



LIVERPOOL CITY REGION  
COMBINED AUTHORITY

**Liverpool City Region Combined Authority**

**Single Investment Fund (SIF) Assurance  
Framework**

**1 November 2016**

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# 1 Purpose of the document

## 1.1 Context

The 'Single Pot' approach to funding is a significant fiscal agreement in devolution deals which consolidates funding lines and reduces ring-fences. It will initially comprise allocations of:

- the Local Growth Fund (LGF);
- consolidated, multi-year transport settlements; and
- additional allocations of grant-based investment funds (sometimes called 'Earn Back' and 'Gain Share'), which will be subject to a five-yearly Gateway Review by Government.

Localities in receipt of a 'single pot' as part of their devolution agreement with Government are required to have an assurance framework that explains how they will:

- appraise projects and allocate funding; and
- monitor and evaluate projects to ensure that they achieve value for money and projected outcomes.

As set out in the National Guidance for Single Pot Assurance Frameworks issued in April 2016 by the Department for Communities and Local Government (DCLG), the Strategic Economic Plan (Growth Strategy) for the area prepared by the Local Enterprise Partnership (LEP), will provide the basis for investment decisions alongside the delivery of statutory requirements, conditions of funding, and other local transport objectives.

The Liverpool City Region (LCR) Devolution Deal sets out details of the powers and functions devolved to the Liverpool City Region Combined Authority (LCRCA or Authority) and the new directly elected LCR Mayor from central government. The powers, funding lines and functions of the LCRCA and the LCR Mayor will be confirmed in the LCR Order.

## 1.2 Scope of the assurance framework

LCRCA has established a Single Investment Fund (SIF) through which it will administer LCR's single pot allocation of funding from HM Government alongside other local and national funding sources. Although European Strategic Investment Funding (ESIF) and Chrysalis funding<sup>1</sup> are not components of the SIF, the assessment of 'strategic fit' will be used to ensure that there is an integrated approach across the LCR.

This assurance framework is for the LCR SIF which includes:

- £30 million per annum (p.a.) gain share funding (part of the devolved single pot allocation), which in line with the Devolution Deal is in the control of the LCRCA, working with the LCR Mayor;
- approved Local Growth Fund (part of the devolved single pot allocation);

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<sup>1</sup> This funding has been allocated from the North West's share of the European Regional Development Fund as part of the Joint European Support for Sustainable Investment in City Areas (JESSICA) initiative, which was introduced into the UK by the European Investment Bank and is now overseen by the Homes and Communities Agency (HCA)

- £26 million p.a. Single Transport Pot (part of the devolved single pot allocation). For 2016/17, the LCRCA has allocated this funding to transport activities on a formulaic basis and partners will receive this funding without the need for further prioritisation. The process for allocating the consolidated transport funding from 2017/18 will be subject to review by the LCR Mayor in line with their responsibilities outlined in the Devolution Deal (summarised in Section 2.2);
- recycled funding from Growing Places Fund (GPF);
- recycled Business Rates, Council Tax and New Homes Bonus associated with specific SIF investment projects (recycled to the Fund where appropriate on a pro-rata basis reflecting public sector investment); and
- Mersey Tunnels toll income after all costs of operation are deducted (with the ability to use Tunnel toll income as security for borrowings), this funding is currently ring fenced by the County of Merseyside Act 1980 as amended.

The SIF will provide the opportunity to combine funding, from the range of sources highlighted above, to maximise economic impacts. All projects funded through the SIF will be subject to a single prioritisation, appraisal, and monitoring and evaluation procedure, with value for money assessments carried out as part of the appraisal process tailored to the nature, scale and source of funding for the proposed investment project.

The following sources may also form part of the SIF, dependent upon the future funding bids, changes in legislation, the specific nature of projects and future LCR CA/Mayor decisions:

- Local Growth Fund 3;
- re-directed funding such as that sought in relation to Regional Growth Fund (RGF);
- the value of local authority land assets identified for projects and as part of the project funding package;
- capital receipts and income from investment assets at a LCRCA level;
- any additional supplement on Business rates to fund infrastructure;
- other funding sources, including project specific match funding;
- prudential borrowing either at a City Region or local level (currently only for transport projects). The SIF will have access to local prudential borrowing where this is relevant to the scheme(s) that are funded through the SIF, but the SIF will not be making local prudential borrowing decisions on behalf of districts; and
- Adult Education Budget from 2018/19- subject to readiness conditions.

Other funding sources will be aligned with the SIF to ensure that an integrated, comprehensive and strategic approach is adopted to promoting growth within the City Region. However, this funding will not be governed by this assurance framework. These sources include the ESIF which includes both European Regional Development Funding and European Social Funding with total funding of €221.9m over the period 2014-2020 and £38m of Chrysalis<sup>2</sup> funding, which will be available from 2017-2021. ESIF policy, project approval and monitoring requirements will continue to be

governed by the respective managing authorities – DCLG and Department for Work and Pensions (DWP), although the LCRCA does have ‘intermediate body’ status which provides a more formal role in determining which projects are funded.

### 1.3 What is an assurance framework and who it is for?

This assurance framework is required to explain ‘how localities will appraise, monitor and evaluate projects to achieve value for money’. It will provide the Departmental Accounting Officers and Parliament with the assurance that the LCRCA, as the accountable decision-making authority, is effectively managing the risks associated with the allocation of devolved funding and that robust systems are in place to ensure resources are spent with regularity, propriety, and value for money, whilst at the same time achieving projected outcomes.

The assurance framework also outlines clear and transparent procedures for all stakeholders in the LCR area (including the constituent Local Authorities, Merseytravel (as the Passenger Transport Executive and Executive Body for the LCRCA), the LCR LEP, other key partner agencies, businesses and residents) regarding the delivery and spending associated with the SIF. The assurance framework and the SIF will be managed in accordance with the usual local authority checks and balances, including for example those set out in the Local Government Fiscal Framework and the Local Government Accountability System Statement

### 1.4 Status and structure of the framework

The 2016/17 devolved transport fund (part of the Single Pot) has already been committed and a number of LGF (Round 1) projects are currently in the process of being appraised and will continue to use the existing LCR LEP LGF assurance framework procedures. This SIF assurance framework will apply to all other SIF projects.

In May 2017, the LCR Mayor will be elected and other constitutional changes arising from the current review of governance structures and procedures will have been formalised. The assurance framework will therefore need to be reviewed at this point (and annually thereafter) to ensure that it remains fit for purpose and fully reflects changes made. Where significant changes are made, for example as a result of additional powers or funding, adjustments made to the assurance framework will be agreed with DCLG.

The remainder of this document is set out in the following sections:

- Section 2: describes the governance and decision-making structures and outlines the transparency that will apply to all decision making;
- Section 3: sets out the procedures for prioritising projects, appraising projects and developing appropriate business case documentation to satisfy the value for money assessment;
- Section 4: outlines the procedures required for monitoring and evaluating projects and the overall SIF; and
- Section 5: provides a summary of the key assurances required by DCLG and how they will be met by the LCRCA.

## 2 Governance and decision making

### 2.1 Liverpool City Region Combined Authority Governance

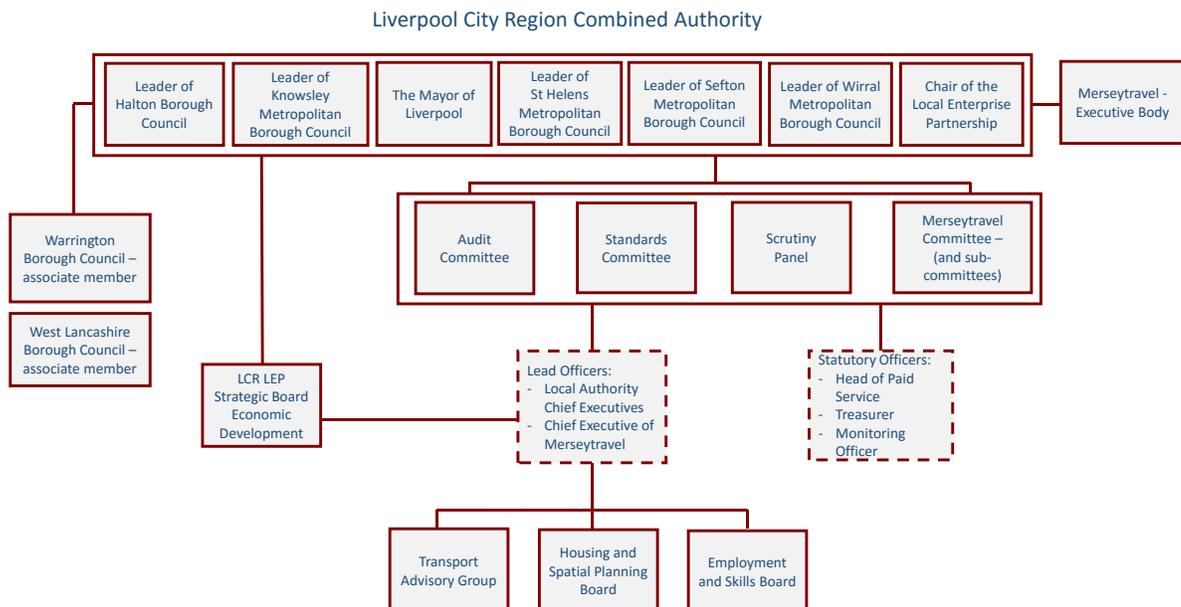
The LCRCA was established on 1<sup>st</sup> April 2014 to be the administrative body for the LCR with responsibility for strategic decision making in respect of transport and economic development and regeneration. It aims to improve:

- the exercise of statutory functions relating to transport in the Combined Area<sup>3</sup>;
- the effectiveness and efficiency of transport in the Combined Area;
- the exercise of statutory functions relating to economic development and regeneration in the Combined Area; and
- economic conditions in the Combined Area.

