



LIVERPOOL CITY REGION  
COMBINED AUTHORITY

# **Liverpool City Region Combined Authority**

## **Strategic Investment Fund Assurance Framework**

**December 2018**



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## 1. Introduction

### 1.1 About this document

This Assurance Framework is designed to replace the 2016 version and shall apply to new funds committed from 1 November 2018 as well as the portfolio commitments outstanding from that date. It is designed to meet the requirements of the Single Pot Assurance Guidance published by the Ministry of Housing, Communities and Local Government (“MHCLG”, formerly known as “DCLG” or “MHCLG”) and managed by HM Government’s Cities & Local Growth Unit. It will provide the Departmental Accounting Officers and Parliament with information about the systems and processes of the Liverpool City Region Combined Authority (the “LCRCA”, “CA”, the “Combined Authority”), as the accountable decision-making authority, has in place to manage effectively the process and risks associated with the allocation of devolved funding.

This document should be read in conjunction with the LCRCA Strategic Investment Fund Strategy<sup>1</sup> published in July 2018 (the “Investment Strategy”) which provides the objectives, priorities, process and principles underlying the CA’s approach to investing public funds and the LCRCA Constitution (the “Constitution”) published in May 2018, which provides inter alia the governance arrangements in place for the CA.

This document is divided into four sections:

- Section 1 (this section): Describes the context, scope and purpose of the Assurance Framework.
- Section 2: Describes governance structures of the CA, the investment approach and transparency mechanisms that will apply to all decision making.
- Section 3: Sets out the decision making procedures for funding (prioritising projects, appraising projects and funding approval).
- Section 4: Outlines the approach to the monitoring and evaluation of projects.

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<sup>1</sup> Link to strategy



## 1.2 Background

The Liverpool City Region (“LCR”) is governed by the Liverpool City Region Combined Authority and its constituent councils. LCR is one of only a few UK city regions to have secured a devolution agreement with Government, meaning decision making and resources around certain key priorities are managed locally.

The initial devolution agreement in 2015 secured £900 million of funding over 30 years and identified a number of priority areas where resources and decision making would be devolved. These are employment and skills, housing and planning, transport, innovation, business growth and support, energy, culture and finance. A further agreement in 2016 passed down additional powers over transport, piloting 100% business rates retention and working in partnership with the Government on children’s services, health, housing and justice.

Under the devolution agreement with Government, LCRCA agreed inter alia to establish a “single pot” approach to funding, providing the area with greater local control, flexibility and responsibility over public funding streams and their outcomes. In adopting this single pot approach, LCRCA agreed to meet high standards in identifying, prioritising, appraising, funding, monitoring and evaluating its investment.

LCRCA has established a Strategic Investment Fund (“SIF”) to administer its devolved funding alongside other local and national funding sources.

## 1.3 Scope of the Assurance Framework

The sources of funding to be included in the SIF are specified in Section 2.1 of the Investment Strategy. Where new funding sources appear, LCRCA will, unless otherwise determined, adopt this Assurance Framework in their management and in agreement with HM Government.

In addition to the SIF Funds, the Combined Authority receives a Single Transport Pot to fund certain local transport interventions. This will remain outside of the governance arrangements for SIF and will not be subject to the provisions of this Assurance Framework until the expiry, in 2019/20, of an agreed formulaic approach to deploying funds. The CA will then include the Single Transport Pot under this Assurance Framework.

When the Liverpool City Region Local Enterprise Partnership (“LEP”) agrees for funds it receives – such as Local Growth Funds – to be invested under the SIF, the CA and the LEP work together. This collaboration will ensure that the funds are managed in



compliance with this Assurance Framework and with the requirements made of the LEP under its own assurance arrangements with HM Government.

#### **1.4 Annual Framework Reviews**

The LCRCA will review this framework annually to examine the potential for improvements in standards, process and delivery practice. The CA will take on board feedback from strategic partners as part of this process and will implement changes which best reflect the lessons learned as the portfolio of projects develops. Changes may also be necessary to take account of any changes in the Combined Authority. LCRCA also intends to review its Investment Strategy within 12 months of launch, and to update it for the results of its forthcoming Local Industrial Strategy.

The CA will engage with HM Government and the LCRCA to review and approve significant changes to this document.



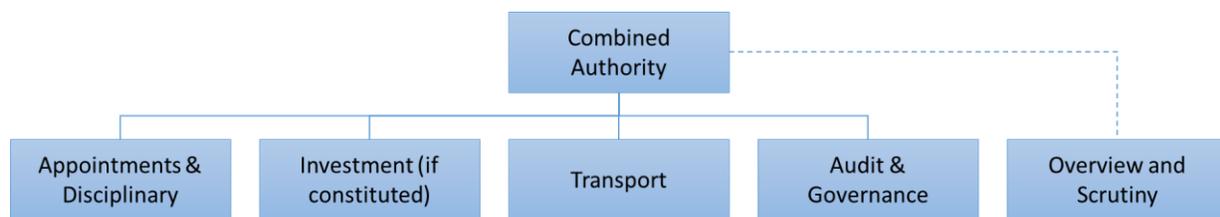
## 2. Governance and Decision Making

### 2.1 Liverpool City Region Combined Authority Governance

#### 2.1.1 Membership and structure

LCRCA is a mayoral combined authority whose membership currently comprises the Liverpool City Region Metro Mayor (“LCR Mayor”), the five local authority leaders of Halton, Knowsley, Sefton, St Helens and Wirral Councils, the elected Mayor of Liverpool City Council and the Chair of the Local Enterprise Partnership. Warrington and West Lancashire Borough Councils are Associate Members and there are two co-opted Members in the Merseyside Police and Crime Commissioner and the Chair of the Transport Committee. The November 2015 Devolution Agreement<sup>2</sup> together with the March 2016 updated agreement,<sup>3</sup> details the CA’s remit and authority.

The CA’s governance structure is shown in the diagram below:



Beneath its board, the Combined Authority governs through a number of Committees, each with their own remit. Each committee operates to ensure effective management and oversight of delivery against LCRCA obligations and objectives.

#### 2.1.2 Committees

Further detail on the scope of each committee can be read in Section 3 of the Constitution.

#### Overview and Scrutiny Committee

Exists to achieve greater public accountability over all CA decisions made and services delivered to the whole Liverpool City Region. The Committee can review and/or scrutinise decisions made by the CA or the Mayor and make recommendations/reports to the CA and/or Mayor. Annually it publishes its work plan which indicates how it will exercise its powers. It may choose to scrutinise the SIF.

