

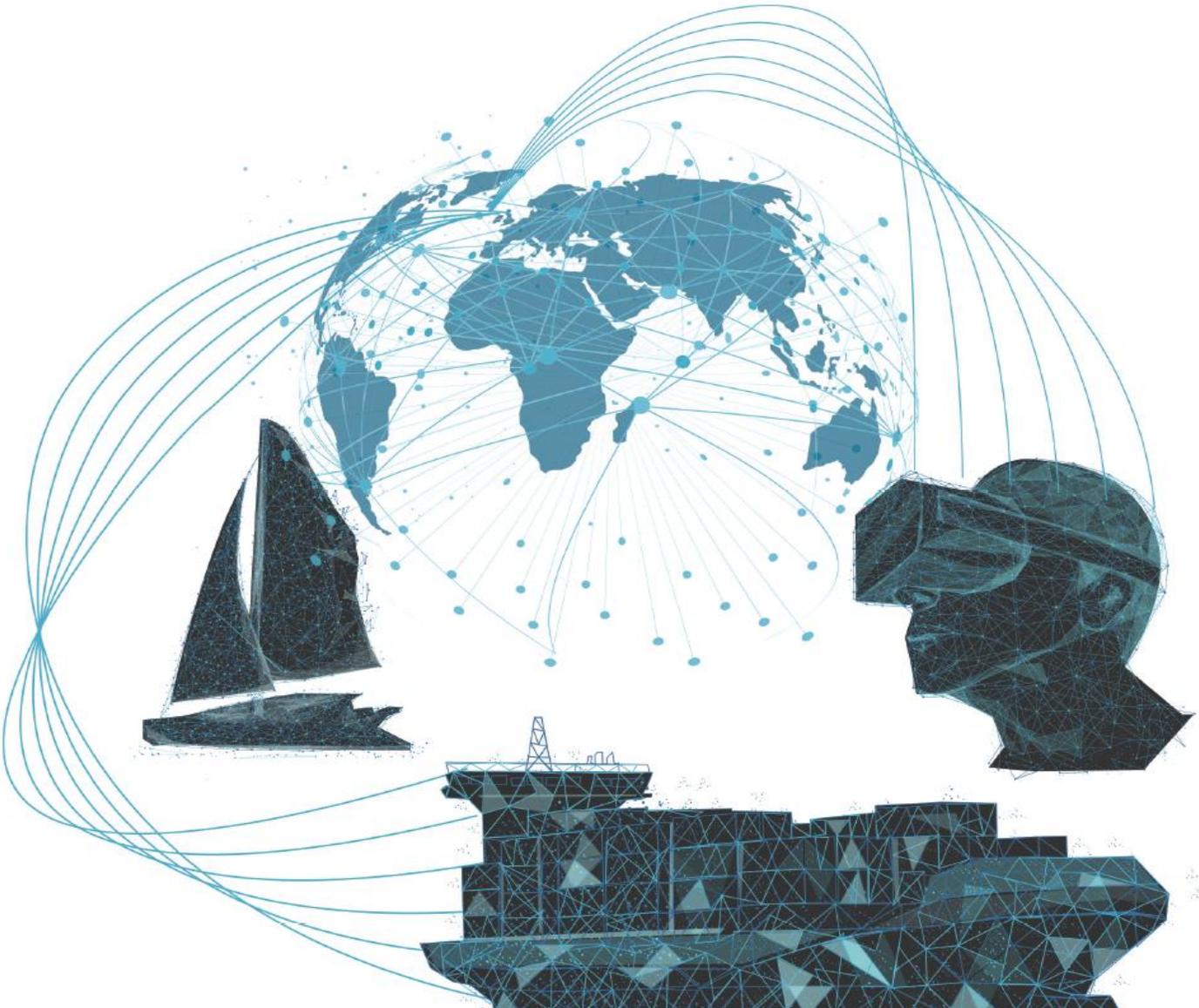
# Solent Prosperity Fund Large Project Workshop



Imagine it.  
Delivered.

