

## Business Case Assessment

Government expects an economic appraisal of a business case to be based on Green Book appraisal methods and take into account departmental specific guidance where appropriate e.g. DfT's WebTAG but where changes in land use is concerned, we would expect analysis consistent with the DCLG Appraisal Guide 2016. The DCLG Appraisal Guide states that interventions around the benefits of changes in land use should be measured using Land Value Uplift, rather than modelling based on jobs and GVA.

<b>Project Name</b>	SME Expansion Support Growing Places Fund (GPF) and the SSLEP Local Growth Deal (LGD)				
<b>Reference</b>					
<b>State Aid (Has state aid compliance been demonstrated).</b>		This Business Case is submitted by Staffordshire County Council.			
<b>Brief description</b>	<p>To seek approval to undertake active financial management between two parallel funding streams to their mutual benefit.</p> <p>The funding streams in question are the Growing Places Fund (GPF) and the SSLEP Local Growth Deal (LGD) monies.</p> <p>The principle is to vire SSLEP Growth Deal monies into the GPF Programme to secure in-year investment objectives for the LGD Programme with the GPF repaying the monies to the LGD Programme in future years.</p> <p>Approval has been granted for the GPF Programme to invest in the following projects in 2017/18, 2018/19 and 2019/20:</p> <ul style="list-style-type: none"> <li>• Garden Inn Hotel, GenR8, City Centre. Stoke on Trent</li> <li>• Dunston Business Village Phase 2, Dunston. South Staffordshire</li> <li>• Oak House Residential Care Home, Fenton. Stoke on Trent</li> <li>• Omicron Service Centre, Redhill. Stafford</li> <li>• Etruria Valley Enterprise Area, Stoke on Trent</li> <li>• Bericote Phase 2 Underwriting. South Staffordshire.</li> </ul>				
<b>Total Cost</b>		<b>SSLEP request</b>	<b>Up to £7.2m</b>	<b>%</b>	
<b>Net GVA/Land Value Uplift/BCR</b>		<b>BCR / RoI/LVU</b>		<b>Period (years)</b>	
<b>Outputs</b>	<b>Output</b>		<b>Number</b>		
	See individual Business Cases.				
	See also Outputs Schedule below:				

Note – Net GVA gives the value of the additional services and good produced resulting from the project (allowing for leakage, displacement and multiplier effects). The assessment focuses on the

benefit cost ratio which looks at the return for investment of the publically funded investment. A BCR for transport schemes is not directly comparable to a BCR for other schemes. The DCLG Appraisal Guide states that interventions around the benefits of changes in land use should be measured using Land Value Uplift, rather than modelling based on jobs and GVA.

<b>Strategic Case</b> <i>The strategic case sets out the rationale for the proposal. It makes the case for change at a strategic level. It should set out the background to the proposal and explain the objective that is to be achieved.</i>	
Does the proposal support the SEP or other relevant strategy or plan?	<p>Y</p> <p>The GPF has been made available from Central Government to SSLEP in line with the following objectives:</p> <ol style="list-style-type: none"> <li>1. To generate economic activity in the short term by addressing immediate infrastructure and site constraints and promote the delivery of jobs and housing</li> <li>2. To allow local enterprise partnerships to prioritise the infrastructure they need, empowering them to deliver their economic strategies.</li> <li>3. To establish sustainable revolving funds so that funding can be reinvested to unlock further development, and leverage private investment.</li> <li>4. The submissions from each GPF applicant contain a scheme specific strategic case linking the proposed project and its associated outputs / benefits to the LEP's Strategic Economic Plan.</li> </ol>
Does the proposal clearly state which SEP objectives (or other relevant strategy or plan) are to be delivered? (State which)	<p>Y</p> <p>Without the proposed GPF investment the proposed projects potentially would not happen or would likely progress at a significantly reduced pace.</p> <p>Without the financial management facility the LGD will experience significant 'in year' slippage.</p>
Is the project specifically named in the SEP or other key plan / strategy?	<p>This is not a specific project in itself, but rather the proposal for active management of programmed funds (which themselves contain a suite of individually approved projects) through the virement and repayment of funds in the best interests of programme delivery.</p> <p>Where individual schemes are relevant to the issue these are separately identified.</p>
Does the proposal clearly state what the objective(s) is/are in "SMART" terms?	Y/N