<sup>2</sup> [http://liverpoolcityregion-ca.gov.uk/uploadedfiles/economic\\_development/Liverpool\\_devolution\\_deal%20DEVO.pdf](http://liverpoolcityregion-ca.gov.uk/uploadedfiles/economic_development/Liverpool_devolution_deal%20DEVO.pdf)

<sup>3</sup> [http://liverpoolcityregion-ca.gov.uk/uploadedfiles/documents/160314\\_Further\\_devolution\\_to\\_Liverpool\\_City\\_Region\\_-\\_FINAL.pdf](http://liverpoolcityregion-ca.gov.uk/uploadedfiles/documents/160314_Further_devolution_to_Liverpool_City_Region_-_FINAL.pdf)



### **Appointments & Disciplinary Committee**

Makes recommendations to the Board on CA staffing, remuneration, terms and conditions.

### **Transport Committee**

Oversees transport and travel policy matters and has oversight of Merseytravel as the Passenger Transport Executive and Executive Body for the CA.

### **Audit and Governance Committee**

Provides assurance on the adequacy of the risk management framework (including the Annual Governance Statement) promotes and maintains high standards of conduct by CA Members. The Section 73 Officer is 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.

## **2.2 LCR Local Enterprise Partnership (“LEP”): Role and Responsibilities**

The LCR LEP is distinct from the Combined Authority and is a primary body for promoting economic development across the City Region. It operates as an independent partnership board of representatives of the private and public sectors, plus other relevant stakeholders. Its chairperson, drawn from the private sector, is a non-voting member of the Combined Authority.

The LEP partnership board operates with a series of sector and thematic specific sub-boards operate, providing focused insight and advice to inform LCR and Government policy/activities. The main board comprises the LCR metro mayor, local authority leaders, private sector representatives, education and third sector representatives and is chaired by a LCR senior businessperson. Sub-board members are leaders from business and the public sector who provide strategic insight, intelligence and guidance to the LEP board and LEP executive. The LEP board and its sub-boards are supported by executive capacity provided by a self-standing company.



The LEP Board has a key interface role with HM Government in progressing interventions and supporting the development of the overall growth strategy for LCR. Its growth strategy provides the evidence base for making investment decisions and allocating the SIF, in addition to local transport objectives and statutory requirements.

The LEP engages in the following way with the SIF:

- It contributes actively to strategy formation. In particular, the LEP drafted the sector priorities for inclusion in Section 2 of the Investment Strategy; this ensured the proper reflection of the growth strategy;
- It will name a senior executive member (managing director or finance director) to the SIF's internal investment panel, giving it an active voice in project prioritisation and portfolio monitoring;
- LEP sector specialists will routinely join project teams for SIF investments to lend sector expertise to the proposition. In this way, the CA and LEP will co-develop investment propositions;
- Its chair is a non-voting member of the CA board and will routinely provide a LEP view of projects at the time of their submission for approval;
- It will collaborate in policy formation, particularly in the forthcoming local industrial strategy and will influence the long-term priorities that the SIF targets; and
- It allows certain funds that it receives – Local Growth Funds in the main – to be invested on the SIF platform; when it does, it relies on this Assurance Framework after satisfying itself that its provisions satisfy its own assurance and reporting requirements with HM Government.

Besides SIF investment, the Combined Authority and LEP are collaborating on inward investment, place and destination marketing, internationalisation strategies and other growth promoting areas. Following the 2018 LEP review, the Liverpool City Region LEP will seek opportunities to use its commercial entity to provide delivery capacity to LCR priorities.

### **2.3 CA Portfolios**

The LCR Mayor has divided the Combined Authority's key priorities and competencies into discrete portfolios and allocated a Combined Authority member to lead each portfolio with support from a deputy portfolio holder and nominated senior officer. The portfolio holder is typically a local authority leader, the deputy portfolio holder is a councillor and the officer is a senior Combined Authority officer. This approach is designed to balance democratic accountability with delivery capacity. The portfolios are:-



- Business Growth and Brexit;
- Inclusive Growth, Economic Development, Digital and Innovation;
- Energy and Renewables;
- Culture, Tourism and the Visitor Economy;
- Public Service Reform and Further Devolution;
- Education, Employment and Skills;
- Housing and Spatial Planning;
- Policy and Resources, Strategy and Delivery;
- Transport and Air Quality; and
- Criminal Justice.

The portfolio teams may include SIF interventions in their delivery plan and may use their portfolio responsibility to engage with the Combined Authority's Investment Team (directly or through the CA board). SIF activity forms a base component of the "Inclusive Growth, Economic Development, Digital and Innovation", "Housing and Spatial Planning" and "Transport and Air Quality" portfolios.

## **2.4 Accountable Body Role and Financial Management**

The Combined Authority acts as the accountable body for the SIF. 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.

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 Combined Authority discharges its functions as an accountable body. The Combined Authority ensures that appropriate governance and accountability arrangements are established and followed to meet the responsibilities of the Combined Authority in respect of its accountable body role for the proper administration and use of external funding.

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).

As accountable body, the Combined Authority will ensure that the SIF is managed in a manner that is lawful, transparent, evidence-based, consistent and proportionate. It is



responsible for overseeing policy, the prioritisation of funding, ensuring value for money, evaluating performance and managing risk. The Combined Authority will:

- hold the Investment Funds and make payments in accordance with the decisions of the CA/Mayor;
- record and maintain the official record of proceedings relating to decisions made on all investment projects; and
- account for SIF funds in such a way that they will be separately identifiable.

The Director of Commercial Development and Investment, appointed to manage the Combined Authority's Investment Team, will present quarterly financial reports for the LCRCA/Mayor in relation to the funds overall, costs of the investment projects and profiling of spend.

The Combined Authority's s73 Officer, the Director of Corporate Services, is ultimately accountable for the SIF's financial management including budgeting and reporting of performance. The Combined Authority discharges this responsibility with reference to the finance team, the internal audit team and programme management office, which form part of the directorate for corporate services.

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.

## **2.5 Conflicts of Interest and 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 which covers:

- What LCRCA is and what it does;
- LCRCA spending;
- Priorities and performance;
- How the LCRCA makes decisions;
- LCRCA policies and procedures;
- Lists and registers; and
- The services offered by the LCRCA.

Team members, whether in the SIF Investment Team or elsewhere in LCRCA, have a responsibility to report conflicts of interest as defined in the Officers Code of Conduct



set out in the Constitution, Part 6, and Section B. Part 6, Section A details the Members Code of Conduct. Both these codes of conduct require declaration of interest whether personal or financial and they are not limited to the individual employee but to their wider relationships.

## 2.6 Corporate Governance and Code of Conduct

The Combined Authority has the benefit of the following policies:

- Confidential reporting (whistleblowing);
- Complaints;
- Gifts and hospitality;
- Code of conduct for Officers and Members;
- Freedom of Information;
- Data Protection; and
- Declaration of interests.

