

Thames Valley Berkshire LEP Growth Deal Business Case Assessment

West Berkshire – 2.05 Newbury: Sandleford Park

Report - 13 July 2016

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1. Introduction

The Thames Valley Berkshire LEP Growth Deal (1 and 2) provides an investment package of over £102.1 million for transport schemes that aims to drive growth across the LEP area. The funds are to be invested in high profile strategic projects that:

- Deliver Essential Housing
- Enhance Urban Connectivity
- Grow the STEM skills base and enhance business support ¹

This report includes AECOM's independent assessment of the **West Berkshire, 2.05 Newbury: Sandleford Park, Business Case** on the basis of the full business case documentation supplied by the scheme applicant.

2. Approach

Our standard approach for undertaking LEP business case due diligence is set out below. This is the approach adopted for the due-diligence assessments included in this report.

1) **Headline Assessment**

On receipt of the scheme business cases from the LEP, AECOM undertake a headline assessment. This desk based assessment is completed independently by the core project team and based on a customised template derived from the five stage business case model as cascaded into DfT and SFA level guidance and templates (as appropriate).

In undertaking the initial assessment process:

- Members of the core project team complete a general review of the available business cases to consider their completeness and compliance with the relevant funding guidance.
- The core team then undertake a more detailed assessment of each business case against specific components of the Five Business Model (e.g. Strategic, Economic, etc.). Between the core team all five components are covered for each business case.
- The core project team then hold a case review meeting to discuss each business case in turn to identify:
 - o Gaps in the evidence provided
 - o Risks and any issues associated with the business case proposals
 - o Particular areas requiring further investigation by the technical review panel
 - o Information requests and clarifying questions for the applicant organisations

¹ Thames Valley Berkshire LEP Growth Deal, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398880/35_Thames_Valley_Berkshire_Growth_Deal.pdf and <http://thamesvalleyberkshire.co.uk/NewsDetails/163102m-expansion-of-growth-deal-boosts-local-plan-for-thames-valley-berkshire-economy-19917>

- Areas for discussion with the LEP regarding its priorities and requirements for Growth Fund allocation and likely approach to contracting and management of funds.

This approach ensures that all members of the core team have a good overview of each business case, including its strengths and weaknesses, and that each element of the Five Business Case Model is considered in conjunction with each other.

Following the review process it is possible to identify the critical issues where specialist resource should be focused in the detailed business case reviews and where AECOM can provide support to enhance the business base.

2) *Engagement with Project Applicants*

On completion of the high level assessment, AECOM contact the project applicants to discuss the emerging findings in relation to the scheme, confirm that all relevant information had been provided to the appraisal team, and to ask a series of clarifying questions that will inform the detailed assessment.

Following an initial request by email, AECOM may hold telephone or face to face discussions with scheme applicants if it is deemed necessary. Following receipt of supplementary information or confirmation that requested information was not available, AECOM will commence the detailed appraisal assessment.

3) *In-Depth Appraisal*

Following our engagement with the scheme applicants and confirmation that all relevant information has been received, AECOM undertake a detailed and independent due-diligence assessment of each scheme:

- The Core Consultant team reconsiders the headline assessment in light of any further information received from the project applicants.
- Where relevant, AECOM's Transport team undertake a transport assessment of relevant schemes to consider the reasonableness of any transport modelling, risks to achieving the scheme outcomes and associated Value for Money.
- Where relevant, AECOM's Sustainability team undertake an assessment of relevant schemes to consider the reasonableness of the sustainability intervention approach, any risks to achieving the scheme outcomes and Value for Money.
- Where relevant, AECOM's Health Project team undertake an assessment of relevant schemes to consider the reasonableness of the proposed scheme, any risks to achieving the scheme outcomes and Value for Money.
- AECOM's Project, Cost and Consultancy Team (PCC) undertake a review of scheme cost.

Priority Areas for the Appraisals

The business case appraisals consider all aspects of the five case business case assessment framework, however TVB LEP has also set out guidance for business cases to be produced in line with DfT WebTAG guidance in order to assess value for money. In addition to this, the business case should capture both the scheme's wider economic benefits and the leverage of wider investment resulting from the scheme. This is intended as a broader measure than an economic or financial appraisal (i.e. a Benefit to Cost Ratio (BCR) or a ratio of Net Present Value to Project Costs) however the Business Cases are still expected to include a relevant full Transport Business Case in line with current DfT guidance.²

4) *Reporting*

This report sets out the main findings from the headline and detailed business cases assessments of the business cases.