Andy Rumfitt, Bindu Pokkyarath  
& Jack Schofield

5<sup>th</sup> September 2018



The image shows a magnifying glass focusing on a section of a financial spreadsheet. The spreadsheet has columns for months (April, May, June, Q2, July, August, September) and rows for various financial metrics. The magnifying glass is positioned over the Q2 and July columns, highlighting specific data points.

Amount	% of Sales	Amount
2,000	0	32,000
2,000	0	22,000
5,000	0	37,000
0,000	1	15,000
00	0	
00		
10		

April	May	June	Q2	July	August	September
75,000	80,000	90,000	245,000	95,000	100,000	100,000
95,000	85,000	88,000	248,000	95,000	100,000	100,000
30,000	-15,000	-3,000	3,000	0	0	0
75,000	80,000	90,000	245,000	95,000	100,000	100,000
20,000	-15,000	-3,000	3,000	5,000	5,000	5,000
55,000	60,000	70,000	185,000	70,000	75,000	75,000
45,000	55,000	63,000	163,000	70,000	75,000	75,000
10,000	5,000	7,000	22,000	0	0	0
49,000	51,000	58,000	156,000	70,000	75,000	75,000
1,000	-4,000	-7,000	-7,000	0	0	0
7,000	8,000	8,000	21,000	7,500	7,500	7,500
6,500	7,500	7,500	19,000	7,500	7,500	7,500
500	500	500	1,500	0	0	0
7,000	7,000	7,000	21,000	7,500	7,500	7,500
0	-9,000	-9,000	-9,000	-1,000	-1,000	-1,000
0	0	0	0	125,000	45,000	45,000
0	0	0	0	0	0	0
40,000	-3,000	-3,000	-3,000	11,000	11,000	11,000
115,000	42,000	31,000	12,000	15,000	38,000	14,000
123,000	-2,000	-12,000	15,000	14,000	42,000	14,000
75,000	30,000	12,000	1,000	1,000	-4,000	10,000
-48,000	-11,000	13,000	10,000	10,000	-15,000	-4,000
31,000	11,000	13,000	1,000	1,000	1,000	1,000
31,000	-4,000	-1,000	9,000	10,000	30,000	12,000
18,000	8,000	-4,000	10,000	10,000	12,000	12,000
0	-7,000	10,000	10,000	10,000	-18,000	57,000
12,000	10,000	10,000	10,000	10,000	10,000	10,000
0	0	0	0	0	0	0

# Business Case Appraisal

- Guidance Documents
- ‘The Five Case Model’ Approach
- Application Template
- Appraisal Process
- What Appraisers look for?
- Common Pitfalls



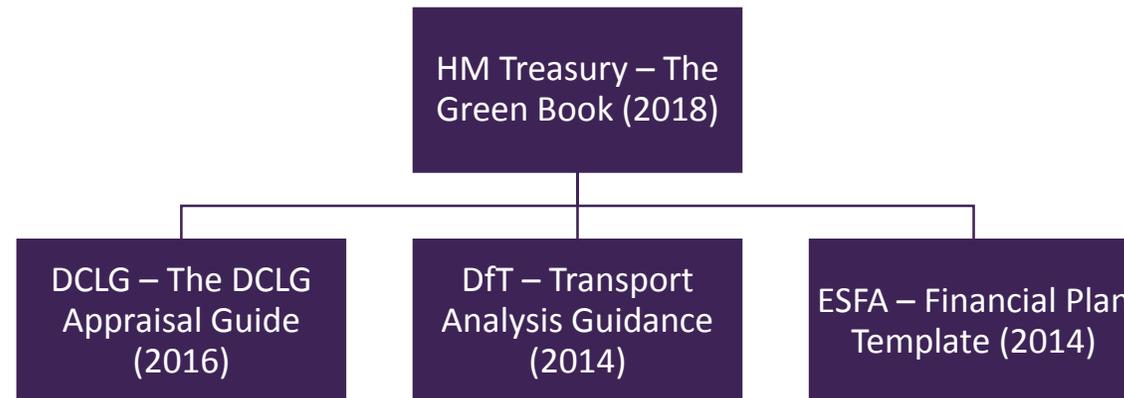


# Guidance Documents

## Solent LEP Guidance Documents:

Solent LEP – SPF Technical Guidance (2018)	Sets out the eligibility and assessment criteria for the SPF
Solent LEP – Advice to Scheme Promoters on the Development of Business Cases (2018)	General guidance on the development of business cases and signposts to central government guidance
Solent LEP – SPF: Large Project Application Template	An ‘explanatory note’ provided at the end of template document provides support on filling in elements of the application