## 2.7 SIF Decision Making

All applications to the SIF are subject to the same rigorous investment appraisal process although this process does follow the principles of proportionality. This section describes the three bodies that contribute to SIF decision making: the internal panel, the full investment panel and the CA board. It also describes the governance arrangements in place for these bodies. The investment process itself is addressed in Section 3 of this document.

### 2.7.1 Internal Panel

The Internal Panel comprises senior CA officers and a senior LEP executive member. It is constituted for its ability to meet regularly, monitor pipeline and portfolio performance and maintain CA governance standards. Composition is as follows:

<b>Member</b>	<b>Role on panel</b>
Head of Finance	Full member with veto right
Head of PMO	Full member with veto right
Director of Strategic Policy & Commissioning	Full member with veto right
Director of Integrated Transport (for all transport projects)	Full member with veto right
Head of Legal	Full member with veto right



<b>Member</b>	<b>Role on panel</b>
MD or FD of LEP	Full member
CA Head of Paid Service	Observer
Director of Corporate Services	Observer

The internal panel will consider called projects at the outline stage. It will reach decisions by consensus. Members with a veto right may use it to refuse a project or decision that would breach SIF governance requirements and/or run counter to good economic development policy. The internal panel will report its activity and decisions quarterly to the full investment panel and CA board.

The internal panel will also act as executive board in the management of portfolio projects, with its decisions reported quarterly to the full investment panel and CA board. The Combined Authority will permit members to delegate an alternate to assure continuity of function to the SIF.

### **2.7.2 The Investment Panel**

The full investment panel comprises all members of the internal panel plus 6-8 independent members selected for their experience, expertise and alignment with LCR's objectives. Members are likely to have acted as senior executives in their organisation and be accustomed to the duties of an executive or supervisory board member. Independent members will have no executive responsibility but will provide advice on strategy, planning, proposed investments and overall SIF performance. The Panel's recommendations will critically inform LCRCA leaders' decision making.

The Panel shall:-

- Review the SIF business plan and identify opportunities for improvement
- Review the SIF portfolio and identify opportunities to improve performance
- Act as a critical friend to each proposed project, interrogating its assumptions, plans, delivery and expertise to maximise the potential for successful delivery and generation of the targeted economic outputs
- Consider project submissions at the concept, interim and final review stages and provide guidance (detailed where necessary) on:-
  - The project's strategic fit with LCRCA's objectives and investment strategy
  - The project's quality with respect to its structure, delivery, operations, financing and impact
  - The project's risks, mitigation of these risks and portfolio impact



- The structure, role and risks of LCRCA's proposed financial contribution
- Opportunities to enhance LCRCA's impact by linking and/or modifying other projects and interventions under consideration.

Independent Members will operate by consensus in formulating meeting minutes to guide LCRCA in conducting diligence, negotiations and decisions about projects. In particular, the Panel will submit concise but detailed commentary to LCRCA leaders before they consider approving a project.

Internal panel members will hold rights of veto on projects, again designed to assure that each department (legal, finance, programme management etc.) can assure compliance with its operating requirements. The outcome of Internal Panel meetings will be shared with the Investment Panel. Please refer for more detail to the terms of reference provided in Annex 1.

### **2.7.3 LCR Combined Authority**

All aspects of LCRCA and its procedures are subject to the core principles of transparency and good governance.

The Authority meets frequently in a public forum. The dates of the Authority and committee meetings are set annually in advance and published on the website.<sup>4</sup> For each meeting, the Agenda and papers are published in advance on the LCRCA website and historical packs are also available. Openly publishing all the core documents enables the CA to inform the public of key decisions and future strategic issues. The Authority debates key decisions to ensure that matters presented to the public reflect the combined views of the CA members.

The LCR Mayor chairs the Combined Authority in which each member has one vote. SIF spending proposals are approved or rejected by simple majority, subject to that majority including the vote of the LCR Mayor, unless otherwise set out in legislation, or specifically delegated through the Constitution. Proposals for decisions by the CA may be put forward by the LCR Mayor or any Combined Authority member.

The LCR Mayor is required to consult the CA members on his strategies, and the CA may reject these proposals if two thirds of the constituent council members agree to do so. The CA also examines the Mayor's spending plans and are able to amend these plans, again, if two-thirds of the constituent council members agree.

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<sup>4</sup> <http://liverpoolcityregion-ca.gov.uk/meetings-196>.



The Combined Authority ultimately decides on all SIF (and other funding) projects. It will also approve SIF strategy, priorities (linked to mayoral priorities, portfolio plans and the Combined Authority's own corporate plan) and portfolio performance. By receiving periodic updates on portfolio performance and the activities of both the internal and full investment panels, it will be able to consider projects in their wider context.

Combined Authority meetings are open to members of the public. Members of the public can ask questions of the Mayor and Leaders in an open forum.<sup>5</sup> Additionally, the public can engage with the Mayor through the LCRCA website<sup>6</sup>.

## **2.8 Performance Management**

LCRCA's Corporate Programme Management Office (the "PMO") will provide regular reporting on SIF activity and performance. These reports will highlight project progress (milestone tracking), financial performance, dependencies, key delivery risks, issues and other Key Performance Indicators.

In compiling these reports, the PMO will seek performance information from project sponsors (and their representatives) proportionate to the scale, complexity and risk associated with the project being considered. The monitoring will also reflect the form of the investment instrument.

## **2.9 Delegated Authority**

The Constitution allows the Combined Authority board to create an investment committee with delegated authority to consider certain SIF projects. The Combined Authority has not, to date, activated this committee and plans to remove its provision from the Constitution.

## **2.10 SIF Investment Team**

The Combined Authority's directorate of commercial development and investment (the "Investment Team") is responsible for the SIF's operation and management. The team manages projects throughout their lifecycle, from identification through prioritisation, diligence, approval and monitoring to closure.

The team's Director reports to the CA's Head of Paid Service, participates in senior CA management and is responsible for the SIF's overall performance, including risk

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<sup>5</sup> [http://liverpoolcityregion-ca.gov.uk/uploadedfiles/documents/LCRCA\\_Public\\_Question\\_Time\\_Guidance.docx](http://liverpoolcityregion-ca.gov.uk/uploadedfiles/documents/LCRCA_Public_Question_Time_Guidance.docx)

<sup>6</sup> <http://liverpoolcityregion-ca.gov.uk/ask-steve>



management. The team combines conventional public sector regeneration acumen with commercial investment experience and has been recruited not only for its skills in underwriting investments but also in assembling high-quality projects. Indeed, a portion of the team is focused on helping project sponsors prepare their project for investment, to maximise SIF's impact. The team's working hypothesis is that the combination of commercial acumen and pro-active support will maximise value for money to the public purse.

