



Glasgow City Region - City Deal

Cabinet

Report by Director of Regional Economic Growth

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Item 8

13th August 2019

Business Case Evaluation:

South Lanarkshire Council – Augmented Outline Business Case Larkhall Community Growth Area (CGA)

Purpose of Report:

To report to the Cabinet on the evaluation of South Lanarkshire Council's Augmented Outline Business Case for Larkhall CGA.

Recommendations:

It is recommended that the Cabinet:-

1. note the content of the report;
2. note that the PMO Appraisal, Project Risk Register and Programme Risk Register are available on request from the Clerk;
3. agree the updates to the content of the business case made during the augmentation of the Larkhall CGA OBC as contained within this report;
4. approve the augmented business case which, following appraisal, is considered to be compliant with H.M. Treasury Green Book; and
5. note that no additional funding is required for this OBC.

1. Purpose

- 1.1 To report to the Cabinet on the evaluation of South Lanarkshire Council's augmented Outline Business Case for Larkhall CGA dated March 2019.

2. Background

- 2.1 The CEG on 30th November 2017 approved a review process to ensure that Glasgow City Region City Deal business cases are compliant with the approach contained within the HM Treasury Green Book. Consultants Ekos were appointed to carry out the review and they developed an appraisal template which has incorporated the comments of both the UK and Scottish Governments. This appraisal template has been used to assess this business case for compliance with Green Book.
- 2.2 The submission of this business case for appraisal is considered as confirmation that South Lanarkshire Council (SLC) approves the inclusion of this business case as part of the City Deal programme as stated in the current Glasgow and Clyde Valley City Deal Assurance Framework (10th March 2015) in section 4.1.1 and referred to in the Draft Glasgow City Region City Deal Assurance Governance and Programme Management Framework March 2019 in section 6.4.4.
- 2.3 The initial OBC for Larkhall CGA was approved by SLC's Executive Committee on 8 February 2017. SLC has advised the PMO that further internal committee approval of a business case is only required if that any significant changes are proposed or have taken place. SLC has stated that to date no SLC augmented OBCs have been subject to changes requiring a further internal Committee approval.
- 2.4 The scope of the Larkhall CGA Outline Business Case was initially within the scope of the wider OBC of SLC's Larkhall CGA that was previously approved by Cabinet on 14th February 2017.

3. Review of the Augmented Larkhall Community Growth Area OBC

- 3.1 Following the initial review of all projects' OBCs, SLC submitted an augmented version of Larkhall CGA OBC to the PMO on 15th March 2019 to reflect the comments of the initial review.
- 3.2 This business case has been reviewed and appraised and the PMO has been advised by Ekos that it is considered to be Green Book compliant.
- 3.3 This Business Case was considered by the Chief Executives' Group on 23rd April 2019 when it was agreed that it be submitted to Cabinet for approval.
- 3.4 The PMO has undertaken an additional review which provides an analysis of the content of the initial version of the OBC approved by Cabinet on 14th February 2017 and the augmented version. Any relevant changes or updates

to the business case in relation to the scope, finances or benefits that the project indicates it will deliver are set out in the following sections.

- 3.5 The information that will require to be included within FBCs that align to the Larkhall CGA, as highlighted in the Ekos Review and by SLC within the OBC, is set out below in section 9 of this report.
- 3.6 The Executive Summary for the project is attached as Appendix 1.
- 3.7 A copy of the appraisal assessment of this business case is available from the Clerk.

4. Scope

- 4.1 SLC has confirmed to the PMO that the scope of the project remains unchanged from the initial OBC. The title and grouping of the project components is unchanged from the initially approved OBC and the phasing of the FBC submissions has been updated with some changes in the overall programme.

