Appendix A

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Appraisal of the Preston Public Realm Phase 2 & 3 Improvements

A Final Report by
Regeneris Consulting

Lancashire LEP

Appraisal of the Preston Public Realm Phase 2 & 3 Improvements

16 September 2015

Regeneris Consulting Ltd
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1. Introduction

The Project & Funding Sought

1.1 Lancashire County Council is seeking Growth Deal funding for large scale public realm improvements in Preston City Centre. More specifically the project will deliver improvements between Fishergate and the bus station, including improvements to Fishergate itself, Church Street, Lancaster Road, Lord Street and Tithebarn Street. The works also include the provision of high quality public realm on the remaining section of the bus station apron.

1.2 The project is seeking £6m of Growth Deal funding out of a total project cost of £7m. The remaining £1m will be provided by Lancashire County Council.

1.3 The project represents Phases 2 and 3 of the agreed strategy of public realm improvements in Preston City Centre. Phase 1 of the project, which runs from the railway station in the west and ends mid-way along Fishergate including significant improvements to the station forecourt along Corporation Street, was part funded by ERDF and completed in October 2014.

1.4 At the time of writing this appraisal, the project has already commenced at risk via funding from Lancashire County Council.

The Business Case Document

1.5 The applicant has prepared a good quality Business Case submission[1]. It adheres to the Five Case Business Case model, indeed it has been drafted using the Five Case model template available on the HM Treasury website.

1.6 The Business Case document has been prepared by a reputable consultancy firm who have extensive experience in preparing robust business case documents.

The Appraisal Process

1.7 This appraisal has been undertaken by Regeneris Consulting following the checklist of questions identified by HM Treasury and using our extensive experience of Green Book appraisal techniques.

1.8 The appraisal has been based largely on a desk-based review of the Business Case material, but supplemented by dialogue with the authors of the Business Case document and the project sponsor.

[1] Preston Public Realm Gateway Improvements Phase 2 and 3. Business Case. August 2015.

2. Strategic Case

Key Points

- The Strategic Case for investment is well made, and builds on a clear and agreed policy objective to grow the economic footprint of Preston.
- Market failure arguments are rooted in the fact that public realm is a classic public good. There is a well-established rationale for the public sector to fund such investments.
- Public realm investments elsewhere have been proven as an effective tool in stimulating economic growth in city centre locations.
- The project builds on existing public sector (Phase 1) investment in Preston city centre. The strategy for the city centre was always to build on and complete the Phase 1 works with subsequent rounds of investment. This project provides this subsequent investment.

2.1 The strategic importance of growing the economic base of Preston city centre is well made, and accepted by the appraisal team. The arguments put forward in the Business Case are based on a body of good evidence and the clear policy objective of growing the economic footprint of Preston in the Strategic Economic Plan.

2.2 The case for using enhanced public realm as a tool for city centre growth is well set out and also accepted. The evidence is clear that investment in public realm can serve to differentiate places and raise their prestige, opening up investment opportunities and raising confidence in development opportunities. The improved image of an area can serve to attract businesses and therefore employees who bring with them spending power. The appraisers are confident that the project has the support of all the relevant stakeholders, although this could have been made more explicit in the Business Case.

2.3 The project involves the completion of past public sector investment, with ERDF funded Phase 1 works completed in late 2014. The success of these past investments is outlined.

2.4 The Business Case argues that market failure exists due to the public realm being a public good. The appraisers agree that the concept of the public realm as a public good provides an extremely strong argument for intervention. Public goods exhibit two key characteristics which explain why they lead to market failure:

- *Public goods are non- excludable*. Once the good has been produced it is difficult to exclude consumers from consuming the good – examples include defence or, of more relevance here, enhanced streetscapes. As a result, public goods are subject to free riders and private producers are unable to charge for the good and invest in it.
- *Public goods are also often non-rivalrous*. This means that consumption by one individual does not reduce the amount of the good or service available for consumption by another consumer (enhanced streetscape is an example of a non-rivalrous good). Again, there is no incentive for the private sector to produce such goods.