<p>(Specific, Measurable (delivery / achievement can be objectively Monitored), Achievable, Relevant and Time constrained. If not then is the objective clearly set out so that its achievement can be monitored? <i>(If it cannot be monitored the proposal cannot be judged as good value for money).</i></p>	<p>See individual Business Cases.</p>
<p><b>Outputs</b> <i>Should be based on net figures and applicants should attach additionality calculations allowing for leakage, displacement and multiplier effects.</i></p>	
<ul style="list-style-type: none"> <li>- Are the net benefits/outputs clear?</li> <li>- Is there an independent professional valuation of the land?</li> <li>- Is the basis of the additionality calculation clear and considered appropriate? (Are benchmarks used, what evidence is provided to support the identified outputs?)</li> <li>- Are there genuinely unquantifiable costs and benefits associated with a proposal? If so does the proposal clearly explain why quantification cannot reasonably be made?</li> <li>- Other there wider impacts e.g. environmental, sustainability, health and safety, competition, rural, business impact.</li> </ul>	<p><b>Garden Inn Hotel Development by Genr8 Developments LLP</b></p> <ul style="list-style-type: none"> <li>- The development comprises the construction of a full service garden hotel.</li> <li>- Scheme outputs: a 140 bed full service Garden Inn Hilton Hotel.</li> <li>- Scheme outcomes: the creation of ca. 50 FTE jobs.</li> <li>- Requested investment: £2.96m grant.</li> <li>- Delivery programme: Construction period. Nov 2017 – April 2019.</li> </ul> <p><b>Dunston Business Village extension – ‘The Island’ (round 7):</b></p> <ul style="list-style-type: none"> <li>- The original application was for the creation of 16 additional log cabin offices, 12 of which were to be raised on a platform, with parking beneath. As the scheme progressed, the applicant found that the stilted cabins were cost prohibitive, so built only the 4 standard log cabins at a cost of circa £245k GPF of the £730K approved.</li> <li>- Original Scheme outputs: 19,200 m2 of high quality office floor space.</li> <li>- Original Scheme outcomes: anticipated 160 jobs.</li> <li>- Requested investment: £0.73m loan (50% of total scheme).</li> </ul> <p><b>Oak House Residential Care Home:</b></p> <ul style="list-style-type: none"> <li>- Redevelopment of a former public house to provide an 8 bed CQV registered residential care home for people with learning disabilities., comprising 5 single occupancy flats and a 3 bed shared flat (each flat would have own kitchen, bathroom &amp; lounge); development would include communal lounge area to ensure social opportunities.</li> <li>- Scheme outputs: Specialist community-based residential provision for 8 persons with learning difficulties.</li> </ul>

