

## Swansea Bay City Deal

### Portfolio Business Case - Accounting Officer Review Report

September 2020

#### 1. Scope of review

- 1.1. This review has been prepared to help discharge the Accounting Officer's responsibilities as defined in Managing Welsh Public Money<sup>1</sup>. The scope of the review is limited to the submitted Portfolio Business Case (PoBC) and its appendices, version 1.1, dated 20<sup>th</sup> August 2020<sup>2</sup>. The report is structured to align with the Five Case Model<sup>3</sup>.
- 1.2. The review is focused on the PoBC; and not the constituent parts of the portfolio and their corresponding business cases.
- 1.3. The business case lead, and counterparty for the review, is the Swansea Bay City Deal (SBCD) Portfolio Management Office, herein referred to as the "PoMO". The Review is an agreed joint Welsh Government (WG) and UK Government (UKG) position; the SBCD was signed by Governments and regional partners in March 2017.
- 1.4. This report identifies 15 high level recommendations. These are intended to strengthen the PoBC, assist with the mitigation of risks and improve the chances of successful delivery. A collated version of the recommendations can be seen at **Annex A**.

#### 2. Review team

- 2.1 The review team for this exercise comprised various WG officials, reflecting experience and expertise across the five cases. Given the joint funding profile for the Deal, UKG was invited to contribute. The review team can be seen at **Annex B**.
- 2.2 A copy of the review team's scrutiny comments and the subsequent responses provided by the PoMO can be seen at **Annex C**. Following this process, WG's Business and Regions Mid & South West Wales Regional Team provided clarifying remarks next to some comments, in the interests of transparency these are included in the comment tracker.

#### 3. Background

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<sup>1</sup> <http://gov.wales/docs/caecd/publications/160201-managing-money-en.pdf>

<sup>2</sup> Supplementary updated Executive Summary investment profile table received in the initial stages of AOR

<sup>3</sup> <http://gov.wales/funding/wales-infrastructure-investment-plan/better-business-cases/?lang=en>

- 3.1 The Joint UKG & WG - Welsh Cities & Growth Deals Implementation Board (“WCGIB”) has commissioned the Accounting Officer Review, which is linked to the release of pre-committed funding from both Governments to the SBCD.
- 3.2 The AOR process is designed to provide assurance around the PoBC. The wider WCGIB assurance process includes independent Gateway Reviews commissioned by the SBCD PoMO for the component parts of the portfolio in conjunction with appropriate approval points.
- 3.3 The development of the PoBC has benefited in recent months due to collaborative work undertaken between the PoMO, Office for Project Delivery, WCGIB representatives, regional and other officials in WG, and other regional Growth Deals in Wales. The approach centred on a series of best practice business case development workshops, led by the author of the Better Business Cases guidance, Joe Flanagan.
- 3.4 The approach described above is also being replicated by other Growth Deals in North & Mid Wales in the development of their PoBCs. As a result of the work with the regional City & Growth Deals in Wales, the BBC Standards Board (chaired by WG) has commissioned the development of Portfolio Business Case guidance; which will complement existing guidance at project and programme level.
- 3.5 In the interests of creating efficiencies and sharing learning experiences, it is recommended that this report is shared with the North Wales Growth Deal and Mid Wales Growth Deal, both of which are at differing stages of PoBC development.

**Recommendation 1: That the WCGIB share the AOR report with the North Wales Growth Deal and Mid Wales Growth Deal**

- 3.6 It is also acknowledged and recognised that SBCD is not at the outset of the portfolio development process and indeed, three business cases have been approved and are currently in delivery, and the composition of the portfolio has evolved since 2017. This has led to challenges for the PoMO in presenting the business case and marrying best practice with pragmatism, and balancing what was originally agreed with the current position. It is recommended that in order to provide clarity to the reader, subsequent iterations present the current portfolio position – showcasing change from a previous version – in each case and section, as relevant, but capturing the ‘history of change’ thereafter or in annex.