## Central Government Guidance Documents:



- BEIS – State Aid Guidance (2015)
- Equalities Act 2010: Guidance
- HCA Employment Density Guide (2015)
- HCA Additionality Guide (2014)



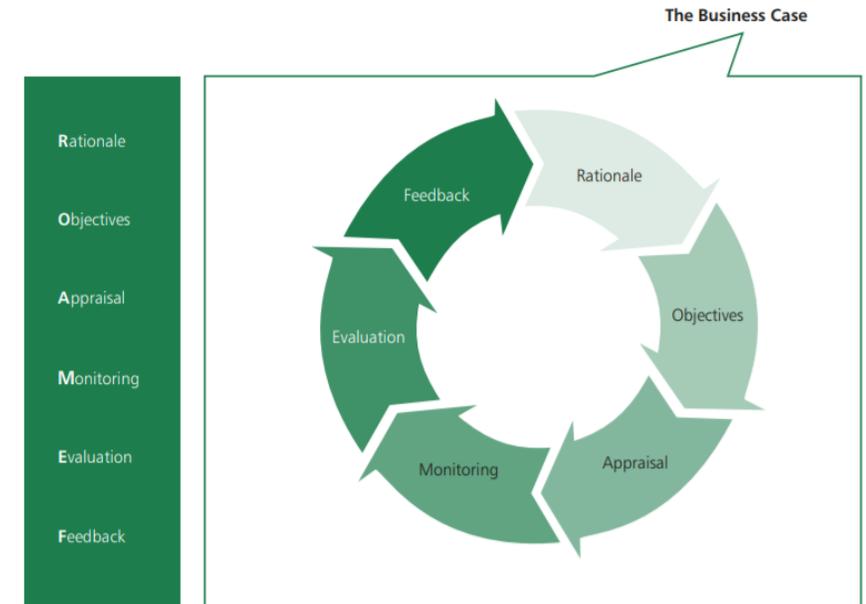


## HM Treasury – The Green Book

- Central Government guidance on appraisal and evaluation of business cases.
- ROAMEF – process used to challenge the development and delivery of business cases.
- The Five Case Model – Independent dimensions used as a methodology for the preparation of business cases.

- Structure:

- Outlines what should be included in each dimension of the “Five Case Model”
- Option / Long List Appraisal
- Short List Appraisal (discounting, inflation, risks and uncertainty)
- Valuation of Costs and Benefits
- Presentation of Results (BCR, NPV etc.)
- Monitoring and Evaluation (KPIs)



- *Green Book Supplementary Guidance on Delivering Public Value from Spending Proposals (2015).*





Department for  
Communities and  
Local Government

# DCLG – The DCLG Appraisal Guide

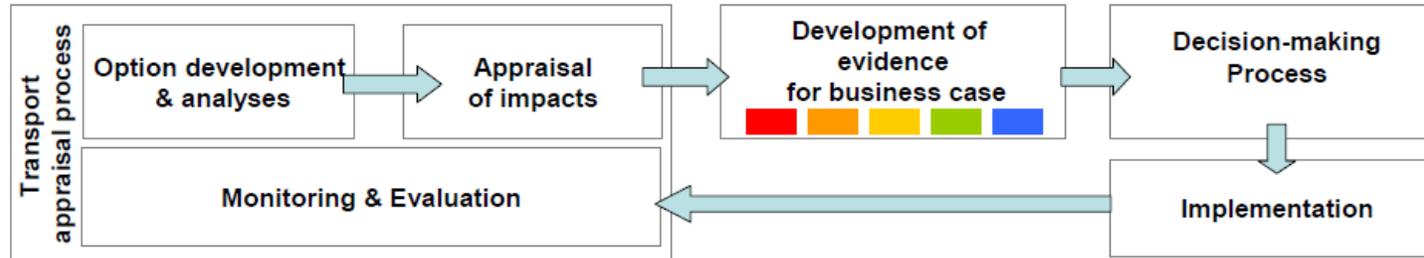
- Focus on economic appraisal of development, including housing, commercial development and land-based interventions.
- Additional guidance on the metrics and appraisal information that needs to be calculated and presented within business cases.
- Adopts key principles of the HM Treasury’s Green Book.
- Focus on land value uplift (LVU) which captures the economic efficiency of converting land into a more productive use.
- Updated in December 2016.
- Structure:
  - The Strategic Case – “The rationale for intervention”
  - Value for Money (VfM) – AST, BCR, Employment, etc.
  - Land value uplift
  - Assumptions – Additionality, Appraisal periods, Optimism Bias etc.