5. Programme Milestones

- 5.1 A high level project schedule is included within the business case. The key milestone dates of this business case are as follows:
 - Enabling Infrastructure
 - Construction on site start – 2019
 - Construction completion date – 2024

6. Finance

- 6.1 The total cost of the project is £50.5m. This is funded from £20.15m City Deal Grant and members' contribution, developers' contributions of £17.5m and additional members' contributions of £12.85m. Cabinet have previously approved funding to date of £1.985m on 14 February 2017. This is an OBC and is not seeking any further funding at this stage.
- 6.2 The financial case contained within the initially approved OBC and the augmented OBC have been reviewed. Relevant changes and updates that have been identified between the versions of the OBC are set out below:

Change/Issue	Approved OBC (February 2017)	Augmented OBC (March 2019)
Follow-on investment	Follow-on investment estimated at £181.8m	Total direct follow-on investment estimated at £238m for housing and infrastructure.
Funding split	86/14% funding split not mentioned	86/14% funding split quantified at £17.3m and £2.8m respectively
Phasing	Phasing of £20.15m spend provided	Phasing of £20.15m spend updated

Total Spend	Total £50.5m spend details provided in appendix 5 along with phasing of City Deal element of £20.15m	Total £50.5m spend details provided in appendix 11 along with phasing of £20.15m City Deal element however this phasing in appendix 11 does not match the phasing in 4.1 The £50.5m is funded from City Deal £20.15m, SLC additional £12.85 and developers contributions £17.5m.
NPV	NPV costs not provided in financial case	NPV costs provided in financial case
Funding	Funding from SLC not mentioned in financial case	SLC Funding approved in February 17 is mentioned in financial case
Benefit monitoring	Benefit monitoring costs not mentioned in financial case but shown as £0.45m in appendix 5	Benefit monitoring costs mentioned in financial case and quantified at £0.45m in appendix 11
Revenue costs	Revenue costs mentioned in 4.9 and will be met from SLC revenue budget but not quantified	Impact on accounting in 4.5 is shown as £3.2m for staffing and maintenance costs and will be met from SLC budget. Financing costs not mentioned or balance sheet treatment not mentioned.
Optimism bias and contingency	Optimism bias and contingency both at 25% but not quantified	Optimism bias is 25% but not quantified. Contingency is 25% and not quantified. Optimism bias should be quantified.
VAT	VAT treatment not mentioned	VAT is expected to be recovered and the non-recovery of VAT is mentioned in risk register.
Financial agreements	S75 agreement mentioned as being negotiated at risk as is wholly dependent on housing numbers	S75 Agreement is more clearly explained in 1.1.3 and the financial case in 4.8 and 4.9. The agreement and funding is still at risk dependent on housing numbers.

7. Benefits Realisation

- 7.1 The project outputs and benefits contained within the February 2017 OBC and the augmented OBC have been reviewed and are set out in the table below. The economic benefits of the project have been updated within the augmented OBC. A number of the infrastructure outputs have not been fully quantified and SLC have advised that this will be included within the FBCs. The PMO has referenced this later on in this report as information that will require to be provided at the stage of FBC approval.

Change/Issue	Approved OBC (February 2017)	Augmented OBC (March 2019)
Benefit cost ratio	A benefits cost ratio was not included in the previously approved OBC.	A BCR of 1.8 <i>[Based upon total public sector costs of £59m over 25 years against £107m net additional GVA at GCR over 25 years]</i>
GVA	There was no Larkhall specific GVA projection included within the initially approved OBC. Reference was made to the wider calculation within the initial programme modelling.	Net additional GVA at Glasgow City Region level by 2035 is £111m .
Construction Employment	The Larkhall CGA development will create an average of 150 gross construction jobs per year over the lifetime of the development.	Net Additional Enabling Infrastructure Construction Jobs at GCR (Person Years of Employment) by 2035 – 390 PYEs Net Additional Development Follow On Construction Jobs at GCR (Person Years of Employment) by 2035 – 840 PYEs
Operational Employment	The completed CGA development will generate permanent new employment opportunities through direct (and indirect) household spend patterns – this is estimated to generate 300 FTE jobs, largely in the retail and service sector, but also in the expanded school and enhanced community provision.	Net Additional FTEs by 2035 at Glasgow City Region – 110
Private Sector Investment	£111m	Net Additional Private Sector Investment (Follow-on developments) by 2035 - £118m NPV
Housing benefits	1,000 housing units Affordable Housing Units TBC	1,750 housing units 100 Affordable Housing Units
Infrastructure benefits	Infrastructure benefit categories were	Leisure floorspace (enhanced) – to be quantified at FBC.