The geographical area covered by the LCRCA includes the local authority areas of Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral. The neighbouring authorities of West Lancashire Borough Council and Warrington Borough Council are associate members of the LCRCA.

The current governance structure of the LCRCA is shown in Figure 2.1. This provides details of the members of the Authority, the Committee structure and the existing arrangements for supporting the thematic functions of the LCRCA.

**Figure 2.1: LCRCA Governance Structure (as at June 2016)**



<sup>3</sup> 'Combined Area' – comprises the local authorities of Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral.

The detailed structure and functioning of the LCRCA is outlined in the constitution<sup>4</sup>. An Operating Agreement and series of protocols have been drawn up for Economic Development, Transport Strategy, Employment and Skills, Housing Strategy, European Programmes and the Accountable Body to define their functions and set out the respective roles of the LCRCA, the LEP and the constituent councils in discharging these functions. The LCRCA is currently chaired by the Mayor of Liverpool, and has lead officers responsible for designated areas of work. The lead officers include Chief Executives from each of the constituent councils and Merseytravel and the statutory officers which include the Head of Paid Service, the Treasurer, and the Monitoring Officer. Merseytravel, is an Executive Body and an officer of the LCRCA and as such, as and when directed by the LCRCA or its statutory officers in such capacity, contracts with third parties on behalf of the LCRCA and/or discharges the Accountable Body functions.

The LCRCA has delegated various functions to four Committees, described below:

- **Merseytravel Committee** – this Committee make determinations in respect of a range of transport functions that have been delegated by the LCRCA and makes recommendations to the Authority on matters referred to them for consideration – including approval or modification of plans/strategies, setting tunnel tolls, and funding for the capital programme.
- **Audit Committee** – the LCRCA has delegated a number of roles to this Committee which include: receiving the LCRCA accounts and advising the Authority on their approval; internal and external audit; risk management; performance management; overseeing and reviewing the Authority’s relevant strategies, policies and codes; ensuring effective scrutiny of the Treasury Management Strategy and Policies; and considering and advising the Authority on its Code of Corporate Governance;
- **Standards Committee** – the LCRCA has delegated powers to deal with matters of conduct and ethical standards to this Committee; and
- **Scrutiny Panel** – to achieve greater public accountability over decisions made and services delivered within LCR. The Panel is responsible for undertaking scrutiny reviews into areas of strategic importance for the people of the LCR; provides a ‘critical friend’ role in helping to shape policy and strategy development; and monitors the delivery of the Authority’s strategic plan.

## 2.2 Devolution agreement – roles and responsibilities

The LCR local authorities signed the Devolution Agreement with Government in November 2015 and as part of the agreement, a number of powers were devolved to the LCRCA and, from May 2017, the LCR Mayor as described in the summary of the deal shown below. The role of the LCR LEP is also outlined, given its importance in providing private sector leadership and in developing and maintaining the Growth Strategy for the LCR which will provide the basis for SIF investment decisions.

### 2.2.1 Summary of the devolution deal

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<sup>4</sup> Constitution (June 2015) available through the publication scheme link at <http://www.knowsley.gov.uk/your-council/decision-making-and-governance/lcr-combined-authority/lcr-ca-publication-scheme.aspx>

The summary outlined below has been extracted from the Devolution Deal Agreement<sup>5</sup>, signed by the Government and the LCRCA:

A new, directly elected Liverpool City Region Mayor will act as Chair to the Liverpool City Region Combined Authority and will exercise the following powers and functions devolved from central government:

- Responsibility for a devolved and consolidated local transport budget, with a multiyear settlement to be agreed at the Spending Review.
- Responsibility for franchised bus services, which will support the Combined Authority's delivery of smart and integrated ticketing across the Combined Authority.
- Powers over strategic planning, including the responsibility to create a Single Statutory City Region Framework, a Mayoral Development Corporation and to develop with government a Land Commission and a Joint Assets Board for economic assets.

The Liverpool City Region Mayor will be required to consult Combined Authority Members on his/her strategies and spending plans, which the Combined Authority may reject if two-thirds of the constituent council members agree to do so.

The Liverpool City Region Combined Authority, working with the Liverpool City Region Mayor, will receive the following powers:

- Control of a £30 million a year funding allocation over 30 years, to be invested in the Liverpool City Region Single Investment Fund, to unlock the economic potential of the River Mersey and Superport as well as maximise the opportunities from HS2.
- Responsibility for chairing an area-based review of 16+ skills provision, the outcomes of which will be taken forward in line with the principles of the devolved arrangements, and devolved 19+ adult skills funding from 2018/19.
- Joint responsibility with the government to co-design employment support for the harder-to-help claimants.
- More effective joint working with UKTI to boost trade and investment, and responsibility to work with the government to develop and implement a devolved approach to the delivery of national business support programmes from 2017.
- Building on the success of International Festival for Business (IFB) 2014 and the proposals for IFB 2016, Liverpool City Region and the government, and in particular UKTI and the GREAT Britain campaign, will continue engagement to establish IFB Liverpool as a vital feature of the international business calendar in 2018 and 2020.

In addition:

- To support the development of the Liverpool City Region, the government will offer Liverpool City Region expert advice and support to ensure they are able to put forward a City Region led proposal to undertake a Science and Innovation audit.
- The Liverpool City Region will engage with the government to explore options around a sustainable and viable business model for National Museums Liverpool.
- The government will work with the Liverpool City Region Combined Authority to agree specific funding flexibilities after the Spending Review. Further powers may be agreed over time and included in future legislation.

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/477385/Liverpool\\_devolution\\_deal\\_unsigned.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477385/Liverpool_devolution_deal_unsigned.pdf)

### 2.2.2 LCR Local Enterprise Partnership (LEP) – roles and responsibilities

The LCR LEP is the primary body for determining and promoting economic development across the City Region and its Chair is a member of the LCR CA. It is a private sector led partnership bringing together the private and public sectors plus others including both Higher Education and the not for profit sectors. It is led by a main partnership Board which is itself informed by advice and expert opinion from a series of sector and thematic specific sub-boards. These sub-boards comprise expert members from a variety of backgrounds and sectors who work to a common purpose and specific focus either on sectors of the LCR economy that have identified growth potential or enabling themes such as Enterprise and Innovation.

The LEP Board and its sub-boards are supported and provided with executive capacity through a membership organisation that provides financial support to match UK Government and EU funding to undertake core activities and direct interventions to stimulate growth. The organisation manages the delivery of agreed policy through a range of activities and projects including sector development, business support and the Growth Hub, development of financial instruments for business, inward investment, skills brokerage and promoting enterprise in schools and colleges. It also plays a key role in the development of applications for funding through national competitions including Local Growth Funds. These processes and associated project pipeline development are each informed and guided by extensive sector knowledge and expertise and informed private sector leadership.

Following the devolution agreement, the LEP Board will continue to have a key interface role with Government (ministers and senior civil servants) in progressing interventions and supporting the development of the overall Growth Strategy for LCR. This strategy will provide the evidence base for making investment decisions and allocating the SIF, in addition to local transport objectives and existing statutory requirements. The LEP Board will work closely with the LCRCAs to support growth, and will act as the lead stakeholder group for the private sector. The LEP's networks and activities will provide a key platform for the delivery of LCR economic development projects. The interventions and overall portfolio that are additional to the development of economic strategy and policy will continue to be delivered by the membership organisation on behalf of the LEP and LCRCAs. This entity, which has its own Company Board of Directors (who are a sub-set of the LEP Board), will continue to provide ongoing support for the sector/theme groupings and the members who provide the primary financial support to sustain this structure.

## 2.3 Combined Authority – management and administrative arrangements

### 2.3.1 LCRCA working arrangements

The LCRCA provides transparent and accountable strategic decision making for economic development, transport, strategic housing and employment and skills functions. It is currently focused on strategic governance to facilitate economic growth.