**Recommendation 2: That subsequent iterations of the PoBC present the current/latest position of the portfolio**

#### **4. Overview**

- 4.1 The SBCD is one of four City & Growth Deals in Wales, and 36 in the UK.

4.2 In order to deliver its intended outcomes, the SBCD PoBC's stated required investment is £1.157bn, comprising the following:

- *£241M City Deal funding (comprising £125.4M from WG and £115.6M from UKG, allocated on an annual basis over a 15 year period),*
- *£330.2M Other public sector funding sources, such as, WEFO, and Local Authority contributions*
- *£591.8M assumed private sector investment into individual projects*

4.3 The scope of the portfolio is defined by four broad strategic themes, namely:

- Economic acceleration
- Life Sciences & Well-being
- Energy
- Smart Manufacturing

Within those themes, the PoBC identifies nine projects as defined by stakeholders.

4.4 The purpose of the PoBC is to identify the optimal combination of programmes and projects necessary to achieve the organisation's<sup>4</sup> strategic objectives.

## **5. Conclusions**

5.1 The SBCD is a high profile scheme which has received strong public sector support from UK and Welsh Governments and across political parties.

5.2 Intervention will provide timely and much needed investment into the region, not least to assist with the post-Covid-19 recovery process; noting the additional risks brought about by Covid-19.

5.3 The development of the PoBC is going in the right direction in terms of its structure and content. The review team found that there is potential to strengthen the document further providing more detailed evidence and additional clarity in some areas. The contents of this report, its recommendations and the annexed detailed review comments are intended to provide direction in this regard.

5.4 Acknowledging that the level of detail will be greater at project level than it will be at portfolio, the level of detail in the PoBC needs to provide the approving body with sufficient detail where this is available. This principle reflects the C&GD annual funding mechanism to the portfolio rather than more traditional funding provision to projects following project level business case approval.

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<sup>4</sup> The Swansea Bay City Region in this case

- 5.5 The PoBC will undergo a number of iterations over the period of the SBCD (as is already the case) and thus needs to be written in a format that can be easily updated with clear recording of decisions or there is a risk that historical corporate knowledge will be lost over time.
- 5.6 A broad range of stakeholders may read the document without prior knowledge of either the SBCD and/or the Five Case Model methodology, it should therefore be written in a concise manner minimising assumptions required by the reader.
- 5.7 A key challenge for the SBCD is to realise the levels of investment from the private sector – not least due to the impact of Covid-19 and Brexit, managing the private and public sector investment to deliver all of the identified interventions and associated benefits.
- 5.8 Given the fixed funding commitment from Governments affordability is a concern. Not insignificant risks remain that cost increases will lead to project-level scope and benefit reductions, which would ultimately lead to sub-optimal outputs and outcomes. SBCD should be cognisant of the potential that programmes and projects may need to be re-phased and/or reconsidered to ensure that the affordability envelope is met.
- 5.9 The development of a PoBC, grounded in project-level evidence, is designed to ensure that the PoMO is set up for portfolio management and that investment decisions can be made based on evidence e.g. informed by project-level Net Present Social Values (NPSV). The further development of economic and financial appraisals is therefore considered a priority in the short term. This will in turn assist with monitoring, reporting and evaluation by the PoMO, providing assurance to Governments and other key stakeholders.
- 5.10 The continued release of annual C&GD funding should be linked to the annual submission of an updated PoBC; with timescales aligned to allow the consideration of the PoBC prior to the release of funding. This process shouldn't preclude the reporting of management information into Governments on a more frequent basis.

**Recommendation 3: That the release of annual C&GD funding is linked to an annual submission of an updated PoBC**

## **6. Strategic Case**

- 6.1 There is a need for clarity on the policy and strategic alignment of individual projects at portfolio level. In particular, any differences in policy objectives between UKG & WG including an agreed resolution should be clearly articulated.