	<ul style="list-style-type: none"> <li>- Scheme outcomes: 40 jobs.</li> <li>- Investment: £0.22m loan (32% of total scheme).</li> <li>- Delivery programme: Loan will be fully paid in 2017/18 and is due for repayment Q3 2019/20.</li> </ul> <p><b><i>Omicron Service Centre, Redhill</i></b></p> <ul style="list-style-type: none"> <li>- New building to accommodate training facility and customer services associated to the electrical industry. Ground floor will be dedicated to training academy with the upper floors associated to customer support.</li> <li>- Scheme outputs: 750 sq m OMICRON training facility and office accommodation.</li> <li>- Scheme outcomes: 300 professional personnel trained PA. 5 FTEs.</li> <li>- Requested investment: £0.4m loan (25% of total scheme).</li> <li>- Delivery programme: To be completed end 2017.</li> </ul> <p><b><i>Etruria Valley Access Infrastructure</i></b></p> <ul style="list-style-type: none"> <li>- To develop transport infrastructure at Etruria Valley to unlock its potential as a significant driver of private sector growth for the sub-region through the development of the advanced manufacturing &amp; knowledge based sectors.</li> <li>- Scheme outputs: 1.16km roads &amp; bridges linking Shelton Boulevard to Festival Way.</li> <li>- Scheme outcomes: 20 Hectares of developable land accessed potentially delivering 2,200 jobs.</li> <li>- Investment: £2.4m grant.</li> <li>- Delivery programme: SoTCC has requested flexibility of drawdown programming from GPF to assist scheme delivery. £0.86m will be drawn down in 2017/18 with the balance in 2018/19.</li> </ul> <p><b><i>Bericote Phase 2 Underwriting</i></b></p> <ul style="list-style-type: none"> <li>- The Strategic Economic Plan identified the Bericote site in South Staffordshire as an opportunity to unlock a site within the corridor favoured by the automotive supply chain companies.</li> <li>- Scheme outputs: Reduce emissions locally.</li> <li>- Scheme outcomes: Unlocking of site to automotive supply chain.</li> <li>- Investment: £3m grant underwriting.</li> <li>- Delivery programme: £2.45m will be drawn down in 2017/18 with the balance in Q4</li> </ul>
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	2018/19.
Are the main barriers/constraints and dependencies clear? Are they accurately reflected in the risk assessment?	The list of schemes (noted above) put forward for inclusion in this exercise are those where there is reasonable certainty of expenditure being incurred.  Further schemes are included in the GPF programme but with a reduced probability of achieving expenditure in 2017/18, so these have been excluded from this initiative.
Are the strategic risks clear?	Y Without this financial management facility, the LGD will experience significant in-year slippage.
Are there any dependencies on this project and what impacts could they have on the project?	See individual project Business Cases.
Are there any lessons learned from previous experience in this area (across the SSLEP area and wider) and if so how are these being applied? What best practice is being applied?	See individual project Business Cases.
Has consultation taken place that supports the proposal?	Y The GPF investment has been approved in each case by either the SSLEP Board or the SSLEP Executive. The details of the approvals can be found in the papers of the following meetings:  Garden Inn Hotel - EXECUTIVE GROUP MEETING 13th October 2016 Dunston Business Village Phase 2 - EXECUTIVE GROUP MEETING 15th October 2015 Oak House Residential Care Home - EXECUTIVE GROUP 21st July 2016 Omicron Service Centre, Redhill - EXECUTIVE GROUP 14 <sup>th</sup> June 2016 Etruria Valley Enterprise Area, Stoke on Trent – LEP PARTNERSHIP BOARD 16 <sup>th</sup> December 2013. Bericote Phase 2 Underwriting - EXECUTIVE GROUP MEETING 11th February 2016.
Are there clear stakeholders that are supporting the project?	See individual project Business Cases.

#### Strategic Case Assessment Summary

**High:** *Strong strategic fit / supports SEP/Key Strategies and accelerates job creation, business investment and site development.*

- Schemes that are specifically mentioned in the SEP as strategically important and/or

<p>- <i>Genuinely transformational outputs at a scale to make significant impact sectorally / spatially.</i></p> <p><b>Medium:</b> <i>Good strategic fit. Project supports growth but lead to medium scale improvements/outputs.</i></p> <p><b>Low:</b> <i>May have strong elements but overall case is weak e.g. unclear strategic fit, projects with strategic fit but leads to small scale improvements/outputs.</i></p>	
High	
<p><b>The Economic Case</b>  <i>The economic case assesses the economic costs and benefits of the proposal to society as a whole, and spans the entire period covered by the proposal. Ensure that the benefits of the development have been calculated in accordance with Green Book and Departmental Guidance e.g. Land Value Uplift – DCLG Appraisal Guidance 2016, DfT WebTAG.</i></p>	
<p>Project Additionality / Cost Benefit Analysis</p> <ul style="list-style-type: none"> <li>- Is the additionality and supporting documentation convincing?</li> <li>- Do outputs represent value for money, base on previous projects and known benchmarks as applicable?</li> </ul>	See individual project Business Cases.
<p><b>Options Analysis</b>  <i>Options analysis starts from a list of all reasonable alternatives including a <u>do nothing option</u> (the so called counter factual) or if doing nothing is not possible a do minimum option.</i></p>	
<ul style="list-style-type: none"> <li>- Is it clear why the initial list of options has been reduced to the preferred option?</li> <li>- Are there any key variables which if changed would lead to a different preferred option to be selected (checking sensitivity)?</li> </ul>	<p>Y</p> <p>See individual project Business Cases.</p>
<p>Is the rationale for choosing the preferred option clear?          If the preferred option does not represent the best value for money of the options considered are the decisive factors that influenced the decision clear and justifiable?</p>	<p>The submissions from each GPF applicant contained scheme specific options appraisals, all of which were accepted by the GPF Appraisal Group and ultimately the LEP Board/Executive.</p>
<p><b>Risk Management</b></p> <ul style="list-style-type: none"> <li>- Have all appropriate risks been considered?</li> <li>- Are the risk management arrangements credible, and are the risk management costs also built in?</li> <li>- Does the proposal identify the major risks that could impact on the economic case and contain appropriate mitigation?</li> </ul>	<p>Y</p> <p>Each approved scheme within the GPF Programme includes a risk analysis. These will have been comprehensively analysed by the commissioned due-diligence consultant then by the LEP's GPF Group and further underwritten by an appropriate loan security guarantee.</p> <p>Each approved scheme within the GPF Programme has included a state aid compliance check, land ownership checks; and contractual arrangements checked within the due-diligence process. These will then have been reviewed by the LEP's GPF</p>