This review is structured as follows:

- A summary overview and classification of the scheme.
- Additional detailed comments structured around the five stage business case model and based on initial and additional information provided by the applicant.
- The applicant's responses to AECOM's clarification questions are included in the appendices.
- Additional technical evidence is provided in the appendices.

Business cases are categorised into three broad categories based on the level of risk identified and how prepared the scheme is for delivery in 2016/17. These are described as follows:

² Founding document for Berkshire Local Transport Body

3. Business Case Assessment Grades

AECOM's independent recommendations in relation to the appraised schemes are classified as follows:

- **Proceed in 2016/17:** Schemes suitable for delivery in 2016/17, subject to minor clarifications. These clarifications could be agreed prior to or as part of agreeing the funding agreement or by further dialogue with Thames Valley Berkshire LEP.
- **Potential to Proceed in 2016/17:** Some further work is required by the applicant before the scheme should be approved by Thames Valley Berkshire LEP. Generally this is to allow the project to get to an appropriate delivery stage to allow complete due diligence; however some schemes could undertake funded activity in 2016/17 to aid their progress.
- **Revised Business Case Required to Proceed in 2016/17:** Projects where significant risks still exist to Thames Valley Berkshire LEP in funding the project or programme of projects. These risks have not been addressed satisfactorily by the applicant during due diligence and further work is required in developing a satisfactory business case to allow any spend in 2016/17.

4. West Berkshire, 2.05 Newbury: Sandleford Park - Business Case

<p>Final Assessment</p>	<p>Proceed in 2016/17</p> <p><i>The scheme can proceed in 2016/17. It is recommended that a consolidated business case is provided that incorporates the changes made during due diligence dialogue.</i></p> <p><i>NB West Berkshire's consolidated business case is available at http://info.westberks.gov.uk/index.aspx?articleid=29690</i></p>
<p>Scheme Overview</p>	<p>West Berkshire Council is applying to Thames Valley Berkshire LEP for £2.9m (26% of total project costs of £10.96m) of Growth Deal funding to deliver two additional access roads which will enable increased volume of development at the Sandleford Park site, a new housing development to the south of Newbury town. The overall development at Sandleford Park will deliver 2,000 homes, of which 1,000 are deemed as being enabled by this scheme.</p> <p>The funding will deliver two additional access points to the Sandleford Park development than in the 'do nothing' scenario. One of these additional access points will be situated at the west of the development site connecting with the A343, and the other will be at the east connecting to the A339. These accesses are in addition to the access points at Monks Lane, to the north of the site, which would be provided in the 'do nothing' scenario. The additional access points, by providing east-west and northern permeability through the site, will significantly relieve traffic impacts at the Northern entry and exit accesses and provide a reasonable level of road use service, enabling the intensification of the volume of development at the site by 1,000 homes to 2030.</p> <p>The additional access points also enable the development of a new primary school within the site and an extension and developments including a conference centre at the existing Newbury College site, both of which will provide additional permanent jobs in the local economy.</p>

**Summary
Assessment**

The delivery of additional housing as brought forward by the access points is in line with the key strategic priorities of both the Local Authority and the Local Enterprise Partnership. Over 1,000 additional homes, with 40% delivered as affordable homes will provide a significant contribution to meeting housing targets in the local area.

The benefits of the scheme are derived from the enabling benefits in terms of unlocking housing delivery. These are ranked as “moderate beneficial” for £62.3 million of net social value from the delivery of new housing. The approach followed WebTAG guidance in a proportionate manner for a scheme of this size. A low BCR is typical for a scheme of this nature.

During due diligence, the scheme promoter has made good efforts to improve the Transport Business Case for dependent development by following, as suggested by AECOM, WebTAG Unit 2.3³. The purpose of this approach is to model with and without intervention and with and without development scenarios which show the need for the intervention in terms of ensuring a ‘reasonable’ level of service on the transport network.

The appraisal undertaken following due diligence is now considered compliant with WebTAG and appropriate for a scheme of this size. For future reference and for the benefit of the applicant, some further commentary and advice has been outlined in the Economic section below.