	identified but not fully quantified.	Education (new) – to be quantified at FBC. Education (enhanced) – to be quantified at FBC. Road network (new) – to be quantified at FBC. Road network (enhanced) – to be quantified at FBC. Cycle track (enhanced) – to be quantified at FBC. Junctions (enhanced) - 10
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8. Legal and Procurement

- 8.1 The Legal and Procurement sections of the augmented OBC have been reviewed and no material changes have been identified. As set out below, SLC will require to provide detailed procurement for each of the FBCs submitted that follow on from this OBC.

9. Future Developments at FBC

- 9.1 Reflecting the comments made by SLC within their augmented OBC, and the comments made by EKOS as part of their appraisal, the PMO will require the Member Authority to provide the information detailed in the sections below within forthcoming FBCs that align to the Larkhall CGA OBC.

- 9.2 Based upon the content of the augmented OBC, SLC has indicated that the following information will be provided within forthcoming FBCs to be submitted for the wider project:

- i. Scope of road improvement and floorspace (educational and leisure) elements: the detailed schedule and scope will require to be provided at FBC;
- ii. Project Delivery: confirmation on how each project element will be delivered (direct building or tendered contracts) will be confirmed at FBC;
- iii. Risk – individual risk registers will be provided for each project component;
- iv. Detailed project designs for each component will be included in each FBC;
- v. Financial Case: each FBC will contain a detailed financial case, including details of payments to third parties, third party funding, income/expenditure and balance sheet, revenue costs, updated financial risks;
- vi. Detailed procurement strategy will be presented for each project component at FBC;
- vii. Sustainability: for each project component, consideration will be given to the list of factors listed within the OBC Sustainability Case (para 383).

- 9.3 Based upon the Ekos appraisal of the augmented OBC, the PMO has taken into account the comments received and considers that the following additional

information will require to be provided by the Member Authority within forthcoming FBCs:

- i. All project outputs will require to be fully quantified at FBC stage and included within individual benefits realisation trackers;
- ii. Optimism bias: this will require to be refined for each of the FBCs that link to this OBC;
- iii. Procurement: Procurement information is described at high level for the project components. Each of the FBCs will require to include detailed information on the procurement route progressed for each project component;
- iv. Contracting arrangements: the contracting arrangements are still to be established for each of the project components. The FBCs will require to fully detail the contracting arrangements for each component;
- v. Procurement Risks: these will require to be reviewed and updated for each FBC;
- vi. Revenue costs: these will require to be fully detailed in each FBC;
- vii. Legal issues: to be reviewed and updated for each FBC;
- viii. Project schedule: delivery dates and detailed milestones will require to be provided for each FBC.

10. Transport Appraisal Group Review

- 10.1 The Transport Appraisal Group (TAG) has carried out a review of this business case. The TAG's findings are set out in the following paragraphs.
- 10.2 *"It is noted that there are no significant 'transport' differences between the proposals as set out in the OBC and those in the draft SBC which was reviewed for the initial SAF exercise.*
- 10.3 *On the basis of the above, it is not considered that there is no need to review the findings of the Transport SAF for this project. It is also not considered that there are any particular issues with transport aspects of the OBC that need to be given further attention at this stage although the final details and designs, including PT and active travel interventions, will require to be developed in due course and set out, where appropriate, in future iterations of the business case."*

11. Recommendations

- 11.1 It is recommended that the Cabinet:-
1. note the content of the report;
 2. note the PMO Appraisal, Project Risk Register and Programme Risk Register are available on request from the Clerk;
 3. agree the updates to the content of the business case made during the augmentation of the Larkhall CGA OBC as contained within this report;

4. approve the augmented business case which, following appraisal, is considered to be compliant with HM Treasury Green Book; and
5. note that no additional funding is required.