**Recommendation 4: That the PoBC be developed to include a section on strategic alignment of UKG & WG policy objectives, at a project level**

6.2 The portfolio-level Spending Objectives focused on jobs created and Gross Value Added (GVA) are considered appropriate. Through the course of the review there was agreement that a Spending Objective focused on increasing productivity should be removed, due to the difficult nature of quantifying the Deal's contribution to said increase; instead, this should be treated as a benefit.

6.3 The review found that whilst appropriate, the PoBC Spending Objectives should be fully 'SMARTened' and clearly baselined, to enable post portfolio evaluation e.g. to increase GVA, by how much, within the timeframe identified. Furthermore, there is a lack of clarity regarding the cascading to project-level Spending Objectives, and similarly the contribution to the aims and objectives of the overarching Swansea Bay City Region (SBCR) strategy.

**Recommendation 5: That the PoMO fully 'SMARTens' and clearly baselines PoBC Spending Objectives**

**Recommendation 6: That the PoMO includes project-level Spending Objectives at portfolio level, and quantifies the contribution the portfolio will make to the SBCR strategy**

6.4 The review team also identified a need to strengthen the benefits section of the PoBC; in particular providing quantification around the main benefits presented at PoBC. This is an important element to help ensure that the impact on benefit changes at project level can be understood at portfolio level.

**Recommendation 7: That the PoMO ensures benefits are quantified wherever possible at project level, and presents the main quantified benefits in the PoBC**

## **7. Economic Case**

7.1 Overall the economic case presented a clear summary of the process so far and identified the key metrics and decision points in table 2.6. The SBCD team were advised to record how the projects were selected and not to retrofit the process to accord with best practice; the economic case now does this.

7.2 The economic case would benefit from the addition of definitions to ensure that metrics are prepared and presented on a clear and consistent basis. It is noted that one of the project Benefit Cost Ratios (BCRs) appears particularly high, namely, 17.1 to 1 for the Yr Egin project. The preparation of a standardised economic appraisal template for use across all projects, and indeed all C&GDs, is considered key in this regard, and will assist with the assessment of risk and calculation of optimism bias and production of consistent and comparable NPSVs and BCRs.

7.3 This approach will benefit other developing regional Growth Deals in Wales too. It is recommended that appropriate Welsh and UK Government officials work with the SBCD PoMO initially, to assist with the production of a standardised economic appraisal template.

**Recommendation 8: That appropriate WG & UKG officials work with the PoMO to develop a standardised economic appraisal template for use by projects**

7.4 The PoBC would also benefit from an annex which briefly sets out the options appraisal and decision-making process for each of the projects to demonstrate how preferred options arise.

7.5 The analysis presented confirms that a number of the projects that have been approved thus far, or are already under way, were not developed in a way that is fully compliant with HM Treasury Green Book guidance. Work is under way to ensure that these projects become more aligned with the latest PoBC Spending Objectives and Critical Success Factors, which were developed after the early project business cases. It will be important going forward to ensure that these projects remain aligned and that they are rigorously tested against the portfolio objectives to deliver value for money.

7.6 The PoBC identifies two key risks which have emerged since the initial work was undertaken – Brexit and Covid. Both of these have the potential to fundamentally affect the funding, scale, scope and outcomes of the portfolio. It will be important going forward to develop contingency plans for individual projects and the portfolio as a whole for scenarios such as changing baselines, variations to expected growth/employment trajectories, availability of private (and, potentially, public) finance, changing scale/scope of projects and break-points/exit strategies. These risks and sensitivities will need to be explicitly considered at both the project and portfolio levels to test what is deliverable under different assumptions/out-turns and to ensure that projects remain viable and deliver value for money.

7.7 The constituent parts of the portfolio are identified and defined as projects. The review team considers that a number of the projects appear to resemble programmes (focused on outcomes), each comprising of multiple projects (outputs). Noting that some projects have already been delivered, the WCGIB should seek assurance from the PoMO that, going forward, appropriate business case documentation is being developed. If not, this could lead to difficulties should multiple procurements be required; complications in disaggregating information at a project level, potentially impacting on transparency and creating difficulties in reporting progress (at a portfolio level); and creating confusion regarding application of PPM methodologies, including, governance, assurance and management arrangements.