The team receives support from the following CA sources:-

- Directorate of policy and strategic commissioning, the CA's prime policy making body, which collaborates on the potential for commissioned projects, SIF alignment with strategic priorities and maximising value for money through options appraisal; the policy function plays an integral role in formulating SIF project calls;
- Finance, which manages the SIF as a discrete programme and provides performance reporting and management insight on programme;
- Legal, which supports at two levels: 1) transactional, with a lawyer assigned to each project to co-manage the external transaction counsel or to draft documents internally, depending on availability and complexity; 2) constitutional, to oversee governance and compliance with and the Constitution;
- Merseytravel, which provides intelligence to identify, assess and deliver integrated transport projects, including through the Transport Advisory Group through which local authorities engage in transport pipeline formation;
- Internal audit, which has a critical role to play in providing independent verification of financial performance and processes; and
- The PMO, whose engagement is described in further detail below.

Each of these sources, other than internal audit, nominates a member and has a veto right on the internal investment panel.

## **2.11 Role of the Programme Management Office**

The PMO sits at the heart of the Combined Authority. It exists to provide a strategically aligned and co-ordinated approach to project delivery and facilitates an exchange of project performance information which feeds the decision making processes. It provides independent assurance of project health and it fulfils three key functions in the management of the SIF:-

- It provides programme management expertise and support to the Investment Team as it coordinates the internal investment decision making process. It ensures a



rigorous approach is applied to the management of SIF applications covering risk, issues, project plans and decision making. It also provides assurance that the decision making process is consistent with the Investment Strategy and this Assurance Framework.

- It co-ordinates with SIF applicants to ensure that the information SIF applicants provide is in the right format and that application documentation is full and complete. It scrutinises application data, commercial and legal documentation and highlights any issues of concern. It also co-ordinates Business Case appraisals with independent assessors.
- Once a public decision to provide project funding has been confirmed, and a project moves into delivery, the PMO monitors ongoing contractual performance. In conjunction with the Finance team, the PMO produces regular reports which highlight progress being made towards project completion and benefit realisation. This monitoring continues until the project is closed.
- Following closure, the PMO assists and co-ordinates post completion Monitoring and Evaluation activity, working closely with the LCRCA's Research and Intelligence Team.

The PMO sits within the CA's Corporate Services Directorate, separate from the Investment Team, helping to maintain the independence of its assurance role.



### 3. Accountable and Transparent Decision Making

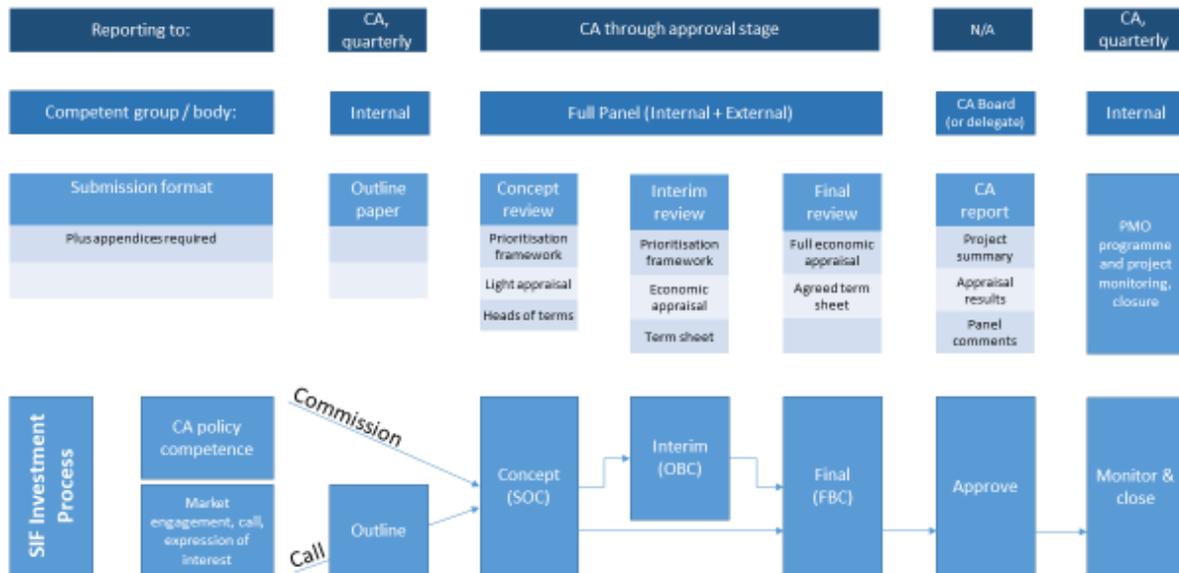
This section describes the SIF investment process, explains the approach to transparent decision making and offers guidance on the methodology the CA adopts, and the information it requires, when progressing funding applications.

#### 3.1 Investment Strategy

The Investment Strategy, originally approved in July 2018, is based on the Strategic Economic Plan (Growth Strategy) for the area prepared by the Local Enterprise Partnership (LEP). It also reflects LEP strategies completed after the Strategic Economic Plan (such as the 2017 Science and Innovation Audit and sectoral skills audits) as well as mayoral priorities and local transport objectives. It forms the basis for investment decisions alongside the delivery of statutory requirements, and the conditions and objectives of each funding source.

#### 3.2 Investment Process

The LCRCA investment process is shown below. Its purpose is to demonstrate the coherent, transparent methodology the CA adopts in managing public funding.





Each approval stage, and the steps necessary to reach that stage, are described in detail in section 4 of the Investment Strategy.

The purpose of this section, consequently, is not to repeat the information provided there but to summarise the investment process and provide additional assurance where pertinent.

The LCRCA's Investment Team manages applications through all stages of the process with support from the PMO.

Section 4 of the Investment Strategy provides detail of the investment process. A summary follows below.

### **Step 1 – Calls and Commissions**

The CA will generate project opportunities either by call or commission. The CA may call for projects in batches but will operate by preference under an “open call” system that allows projects to progress when ready. Any call will at a minimum be published on the CA website and communicated to the CA members. The call documentation will clearly outline the nature of the projects desired and the minimum criteria being applied. Please refer to Annex 2 for full guidance on the format of calls. Project sponsors will complete a standard template response which is designed to aid simplicity and transparency.

Information submitted at this stage allows the Investment team to submit a short outline paper to the Internal Panel, intended to identify those projects most likely to meet the CA's objectives as stated and therefore worthy of progressing through the approval process.

The CA may commission projects by specifying desired outcomes and either delivering a project itself or inviting organisations to deliver the outcomes through a commission or procurement.

### **Step 2 – Concept (SOC – strategic outline case)**

On progression to the concept stage, the Investment Team will engage with the Sponsor (and/or their representatives) to understand the project in greater depth. The Team will identify due diligence requirements and conduct market, operational, financial and structural due diligence. Project submissions will comprise a concept paper, prioritisation result and agreed, high level terms for financing, to be considered for progression by the full panel.