# DfT – Transport Analysis Guidance (TAG)

- Provides a general introduction on the role of transport modelling and appraisal, and how the transport appraisal process supports business case development.
- WebTAG is the DfT's appraisal toolkit which consists of software tools and guidance for modelling of highways and public transport interventions.
- Adopts key principles of the HM Treasury's Green Book.
- Process ensures that promoters and assessors have considered whether there are better ways to achieve the interventions objectives.
- Full guidance is available at GOV.UK



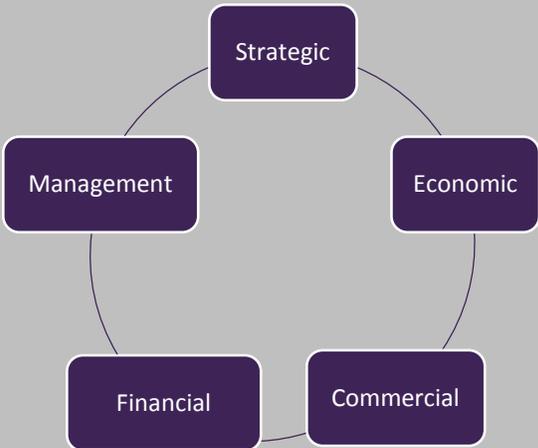


# ESFA – Guidance for Completing Simplified Financial Plan Template

- Provides a suite of supporting application documentation for providers who are applying for Skills Infrastructure Capital Funding.
- Determines whether provider is financially stable after taking account of their contribution to the project.
- Adopts key principles of the HM Treasury's Green Book.
- Template is made up of four input worksheets:
  - Cover Sheet
  - Income and Expenditure Account
  - Balance Sheet
  - Income Schedule



# The Five Case Model



Strategic

What is the case for change, including the rationale for intervention?

Economic

What is the net value to society (the social value) of the intervention compared to continuing with Business As Usual?

Commercial

Can a realistic and credible commercial deal be struck? Who will manage which risks?

Financial

What is the impact of the proposal on the public sector budget in terms of the total cost of both capital and revenue?

Management

Are there realistic and robust delivery plans? How can the proposal be delivered?



# Strategic Case

- Strategic aim of the proposal
- Alignment with LEP policy objectives
- Alignment with wider regional growth strategy
- Details of target market and competition if relevant

## Factors to be considered:

- Demonstrate the need for the scheme
- Highlight how the proposed scheme aligns with LEP objectives and supports regional growth target



# Financial Case

- Project Cost breakdown
- Funding Profile
- Risk Allowance

## Factors to be considered:

- Details of final tendered costs where possible
- Estimated Cost – provide date for final tendered costs
- Provide evidence of costs for QS review
- Details of risk allowance and optimism bias
- For projects more than 1 year , include inflation



# Economic Case

- Options considered and why the preferred option is best value for money
- Benefits – Additional jobs, floor space, contribution to local economy
- Benefit to Cost Ratio

## Factors to be considered:

- Option appraisal to be filled in only if applicable
- Options must be ranked
- Benefits should be additional benefits from the proposed scheme that can be evidenced
- Refer to explanatory notes on job creation