2.5 The public realm clearly demonstrates the characteristic of a public good. Public space and amenities provided are both non-excludable and non-rivalrous. As people cannot be excluded from public space they are unlikely to be willing to pay to enjoy the consumption of it. As a result, producers have little incentive to invest in the public realm as there can be no direct financial return. Intervention by the public sector is therefore justified in order to ensure the more effective supply of good quality public space within cities and towns.

3. Economic Case

Key Points

- A sensible set of long list options was established, and the process of narrowing this list down to a set of three short listed options, via a number of *Critical Success Factors*, was sound and robust.
- The value for money assessment framework for short listed options was also robust and in line with current HM Treasury guidance. We agree that the Preferred Option does indeed deliver the optimum mix of cost, benefits and risk.
- The Business Case estimates the Preferred Option will deliver a cost per job ratio of £9,900 per net FTE, and net GVA per £1 invested of £5.70. These headline value for money measures are well within the bounds of acceptability and offer some considerable headroom should the economic benefits prove to be lower.
- We have some concerns with the quantification of benefits. Whilst sensitivity analysis has been carried out by the applicant on a reduced level of benefits, this did not go far enough. There are grounds to believe that the out-turn benefits on the Preferred Option could be as much as 20-40% lower than those predicted.
- Even with a reduced level of benefits the likely value for money on the project is still viewed as acceptable for a project of this nature.

3.1 The Economic Appraisal is at the heart of the Five Case model. It is here where all costs and benefits are quantified and monetised, and where value for money judgements are made. The economic case establishes the preferred approach based on the optimum mix of cost, benefits and risk.

Long list to short list

3.2 HM Treasury guidance is clear that a long list of credible and realistic options are drawn up in order to start the process of establishing the preferred option.

3.3 The appraisers consider that an appropriate long list has been established based on different levels/quality of public realm investment.

3.4 The assessment criteria that has been utilised to appraise the long list of options – based on a carefully considered set of *Critical Success Factors* as set out in the HM Treasury guidance – are sound and robust. These assessment criteria were used to reduce a long list of five options into a short list of three options for more detailed value for money assessment.

3.5 In Business Cases it is usual to retain the Do-Nothing option in the short list of options. In this case the Do-Nothing option was not carried forward. In future Business Cases we recommend that the Do-Nothing is retained in the shortlist as a reference case.

Assessment framework for short listed options

3.6 The framework for comparing costs and benefits on the short listed options is robust. It is in line with Treasury guidance and examines:

- Discounted and undiscounted costs. A 3.5% social discount rate is applied in line with HM Treasury Green Book guidance.

- A long term assessment of benefits. The analysis period is 2015 to 2030 i.e. 15 years from the start date of the public realm improvements.
- Appropriate value for money metrics. Two measures are used: (i) public sector cost per net job created and (ii) net additional GVA generated per £1 of public sector investment

3.7 The assessment of benefits focusses very much on net job creation and Gross Value Added (GVA). This is in line with current government guidance.

3.8 As an aside, there is a move in CLG, and quite likely HM Treasury, to move away from jobs and GVA as frontline measures of impact for capital investments of this nature. It is quite likely that we will see a shift towards to land value/property value uplifts being used as the primary impact measure, a change that could be reflected in the next iteration of the Green Book which is due shortly.

3.9 There are also movements in London, led by Transport for London (TfL), to roll out their Valuing Urban Realm Toolkit (VURT). VURT has been developed to provide evidence-based justifications for investment in the public realm. It monetises some of the less tangible benefits of better streets and spaces, alongside more conventional measures.

Costs

3.10 The scope of the proposed Public Realm works is set out in Appendix 1 of the Business Case in the form of a Gantt chart. There is actually very little description of the precise scope of the works in the body of the Business Case, nor the derivation of project costings.

3.11 As a result of the above it is very difficult to form a view from the Business Case on the appropriateness of the allowances for each cost item and to provide reassurance that potential cost overruns have been adequately covered by contingencies.

3.12 Additional costing information has been sought from the project sponsor as part of this appraisal process. Section 5 (Financial Case) covers this issue in more detail.

Benefits Assessment

3.13 One of the key points from past studies is that there is no fixed formula for measuring the economic value of an improved public realm as each location varies in terms of its form and function. The timing of impacts will also vary with impacts surfacing in some locations more quickly than others.