### **Step 3 – Interim Review (OBC – outline business case)**

Interim review is intended for projects that are unusually large, complex, novel or protracted in negotiation. Project submissions will comprise an outline paper, external economic appraisal and funding term sheet, allowing the panel to provide detailed feedback on the potential for changes, improvements before progressing to final review, or to recommend rejection on reasoned grounds.

### **Step 4 – Final Review (FBC – full business case)**

Projects with satisfactory diligence, term sheet and external appraisal will be submitted for consideration at the final stage by the Investment Panel, which will provide final commentary to the Combined Authority on the project's merits.

Please see Annex 3 for the summary content of a final review submission.

### **Step 5 – Approval**

Projects recommended for approval by the Investment Panel will be submitted to the Combined Authority for final consideration. The basis for this approval will be a summary project submission, summary appraisal submission and the Investment Panel's commentary.

Projects approved in principle by the CA will receive delegated authority for officers of the CA to enter into legal documentation and proceed to disbursing the SIF commitment. Projects that are rejected will receive reasoned feedback.

All financial commitments that the Combined Authority approve remain subject to the satisfactory completion of legal documentation and are therefore approved in principle. It is reasonably likely that Combined Authority officers will negotiate legal terms within the scope of the principle decision, even after the Combined Authority decision.

## **3.3 Stakeholder Engagement**

In 2016, the LEP, acting as a link to the region's private sector, published 'Building our Future,' a growth strategy for the City Region. The Investment Strategy builds on the 2016 Growth Strategy, the Metro Mayor's election manifesto and the City Region's devolution arrangements. It is designed to provide a sound basis for taking investment decisions over the next 12-18 months. It foreshadows a longer-term strategy to be built on the City Region's Local Industrial Strategy, due to be developed during 2018.

Section 2 above provides detail on how the SIF process will engage the Combined Authority's policy directorate and the LEP, both strategically and at the project level. The



LEP will play an important role in identifying sector led opportunities and the Investment Team will interact and consult with the LEP sector leads to help achieve this objective. The CA will engage with member local authorities at the CA board level, where priorities, performance and funding distribution are monitored; at regular Chief Executive and senior officer meetings, where priorities can be discussed; and through regular working groups amongst delivery groups like the transport advisory group and the major projects delivery working group.

The Investment Team will also maintain ongoing dialogue with the City Region's businesses, third sector and public organisations to inform them of the availability of funding, the current objectives, and to identify and co-design project opportunities from an early stage.

LCRCA will use its website to engage with the wider community and will be used as a platform for transparent sharing of the SIF processes and objectives. Details of all SIF investment calls, decisions and funding allocated will be published online, in line with the LCRCA's publication scheme and the Local Government Transparency Code.

### **3.4 Pre-development Funding**

The Combined Authority considers project development to be a significant barrier to growth. The CA cannot reach its potential without acting to improve the City Region's project development capacity. The absence of high-impact, investment ready projects is a risk to SIF. The risk is that the CA finds it has more funds than projects and struggles therefore to generate the economic growth it was established to enable.

Project development requires the commitment of risk funding and dedicated personnel from an early stage. The inability to develop projects damages most of those sectors with long planning cycles, typically transport, housing and other economic infrastructure. In order to commit SIF funds in an orderly way, the CA will – *selectively, and with caution*, intervene to expand and improve the pipeline of projects that it might fund, providing risk funding and expertise to help analyse markets, identify opportunities and develop projects towards a deliverable state.

The CA will allocate up to 2% of non-transport funding and 6% of transport funding to pre-development for a period of two years from October 2019, attaching to it conditions to maximise its impact and minimise the moral hazards associated with funding pre-development. The funds will be drawn from SIF revenue sources until they can be capitalised into a project per the Section 73 officer's confirmation.

Please refer to Annex 4 for the guidelines the CA will observe in managing pre-development funding.



### 3.5 Use of Evidence

The CA has committed to an evidence based approach to policy and investment. For each investment proposition, it will obtain and review evidence on the strategic case for intervention as well as its financial and commercial assumptions. There are three main sources for evidence:

1. Evidence obtained from third parties to support diligence on projects. For example, a property intervention is typically supported by a market report and valuation from a professionally qualified firm of surveyors.
2. Evidence obtained from the CA policy team, Merseytravel and LEP following their own research and policy examination. The LEP's 2017 Science and Innovation Audit and 2018 Internationalisation Strategy exemplify good, evidence-based evidence on which SIF investment decisions could be based.
3. Evidence submitted by project sponsors, to the extent this meets a minimum standard for rigour and methodology and can be verified through external reference.

The role of the Investment Team is not to be expert in all areas but rather to assure evidence and expertise is brought into the investment process at each stage.

The CA will identify best practice in public investment, including from the What Works Centre for Local Economic Growth<sup>7</sup>. It will use this best practice to inform shape calls and commissions, and to work with project sponsors to maximise their benefit of their proposal.

### 3.6 Prioritisation

Appendix 2 of the Investment Strategy details the criteria used to prioritise projects for SIF investment and the scoring mechanism that will be used. The CA will treat project proposals received under “calls”, including open calls, to an outline review before committing significant time to their progression. This outline stage assesses projects for their strategic fit, public value and deliverability. The purpose of the gateway is to ensure that only projects that are fundamentally orientated to the goals of the SIF and are deliverable progress to prioritisation, diligence and commitment. Projects which do not credibly demonstrate that they will address one or more of our strategic investment aims will be rejected.

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<sup>7</sup> <http://www.whatworksgrowth.org/>



### 3.7 Appraisal

A key objective of the assurance framework is to support the CA 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<sup>8</sup>, including supplementary and departmental guidance, such as the Department for Transport's (DfT) WebTAG appraisal guidance and MHCLG's Appraisal Guide. This will work from the five cases model:-

- 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;
- economic case – which describes how the project/preferred option represents best public value;
- 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
- management case – which confirms that what is required from all parties is achievable.

#### 3.7.1 Proportionality

The CA undertakes to apply a proportionate application of HM Treasury's Green Book and its attendant five business case model. Proportionality has two senses:-

- First, the CA will allow projects requesting a non-repayable commitment less than £1 million and/or a repayable commitment of £3 million to progress directly from outline approval to final approval. This eliminates the concept (SOC) stage, allowing the project to be funded more quickly and the Investment Team to focus its scarce resources on larger funding requests.
- Second, the CA will adopt a risk based approach under which it will allocate Investment Team development and diligence time according to the size, risk and complexity of projects and programmes (as stated in Section Five of the Investment Strategy). Even in accepting differences in the depth of analysis and diligence it undertakes, the CA will adopt the same base approach and templates to prepare and submit its papers. Please refer to Annex 3 for the summary headings of the final review (FBC).