³ WebTAG Unit 2.3, Transport Appraisal in the Context of Dependent Development (Jan 2014)

Suggested Actions	<p>Revised Business Case: AECOM has worked with the scheme promoter in an iterative fashion to improve the evidence base underlying the business case. In particular, further modelling has been delivered and methodology changes have been enacted in order that the business case is in line with DfT guidance. This has led to changes in the economic case and the overall BCR. The various responses during diligence should now be brought together in a consolidated and updated business case for completeness.</p>
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Detailed Observations

<p>Strategic</p> <p><i>Rationale, Policy Context, Case for Change, SMART Objectives</i></p>	<p>The scheme strongly contributes to both LEP and LA objectives for housing delivery, including a significant proportion (40%) of affordable housing.</p> <p>The LEP is aiming to build 10,702 homes by 2021 according to its Strategic Economic Plan⁴. The overall development at Sandleford Park will contribute 2000 homes, a significant portion of this target, albeit at a longer timescale to 2030.</p> <p>The additionality of the new access roads enables approximately 50% of this new housing (1,000 units) which otherwise would not be delivered. Although the timescales of this additional tranche of housing are over an extended time period, it is providing a significant contribution to the ongoing housing pipeline in the area.</p> <p>No objectives for the scheme are identified within the business case. It would normally be expected that a set of scheme specific objectives would be identified based on a review of problems and issues. The scheme options would then be assessed in terms of their expected contribution to the defined objectives.</p> <p>The business case does however identify that a number of alternative options were considered, including the rationale for not taking them forward as preferred options.</p>
<p>Economic</p> <p><i>Economic costs and benefits (BCR, NPV, VfM), Options, Distributional and Wider Impacts, Monitoring</i></p>	<p>Transport Appraisal</p> <p><i>Model Validation</i></p> <p>The transport appraisal used inputs from the VISSIM model of the Sandleford Park area. A summary of the model and validation results is included in Appendix A of the business case. The model has a base year of 2015 and AM and PM peak hour models have been built. The forecast years are 2026 and 2036. The model has been developed using manual traffic counts undertaken in 2015. The report demonstrates that the model validates well against both traffic flow and journey time related criteria. It is however not clear whether the traffic counts used were the same as those used to build the matrices. WebTAG recommends that separate traffic counts should be used for the purposes of model validation.</p> <p><i>Forecasting</i></p> <p>A summary of the methodology used for the forecasting work was provided in a</p>

⁴ Thames Valley Berkshire LEP, Strategic Economic Plan
<http://thamesvalleyberkshire.co.uk/Portals/0/FileStore/StrategicEconomicPlan/TVB%20SEP%20-%20Implementation%20Plan.pdf>

supplementary note (Technical Note: Model Build Summary) during the course of the review period. Forecast year flows have been informed by the wider SATURN model, the National Trip End Model (NTEM) and development flows. Importantly, the demand matrices in the VISSIM model have been constrained to NTEM. The Reference Case model flows include the committed/consented development flows, plus the general background traffic flow for the traffic demand matrices. The Do Something models include the committed/consented development flows.

Traffic Impact

During the review period, supplementary information was provided regarding the impact of the scheme on the transport network in terms of queue length and journey times. The results compared the position in 2026 and 2036 with and without the transport scheme, but without the development, for the AM and PM peak periods. This shows that journey times overall across the routes are forecast to reduce with the scheme in place. It is notable that the majority of the journey time benefits are in the PM peak period. In particular, there is a marked reduction in the journey time on Route 2 (northbound) with the scheme in place in the PM peak – the journey time on this route increases in the AM peak. Clarification regarding the reasons for the difference should be provided. The data on queue lengths show significant reduction in queues on sections of the network with the scheme compared to the Do Minimum scenario.

Value for Money Assessment

In the course of the review period, AECOM identified that funding contributions and expected benefits in terms of jobs had been included in the AMCB and BCR calculation, which is not in line with WebTAG. In addition, the appraisal was limited to a 16 year period (2020 – 2036) as opposed to 60 year, as recommended by WebTAG - maintenance costs were also excluded from the appraisal. The appraisal was updated to remove the funding contributions and job benefits – it was also extended to cover a 60 year period and maintenance costs were included. An update note was provided which identified the revised BCR as 0.89 – although it is acknowledged that the scheme is being progressed owing to its development rather than transport benefits.