3.14 There is generally a paucity of robust economic impact data on public realm. The Business Case cites some examples of successful public realm programmes, some of which have similarities with the works proposed in Preston, others less so. The Business Case also refers to the impact of the Phase 1 investments which are said to have triggered a 27% average increase in footfall and a reduction in the vacancy rate on Fishergate from 17% to 8% (see p28 of Business Case).

3.15 The project sponsor has selected three mechanisms for quantifying the economic benefits of the scheme:

- The development and occupation of additional employment floorspace (in new and refurbished properties) unlocked through the delivery of the public realm improvements.
- Vacant properties becoming occupied as a result of the public realm improvements.
- Increased footfall and spend in the City Centre as a result of the public realm improvements.

3.16 The three effects are added together to form an overall measure of economic benefit.

3.17 The framework is reasonable and not dissimilar to those adopted by Regeneris Consulting in our own work on the economic impact of public realm investments. There are, however, some conceptual and measurement issues with the approach:

- There is certainly some potential for double counting across the categories. The enhanced footfall, or at least part of it, is the factor that is underpinning a reduction in vacancy rates and the take-up of new development opportunities. It is wrong to simply add all the effects together.
- The notion that the claimed development benefits will be wholly unlocked via the public realm investment is questionable. Property investment decisions will not be made solely on the basis of the adjoining public realm, and cause and effect (or additionality) in respect of public realm is difficult to prove. Given this it is surprising that not more is made of defending the deadweight assumptions that are used in the Business Case. In fact the deadweight assumption are not made clear. In instances of public realm investment a relatively high deadweight figure should be used.
- The maths underpinning the vacancy reduction effect appears flawed. The Phase 1 works were estimated to have reduced the overall vacancy rate on Fishergate from 17% to 8%, a 53% reduction in the vacancy rate. The Business Case assumes a 92% reduction in the quantum of vacant space adjoining the Phase 2 works based on the residual 8% vacancy rate in Phase 1. This approach is not comparing like for like, and the 92% reduction overstates the likely effect.

3.18 The points above are likely to lead to some downward pressure on the out-turn benefits of all options, including the Preferred Option.

3.19 In *relative* terms the appraisers are satisfied that the Preferred Option does indeed represent the best mix of costs, benefits and risks. The bigger question for this appraisal is whether in *absolute* terms the Preferred Option delivers value for money for Lancashire LEP compared to external benchmarks.

3.20 The Business Case puts the Preferred Option at a cost per job ratio of £9,900 per net FTE and the net GVA per £1 invested at £5.70.

3.21 Whilst there is not much empirical evidence on acceptable economic returns for investment in public realm, the *Impact of RDA Spending* report produced in 2009 by PWC provides some useful benchmarks. The PWC analysis found that cost per net job for public realm was £120,000 and that GVAs per £1 invested was £1.8. This latter figure increase to £8.7 when all predicted future job impacts were included.

3.22 On the basis of the above, the Preferred Option appears to offer the potential for good value for money, particularly in relation to job creation. There is also sufficient headroom to accommodate slippage on benefits (see sensitivity analysis below).

Risks & Sensitivity Analysis

3.23 Project risks are covered in various aspects of the Business Case, but most notably the Management Case section. Our main points on risks are covered in our Management Section (Section 6).

3.24 It is important that the Business Case considers value for money under scenarios where costs and benefits are more/less than those predicted. Indeed, both the risk that “cost estimates prove inaccurate” and that “benefits are less than predicted” feature in the risk assessment of the Business Case (see page 50).

3.25 The sensitivity analysis in the Business Case on these matters should arguably have gone further. The range tested was actually quite narrow and involved (i) no deviation in costs (ii) a maximum of a 20% reduction in benefits on each of the three categories of economic benefit. Importantly none of the reductions in benefits within the three categories were applied in parallel.

3.26 Given our concerns on the quantification of benefits, we have tested the value for money on scenarios where the total volume of net jobs under the Preferred Option was reduced from 716 net FTEs by 20%, 30% and 40% respectively. The range is determined by the fact the existing Business Case already examines a 20% reduction in individual benefit categories and the fact that we believe this is unlikely to have captured the full downside risk.