In order to focus activity and capacity on the delivery of the Devolution Agreement and its new wider powers, the LCRCA has reviewed its executive operations and developed new portfolio based arrangements at both political and officer levels. The revised portfolios are led by suitably qualified individuals (drawn from the Leaders of the constituent local authorities) and have supporting lead officers, which include Chief Executive officers of the local authorities, and the Chief Executive of Merseytravel. The portfolios are:

- Economic Development and Energy
- Housing and Spatial Planning
- Transport and Connectivity
- Employment and Skills
- Policy and Resources
- Health, Wellbeing and Social Care

The core role and key responsibilities of a portfolio holder are:

- effective implementation of LCR's Devolution Agreement and wider strategic priorities/powers;
- providing strategic direction for the portfolio area of responsibility and the development of a portfolio work programme to drive forward delivery;
- sharing and communicating a clear understanding of portfolio priorities across LCR;
- oversight of performance and delivery of the portfolio including priorities set out in the Devolution Agreement;
- to develop effective collaboration at the LCR level where there is case to do so; and
- promoting the work of the LCRCA and the area, locally and nationally.

Alongside the new portfolio working arrangements, the executive capacity of the LCRCA is currently being reviewed and will be enhanced to meet the needs of the evolving strategic agenda and delivery of growth in a manner that will satisfy the five-year gateway review in assessing the impact of the SIF. The existing executive capacity includes the following statutory officers:

- Head of Paid Service
- Treasurer (Section 73 officer)

- Monitoring Officer

Within an enhanced executive team, a clear distinction will be drawn between staff involved in pipeline project development/project commissioning, appraisal of applications for SIF funding and the subsequent management and monitoring of contracts for the period involved in the project's lifecycle.

An implementation team, comprising secondments from existing stakeholders, external capacity and reporting to the Head of Paid Service, will be responsible for delivery until a full team is in place and operational. A key post will include the appointment of a Chief Investment Officer and Investment Team to oversee and manage the allocation of SIF funding in line with the procedures set out later in this document (Section 3).

### 2.3.2 *Thematic Boards*

The Portfolio leads have overall responsibility for providing strategic direction and the development of a portfolio work programme to drive forward delivery. Two portfolios are currently supported by thematic boards that were established to facilitate joint working across the LCR, these include:

- Employment and Skills Board; and
- Housing and Spatial Planning Board.

In the case of Transport, this portfolio is supported by a formal Committee (of members) with delegated powers from the LCRCA and a Transport Advisory Group which is officer led.

In addition to these boards, the LEP board also plays a key role in supporting the LCRCA, by acting as the primary interface with Government (ministers and senior civil servants) in progressing interventions and developing the overall Growth Strategy for the LCR. The LCR LEP's strategy board also acts as a key stakeholder group providing the voice of the private sector. The LEP's networks and activities will continue to provide a key platform for the management of LCR economic development projects in the future.

As the new portfolio arrangements evolve, the remit and reporting arrangements of these boards will be reviewed to ensure that thematic stakeholder groups are in place for all portfolios, with standard terms of reference and procedures for reporting and ensuring operations are transparent. In the interim, the existing boards (and Committee) will advise the Portfolio Leads and Lead Officers on strategic commissioning and the development of pipeline projects for the SIF, in line with the priorities set out in the Growth Strategy and other relevant statutory plans.

### 2.3.3 *The Investment Committee*

In order to manage the effective allocation of the LCR SIF in line with the Growth Strategy, a Chief Investment Officer will be appointed to the Executive Management Team. An Investment Committee will be established (reporting to the LCR CA/Mayor) to consider and endorse, return for further work, or reject all business cases, both outline and full, submitted for SIF funding.

It is proposed that the Investment Committee will include 3-4 members drawn from the LCRCA and include the relevant Portfolio Lead when decisions are being made relating to their area of work and policy agenda. The Investment Committee will be supported by an Investment Panel which will include a number of key experts procured by the LCRCA to provide specialist advice. The Investment Panel will be responsible for scrutinising the technical review work and project appraisal, which will be carried out by the investment team, led by the Chief Investment Officer. The Panel will then submit a report to the Investment Committee for consideration. The LCRCA/Mayor will make all final project investment decisions, and will in particular, be responsible for approving projects over £3m and ratifying the decisions of the Investment Committee for projects under this threshold.

## 2.4 Accountable body role and financial management

### 2.4.1 Decision making process and roles and responsibilities

The LCRCA will be the Accountable Body for the SIF, which includes the single pot funding devolved to the Authority.

The Order that established the LCRCA in 2014 states that the functions of the constituent councils in relation to economic development and regeneration are exercisable in reliance on the general power of competence as set out in Section 1 of the Localism Act 2011. It is under this general power that the Authority discharges its functions as an Accountable Body. The Authority adopted a formal “Accountable Body Protocol” at its inaugural meeting on 1st April 2014.

Accountable bodies are responsible for the proper administration and financial probity of external funds received. They are legally constituted bodies with a statutory role. The Accountable body must ensure the effective use of public money and have responsibility for the proper administration of funding received and its expenditure.

Pursuant to the Order, Merseytravel was appointed as the Executive body of the Authority for the purposes of Part 5 of the Local Transport Act 2008 and Part 6 of the Local Democracy, Economic Development and Construction Act 2009 (LDEDCA 2009). The Authority entrusts to Merseytravel, as the Executive Body and an officer of the Authority, the task of ensuring that appropriate governance and accountability arrangements are established and followed to meet the responsibilities of the Authority in respect of its Accountable Body role for the proper administration and use of external funding.

As the Accountable Body, the LCRCA will be responsible for overseeing policy, the prioritisation of funding, ensuring value for money, evaluating performance and managing risk. The LCRCA will:

- hold the Investment Funds and make payments in accordance with the decisions of the LCRCA/Mayor;
- ensure that SIF funding is approved and allocated in a manner that is lawful, transparent, evidence-based, consistent and proportionate;

- ensure that the decisions and activities of the LCR CA/Mayor and Investment Committee conform to the legal requirements with regard to equality and diversity, environmental, EU issues and other relevant legislation and guidance;
- ensure through its Section 73 Officer that the SIF funds are being used appropriately<sup>6</sup>, prudently and in accordance with decisions made, and relevant guidance/legislation for the intended purpose;
- record and maintain the official record of proceedings relating to decisions made on all investment projects.

The SIF funds will be accounted for in such a way that they will be separately identifiable, with individual cost centres. The Chief Investment Officer will prepare quarterly financial statements for the LCR CA/Mayor in relation to the overall fund, costs of the investment projects, and profiling of spend.

The specific roles and responsibilities related to the management and administration of the SIF and decision making will be as follows:

- **LCR CA/Mayor** – the LCR CA/Mayor will make all final project investment decisions in relation to the SIF. They will be responsible for approving projects above £3 million and endorsing decisions for projects approved by the Investment Committee for under £3 million. They will be informed by a report and recommendation from the Investment Committee.
- **Investment Committee** (acting as a Committee of the LCRCA) – will consider and endorse, return for further work or reject every Outline Business Case (OBC) and Full Business Case (FBC). It will be informed by a report and recommendation from the Investment Panel. The Committee will also receive monitoring, evaluation and review reports regarding the SIF from the Investment Panel.
- **Investment Panel** – the Investment Panel will scrutinise the technical review work and project appraisal. It will consist of a number of key experts procured by the LCRCA for this purpose. The specific responsibilities of the Panel will be to:
  - ensure that value for money is achieved;
  - consider all new funding applications using an open, objective, transparent and equitable process;
  - make recommendations on individual scheme approvals, investment decision making, due diligence on each project and releasing funding; and
  - monitor, evaluate and review the performance of projects in the fund in respect of delivery, expenditure and outputs/outcomes.
- **Investment Team** – the team will carry out the appraisal work and provide administrative support for the SIF and, in particular, the Investment Panel. The Chief Investment Officer will have overall responsibility for the day to day management of the SIF and will sit on the Executive Management Team of the LCRCA, reporting directly to the Chief Executive/Head of

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<sup>6</sup> In accordance with the usual local authority checks and balances – for example the Local Government Fiscal Framework and the Local Government Accountability System Statement

Paid Service. The Chief Investment Officer will have ultimate responsibility for ensuring that investment projects and the SIF provide value for money, supported by the Investment Panel and team of technical experts. A member of the Investment Team will take the lead on individual cases and be responsible for scrutiny and recommendations on each business case.

All projects approved, but not yet formally committed to, prior to the appointment of the LCR Mayor, will be advised that SIF decisions may be reviewed once the LCR Mayor is in post.

#### 2.4.2 *Delegated Authority*

The Investment Committee will have delegated authority to approve projects/programmes requesting funding up to £3 million although the decisions taken by the Investment Panel will still be reported to the LCR CA/Mayor for endorsement. Projects and programmes above this level will be considered fully by the LCR CA/Mayor who will make the final investment decision. This delegated authority will also include the ability to conflate the OBC with the FBC.

#### 2.4.3 *Risk*

A key role of the assurance framework is to ensure that risk is identified, monitored and managed appropriately, both at a corporate level for the LCRCA and at a programme and project level. The risks associated with individual SIF projects are discussed at Section 3.7 and will require consideration as part of the business case development. The risks associated with the overall SIF fund are being identified, in conjunction with plans to mitigate these risks, and these will be added to the LCRCA Corporate Risk Register. The Corporate Risk Register will be monitored by the Chief Investment Officer and the Head of Internal Audit in line with the LCRCA Code of Corporate Governance and Risk Management Strategy, and reported to the Audit Committee.