# Commercial Case

- How the scheme will be delivered
- Procurement or commissioning route
- Dependencies that impact project schedule e.g. planning permissions

## Factors to be considered:

- Provide information on all statutory consents that will impact the programme
- Provide evidence of progress on statutory consents and procurement where applicable



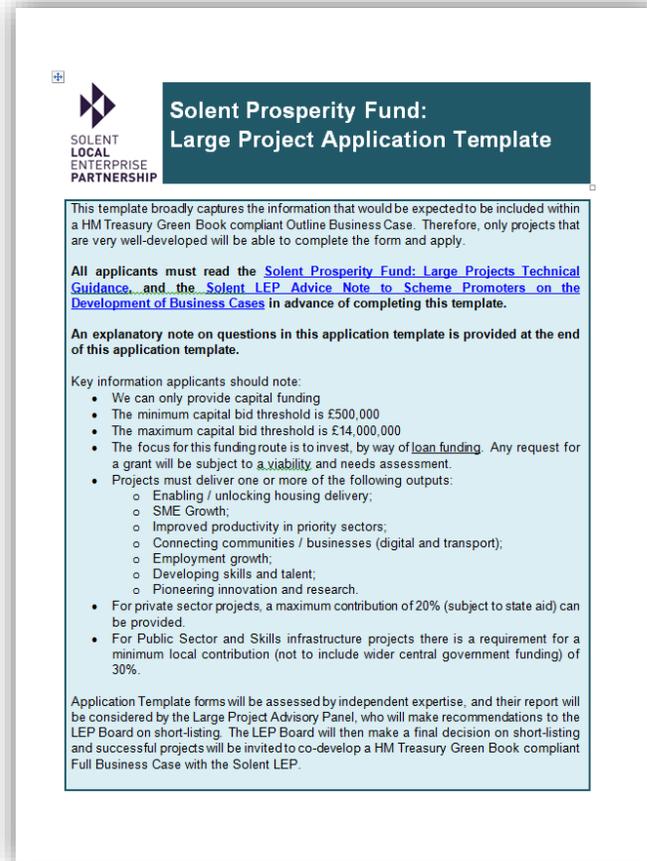
# Management Case

- Delivery programme and key milestones
- Management structure and organisation diagram
- Details of statutory consents and associated timelines
- Risk Plan

## Factors to be considered:

- Provide a clear programme
- Consider all risks and demonstrate the mitigation measures

# Application Template Structure



A: Eligibility Criteria

B: Project Summary and Funding Profile

C : Detailed Application Form

C1: Strategic Case

C2: Financial Case

C3: Economic Case

C4: Commercial Case

C5: Management Case

C6 : Monitoring and Evaluation

# Application Template and Explanatory Note



## Solent Prosperity Fund: Large Project Application Template

This template broadly captures the information that would be expected to be included within a HM Treasury Green Book compliant Outline Business Case. Therefore, only projects that are very well-developed will be able to complete the form and apply.

All applicants must read the [Solent Prosperity Fund: Large Projects Technical Guidance](#) and the [Solent LEP Advice Note to Scheme Promoters on the Development of Business Cases](#) in advance of completing this template.

An explanatory note on questions in this application template is provided at the end of this application template.

Key information applicants should note:

- We can only provide capital funding
- The minimum capital bid threshold is £500,000
- The maximum capital bid threshold is £14,000,000
- The focus for this funding route is to invest, by way of [loan funding](#). Any request for a grant will be subject to a [viability](#) and needs assessment.
- Projects must deliver one or more of the following outputs:
  - Enabling / unlocking housing delivery;
  - SME Growth;
  - Improved productivity in priority sectors;
  - Connecting communities / businesses (digital and transport);
  - Employment growth;
  - Developing skills and talent;
  - Pioneering innovation and research.
- For private sector projects, a maximum contribution of 20% (subject to state aid) can be provided.
- For Public Sector and Skills infrastructure projects there is a requirement for a minimum local contribution (not to include wider central government funding) of 30%.

Application Template forms will be assessed by independent expertise, and their report will be considered by the Large Project Advisory Panel, who will make recommendations to the LEP Board on short-listing. The LEP Board will then make a final decision on short-listing and successful projects will be invited to co-develop a HM Treasury Green Book compliant Full Business Case with the Solent LEP.