Optimism bias has not been applied to the cost estimates except in the case of utility diversions – this is a result of the confidence the scheme promoter has in the cost estimates based on previous experience. It should be highlighted that WebTAG recommends application of optimism bias at this stage of the scheme development process.

It is also notable that the vast majority of the journey time benefits for the scheme accrue in the PM peak with minor benefits reported in the AM Peak.

An assessment of dependent development has been undertaken in a proportionate manner for a small scheme in line with WebTAG (A2-3) during the due diligence phase.

Guidance for future similar WebTAG compliant business cases

DfT guidance would recommend that a full WebTAG AMCB table, in addition to TEE and PA tables, is provided. Optimism bias should be applied to the cost

	<p>estimates, in line with WebTAG. Clarification is also required regarding the reasons for the vast majority of the benefits accruing in the PM peak.</p> <p>It is recommended that a number of sensitivity tests would be undertaken to understand how sensitive the value for money of the scheme is to changes in assumptions e.g. scheme cost.</p> <p>The Economic Case also includes an assessment of WebTAG criteria under 'Economy', 'Environment', 'Social' and 'Public Accounts' – an assessment against each of the criteria is included and the results of the assessment are reported in an Appraisal Summary Table. The sub criteria reported under 'Economy' are different to those included in WebTAG and include job impacts, which should not be included under this part of the appraisal. The AST could be updated so it is consistent with WebTAG.</p> <p>Some parts of the appraisal (e.g. Air Quality) consider two options (two access route or a four access route), but other parts of the appraisal appear to only consider one option. It is recommended that both options are considered individually against each of the WebTAG criteria. Also, it is not clear what the overall conclusion is in terms of the two options that have been considered.</p> <p>Development Appraisal</p> <p>The scheme promoter had initially used a non-formally accepted method of valuing the benefits of the housing delivery estimating the GVA of new residents in the development. Following a request from AECOM, the scheme promoter duly completed analysis of housing development following DfT guidance within WebTAG Unit 2.3 'Transport Appraisal in the Context of Dependent Development. This method effectively shows the value of 'planning gain' from change in land use at the site, inputting local land values and total size of the site.</p> <p>This analysis estimated a net social value of the development of £62.3m, which DfT guidance recommends considering as a 'moderate beneficial' qualitative benefit of the development.</p> <p>The business case estimates the addition of 24 permanent private sector jobs to the economy from an extension to Newbury College and 22 permanent public sector jobs by 2022 from the development of Highwood Copse Primary School within the site.</p> <p>The scheme will also provide a significant number of construction jobs between 2022 and 2030, which are not traditionally included as direct benefits of the scheme due to the fact that the jobs are temporary and labour resources may not be locally based in the long term. Nevertheless, a non-quantifiable benefit can be assumed from indirect and induced multiplier benefits related to increased short-term consumption in the local economy.</p>
<p>Commercial <i>Feasibility of deals, Procurement, Allocation of Risk</i></p>	<p>The scheme promoter has open and well established procedures for procurement and sourcing.</p> <p>Developer funding is not formally secured at this stage but it makes up a</p>

	<p>significant proportion of the overall funding package (64%).</p>
<p>Financial <i>Affordability, Sources of funding</i></p>	<p>The total capital cost of the project is £10.96m of which £2.9m (26%) is being requested as grant funding from the LEP. Of the £8.06m remaining, £7.06m is being provided from developer contributions, £0.6m from Newbury College and £0.4m from the Local Authority.</p> <p>AECOM have not been asked to undertake detailed due diligence on the cost breakdown of the scheme.</p>
<p>Management <i>Deliverability, Governance, Programme, Approvals</i></p>	<p>Planning permission is yet to be granted on either access road, nor the development site itself, with decisions sought and expected in Autumn 2016. The eastern access road connecting to the A339 has an external dependency as it is linked to the planning application for Highwood Copse school. This planning application is being managed and submitted by the Local Authority. The Western access road and development site planning applications are being submitted by the developer.</p> <p>A project risk matrix has been developed with associated mitigations identified.</p>

5. Appendix A – Applicant Responses

6. Appendix B – Applicant Responses to Initial Comments

These appendixes contain detailed technical information and are available on request from Richard Tyndall at TVB LEP richard@thamesvalleyberkshire.co.uk 07880-787007.

The consolidated full business case is available at
<http://info.westberks.gov.uk/index.aspx?articleid=29690>