#### 2.4.4 *Audit*

The devolved funding from HM Government will be held and managed by LCRCA. In doing so the funds will be subject to established financial management arrangements and subject to Internal Audit in accordance with the Accounts and Audit Regulations (2015) and in compliance with the mandatory Public Sector Internal Audit Standards. This will provide independent and objective assurance regarding the effectiveness of the LCRCA's risk management, control and governance processes.

The Section 73 Officer will be responsible for reporting on the financial management and assurance of the SIF to the LCRCA Audit Committee through the delivery and outturn of the annual Internal Audit plan and published accounts. The Committee has an overall remit to:

- review and scrutinise the authority's financial management – including all funding awarded through devolution;
- review and assess the authority's risk management, internal control and corporate governance arrangements; and
- report and make recommendations to the LCR CA/Mayor in relation to these issues.

All SIF funding decisions taken by the LCR CA/Mayor will also be subject to review through the LCR CA annual external audit, which will undertake cost benefit analysis and assess the extent to which resources have been used economically, efficiently and effectively in delivering its services and activities.

#### 2.4.5 *Scrutiny*

The member-led Scrutiny Panel within the LCR CA's structure was established to achieve greater public accountability over decisions made and services delivered within LCR. The Scrutiny Panel will, in particular, intervene if there are concerns about evidence of poor performance and the LCRCA's response to it. The Scrutiny Panel is responsible for:

- undertaking scrutiny reviews into areas of strategic importance for the people of the LCR;
- providing a 'critical friend' role in helping to shape policy and strategy development; and
- monitoring the delivery of the Authority's strategic plan.

In line with the Devolution Act 2016, from May 2017, the Scrutiny Panel will also have the power to:

- review or scrutinise decisions made, or other action taken, in connection with the discharge of general functions by the Mayor;
- make reports or recommendations to the Mayor with respect to the discharge of any general functions;
- make reports or recommendations to the Mayor on matters that affect the Authority's area or the inhabitants of the area;
- direct that a decision is not implemented while under its review; and
- recommend that a decision be reconsidered.

#### 2.4.6 *LCRCA policies*

To facilitate effective administration and management processes, the following policies and procedures are currently under development:

- confidential reporting (whistleblowing)
- complaints
- gifts and hospitality
- code of conduct for Officers and Members
- Freedom of Information
- Data Protection
- declaration of interests

## 2.5 Transparency

LCRCA is committed to being open, transparent and accountable and has a publication scheme providing information about the Authority's finances, performance and decision-making<sup>7</sup>. Knowsley Metropolitan Borough Council currently facilitate access to this via their website, as a bespoke LCRCA website is currently under development. The scheme provides information in relation to:

- who the LCRCA is and what they do
- LCRCA spending
- priorities and performance
- how the LCRCA makes decisions
- LCRCA policies and procedures
- lists and registers
- the services offered by the LCRCA

The SIF will be operated according to the following key principles, which will assist the LCRCA as the Accountable Body to ensure that decision making and recording is transparent:

- investment will be guided by a three year LCR SIF prospectus – outlining the types of investments that will be supported to achieve the overall aims and objectives within the Growth Strategy, and the criteria that will be used to appraise and approve projects;
- all investment projects will be subject to a single appraisal and approval approach and appraisal criteria. Scrutiny will be built into the appraisal process through the appropriate use of external specialists procured by the LCRCA to assess aspects of the business cases brought forward;
- investments can be made in any appropriate capital or revenue project (subject to available resources) and will be available for eligible applicants and organisations;
- clear governance and reporting arrangements will be established – that include a separation of the functions for project commissioning/pipeline development, appraisal and contract monitoring and compliance. The Investment Team will be responsible for appraising applications for SIF funding and will report to an Investment Panel that will make recommendations to the LCR CA/Mayor for consideration and approval; and
- OBC's for transport projects above £5m will be published (and publicised) on line through the LCRCA publication scheme and the dedicated SIF webpage before a funding approval decision is made, in line with Department for Transport (DfT) guidance and the requirements set out in Appendix B of the Single Pot Assurance Framework National Guidance. This is to enable the public and other external stakeholders to comment, and all external opinion, as expressed by the public and other stakeholders, will be made available to the CA as the decision making body;
- details of all SIF investment decisions and funding allocated will be published online, through the SIF webpage once established, in line with the LCR CA's publication scheme and the Local Government

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<sup>7</sup> <http://www.knowsley.gov.uk/your-council/decision-making-and-governance/liverpool-city-region-combined-authority/liverpool-city-region-combined-authority-publicati>

Transparency Code. Exemptions will only be permitted where these relate to established issues of confidentiality, such as staffing or commercially sensitive aspects.

The criteria that will be used to prioritise projects forms part of the SIF prospectus as outlined in section 3.1. Strategic projects will be commissioned by the LCR CA/Mayor. A periodic open call will be issued for projects, via the SIF webpage, which will provide applicants with up to date information regarding the application and approval process, and a timetable of meetings scheduled for the Investment Panel, Investment Committee and the LCR CA/Mayor to consider investment cases. The SIF webpage will also provide the mechanism for publishing performance monitoring reports and the results of evaluation exercises to ensure that best practice is shared with potential applicants and other projects.

## 2.6 Stakeholder engagement

The Growth Strategy prepared by the LEP will provide the basis for guiding investment decisions made by for the LCRC. The Growth Strategy has been informed by consultations with key stakeholders and partner agencies from across the LCR.

The SIF will provide a mechanism for administering funding to potential investment projects and will be underpinned by a three-year prospectus (aligned with the Growth Strategy) – to provide information to guide potential applicants. A dedicated webpage is being established to ensure that projects have up to date information about the commissioning and calls processes. Other mechanisms that will be used to promote the support available from the SIF include the constituent member local authorities (and their respective websites/project officers), the thematic boards and other key stakeholders for example the LEP, which provides the key platform for engaging with the private sector.

## 3 Project Lifecycle

### 3.1 SIF Prospectus

Investment through the SIF will be guided by a three year LCR SIF Prospectus, which will be based on the LCR Growth Strategy, prepared by the LEP.

The prospectus will set the strategy, objectives and targets of the LCR CA/Mayor, as well as the role that the SIF is expected to play in realising these and, in particular, what type of investments will be supported. It will also identify the criteria that will be used to appraise projects, along with an indicative allocation of funding by project type. Projects will be grouped as follows:

#### Business Growth and Sector Development

- Business support and development
- Inward investment
- Sector development

#### Research and Development and Innovation (R&D&I)

- Research and development (including Centres of Excellence)
- Innovation support

#### Skills

- Skills capital investments
- Skills development projects/programmes

#### Transport

- Transport infrastructure (road, rail, bus, freight, seaport, airport, cycling, etc)
- Transport operations

#### Regeneration, Development and Culture

- Property development (including realising the potential of the One Public Sector Estate)
- Regeneration projects (including place making investment in strategic locations identified in the Growth Strategy)
- Cultural developments and events

#### Housing

- Investment in housing will be eligible for support where it contributes to or removes constraints on economic growth.

The use of the SIF in a strategic way – rather than basing it on an open, unstructured bidding process – will ensure a comprehensive, balanced programme that is evidence based and targeted to deliver the Growth Strategy and other relevant plans and policies. It will ensure that the overall

programme of investments work together to maximise the economic impacts and wider benefits for the LCR.

## 3.2 Prioritisation

### 3.2.1 *Prioritisation*

The emerging Growth Strategy identifies the requirement for a broad range of interventions based on local conditions and opportunities. Consequently, there is a need to maintain a balanced programme of investments with linkages between projects or packages of projects. An initial indicative allocation of funding (outputs and impacts) in relation to each project grouping outlined above has been developed for the first five-year Gateway. This has been developed from:

- a review of the emerging Growth Strategy and growth barriers/opportunities;
- a review of the project pipeline; and
- Gain Share economic impact analysis.

Within these broad indicative funding allocations for Business Growth and Sector Development; R&D&I; Skills; Transport; Housing; and Regeneration, investments will be prioritised on the basis of a single appraisal approach. An Investment Panel, with external technical advisors, will be responsible for making recommendations on each business case following the appraisal process, to ensure impartiality. The Investment Team and the Investment Panel, will be independent from the individual portfolios to ensure that the project development process and appraisal functions are separated.

The consolidated, multiyear transport settlements have, at this stage, been ring-fenced for transport. While the 2016/17 funding has already been approved on a formulaic basis, future funding will be allocated to transport interventions based on the following criteria: contribution to economic growth, strategic transport priorities and wider benefits.

### 3.2.2 *Commissioning and Calls*

The SIF funding will be allocated through commissioning and open calls for projects. The Portfolio Lead Officers and their teams will be responsible for identifying key strategic projects and programmes required to meet the objectives set out in the Growth Strategy and other relevant statutory plans (for example the Local Transport Plan) and commissioning these projects accordingly. In addition, a periodic open call will be issued for projects and programmes.