## Explanatory Note

This section provides support for applications in relation to questions where it is felt an explanatory note would be beneficial. Should applicants require clarification in relation to other questions not further expanded on in this section, please contact the Solent LEP on 023 9268 8924 or [info@solentlep.org.uk](mailto:info@solentlep.org.uk).

### B2. Applicant Organisation Information

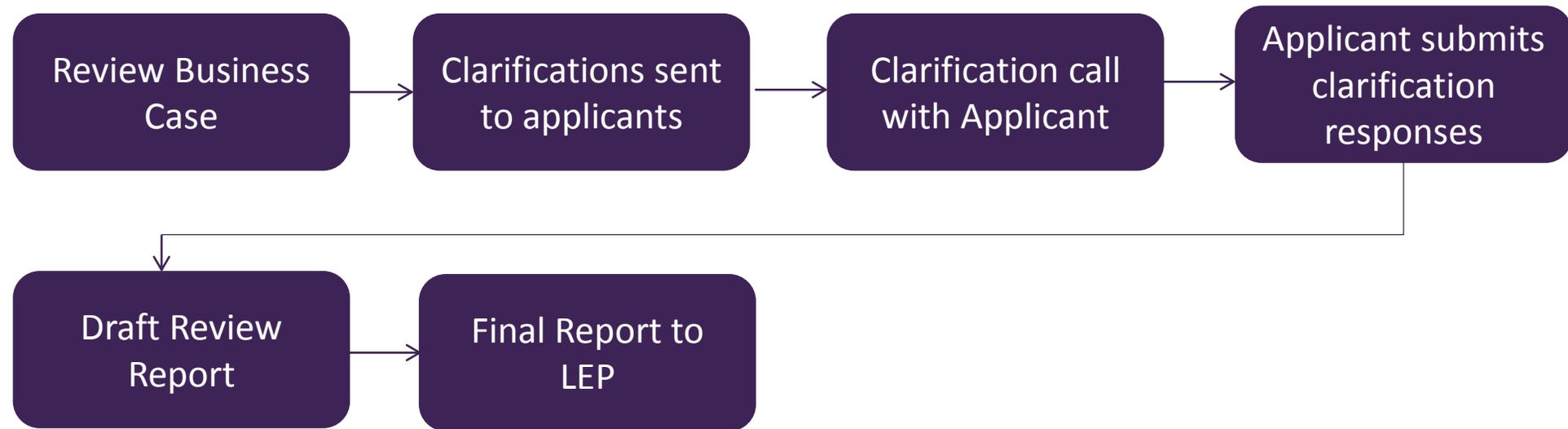
- b. Please select from Cooperative/ General Partnership/ LLP/ LP/Limited Company/PLC/Sole Proprietor/ Unlimited Company/ University/ Educational Institution / Local Authority/ Others (If other- provide details)
- d. Specify industry sector – for e.g. manufacturing, education, health etc.
- e. Provide select from Importer/ Exporter/ UK Domestic market/ Franchisee/ Others (if applicable)
- f. Provide detail in Years and date. E.g. 10 years, 2008- 2018
- g. Employee numbers to be provided as Full Time Equivalents (FTE).  
Notes related to jobs:
  - An FTE job is considered as one role working a minimum of 36 hours per week.
  - All jobs created and / or safeguarded must be direct employees of the applicant organisation, and appear on the company payroll.
  - Two part-time jobs working a minimum of 18 hours per week would be considered as one FTE.
  - For the purposes of the Solent LEP Funds, apprenticeships cannot be counted as FTEs.
- h. Provide details if applicable (e.g. learners and/or apprenticeships)