	Group and again falls within the contractual framework of the loan security guarantee.
<p>Optimism Bias <i>Optimism bias decreases as the project firms up, risk management becomes more detailed and costs are firmed then</i></p>	
<p>- Does the proposal contain an allowance for Optimism Bias? - Is the level of optimism bias included sensible in relation to the stage reached in preparing the business case? - Has this been calculated?</p>	See individual Business Cases.
<p>Distributional Impacts - What % of project impacts are outside the SSLEP area and how has this figure been arrived at? - Does the project have different impacts on different sections of society/are there any re-distributional impacts?</p>	See individual project Business Cases.

**The details of the proposed LGD temporary investment in GPF schemes are as follows:**

○ Garden Inn Hotel	£2,960,000
○ Dunston Business Village	£ 224,604
○ Oak House Residential Care	£ 220,000
○ Omicron Service Centre	£ 400,000
○ Etruria Valley Enterprise Area	£ 858,998
○ Bericote Phase 2 Underwriting	£2,450,000

This totals **£7,113,602** (rounded to a figure of £7.2m).

**Economic Case Assessment Summary**

**High:** Strong case across the board. High additionality. Alternate options identified / considered and preferred option logically identified. Risk management robust. Optimism bias clearly accounted for. Distributional impacts clear/which impacts will fall outside area. Land value uplift calculated and identified.

General – BCR 10% above comparator data

Transport – BCR higher than 2

**Medium:** Good strategic fit. Project supports growth but lead to medium scale improvements.

General – BCR is within 10% of comparator data

Transport – BCR higher than 1.5 - 2

**Low:** Unclear strategic fit. Projects with strategic fit but lead to small scale improvements.

General – BCR is below 10% of comparator data

Transport – lower than 1.5

Medium

(Individual Business Cases vary in their quantative outputs and risk, therefore caution suggests a score of “Medium”)

**The Commercial Case**



<p><i>The commercial case is concerned with issues of commercial feasibility and sets out to answer the question “can the proposed solution be effectively delivered through a workable commercial deal or deals?” Has Land value uplift been calculated and accounted for – who benefits from the uplift?</i></p>	
Is the relationship with any private sector partners that will also deliver clear?	<p>Y</p> <p>All GPF funded schemes have been appraised by the LEP’s Growing Places Fund Group. The objectives of the GPF are extremely wide and varied therefore each appraisal has been undertaken on an individualistic basis, but with each proposal having to prove its commercial viability underwritten by appropriate loan security. Each applicant undergoes a commercial standing appraisal to ensure minimisation of risk to the GPF investment.</p>
Does the procurement methodology make sense for the project and accord with procurement regulations? i.e. EU procurement thresholds	See individual Business Cases.
Is the procurement timetable clear (for some less advanced projects this will give indicative time frames as opposed to precise dates)?	<p>Y</p> <p>The timetables for the individual schemes are as follows:</p> <ul style="list-style-type: none"> <li>• Garden Inn Hotel, Stoke City Centre. Construction period November 2017 – April 2019.</li> <li>• Dunston Business Village Extension Phase 2, Penkridge, Stafford. Awaiting Building Regulations approval for the redesigned office space. Starting development Spring 2018.</li> <li>• Oak House Residential Care Home, Fenton. Construction completed and final payment made in Q2 2017/18.</li> <li>• Omicron Service Centre, Redhill. Construction completed end 2017.</li> <li>• Etruria Valley Enterprise Area. First draw down of GPF Q4 2017/18. Final draw down Q4 2020/21.</li> <li>• Bericote. First draw down of GPF Q4 2017/18 £2,450,000. Final draw down Q4 2018/19.</li> </ul> <p>All the schemes are currently underway, hence providing the surety of financial delivery required for this active financial management initiative.</p>
Are personnel / TUPE implications fully explained and addressed?	See individual Business Cases.
Are any in house costs clear and proportionate?	See individual Business Cases.
Who will own the assets after the project is completed?	See individual Business Cases.
Does the risk assessment adequately consider and address any procurement risks?	See individual Business Cases.