All project applications, regardless of whether they have been commissioned or come forward through the open call, will be required to follow the same appraisal process outlined below, which includes an initial proposal, followed by an OBC and FBC – although the business cases may be conflated depending on the nature and scale of the project as proportionality will be built into the appraisal process from the outset. A dedicated Investment Team will be established to review all investment proposals.

### 3.2.3 Supporting Project Development

Commissioned projects will be eligible to submit for pre-feasibility and feasibility funding support from the SIF. This will be based on the submission of a pre-feasibility and feasibility funding application form. Submissions will be appraised by the Investment Team and approved/recommended to the LCR CA/Mayor by the Investment Panel and the Investment Committee.

## 3.3 Appraisal

A key objective of the assurance framework is to support the LCR CA/Mayor in assessing whether potential investments offer good value for money (VfM) and have the capacity to generate and deliver the growth objectives set out in the Growth Strategy. The appraisal process for the SIF will be consistent with HM Treasury's Green Book and Business Case Appraisal process, including supplementary and departmental guidance, such as the Department for Transport's (DfT) WebTAG appraisal guidance and DCLG's Appraisal Guide. This will be based on the five cases model:

- the strategic case – which provides a compelling case for change and explains how the project provides fit with the objectives of the organisation and wider public sector agendas;
- the economic case – which describes how the project/preferred option represents best public value;
- the commercial case – which demonstrates that the deal is attractive to the market, can be procured and is commercially viable;
- the financial case – which confirms that the proposed spend is affordable; and
- the management case – which confirms that what is required from all parties is achievable.

### 3.3.1 Appraisal criteria

A single appraisal approach will be applied to all projects, which will be transparent and equitable. The project appraisal criteria will include:

- fit with the Growth Strategy, SIF objectives and other relevant strategies – including strategic linkages with other thematic projects;
- clear evidence of the rationale and need (or demand) for the project and application of best practice;
- the additional GVA and employment impacts, as well as the wider benefits, at the LCR level;
- clearly defined inputs, activities, outputs, and anticipated outcomes and an assessment of additionality (including displacement and deadweight);
- clear detail of the financial costs of the proposal and evidence of the need for SIF support and availability of match funding;
- confirmation that the investment represents value for money (the degree to which benefits exceed costs assessed using Benefit Cost Ratios and Net Present Public Value) and is the preferred option in line with the most recent HM Treasury Green Book guidance;

- that the project has robust risk management, delivery, and monitoring and evaluation arrangements; and
- that the project complies with necessary regulations and requirements, including legal due diligence requirements and state aid.

The LCR Single Investment Fund has been established with a principle of becoming a self-sustaining fund over time. Subject to vfm considerations, preference will be given to support in the form of loans or investments that generate a return, along with additional business rates and/or Council Tax generated being recycled to the Fund on a pro-rata basis reflecting public sector investment. In addition, private and other public sector leverage will be maximised.

Projects will be appraised against these criteria and should also meet minimum thresholds and requirements (for example, a Benefit Cost Ratio that is at least acceptable and meets the established guidance for that project type<sup>8</sup>).

For transport projects, the expectation is that all schemes must achieve “high” value for money (as set out within DfT’s guidance) at all stages of the approval process, and independently verified on behalf of the Combined Authority as part of the assessment process. Such projects must also have been subject to earlier rigour to de-scope the scheme, or else to explore higher VfM alternatives.

Notwithstanding the above principles on value for money, the CA will be able to approve transport schemes having lower VfM, having regard to specific circumstances including:-

- very convincing wider economic, social and environmental benefits,
- the ability of the scheme to address multiple city regional policy objectives,
- circumstances where very significant levels of match funding are being provided by the scheme promoter, or
- where there are other urgent considerations.

The Investment Team will offer professional advice on the relative weight that should be afforded to such considerations. Recommendations to the CA will clearly explain the rationale for approving a lower VfM scheme and the implications of the recommendation.

### *3.3.2 Assessing value for money*

Good VfM, as defined by the National Audit Office (NAO) is the optimal use of resources to achieve the intended outcomes. ‘Optimal’ being ‘the most desirable possible given expressed or implied restrictions or constraints’. VfM is not just about achieving the lowest initial price, it is defined as the optimum combination of whole life costs and quality, with due regard to propriety and regularity.

The NAO uses three criteria to assess the VfM of government spending i.e. the optimal use of resources to achieve the intended outcomes:

- economy - minimising the cost of resources used or required (inputs) – spending less;

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<sup>8</sup> For transport projects for example – the majority of local major schemes funded in recent years were assessed by the Department as offering at least ‘high’ value for money, based on DfT VfM assessment criteria.

- efficiency - the relationship between the output from goods or services and the resources to produce them – spending well; and
- effectiveness - the relationship between the intended and actual results of public spending (outcomes) – spending wisely.

With regard to the SIF, as projects may include a package of funding drawn from the Single Pot and other local funding, the focus of the appraisal will be on projects that deliver growth, provide VfM and meet the wider strategic objectives set out in the Growth Strategy. The CA will make investment decisions based on a range of evidence, such as the strategic case and other local impacts and analyses of cost effectiveness (incl jobs and GVA), as well as the wider VfM appraisal.

As set out in the National Guidance, in addition to following the Green Book Business Case guidance, the methodology used to assess VfM for the Single Pot funding will also need to be in line with the established guidance prescribed by the relevant government department, described below:

Transport – the standard against which the Combined Authority will assess the robustness of the economic case of transport projects with a capital cost in excess of £5m<sup>9</sup> will be the established WebTAG methodology. Schemes will also be subject to the minimum requirements on VFM assessment, assurance and evaluation of transport projects set out in Appendix B of the Single Pot Assurance Framework National Guidance. They are based on the requirements for Local Transport Bodies and the Local Growth Fund. The modelling and appraisal of transport schemes, defined as any scheme that significantly changes the transport network infrastructure, must be developed in accordance with the guidance published in WebTAG<sup>10</sup>. The central case used in scheme appraisals will also need to be based on forecasts which are consistent with the latest version of NTEM<sup>11</sup>. Appraisal results from this central case will be clearly reported to decision makers. At every stage of the approval process, the economic case will also be reviewed and updated to reflect changes in the scheme’s scope and cost, and extant WebTAG / NTEM guidance.

A VfM statement and a monitoring and evaluation plan will be required for all transport projects of £5 million and above, in line with DfT advice on assessing VfM<sup>12</sup> and monitoring and evaluation<sup>13</sup>. This VfM statement will be produced by scheme promoters and independently scrutinised by the Combined Authority, drawing on the independent technical support that is described below. The statement will be signed off by the CA Treasurer, and this will be formally recorded. Safeguards will prevent the VfM statement from being validated by an officer with a potential conflict of interest (e.g. by virtue of also being a beneficiary or scheme promoter). In such circumstances, the VfM statement would need to

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<sup>9</sup> The threshold for projects requiring WebTAG applied to date (i.e. for 2016/17 projects) has been £3m in line with LCR’s existing Transport Assurance Framework developed in 2012. The higher threshold of £5m will apply to all transport projects from 2017/18 onwards and transport projects coming forward in 2016/17 that do not have a pre-existing commitment.

<sup>10</sup> DfT’s appraisal guidance

<sup>11</sup> DfT’s planning dataset

<sup>12</sup> <http://www.gov.uk/government/publications/value-for-money-advice-for-local-transport-decision-makers>

<sup>13</sup> <http://www.dft.gov.uk/publications/evaluation-local-major-schemes>

be signed off by an alternate of suitable seniority and experience, the Head of Paid Service. The VfM statement will be presented to the Combined Authority as part of the decision-making process at appropriate stages in the approval process

- Housing – Homes and Communities Agency good practice, advice and guidance will need to be adhered to, alongside DCLG’s appraisal guide for residential and non-residential development. To assist the decision making process, each business case will need to provide estimates of the Benefit Cost Ratio and Net Present Public Value;
- Skills Capital – Skills Funding Agency good practice, advice and guidance will provide a reference for skills capital projects;
- Enterprise, innovation and business support – these projects will need to demonstrate ability to deliver VfM through evidence-based business cases aligned with HM Treasury Green Book guidance, with a commitment to publishing results to add to the evidence base on what works and contribution to local and national policy goals on productivity and growth; and
- Regeneration – projects will need to be in line with the National Planning Policy Framework and the Planning Practice Guidance. Projects beyond housing and transport interventions, for example enabling works, land assembly, utilities and/or public realm projects, the DCLG appraisal guide will be useful in helping to appraise the costs and benefits of these types of interventions.
- The CA will take account of a range of evidence when deciding to invest in a project (such as the local impacts on the economy and investment unlocked) within the context of a wider VfM appraisal. Even if the national Benefit Cost Ratio is low/poor, the LCR CA/Mayor may decide to invest in a project based the overall business case, including local impacts.