**Recommendation 9: That the WCGIB seeks assurance from the PoMO that - going forward - appropriate business case documentation, and governance and**

**assurance arrangements are developed and installed respectively, for the constituent parts of the portfolio**

- 7.8 It is considered particularly important for the PoMO to use consistent terminology for the use of programmes and projects; this will reduce the scope for misconceptions within and between regional City & Growth Deals. For example, the SBCD PoBC refers to the same initiatives as projects and programmes throughout the business case; and in responding to reviewers comments referred to projects and ‘sub-projects’ – this is not recognised terminology, and therefore not helpful to the reader.
- 7.9 It is therefore recommended that the PoMO adopts standardised definitions for programmes and projects, as defined by the respective best practice methodologies, Managing Successful Programmes and PRINCE2. Related best practice documentation, such as, the Better Business Cases guidance and Cabinet Office Gateway products are already aligned with these definitions. The portfolio in this scenario will reflect the totality of investment propositions at an individual regional C&GD level.

**Recommendation 10: That the PoMO adopts standardised definitions for programmes and projects, as defined by the respective best practice methodologies**

- 7.10 In time, the aim for the PoMO should be to produce a balanced and prioritised portfolio of investment, aligned to its strategy, and informed by project-level NPSVs. This could potentially develop to include a longer pipeline of projects, fundable by other sources – acknowledging that this is currently beyond the scope of the SBCD.

**8. Commercial Case**

- 8.1 The PoBC is considered to provide sufficient information around processes, compliance with Public Contract Regulations 2015, application of the Wales Procurement Policy Statement and Ethical Code to provide assurance. It is appropriate for the detail of individual procurements to sit at project-level.
- 8.2 Community benefits are identified at a high-level; future iterations of the PoBC could helpfully set out which community benefits each project seeks to attain.
- 8.3 Similarly, the PoBC states that opportunities for collaboration on project-level procurements will be explored, seeking to generate economies of scales and produce social value. The next iteration of the PoBC should provide further detail on the progress made and opportunities identified, including the identification of National Procurement Service and Welsh Local Government Association frameworks.

**Recommendation 11: That the next iteration of the PoBC is updated to include the identification of project level community benefits, and identified opportunities for collaborative project-level procurements**

## **9. Financial Case**

- 9.1 The financial case reflects a portfolio of projects at differing stages of development. The review team identified a need for a standardised financial appraisal template to use across projects, to ensure a consistent method of development and reporting financial information. This should help to simplify the exercise of updating the PoBC.
- 9.2 The financial appraisal needs to demonstrate affordability within the portfolio funding envelope. Therefore, the project-level annual capital and revenue requirements (and income) need to be presented against individual annual funding sources e.g. City Deal, WEFO, Local Authority or private sector. This information should also account for any additional funding provided outside of the Deal e.g. £3M of Welsh Government funding granted to phase 1 of the Yr Egin programme in 2017/18. This management information around funding levels and sources will help to identify and manage potential funding pressures, as projects develop.
- 9.3 This approach will benefit other developing regional Growth Deals in Wales too It is recommended that appropriate Welsh and UK Government officials work with the SBCD PoMO initially to assist with the production of a standardised template

**Recommendation 12: That appropriate WG & UKG officials work with the PoMO to develop a standardised financial appraisal template**

- 9.4 The review team considers that a key risk pertaining to the Deal is the security of funding provided by private sector partners to projects over the lifetime of the deal. Indeed the projection of private sector investment has reduced by £117M in the most recent portfolio review, captured in the PoBC. This risk is exacerbated given the current economic uncertainty, created in particular by the Covid-19 pandemic. There is an increased risk that planned private investment fails, or is not achieved at the required levels; which could jeopardise the delivery of the key components of the SBCD, or result in scope and/or benefits reductions linked to individual projects. Robust project-level economic and financial appraisals (models) will assist with portfolio analysis and enable investment decisions based on evidence, should levels of private sector investment not materialise to the levels assumed.
- 9.5 As part of the review process it was agreed that information relating to the nature, description and scale of private sector funding assumptions would be moved to the main body of the PoBC, and displayed as a key consideration. The annex in question is 4.2 – Public and private sector funding status.