### Commercial Case Assessment Summary

**High:** Strong case across the board. Procurement methodology is appropriate / robust with a full timescale. Asset ownership and management clear. Risk management effective. In house costs considered proportionate.

**Medium:** Overall the commercial case is well constructed and convincing. However, specific elements are not strong /require improvement.

**Low:** May have strong elements but overall case weak e.g. procurement methodology and timescale not clear, not clear on asset or risk management or in house costs considered disproportionate.

Medium

(Again, individual Business Cases vary in their quantitative outputs and risk. The objectives of the GPF are wide ranging and varied therefore each individual project appraisal has been undertaken on an individual basis, but with each proposal having to prove its commercial viability and be underwritten by appropriate loan security. Therefore caution suggests a score of "Medium")

### The Financial Case

The financial case is concerned with issues of affordability, financial viability/sustainability and sources of budget funding. It covers the lifespan of the scheme and all attributable costs.

Are all the lifetime costs identified? I.e. anything obvious missing, any blank lines or provisional sums.	See individual project Business Cases for: - Garden Inn Hotel - Dunston Business Village - Oak House Residential Care - Omicron Service Centre - Etruria Valley Enterprise Area - Bericote Phase 2 Underwriting
Have all lifetime costs and issues of financial sustainability been fully considered	See individual project Business Cases.
Has all the matched funding been secured or is there a funding gap?	See individual project Business Cases
Is the strategy for securing the funding package reasonable and appropriate	See individual project Business Cases
Does the level of cost proposed represent value for money based on known benchmarks? i.e. cost per square metre for new build	See Business Case submission Para 5.6 (2 tables: investment and VFM)
Has Land Value Uplift been calculated – has it been accounted for in the development appraisal – who gets the benefit – should SSLEP/Public Sector partners participate in uplift?	See individual project Business Cases
Is the level of contingency appropriate?	See individual project Business Cases
Will the project sponsor be seeking to recover	See individual project Business Cases

VAT as part of the LEP funding?	
Does the proposal contain provision for dealing with the financing of any time or cost overruns?	The purpose of this virement proposal is to enable the active management of the funds in order to cope with fluctuations in spend arising from any cause, and still meet SSLEP expenditure delivery targets.
Are there any particular cost elements that are particularly price sensitive and could impact on the project viability if there is a significant change? (Price sensitivity)	See individual project Business Cases
Contingent liabilities - Does the proposal explain and estimate any contingent liabilities that may result from the proposal? - Does the project sponsor adequately explain how these will be managed and any costs met?	See individual project Business Cases
Monitoring and Evaluation - is there financial provision for monitoring and evaluation	Y

#### Financial Case Assessment Summary

**High:** Strong case across the board. Costs basis strong (e.g. tenders / professionally estimated, full costs included including appropriate contingency), handling of liabilities clear, financial provision for monitoring and evaluation. Value for money against outputs clear. Lifetime costs assessed and financially viable.

**Medium:** Overall the case is well constructed and convincing. However, specific elements are not as strong /require improvement.

**Low:** May have strong elements but overall case weak e.g. procurement methodology and timescale not clear. Not clear on asset or risk management. In house costs considered disproportionate.