The Investment Panel will include technical experts that will specifically review key aspects of the business case, including VfM. In addition, external advice will be commissioned where required. In the run-up to the formal establishment of the Investment Team, technical expertise will be secured by means of suitable call-off arrangement with independent consultancies with expertise of all aspects of the SIF process (e.g. on WebTAG processes, Green Book appraisal processes and legal issues such as State Aid rules). The assessments will be proportionate to the relative size of the schemes being promoted, but will, as a minimum, provide independent validation of the assumptions made by scheme promoters. The call-off list of independent parties will be procured and funded centrally by the Combined Authority, and will be managed by a programme manager with overall responsibility for managing the SIF process.

Further safeguards will exist to guard against any conflict of interest that may arise between consultants acting on behalf of scheme promoters and those that are being asked to provide independent assessments on behalf of the Investment Team. Further controls will exist through the programme manager, who will be independent from any potential scheme promoter and will be responsible for drawing on the independent support from the call-off list of consultants.

The appraisal reports will be signed off by an officer of suitable seniority or an alternate if there is any potential conflict of interest. At the appropriate stage in the approval process the appraisal reports will be presented to the Combined Authority as part of the decision-making process.

## 3.4 Business case development

### 3.4.1 Business case stages and proportionality

The application and appraisal process will apply the principle of proportionality – with more detailed information being required for large, complex or contentious projects. The application and appraisal process for SIF will involve three stages, as follows:

- (i) Initial proposal (Strategic Outline Case) – will provide the underlying justification for the project, which will be appraised against the SIF Prospectus and published criteria. Successful applicants will be asked to complete an OBC;
- (ii) OBC – this will identify the preferred option for delivery from a shortlist of options, and will include a detailed Business Case for the project which is developed to a level where it is capable of being given approval in principle. If the OBC is endorsed the applicant will be requested to submit a FBC; and
- (iii) FBC – adds details of contractual and delivery arrangements, along with confirmation of costs and benefits to the OBC.

Each Business Case submission will build upon and augment the previous stage. This will avoid duplication and unnecessary effort. It will also enable each stage to be informed by the recommendations from the previous stage. The final recommendations on the FBC will be included in the contractual agreements for funding. For smaller projects (less than £3m) the OBC and FBC stages may be combined depending on the level and quality of information provided and in keeping with the principle of proportionality. Where assumptions have been made, these should be clearly set out in the Business Case, with sufficient sensitivity testing carried out on these assumptions to demonstrate the robustness of the economic assessment.

### 3.4.2 Initial proposal – Strategic Outline Case (SOC)

The initial proposal will be particularly important, as this will focus on establishing the case for the proposal. Before a project can progress to OBC, the application will need to demonstrate that it meets a set of core and hurdle criteria:

#### **Core selection criteria**

- Fit with SIF Prospectus/Growth Strategy (effectiveness)
  - the proposed intervention contributes to the objectives set out in the Growth Strategy/SIF Prospectus and other relevant strategies
  - the proposed intervention demonstrates strategic linkages with other thematic projects
  - Clear case that the investment will deliver relevant activities and outputs that lead to GVA, job creation at the local level and other outcomes as prescribed in the Growth Strategy/SIF prospectus
- GVA, jobs and wider benefits

- additionality of the project – clear case that the intervention would not otherwise take place, would be smaller, happen later or be of a lower quality
- VfM in relation to:
  - Efficiency - The rate/unit costs at which the intervention converts inputs into jobs and GVA at the local level for any appraisal undertaken at the LCR local level. The overall national level Benefit Cost Ratio in terms of GVA, as well as wider benefits, and the Net Present Public Value must be in line with HM Treasury’s most recent Green Book guidance. The CA will make investment decisions based on a range of evidence presented within the business case including the strategic case and other local impacts and analyses of cost effectiveness (incl jobs and GVA).
    - .
    - Economy – the extent to which the intervention will ensure inputs are at a minimum costs commensurate with the required quality

#### **Hurdle selection criteria**

- need/demand for project – strong rationale for the intervention and the market failure that the project is seeking to address;
- need for support – clear evidence that the project requires support from the SIF for example due to a funding gap
- availability of match funding - appropriate arrangements are in place to secure the required level of match funding
- management and delivery arrangements - appropriate expertise, capacity, capability and systems to deliver the intervention successfully
- capability to meet the financial requirements and liabilities that flow from receipt of SIF support
- the intervention is deliverable having regard to risks and dependencies
- compliance with necessary regulations and requirements, including - State aid, Procurement, Planning, and other consents such as legal due diligence requirements

The Investment Team will be responsible for assessing the initial proposals. If successful at this stage, the project applicant will be invited to submit an outline business case for consideration by the Investment Panel.

#### **3.4.3 Outline Business Case and Full Business Case**

The next two stages of the appraisal process will require applicants to submit:

- an OBC – this will be the first substantive business case document and will in particular need to demonstrate the case for the project, through a thorough options appraisal to justify the preferred option. The assessment of VfM will, in particular, underpin the economic case and the decision to move forward to the next stage of the appraisal process. As outlined earlier, this will in particular need to

follow Green Book Business Case Guidance and take account of project specific appraisal guidance published by the relevant government department<sup>14</sup>; and

- a FBC – this stage of the investment proposal will build on the information provided in the OBC and confirm that the project has the necessary contractual/procurement and delivery arrangements in place for the project to proceed.

The information that will be required for the OBC and the FBC is set out in Table 3.1. As described earlier, each business case submission will build upon and augment the previous stage. For smaller projects (e.g. up to £3m), the OBC and FBC stages may be combined depending on the level and quality of information provided and the complexity of the scheme.

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<sup>14</sup> For example DfT's WebTAG for transport interventions

<b>Table 3.1: Outline Business Case/Full Business Case Template</b>	
<b>Introduction and background to the projects</b>	<ul style="list-style-type: none"> <li>• Applicant details</li> <li>• Project description and objectives</li> <li>• Outputs and outcomes</li> <li>• Status and progress to date</li> </ul>
<b>Strategic Case</b>	<ul style="list-style-type: none"> <li>• Context and existing arrangements</li> <li>• Demand, need and additionality</li> <li>• SIF Prospectus Growth Strategy objectives contributed to</li> <li>• Fit with other policies</li> <li>• Linkages with other projects</li> <li>• Stakeholder engagement</li> <li>• Rationale for investment</li> <li>• Strategic risks preventing successful delivery</li> <li>• Strategic dependencies</li> </ul>
<b>Economic Case – options</b>	<ul style="list-style-type: none"> <li>• Options considered and short-listed options selected</li> <li>• Sensitivity testing where appropriate</li> <li>• Costs, benefits and value for money</li> <li>• Risks and optimism bias</li> <li>• Justification for preferred option</li> </ul>
<b>Commercial Case</b>	<ul style="list-style-type: none"> <li>• Commercial structure and delivery arrangements</li> <li>• Procurement arrangements</li> <li>• State aid considerations</li> </ul>
<b>Financial Case</b>	<ul style="list-style-type: none"> <li>• Cost and funding profile</li> <li>• Funding strategy and status of match</li> <li>• Cost overruns and slippage</li> <li>• Cashflow</li> </ul>
<b>Management Case</b>	<ul style="list-style-type: none"> <li>• Project plan</li> <li>• Key milestones</li> <li>• Project governance and management (including track record)</li> <li>• Monitoring arrangements</li> <li>• Benefits realisation</li> </ul>
<b>Appendices</b>	<ul style="list-style-type: none"> <li>• Plans</li> <li>• Consents</li> <li>• Financial details</li> <li>• Contractual documents</li> <li>• Risk Register</li> <li>• State aid opinion (where necessary)</li> </ul>

Following approval of the initial proposal (SOC), an indicative timeline for submission of the business cases and the start of the project will be as follows:

- OBC - within 12 months of SOC approval;
- FBC – within 6 months of OBC approval;
- Project commencement – within 3 months of the offer letter.

#### *3.4.4 Due diligence*

The LCRCA is committed to undertaking due diligence activities that support effective decision-making and project appraisal. In relation to the SIF applications, the nature and timing of due diligence will depend on the individual project or scheme, the cost of the scheme and the potential impact of the project. The Investment Team will be responsible for determining when the due diligence is carried out and by whom. A level of due diligence will be carried out by the Investment Team, but external agencies will also be commissioned by the Investment Team/Panel to carry out this function as appropriate

#### *3.4.5 Existing LGF Commitments*

LGF is currently overseen by the LEP (as the applicant for funding) and administered by LCRCA as the Accountable Body. Until DCLG has approved this assurance framework, the existing LCR LEP Growth Deal Funding assurance framework (April 2016) will continue to apply, and the LCRCA will remain the Accountable Body for the LEP. This will also be the case for Local Major Transport Schemes governed by the Transport Assurance Framework. For projects that have in principle been allocated funding from LGF1, the previous assurance frameworks will continue to be used. LGF funding that has not been allocated to specific projects will form part of the SIF funding pot.