9.6 The PoBC references use of a Portfolio Investment Fund in 4.6, where it proposes to make short term investments with C&GD funding received. Additional clarity is required to establish how this will work. This is also required around capital borrowing costs in respect of the financing of the projects; moreover the relationship between portfolio investment funding and capital financing should be further elaborated.

**Recommendation 13: That the PoMO sets out the relationship between portfolio investment funding and capital financing in more detail in the next iteration of the PoBC**

## **10. Management Case**

10.1 UKG & WG have reviewed the assurance and approval processes for C&GDs. The SBCD has developed an IAAP at portfolio and project level. The revised changes to the Governance and Assurance processes (flow charts) regarding business case approval and assurance, and annual funding approval requirements, need to be integrated into the existing Regional processes and should be incorporated in the next iteration of the PoBC.

**Recommendation 14: That updated governance and assurance processes are provided by WCGIB to the PoMO for incorporation into their assurance and approval process**

10.2 The review team found that there is a need for clarity from the WCGIB in terms of the reporting from the PoMO into Governments. It is suggested that the WCGIB set out what information it expects to receive as part of the monitoring process, and the frequency of reporting. This could be expected to be more frequent in the first 5 year tranche of the Deal, where investment profile has been front loaded, perhaps on at least a 6 monthly basis for that period.

**Recommendation 15: That the WCGIB set out its expectations for monitoring progress, and confirms the reporting frequency it is seeking**

10.3 The SBCD PoMO are developing an improved capacity and capability. This needs to be clearly articulated to provide assurance e.g. in terms of competence levels of PoMO staff and individual project managers e.g. Better Business Cases accreditation, MSP, Prince2, Agile etc.

10.4 The use of standardised project management tools, such as, Microsoft Project, are desirable to aid reporting and delivery assurance.

1. That the WCGIB share the AOR report with the North Wales and Mid Wales Growth Deals
2. That subsequent iterations of the PoBC present the current/latest position of the portfolio
3. That the release of annual C&GD funding is linked to an annual submission of an updated PoBC
4. That the PoBC be developed to include a section on strategic alignment of UKG & WG policy objectives, at a project level
5. That the PoMO fully 'SMARTens' and clearly baselines PoBC Spending Objectives
6. That the PoMO includes project-level Spending Objectives at portfolio level, and quantifies the contribution the portfolio will make to the SBCR strategy
7. That the PoMO ensures benefits are quantified wherever possible at project level, and presents the main quantified benefits in the PoBC
8. That appropriate WG & UKG officials work with the PoMO to develop a standardised economic appraisal template for use by projects
9. That the WCGIB seeks assurance from the PoMO that - going forward - appropriate business case documentation, and governance and assurance arrangements are developed and installed respectively, for the constituent parts of the portfolio
10. That the PoMO adopts standardised definitions for programmes and projects, as defined by the respective best practice methodologies
11. That the next iteration of the PoBC is updated to include the identification of project level community benefits, and identified opportunities for collaborative project-level procurements
12. That appropriate WG & UKG officials work with the PoMO to develop a standardised financial appraisal template
13. That the PoMO sets out the relationship between portfolio investment funding and capital financing in more detail in the next iteration of the PoBC
14. That updated governance and assurance processes are provided by WCGIB to the PoMO for incorporation into their assurance and approval process
15. That the WCGIB set out its expectations for monitoring progress, and confirms the reporting frequency it is seeking

**AOR Review Team**

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**SBCD PoBC AOR Review comments and PoMO responses**



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