High

#### The Management Case

The management case is concerned with the deliverability of the proposal and is sometimes referred to as programme management or project management case. The management case must clearly set out management responsibilities, governance and reporting arrangements, if it does not then the business case is not yet complete. The Senior Responsible Owner should be identified.

Is there a delivery plan with clear & detailed milestones?	Y See individual project Business Cases.
Are the proposed programme management arrangements and methodology sound and effective? (Complex projects should be using PRINCE2 methodology)	Y The GPF is structured to be managed by the County Council in accordance with its financial procedures but accountable to the LEP through the GPF Group,

	and ultimate accountability to the SSLEP Board. This provides transparency, ensures value for money as well as minimising accounting costs. The temporary switch funding of LGD monies into the GPF Programme will not cause any issues with the GPF Programme management.
Are risk management arrangements acceptable given the scale of the project? - Is there an effective risk register with mitigating actions? - Are there any risks which could have a disproportionate impact on the project?	See individual project Business Cases.
Has the project been given full clearance to proceed by the sponsoring organisation? (Who/ what board or committee?)	See individual project Business Cases.
Evaluation - Are the evaluation proposals proportionate and acceptable? (Larger scale projects should be independently sourced) Do they accord with national LGF guidance issued by HMG?	See individual project Business Cases.

#### **Management Case Assessment Summary**

**High:** Strong case across the board. Delivery plan, management methodology and risk management robust and clear. Clear evidence that project can be delivered within proposed timescales. Evaluation appropriate and accords with national guidelines. Full approvals.

**Medium:** Overall the case is well constructed and convincing. However, specific elements are not as strong /require improvement.

**Low:** May have strong elements but overall case weak e.g. delivery plan lacks clear dates, risk management inadequate, project lacks internal approvals.

High

### Business Case Assessment Summary

Project Name		Growing Places Fund (GPF) and the SSLEP Local Growth Deal (LGD)	
Reference			
Programme Management Team Assessment Summary			
<p><b>High:</b> Strong case across the board. Delivery plan, management methodology and risk management robust and clear. Clear evidence that project can be delivered within proposed timescales. Evaluation appropriate and accords with national guidelines. Full approvals.</p> <p><b>Medium:</b> Overall the case is well constructed and convincing. However, specific elements are not as strong /require improvement.</p> <p><b>Low:</b> May have strong elements but overall case weak e.g. delivery plan lacks clear dates, risk management inadequate, project lacks internal approvals.</p>			
Strategic Case		High	
Economic		Medium	
Commercial		Medium	
Financial		High	
Management		High	
Recommendation		<p>On the assumption that sufficient funding is available, that the City Deal and Growth Deal Programme Board’s recommendation for the efficient management of funding resources be accepted, as outlined below:</p> <ul style="list-style-type: none"><li>• Spending <b>of up to £7.2m</b> to settle the 2017/18 accounts payable on the GPF projects listed above and to mitigate against slippage of grant spending from the Growth Deal 1, Growth Deal 2 and Growth Deal 3 Programmes, full details are shown in Section 5.4 of the Project Business Case.</li></ul> <p>Note: The GPF investment in these schemes has previously been approved by the SSLEP Board / Executive at the appropriate times during the lifetime of the programme.</p> <ul style="list-style-type: none"><li>• Relevant funding be repaid to the Growth Deal 1, 2 and 3 projects at an appropriate future date from the carried forward GPF Loan Fund balance.</li></ul>	
Assessor	John Devlin	Date	25 <sup>th</sup> January 2018
Verification	Dave Nicholls	Date	25 <sup>th</sup> January 2018

<b>To Be Completed After APMB: Record of Decision</b>	
Chair:	Peter Davenport
Date of Meeting:	31 <sup>st</sup> January 2018
Decision:	The CDGD Assurance Programme Board recommended for approval the SME Expansion Support business case, analysis and deliverability of the individual programmes will be undertaken in liaison with the GPF programme; recommending that the SSLEP Executive release a capital grant award of up to £7,200,000

To Be Completed After Executive Board: Record of Decision	
Chair:	David Frost
Date of Meeting:	15 <sup>th</sup> February 2018
Decision:	Business case approved