### B3. Project description and Funding Request Summary

- i. The number of jobs should be additional jobs created as a result of the project and should exclude any that are created due to other interventions or market forces.  
Notes related to jobs:
  - An FTE job is considered as one role working a minimum of 36 hours per week.
  - All jobs created and / or safeguarded must be direct employees of the applicant organisation, and appear on the company payroll.
  - Any jobs safeguarded must be current FTE employees whose roles would otherwise be lost within 12 months without Solent LEP funding.
  - Two part-time jobs working a minimum of 18 hours per week would be considered as one FTE.
  - For the purposes of the Solent LEP Funds, apprenticeships cannot be counted as FTEs.
- n. Details of previous funding from Solent LEP or other public sector entities to be provided (date and value). Include details of funds received and any planned bids or applications in progress with decision dates.
- p. Provide planned practical completion date. Works are generally considered to be practically complete when there are no outstanding defects (except for minor items or snagging) and the project (e.g. building or road) can be put to its intended use.
- q. Provide date of planned start of operations (if applicable)



# AECOM Appraisal Process





# What appraisers do?

- Assurance – have all the forms been completed and with the most current information? Is all the evidence provided in the form and supporting documents?
- Detailed review of each case answer and specific questions (sometimes using technical experts)
- Check with secondary sources (e.g. rental levels, employment numbers, floorspace densities, use of benchmarks from guidance, evaluations)
- Always independent QS review of costs and procurement if enough data (NB AECOM produced the cost benchmarks for FE sector)
- Run credit checks
- Always generate clarification questions and talk to the applicant
- Always discuss each case as a team of 3+ consultants so we don't miss any issue
- Always request underlying data to allow checking and to do sensitivity tests



# Common Pitfalls





# General Eligibility

- Applicants frequently fail to meet the Solent LEP's General Eligibility Criteria - check that you meet all of the eligibility criteria or it will not progress
- Be honest about the status and timing of your project – programme and progress to date
- Clear objectives that link to impacts that will be measured and credible delivery team

## Example:

- *“The anticipated start date is 1<sup>st</sup> June 2020”*
- Applicant fails to start delivery of project within the timescales stipulated by LEP.





# Benefits

- Applicants can claim benefits that are not directly linked to the scheme, have poor evidence of safeguarded jobs and have an inflection point.
- Use of gross benefits - always elements of deadweight and displacement - and no option appraisal for comparisons and reference period (10 years+).
- Early engagement for “trickier” investment categories (public realm) and remember supply chain benefits / training etc.

## Example:

- *“This key piece of infrastructure will enable sites to come forward for new housing (>1,000 units)”*
- Applicant could not provide evidence of site locations



# Costs

- All costs must be clearly shown by financial year and contributions split by funding partner
- Basis on which the costs have been calculated must be set out (e.g. pre-feasibility, outline design, detailed design)
- Three quotes to show Value for Money in procurement
- Applicants frequently fail to provide evidence on how and why costs have been estimated (or enough detail)

## Example:

- *“No inflation included, no contingency, no optimism bias”*
- Any scheme spanning two years will have inflation. All projects need proportionate contingency





# State Aid

- Applicants need to demonstrate compliance with State Aid eligibility criteria
- Independent expert State Aid advice submitted alongside your application will be of benefit
- State Aid may mean project needs to be restructured (public and private elements)

## Example:

- *“We do not envisage that the breaches State Aid regulations”. “ We have an email from a law firm”*
- Applicant needs to provide evidence that it is compliant, it is advised that independent expert advice is obtained



# Match Funding

- Applicants need to ensure that all other match funding is secured
- Pending bids for other funding scheme is seen as a significant risk as these are always competitive even with a good track record.
- Evidence of actual sign off from bidder

## Example:

- *“Housing Infrastructure Fund bid for £7.5m is currently pending”*
- All match funding is not secured



# Risks

- Applicants commonly fail to identify all risks associated with the delivery of a project – even obvious ones
- Risk register should be completed and actively managed (including mitigation)
- Planning and other consents – timescales should be clear and evidence of pre-application activity
- Too many elements in a project = dependencies
- Blending with existing project = is this gold plating?

## Example:

- *“There were no problems with ground conditions in the site next door”*
- *Financial implications (e.g. Brexit, FOREX currency) can be overlooked by applicants (e.g. 50% of sales to a European country, some supplies in \$)*



# Solent Prosperity Fund Large Project Workshop

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## Q&As