3.27 The results are as follows:

- Under a total 20% reduction, the number of net FTE jobs reduces to 570 and the cost per net job increases to £12,300.
- Under a total 30% reduction, the number of net FTE jobs reduces to 500 and the cost per net job increases to £14,000.
- Under a total 40% reduction, the number of net FTE jobs reduces to 430 and the cost per net job increases to £16,300.

3.28 Our conclusion is that even with a reduced level of benefits the likely value for money on the project is still viewed as acceptable for a project of this nature.

4. Financial Case

Key Points

- The Business Case did not provide a detailed breakdown of costs. A breakdown has subsequently been provided and the appraisers are confident that the £7m allowance will be sufficient to complete the works as described
- The status of the £1m Lancashire County Council contribution is secure. In fact the project has started at risk via this funding and much of it has already been defrayed.
- The issue of whether more than £1m could have been made available from LCC has been tested during the appraisal process. We are satisfied that the LCC contribution is sourced from a highly competitive and limited internal pot and represents the maximum likely contribution.

4.1 The Financial Case is intended to provide reassurance on the appropriateness of predicted costs, that other sources of funding have been fully explored and that all sources of assumed other funding will materialise.

Costs

4.2 The Business Case identifies a total project cost of £7 million. The proposed works are set out in Appendix 1 of the Business Case in the form of a Gantt chart but no detailed derivation of the overall £7m cost is provided.

4.3 The Business Case (p58) states that costs have been "*determined by delivery team and include appropriate contingency*" and that "*costs have been subject to assessment…to ensure value for money*" but includes no evidence or information to support these statements.

4.4 The appraisal team has pursued these matters with the project sponsor and it is now clear that the costs are based on the cost per m^2 of improvements delivered through the Phase 1 works, which are directly comparable in terms of the nature of the works, the material to be used and the delivery location. We have been reassured that the costs include:

- an adjustment for inflation
- an allowance for design costs
- an allowance for supervision costs
- a contingency budget.

4.5 The costs include a higher average cost for the costs associated with the development of the apron, reflecting the desire to create a high quality public realm area/square, rather than road /pavements. The final design for the apron is subject to the outcome of a design competition and statutory processes, as such the estimated cost as contained in the Business Case have been based on similar schemes in other towns/cities. The final design will be procured in line with LCC procurement and within the budget set out in the business case.

4.6 The costs (excluding the apron area) have been assessed against the three competitive quotes that were provided for the Phase 1 works, which was subject of an open competitive tendering process. The Phase 1 costs, part funded by ERDF, followed EU procurement regulations, which ensured that they:

- Considered value for money

- Maximised the efficient use of public money
- Maintained competitiveness and fairness across the EU.

4.7 The ERDF requirements included sensitivity testing and costs were subject to an independent cost review. This was carried out by Jacobs, providing a comprehensive 37 page report. The costs of Phase 2 and 3 are comparable to the average costs identified through the Phase 1 open procurement process.

4.8 On the basis of the above, the appraisers are confident that the £7m allowance will be sufficient to complete the works as described.

4.9 For future cases, a standard optimism bias of anywhere between a +10% to +30% uplift on costs should always be tested through sensitivity analysis in the Business Case. This is a standard requirement of the Five Case Model.

4.10 Our general view for a project of this nature is that the level of optimism bias that should be factored into the sensitivity analysis is low. The experience of delivering the Phase 1 work has provided the project sponsor with a clear appreciation of likely costs.

4.11 The Business Case is also clear (p57) that all works will be procured on a fixed cost basis, passing risks associated with potential cost over-runs to the contractor.

Funding

4.12 On the basis of the information supplied, and more importantly the fact the project has commenced at risk via the funding of Lancashire County Council, the appraiser is reassured that the status of £1m of the LCC contribution is secure. This has been further evidenced in a written statement of support from Lancashire County Council.

4.13 The Business Case is not clear on why the funding mix is 14% Lancashire County Council (£1m) and 86% (£6M) Growth Fund. There is no evidence that the Business Case has explored why £1m is the maximum contribution from LCC and why larger sums could not have been secured.

4.14 Once again the appraisal team has pursued these matters with the project sponsor and it has been made clear that the £1m of funding from LCC is part of wider £15m LCC investment towards the Preston bus station project.

