economic assessment has been undertaken for a range of network scenarios including the Kent Elms Junction. A range of BCRs have been presented for the scenarios but not specifically for the scheme itself.
		GATE 2: Est. Very High	Green	Amber	Green	Amber	Green	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing.	The economic assessment has been undertaken for a range of network scenarios for several components combined which have a very high BCR, but not specifically for the scheme itself. Given this is enabling works for one year, this aligns with the Assurance Framework that further analysis would be disproportionate and the strategic case is overwhelming.

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
A127 Maintenance (Southend)	8.0 (0.4 in 2015/16)	GATE 1: N/K	Amber	Amber / Red	Amber	Amber	Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing, particularly on the assurance of high value for money.	BCR calculation. Further detail required on cost breakdowns including inflation assumptions, risk/uncertainty and contingency/optimism bias. Several Appendices missing.
		GATE 2: Est. High	Green / Amber	Amber	Amber	Amber	Amber	Green / Amber	Reasonable and proportionate method followed, but lack of clarity on some assumptions.	Some analysis and assumptions missing, particularly on the assurance of high value for money.

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
A127 Improvements (Essex)	9.2	GATE 1: 3.7	Green	Green	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis performed.	Low level of uncertainty. Some extra detail on alternative options could be provided.
		GATE 2: 3.7	Green	Green	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis performed.	Low level of uncertainty. Some extra detail on alternative options could be provided.
Newhaven Flood Defences	1.5	GATE 1: 10.7 (with component schemes ranging from 0.27 to 26.1)	Green	Green/Amber	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis performed.	Low level of uncertainty.
		GATE 2: 10.7 (with component schemes ranging from 0.27 to 26.1)	Green	Green/Amber	Green	Green	Green	Reasonable and proportionate method followed.	Robust analysis performed.	Low level of uncertainty.

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