Other programmes and projects that do not have a pre-existing commitment will be subject to the appraisal process and VfM assessment described in this document to ensure that the funding contributed by LCRCA is appropriate and delivers VfM. The level of appraisal will be determined by the cost of the project, in line with LCRCA's approach to proportionality.

## 3.5 Approval process

### 3.5.1 Approval process and timeline

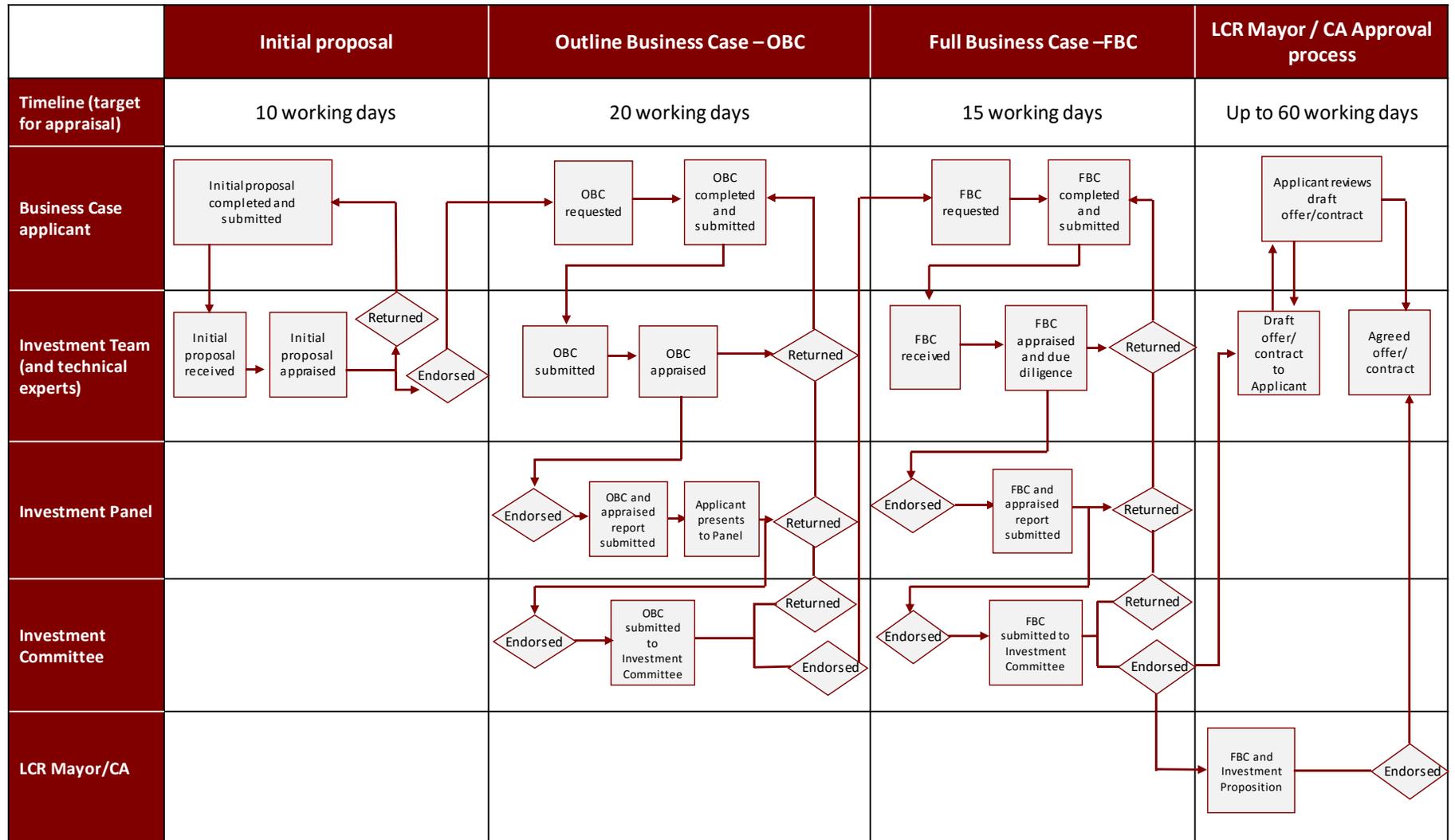
There are a number of mechanisms in place to that ensure that the SIF is managed strategically. These are discussed in the next section in greater detail but include for example the appointment of a Chief Investment Officer who will be responsible for the overall management of the SIF and ensuring strategic linkages within portfolio of projects seeking investment. The steps outlined below, highlight the SIF appraisal and approval process for individual projects, which are shown in greater detail with a timeline in Figure 3.1.

The timeline target for the appraisal of projects by the Investment Team is indicative at this stage and provided as a guide for the appraisal process only. The time taken to assess projects will depend on the nature and complexity of the proposal, as the OBC may be combined with the FBC, particularly with investments under £3m. Furthermore, the OBC for transport projects above £5m will need to be publicised externally prior to any approvals being made. The stages for submission broadly relate to:

1. Initial Proposals will be submitted in response to commissioning or an open call request based on the SIF Prospectus;
2. Initial proposals will be appraised by the Investment Team, who will - in conjunction with the Investment Panel and the technical experts as appropriate - then either return the application or endorse it and request submission of an OBC / The Investment Team will be responsible for checking the recommendations made by technical experts and if necessary seek second opinions on these recommendations by making use of other independent expertise. Such instances will need the approval of the Chief Investment Officer.
3. The OBC or the OBC/FBC combined will then be appraised by the Investment Team and the Investment Panel;
4. Investment Panel submits a report and recommendation to the Investment Committee;
5. For projects below £3m, the Investment Committee will have delegated authority to approve projects or programmes although decisions taken by the Committee will still be reported to the LCR CA/Mayor for endorsement;
6. For projects above £3m, the Investment Committee will be responsible for deciding which projects are invited to go through to the next stage and submission of a FBC;
7. Following submission of the FBC to the Investment Committee, recommendations will be made to the LCR CA/Mayor for final approval and endorsement. Where projects are being recommended for approval that have low value for money, the FBC must provide supporting evidence that the project meets the other core criteria, for example having a strong strategic rationale for approving the project; and
8. The Investment Team, in conjunction with Procurement/Legal services, will prepare an offer letter/contract for agreement by the applicant.

Independent assessments of SIF schemes will be reported to the CA decision-making bodies as part of the recommendations made on the merits of individual applications. These appraisals will form appendices to these reports, and will where appropriate form a part of the CA's public agenda pack that is available to view on-line.

Figure 3.1: Timeline for the appraisal and approval of SIF projects



### 3.6 SIF investment management

There are a number of mechanisms that will ensure effective management of the SIF to maximise the economic impact within the LCR. These include:

- appointment of a Chief Investment Officer within the LCR CA with overall responsibility for management and reporting on the performance of the SIF to the Departmental Accounting Officer within DCLG (and Parliament);
- establishment of an Investment Committee, Investment Panel and Investment Team to oversee the allocation of SIF funding and programme management;
- the assignment of contract managers from the finance team (reporting to the Head of Performance and Programme Management) to monitor, evaluate and review the performance of projects in the Fund in respect of delivery, expenditure and outputs/outcomes;
- thematic boards taking overall responsibility for steering policy, commissioning interventions, monitoring the performance of the work programme and the performance of bodies contracted to deliver projects and interventions commissioned by it; and
- implementation of a new corporate performance management system within the LCRCAs, driven by the Head of Performance and Programme Management within the Executive management team of the LCR CA;

A monitoring system will be established for the SIF to record financial expenditure and claims, business rates and other income and the achievement of outputs and outcomes. Quarterly financial reports will be submitted to the LCR CA/Mayor alongside the achievement of key performance indicators (KPIs) – that will capture outputs and outcomes achieved in pursuing the overall growth objectives for the City Region. The monitoring plan will also be used to identify projects that are underperforming. Projects that fail to deliver against key milestones, may have funding withdrawn, in line with the clauses set out in the offer letter with the LCR CA. These decisions will be reported to the LCR CA/Mayor as part of the quarterly reporting process.

### 3.7 Risk management

A risk register is being established for the overall SIF fund and will be maintained as part of the Corporate Risk Register. It will be monitored by the Chief Investment Officer (alongside the performance monitoring procedures) and the Head of Internal Audit and reported to the Audit Committee in line with the LCR CA Code of Corporate Governance and Risk Management strategy. This will require ongoing liaison with the Portfolio leads and the Head of Performance and Programme management to understand the extent to which the overall SIF is meeting the strategic objectives outlined in the Growth Strategy and risks associated with delivering them.

Individual risk logs will be established and managed for each project supported by the SIF. Risks will be identified and managed through appropriate mitigation measures agreed with the project applicant prior to full approval of the scheme. Contract/account managers will be responsible for ensuring that these risks are being managed appropriately.

Overall risk management for the fund, will have regard to the ongoing monitoring of achieved investment performance against projected growth. Appropriate measures will be adopted to ensure that the monitoring of investments provides an informed basis for future investment decisions.

### 3.8 Contract management

Following approval of the project, the responsibility for overseeing the successful implementation and delivery of projects will rest with the relevant Portfolio Chief Officer, who will be supported by individual project managers.