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<sup>8</sup> <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>.



### 3.7.2 Consideration of Options

Where the project promoter is a public sector organisation (including the CA itself when it proposes projects), the CA requires the consideration of options per HM Treasury's Green Book and will engage with the promoter to ensure the options considered fairly reflect the availability, terms and objectives of the CA's funding. The CA will report the options considered in its presentation of projects.

Where the project promoter is a private or third sector organisation, the CA's ability to require options analysis may be limited since it may fund the project under consideration but is not leading its delivery. In these cases:-

- The CA may consider options at a higher level, i.e. choose amongst a number of projects that deliver the same outcomes (e.g. multiple proposals for office development in the city centre);
- Engage with the project promoter to consider alternative options for delivery within that promoters' financial and operational parameters; and
- Accept that the project itself has no alternative options but consider the different financing approaches the CA could take, also to optimise value for money.

### 3.7.3 Appraisal Criteria

A single appraisal approach will be applied to all projects, regardless of sector or geography, 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;
- common and comparable output criteria, 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 SIF has been established with a principle of becoming a self-sustaining fund over time. Where the project's financial profile can support it, 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 of at least 2.0x is expected for transport schemes, representing "high" value for money. *This will allow projects to be compared and those with the highest impact to progress to funding.* 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 schemes having lower VfM, having regard to specific circumstances including:-

- very convincing<sup>9</sup> wider economic, social and environmental benefit;
- 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<sup>10</sup> 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

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<sup>9</sup> I.e. benefits that are core to the Combined Authority's strategy, as described in its corporate plan or investment strategy but which may not be captured entirely in value for money calculations, even considering the social impacts contained in HM Treasury's 2018 Green Book update. An example of this may be in addressing localised air quality problems, which is vital for public health but may not generate sufficient value for money in a conventional transport appraisal to permit focused intervention.

<sup>10</sup> This applies where a project becomes necessary to safeguard initiatives or projects that are core to the Combined Authority's strategy, as described in its corporate plan or investment strategy.



rationale for approving a lower VfM scheme and the implications of the recommendation.

### 3.7.4 Assessing Value for Money (VfM)

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;
- 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.

The focus of the SIF 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 (inc. jobs and GVA), as well as the wider VfM appraisal.

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 LCRCA may decide to invest in a project based on the overall business case, including local impacts, by referring to the specific circumstances described in the appraisal criteria above.

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 reflect the established guidance of the relevant government department and detailed in Appendix 1 of the Single Pot Assurance Guidance, which is summarised below:

**Transport** – the standard against which the CA will assess the robustness of the economic case of transport projects 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>11</sup>, including the application of DfT appraisal periods and HMT Green Book discount rate. 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>12</sup>. Appraisal results from this central case will be clearly reported to decision makers. At every stage of the approval process, the economic case and corresponding VfM statement will also be reviewed and updated to reflect changes in the scheme's scope and cost and extant WebTAG / NTEM guidance. Scheme promoters should also have regard for DfT's proportionate update guidance in preparing their project<sup>13</sup>.

A VfM statement and a monitoring and evaluation plan will be required for all transport projects in line with DfT advice on assessing VfM<sup>14</sup> and monitoring and evaluation<sup>15</sup>. This VfM statement will be produced by scheme promoters and independently scrutinised by the Combined Authority, drawing on independent technical support. The statement will be signed off by the Director of Corporate Services, 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 be signed off by an alternate of suitable seniority and experience such as the Head of Paid Service.

The CA's base expectation is for a BCR of 2.0x or higher.

The CA will require that business cases be published and publicised by local stakeholders three months or more before funding approval is sought so that external comment is possible. Opinions expressed by the public and stakeholders must be available to the CA when decisions are being taken.

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<sup>11</sup> DfT's appraisal guidance, <https://www.gov.uk/guidance/transport-analysis-guidance-webtag>.

<sup>12</sup> DfT's planning dataset, <https://data.gov.uk/dataset/11bc7aaf-ddf6-4133-a91d-84e6f20a663e/national-trip-end-model-ntem>.

<sup>13</sup> <https://www.gov.uk/government/publications/webtag-tag-proportionate-update-process>.

<sup>14</sup> <https://www.gov.uk/government/publications/dft-value-for-money-framework>

<sup>15</sup> <https://www.gov.uk/government/publications/monitoring-and-evaluation-framework-for-local-authority-major-schemes>



**Housing** – Homes England good practice, advice and guidance will need to be adhered to, alongside MHCLG’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.

**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 MHCLG appraisal guide will be useful in helping to appraise the costs and benefits of these types of interventions.

### 3.7.5 Responsible Senior Officers

The Director of Commercial Development and Investment is the senior officer responsible assuring adherence to the Investment Strategy, including the investment process and the standards outlined above for prioritisation, appraisal and securing value for money. The Director and the Investment Team’s role is to prepare optimal submissions for consideration by the Investment Panel and the Combined Authority.

The Investment Panel is responsible for scrutiny and recommendations on each business case. The veto rights available to the Head of Finance, Legal, PMO, Director of Integrated Transport, and Policy and Strategic Commissioning assure a separation between those responsible for preparing a project submission and those responsible for approving/recommending it. It also assures that projects submitted for funding by the Directorate of Commercial Development and Investment are considered by responsible officers outside that directorate.

To create an appropriate working tension between project submissions and value for money, the Director of Corporate Services, who is also the Section 73 Officer and to whom the heads of PMO, Legal and Finance report, carries responsibility for assuring value for money.



### **3.8 Risk Management**

Risk Management is at the heart of the SIF investment process. Section 5.7 of the Investment Strategy sets out how risks will be monitored at a Project, Programme and Portfolio level. The Director of Commercial Development and Investment is the senior officer responsible for the propriety and performance of SIF projects and portfolio. The Investment Team will make risk integral to its structuring and presentation of projects, maintaining its own view of risk. The CA will also require project sponsors to maintain a risk log. Risk mitigation measures will be agreed with project sponsors prior to approval. When a project is in delivery, the CA will require the risk log to be maintained, regularly reviewed and reported on. The PMO, alongside Internal Audit, will regularly report on risk and performance to the Audit and Governance Committee.



## 4. Monitoring and Evaluation

Monitoring and evaluation (M&E) is a critical component of an effective performance management regime. M&E quantifies and assesses the relative impacts and benefits of a scheme or series of policy interventions, including how it was delivered and whether the investment generated the intended benefits and delivered value for money. M&E creates a feedback loop to inform future policy development, priorities and budgets.