4.15 It has been pointed out by the project sponsor that LCC, as with many other local authorities, has a limited budget available to support economic development initiatives. It is argued that the 14% LCC contribution to the overall costs of the Phase 2 and 3 works should be regarded as a very significant contribution given the financial constraints and other economic development priorities being taken forward by LCC.

5. Commercial Case

Key Points

- The Operational Services Unit at LCC will act as the main contractor to deliver works, using their tried and tested procurement policies to appoint any necessary sub-contractors and procure materials.
- The Business Case offers only limited explanation as to why this is the optimal contracting arrangement.
- Post submission discussion with the project sponsor has clarified that LCC has utilised (i) its extensive delivery track record and (ii) the costings framework generated by the open, competitive bidding process for the Phase 1 works to configure an appropriate delivery solution.

5.1 The Business Case is intended to provide reassurance that the optimal procurement strategy is in place and will be utilised.

5.2 The Business Case states that "*following consideration of a series of delivery options, a decision has been made for the main works contract to be delivered in house by Lancashire County Council*" (p53). A series of benefits are listed in support of this contracting arrangement:

- Ability to make a prompt start on site
- Ability to closely monitor the works programme and the quality of works being completed
- Ability to minimise risks around external delivery pressures and the potential for rising costs
- Ability to draw on experience of delivering wider programmes of work in the county; and
- Ability to potentially secure efficiencies when sourcing materials.

5.3 All of these benefits are recognised and acknowledged by the appraisers.

5.4 It is clear that in procuring any necessary sub-contractor support and materials appropriate mechanisms will be put in place. The Business Case outlines (p53) that LCCs Procurement Policy and Strategy will be utilised. The benefits and credentials of this approach are outlined and accepted by the appraisers as a tried and tested approach.

5.5 The Business Case does not elaborate on why the chosen route offers the optimal contracting arrangement. Further discussions with the project sponsor has clarified that:

- LCC has an extensive delivery track record on works of this nature
- Their costs have been derived from the open, competitive bidding process for the Phase 1 works

5.6 This is considered by the appraisers as an appropriate delivery solution, albeit one that has not emerged directly from a competitive bidding process. For future cases, the LEP Board will need to decide whether it requires evidence of a competitive bidding process in awarding Growth Deal monies for works of this nature.

6. Management Case

Key Points

- The Business Case sets out convincing arrangements for project management, building on the tried and tested methods utilised on the Phase 1 investment.
- Comprehensive risk management procedures will be put in place using established LCC methods. Given the project has commenced, the operational risk register should ideally be made available as a condition of approval.
- A clear set of project benefits is provided, all of which are aligned with the targets in the Lancashire LEP Monitoring and Evaluation Framework.

6.1 The Management Case is designed to show that the Preferred Option is capable of being delivered successfully, in accordance with recognised best practice. It also requires arrangements for monitoring and evaluation to be set out.

People and Systems

6.2 The Business Case outlines a coherent approach to project management. The approach involves a Project Team who report to a Programme Board. The Programme Board is a strategic (director level) joint economic development working team established between Preston City Council, Lancashire County Council and the University of Central Lancashire.

6.3 Both the Project Team and Programme Board were fully involved in overseeing the earlier Phase 1 works.

6.4 In line with Five Case Model guidance, job descriptions are provided for all key personnel involved in project management.

Risk & Risk Ownership

6.5 The Business Case lists a number of project risks and concludes that the overall project risk is low. The appraisers agree with this conclusion.

6.6 We are told in the Business Case (p65) that LCC has established risk management procedures in place. A comprehensive overview of these risk management procedures is then laid out in the Business Case.

6.7 The only issue arising from the above is that the Business Case is dated August 2015 and works started in June 2015, and as such we would have expected evidence that some of the risk management procedures have been operationalised. This can easily be rectified through provision of the operational Risk Register as a condition of approval.

Benefit Realisation and link to the M&E Plan

6.8 There is a clear set of benefits listed in the Business Case (see the Benefits Realisation section on p63). An individual is assigned to each of the identified benefits and will be responsible for measuring progress in their delivery.