Within the finance team, an account/contract manager will be assigned to each project and be responsible for monitoring the financial and output performance of the project on an ongoing basis, in line with the offer letter agreed with the LCR CA. The offer letter will, in particular, set out the following which will be monitored by the account/contract manager:

- a financial profile – including monthly income and expenditure;
- a profile of outputs and outcomes to be achieved – with key milestones for delivery;
- projected impacts – and a timetable for their achievement; and
- a risk management log – detailing potential risks to the successful delivery of the project and how they will be managed.

A monthly/quarterly schedule for returning monitoring information to the account/contract manager will also be specified in the contract. Within the LCRCAs, a performance management system will be used to collate, record and report on the progress of individual projects, programmes, themes, and the SIF overall. Where projects do not achieve their milestones for delivery, projects will need to provide evidence to demonstrate that they will be able to get back on track. Projects that consistently fail to meet projected performance (financial and outputs) may have funding withdrawn. Projects 'at risk' will be referred back to the Investment Committee, prior to the withdrawal of funding.

### 3.9 Project closure

All projects will be required to produce a project closure report at the end of the project, which demonstrates that:

- all activities have been delivered in accordance with the offer letter;
- all funding has been spent appropriately in line with the projected financial profile for the project;
- there are no outstanding risks or action that need to be taken to sign the project off (by the account/contract manager); and
- all relevant outputs and key milestones have been achieved.

Following the delivery of the project closure report, all applicants that have received SIF funding will be required to complete a benefits realisation report (within 3 months of completion) to measure the impact of the investment and identify lessons learnt for future projects.

## 4 Monitoring and evaluation

### 4.1 Overview

LCRCA is developing a comprehensive performance management system and an evaluation framework that will operate at both the corporate level and at the individual programme/project level. This will enable the Authority to:

- assess the effectiveness and efficiency of operations;
- review the continuing relevance of activities;
- monitor impacts and progress towards organisational goals, and to understand whether projects are on track to deliver projected outputs and outcomes;
- assess the additionality of activities (and impacts) and to assess whether a project or programme has achieved VfM;
- identify the sustainability of impacts, and the equity implications of activities;
- maintain scrutiny and accountability;
- inform future investment prioritisation and resource allocation; and
- identify what works (and what does not), and in what circumstances, to inform future activities and delivery and the sharing of best practice.

A set of KPIs are being developed for LCRCA, and a red, amber, green dashboard will be used to monitor progress on a monthly/quarterly basis in line with the contract management process.

### 4.2 Performance monitoring

All projects funded by the SIF, regardless of the size, will be required to have an effective monitoring and evaluation plan in place which will form a key part of the business case, to assess the effectiveness and impact of investing public funds and to identify best practice and lessons learnt that can inform decisions about future delivery. The monitoring plan will guide the collection of data from individual projects and will be designed to ensure that it captures information required by LCRCA and all government departments. As the SIF assurance framework will supersede the LGF assurance framework (and transport assurance framework which is part of it) it will need to ensure that the performance monitoring and management systems are aligned accordingly. Individual monitoring and evaluation plans will need to be proportionate, in line with procedures for appraisal, and depending on the type of project, they will also need to ensure that they are in line with the latest government department guidance where relevant<sup>15</sup>.

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<sup>15</sup> For example, DfT issue guidance for the monitoring and evaluation of transport projects as set out at <http://www.dft.gov.uk/publications/evaluation-local-major-schemes>

Monthly performance monitoring returns will be used to capture progress against milestones set out in the agreed contract. This will include information related to:

- delivery;
- income and expenditure; and
- outputs and outcomes.

The individual project monitoring information will feed into an overall monitoring plan for the SIF, which will be reported to the LCR CA/Mayor, including the extent to which projects are contributing to the overall objectives of the LCRCA. The achievement of wider impacts will be gathered as part of the evaluation work. All monitoring reports will also be made available through the LCRCA publication scheme.

### 4.3 Evaluation and benefits realisation

The evaluation component of individual projects' monitoring and evaluation plans will need to complement the five-year Single Pot investment fund Gateway Review described later in the document. This government evaluation, will focus on identifying the impact of investments made using the Gain Share funding.

All projects will be required to produce a benefits realisation plan as part of their business case, which identifies the outcomes (benefits) they are planning to deliver, how outcomes will be measured, a baseline assessment, and how they intend to implement, monitor and assess the project to identify whether the benefits have been realised.

Projects will be requested to produce the benefits realisation report as part of a wider evaluation report (within 3 months of project completion), which will incorporate a standard set of key evaluation questions (exemplified in table 4.1 below). The report will also require applicants to identify lessons learnt to inform the future delivery of projects through the SIF.

Table 4.1: Examples of key evaluation questions	
Evaluation criteria	Key evaluation questions:
<b>Relevance</b>	<ul style="list-style-type: none"> <li>• Were the objectives of the project relevant to needs and gov't policy objectives?</li> <li>• Were the activities relevant to the LCRCA organisation's priorities and objectives?</li> </ul>
<b>Additionality</b>	<ul style="list-style-type: none"> <li>• Have the activities delivered benefits that would otherwise not occur?</li> <li>• Would the project have taken place anyway?</li> </ul>
<b>Effectiveness</b>	<ul style="list-style-type: none"> <li>• Has the project delivered target outcomes?</li> <li>• Has the project structures and processes assisted delivery of activities?</li> </ul>
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>• Were outcomes delivered at reasonable cost?</li> <li>• Were activities delivered in a cost-effective manner?</li> </ul>

<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• Will the benefits arising from the project persist?</li> <li>• Will the supported activities continue after SIF involvement ceases?</li> </ul>
<b>Equity</b>	<ul style="list-style-type: none"> <li>• Have project activities benefited target communities?</li> <li>• Have project activities been delivered in an equitable manner?</li> </ul>

#### 4.4 Five-year gateway review

Combined Authorities in receipt of investment funds (Gain Share) from Central Government will be subject to five-yearly Gateway Reviews to assess investment impact. At this stage, the Government has suggested that the Gateway Review will focus on evaluating the performance of the investment fund with economic growth becoming the primary measure for assessing impact.

An independent panel, as agreed with HM Government, is to be commissioned to undertake the Review and this external assessment provides a further incentive to encourage appropriate project appraisal, assurance and VfM processes.

#### 4.5 Annual assurance framework review

The SIF assurance framework will be subject to an annual review (at a minimum) to ensure that it remains fit for purpose and up to date. There are a number of new structures, procedures and strategies being introduced as a result of the Devolution Agreement that will take time to establish and become fully operational. Similarly, as the devolution process continues, new funding streams will be brought into the SIF and with them a requirement to provide assurance that this funding is being spent appropriately. Where significant changes are made, for example as a result of additional powers or funding, adjustments made to the assurance framework will be agreed with DCLG.

The prioritisation, appraisal and approval processes underpinning the SIF will also be reviewed on an ongoing basis to ensure that they remain proportionate and provide the sufficient assurances regarding VfM and the best use of scarce public sector resources.

## 5 Summary of key assurance requirements

A summary of the key assurances that the Government will require in relation to the LCR SIF are out in Table 5.1. This includes key responsibilities for management and delivery and oversight. The LCR CA/Mayor will have overall accountability for the assurance framework.

<b>Table 5.1: Summary of assurance functions and reporting arrangements</b>		
<b>Function</b>	<b>Responsibility for delivery/management:</b>	<b>Oversight:</b>
<b>Overall SIF fund</b>		
Growth Strategy/SEP	LCR LEP	Economic Development Portfolio LCR CA/Mayor
SIF prospectus and prioritisation of funding	Chief Officer for Economic Development and Growth Portfolios Lead	Interim Head of Paid Service LCR CA/Mayor
Commissioning/calls for projects	LCRCA Growth Portfolios	Head of Procurement
Marketing/promotion of the SIF	LCRCA Growth Portfolios	Head of Communications
Appraisal of SIF applications (inc VfM)	Investment Team	Investment Panel
Due Diligence	Investment Team External agencies - commissioned	Investment Panel
Approval of SIF applications	Recommendations by Investment Panel	Under £3m: Investment Panel Over £3m: LCR CA/Mayor
Financial management of SIF	Section 73 Officer	Interim Head of Paid Service Audit committee
Performance management	Chief Investment Officer Head of Performance and Programme management	Portfolio Leads LCR CA/Mayor
Risk management	Chief Investment Officer/Head of Internal Audit	Audit Committee
Scrutiny	Director of legal and democratic services/Monitoring officer	Scrutiny Committee
Compliance with Devolution Agreement	Chief Investment Officer Section 73 Officer	Audit Committee LCR CA/Mayor
Assurance	Head of Internal Audit	Audit Committee
Contract management - SIF project performance, monitoring and closure	Account/Contract managers (in Finance Team)	Head of Programme Management Director of Finance and HR
Benefits realisation and evaluation	Account/Contract managers Chief Investment Officer	Head of Programme Management LCR CA/Mayor