### 4.1 Effective Monitoring and Evaluation

The LCRCA is committed to implementing effective M&E so that it is able to:-

- a) **Provide local accountability** to the public by demonstrating how devolved funding is spent and the benefits achieved, and tracking progress against local strategies and action plans (such as the 'Building Our Future' Single Growth Strategy<sup>16</sup>). As such, M&E will be important to demonstrate the value and effectiveness of local decision-making and to shape future priorities;
- b) **Comply with external scrutiny requirements** i.e. to satisfy conditions of the Devolution Deal. Specifically, M&E will be used to demonstrate local progress and delivery to senior government officials and Ministers who are ultimately accountable to parliament for devolved funds;
- c) **Understand which policies/interventions work and are effective**, and justify reinvestment or further funding. M&E will provide a useful feedback loop and enable this to be communicated to relevant stakeholders;
- d) **Develop an evidence base** for input into future business cases and land use/transport models; and can also be used for developing future submissions when competing for funds. M&E will collect, collate and analyse data which can be utilised for future work.

The LCR Combined Authority's Devolution Deal specifically includes a commitment between Government and the LCRCA to work together in developing an approach to monitoring and evaluating the impact of the Deal. The Authority last reviewed its Devolution Deal Monitoring and Evaluation Plan in September 2018. This sets out the approach of the Combined Authority and its partners in respect of the deal as a whole, covering all of the governance changes, powers and new funding freedoms that arise.

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<sup>16</sup> [http://liverpoolcityregion-ca.gov.uk/uploadedfiles/documents/SGS\\_SUMMARY.pdf](http://liverpoolcityregion-ca.gov.uk/uploadedfiles/documents/SGS_SUMMARY.pdf)



This is to understand their effectiveness and impact, and to provide a feedback loop to inform future policy and strategy development.

Furthermore, 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 learned 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. 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>17</sup>.

The LCRCA’s approach to M&E makes use of the Magenta Book<sup>18</sup> definition of monitoring and impact evaluation:-

<b>Monitoring</b>	<b>Evaluation</b>
Seeks to check progress against planned targets, formal reporting and evidencing that spend and outputs are successfully delivered and milestones met.	Assessment of the effectiveness and efficiency during and after policy/intervention implementation. It seeks to measure outcomes and impacts to assess whether anticipated benefits are realised.

### Monitoring

The LCRCA will be using its performance management regime as the primary means of monitoring progress of the objectives/deliverables set out in the Devolution Deal. The same system will also be used to undertake performance management of other key areas of the LCRCA’s activity and interest such as the projects funded from the Strategic Investment Fund. Performance management reports will be provided regularly to the LCRCA’s governance structures to inform decision-making and if necessary additional interventions to deliver the agreed outcomes. The LCR LEP Board will receive reports on the performance and effectiveness of Local Growth Funds being invested through the SIF. Reports will also be provided to the Cities and Local Growth Unit.

<sup>17</sup> For example, DfT issue guidance for the monitoring and evaluation of transport projects as set out at <https://www.gov.uk/government/publications/monitoring-and-evaluation-framework-for-local-authority-major-schemes>

<sup>18</sup> <https://www.gov.uk/government/publications/the-magenta-book>



**Evaluation**

The LCRCA will adopt a two-tier approach, which is in line with government requirements:-

- a) Devolution Deal commitments, monitored by theme; and
- b) A collection of individual projects, monitored in detail, as agreed with individual Government Departments.

One salient example of individual projects under part (b) above concern the approach to the LCR’s £30 million Investment Fund (“gainshare”) allocation over the next 30 years. As a condition of this fund, there will be five-yearly gateway reviews undertaken by a national evaluation panel. SQW has been appointed to put in place the national framework for conducting these Gateway Reviews and to work with localities on developing a Local Framework to assess the impact of projects and intervention that are funded from SIF gainshare monies. This work will provide context for understanding the impact of wider devolved funding pots investment at a country-wide level. The Devolution Deal Monitoring and Evaluation Plan makes specific reference to this process as an example of a specific, in–depth evaluation process.

The CA has agreed the intended list of Gainshare funded projects that would form part of the national SQW evaluation, namely:-

<b>Project</b>	<b>Project Stage</b>
International Festival of Business 2018	Complete / M&E
Liverpool Cruise Liner terminal	Approved
Paddington Village, Liverpool City Centre	Approved
Parkside strategic investment site access road	In Diligence
Shakespeare Theatre, Prescot	Approved

**4.2 Responsibilities and Resources**

The primary M&E responsibilities are outlined in the table below. These responsibilities will be reviewed over the coming year in light of changes being taken forward as part of the CA’s new staffing structures.

<b>Responsibility</b>	<b>Resource</b>
Setting the LCRCA’s strategic approach to Monitoring and Evaluation, including annual review	Head of Paid Service



Monitoring progress of Devolution Deal objectives and of LCRCA wider programme of activity, including projects and programmes funded from the SIF	Research and Evaluation Team (with support/input from PMO, policy leads and the LEP)
Preparation of individual Monitoring and Evaluation Plans	Devolution Theme Leads/SIF applicants
Undertaking individual evaluation	Independent teams that are in the same organisation as the Devolution Theme Leads/SIF applicants
Developing the Local Framework in support of the Gateway Assessment	Research and Intelligence Team / PMO (with support/input from policy leads and the LEP)
Maintaining a repository of Monitoring and Evaluation data	PMO / Research and Intelligence Team (with support/input from policy leads and the LEP)
Dissemination of evaluation conclusions	PMO / LCRCA / LEP Communications Team

### 4.3 Ongoing Project Performance Monitoring

Performance information will be co-ordinated and assessed by the LCRCA's PMO. Templates to assist with information capture will be provided and will be proportionate to the scale, complexity and risk of the project. Individual monitoring and evaluation plans along with project specific Key Performance Indicators will be agreed as part of the project business case and contract.

All projects in delivery will be expected to report to the CA on:-

- Performance against Business Plans & Milestones;
- Risks;
- Issues;
- Financial performance information (as appropriate for the investment instrument);
- Quality; and
- Benefits, Outputs and Outcomes (as appropriate).



## **Portfolio**

Using an agreed list of metrics, reports on overall portfolio performance will also be provided. Delivery progress will be summarised alongside other Key Performance Indicators. To ensure transparency, this information will be published on the CA website.

### **4.4 Benefits Management**

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. This is key to meeting the ongoing monitoring and evaluation requirements later in the project lifecycle. The PMO team will co-ordinate the process of providing the CA with the information that it requires to assess the ongoing performance of the projects invested in by the SIF.

### **4.5 Change Control**

The CA has a formal change request process in place which ensures that project changes are well understood and agreed before a change takes place. This process is co-ordinated by the PMO team. This includes changes to project documentation, plans and funding agreements.

#### **Making a change Request**

The PMO team, with assistance from the Investment Team, will engage with project sponsors on changes requested and will encourage a collaborative approach that encourages early discussion of changes that may become necessary.