6.9 The appraisers have seen the Lancashire LEP Monitoring and Evaluation Framework (Draft May 2015) and is assured the project benefits are aligned with, and will contribute to, the target in the Framework.

7. Conclusions

7.1 The project benefits from a comprehensive Business Case document prepared using the Five Case Business model template. The Business Case has been prepared by a reputable consultancy firm who have extensive experience in preparing robust business case documents.

Strategic Case

7.2 The strategic case for investment is well made. The LEP Board should have no concerns at all on strategic fit, nor on the support of all relevant stakeholders. The project will contribute to a clear and agreed policy objective to grow the economic footprint of Preston.

7.3 Market failure is well evidenced. Public realm is both non-excludable and non-rivalrous, and as such is a classic public good. As people cannot be excluded from public space they are unlikely to be willing to pay to enjoy the consumption of it. As a result, producers have little incentive to invest in the public realm as there can be no direct financial return. Intervention by the public sector is therefore justified in order to ensure the more effective supply of good quality public space within cities and towns.

Economic Case

7.4 Within the Business Case, a sensible set of long list options was established. The process of narrowing this list down to a set of three short listed options, via a number of *Critical Success Factors*, was sound and robust.

7.5 The value for money assessment framework for short listed options was also robust and in line with current HM Treasury guidance. The appraisers agree that the Preferred Option does indeed deliver the optimum mix of cost, benefits and risk.

7.6 The Business Case estimates the Preferred Option will deliver a cost per job ratio of £9,900 per net FTE, and net GVA per £1 invested of £5.70. These headline value for money measures are well within the bounds of acceptability and offer some considerable headroom should the economic benefits prove to be lower.

7.7 We have some concerns with the precise scale of predicted benefits on all of the shortlisted options. Whilst sensitivity analysis has been carried out by the applicant on a reduced level of benefits, this did not go far enough. There are grounds to believe that the out-turn benefits on the Preferred Option could be as much as 20%-40% lower than those predicted. However, even with this reduced level of benefits the likely value for money on the project is still viewed as acceptable for a project of this nature.

7.8 The appraisers are satisfied all project benefits are aligned with, and will contribute to, targets in the Lancashire LEP Monitoring and Evaluation Framework.

Management and Delivery Case

7.9 The project does not represent a particularly complex or novel investment and the risk of delivery issues emerging is low. In particular:

- The project uses the same delivery arrangements as the earlier Phase 1 investment, which was delivered successfully. The same systems and personnel are involved this time around.
- Works have already started via the LCC funding contribution to the project, with the only main outstanding requirement being to secure the remaining project funding.

7.10 Comprehensive risk management procedures will be put in place using established LCC methods. Given the project has commenced, the operational risk register should ideally be made available as a condition of approval.

Commercial and Financial Case

7.11 The Business Case should have been clearer over the derivation of costs and the rationale for the chosen procurement arrangements. Post submission discussions have, however, satisfied the appraiser on these matters. In particular the additional information provided post-submission has clarified:

- The £7m costs, including the proposed £6m Growth Fund contribution, were derived directly from three quotes that were provided for the Phase 1 works, which was subject of an open competitive tendering process. The Phase 1 costings were also subject to an independent cost review carried out by Jacobs.
- The £1m LCC funding is sourced from a highly competitive and limited internal pot and represents the maximum likely LCC contribution.
- That LCC has a sound delivery track record on works of this nature and has benchmarked its approach and costs against those that emerged through the open, competitive bidding process for the Phase 1 works.

7.12 **In light of these clarifications, and the robustness of the Business Case on all other matters, the appraisal team recommend the project for Board approval**.

7.13 As an aside, two further points are made for the LEP Board:

- Whilst the appraisers are satisfied that an appropriate delivery solution is in place for this project, it is not a solution that has emerged directly from a competitive bidding process. For future cases, the LEP Board will need to decide whether it requires evidence of a competitive bidding process in awarding Growth Deal monies for works of this nature.
- The LEP Board should note that there is a move in CLG, and quite likely HM Treasury, to move away from jobs and GVA as frontline measures of impact for capital investments of this nature. It is quite likely that we will see a shift towards to land value/property value uplifts being used as the primary impact measure, a change that could be reflected in the next iteration of the Green Book which is due shortly.

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