### **4.6 Five-year gateway review**

As a condition of the LCRCA's £30 million Investment Fund ("Gain Share") allocation over the next 30 years, there will be five-yearly gateway reviews undertaken by a national evaluation panel. SQW has been appointed to put in place the national framework for conducting these Gateway Reviews and to work with localities on developing a Local Framework to assess the impact of projects and intervention that are funded from gainshare.



Individual project monitoring and evaluation plans (part of the investment submission) will need to define the arrangements agreed to engage with SQW.

#### **4.7 Project Closure**

All projects will be required to produce a closure report on completion of the project. This report must confirm:

- All activities have been delivered in accordance with the contract;
- The final financial profile for the project;
- That there are no outstanding risk or issues requiring attention; and
- Any other matters reasonably required by the Investment Team and/or PMO.



## **Annex 1: Terms of Reference of the Investment Panel**

To support LCRCA's policy and investment team in providing the right type of funding to the highest impact projects, LCRCA will establish a Strategic Investment Panel (the "Panel") including seasoned leaders from priority business sectors, investment and other cross-cutting areas. The Panel will comprise these independent members and LCRCA officers whose role is to represent their area of service in the combined authority (policy, finance, legal, programme management etc.)

LCRCA may fund projects promoted by third parties (for example, by lending to a real estate developer) or created by the policy team to address a known priority (for example, to offer digital skills and maths training to a certain group of people). Either way, projects will move through a stages investment process from concept review to interim review to final review, and finally to board approval. The Panel shall oversee projects from concept to final review. Projects submitted for board approval are considered by LCRCA's political leaders.

It is critical that the Panel be considered competent and engaged, capable of assuring a first class investment process and demonstrating to all that LCR is credible in performing its economic growth responsibilities.

Independent members will have no executive responsibility but will provide advice on strategy, planning, proposed investments and overall SIF performance. The Panel's recommendations will critically inform LCRCA leaders' decision making.

### **Independent Members**

LCRCA will select independent members on the basis of their experience, expertise and alignment with the city region's objectives. Members are likely to have acted as senior executives in their organisation and be accustomed to the duties of an executive or supervisory board member.

LCRCA may favour members in the sectoral expertise in land and property (commercial and residential), life sciences, advanced manufacturing, infrastructure, energy and low carbon, digital and creative, tourism and the maritime/offshore industry. The CA may also favour cross-sectoral expertise in investment management, finance, innovation and the provision of skills and education.

Inclusive growth and sustainability form a core part of our investment strategy and should be represented.



## **Duties of the Panel**

The Panel shall:-

- Review the SIF business plan and identify opportunities for improvement
- Review the SIF portfolio and identify opportunities to improve performance
- Consider project submissions at the concept, interim and final review stages and provide guidance (detailed where necessary) on:
  - The project's strategic fit with LCRCA's objectives and investment strategy
  - The project's quality with respect to its structure, delivery, operations, financing and impact
  - The project's risks, mitigation of these risks and portfolio impact
  - The structure, role and risks of LCRCA's proposed financial contribution
  - Opportunities to enhance LCRCA's impact by linking and/or modifying other projects and interventions under consideration

## **Operation of the Panel**

The Panel will discharge its duties on the basis of submissions prepared by LCRCA's investment team. Project submissions may be accompanied by external economic appraisals designed to evaluate the project's contribution to economic, social and environmental outcomes. The Panel may call for support in analysing projects where it wishes better to understand it. Papers will be distributed five business days in advance (unless by exception).

Independent Members will operate by consensus in formulating meeting minutes that to guide LCRCA in conducting diligence, negotiations and decisions about projects. In particular, the Panel will submit concise but detailed commentary to LCRCA leaders before they consider approving a project.

LCRCA Panel members will hold rights of veto on projects. These rights are designed to assure that each department (legal, finance, programme management etc.) can assure compliance with its operating requirements. The Panel will initially comprise 6-8 independent members. It will meet up to twelve times a year. LCRCA will facilitate independent members' attendance at those meetings where their expertise is most valuable.

LCRCA will appoint independent members following an open advert and selection process led by the Authority's Nomination Committee which includes the Combined Authority's Head of Paid Service, Director Commercial Investment and Development



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and Managing Director of the Local Enterprise Partnership. The target term of membership will be two or three years.

LCRCA will appoint a chairperson and deputy chairperson to oversee the Panel's efficient operation.

Panel members will not receive any remuneration but reasonable expenses will be met.



## **Annex 2: Minimum Criteria for a “Call”**

### **Approach to Calling Projects**

The constituent councils and CA wish to identify and fund those projects that best fit the investment strategy in ways that have the greatest cumulative impact in reaching the objectives rather than projects that are simply available to be funded. The investment strategy states:

*We will strive to be flexible, creative and “mode agnostic”, i.e. to fund the most effective delivery of our objectives without favouring any one type of intervention (what works best, goes). Our aim is not a physical legacy but a human one, benefitting all our residents and communities.*

The approach, therefore, will start by defining funding available, the strategic outcomes the CA wishes to facilitate and then work to set parameters for how those outcomes can be realised.

### **Funding Available**

LCRCA will clearly state the total sum of funding to be invested and the source(s) of that funding. The type of funding available and who may apply for that funding will be defined.

*Minimum requirements: volume and source of funds.*

### **Outcomes Sought**

The way the CA identifies the outcomes it seeks to “buy” will depend on the funds available to invest. The Strategic Investment Fund is a platform for diverse government and other funding, and each source may have its own objectives and requirements. When calling projects, the CA will state the outcomes the funds available are targeting. Outcomes may apply whatever the sector or type of project, for instance where the CA wishes to consider projects that improve local productivity and employment, and recognises that both, say, innovation funding and property development are credible ways to realise those outcomes. Alternatively, funds may be restricted to a single theme, like skills, where projects must realise improved learner outcomes.

*Minimum requirements: strategic objectives and outcomes by source of funds.*



## **Sectoral and Thematic Allocations**

After defining the outcomes sought, the CA will establish the themes and sectors that – and are not – eligible for the funding round.

The CA will draw themes and sectors from the approved investment strategy. When doing so, it may refer to the priorities already contained in the investment strategy or may further specify priorities that the CA wishes to address to support the realisation of outcomes sought by narrowing the range of project and output types. If further priorities are specified in a call, the CA will indicate how these priorities will be treated in the prioritisation process.

For each theme and sector, the CA will indicate commitment targets/ranges and whether these indications are firm or soft. For example, it might state that the CA proposes to provide £10-15 million out of a total £30 million in funding to business support services and that in no case will the CA provide more than £15 million in total.

*Minimum requirements: Eligible sectors and themes, priorities from the investment strategy or further guidance, parameters for funding allocation, parameters for individual projects.*

## **Project Parameters**

After establishing these allocations, the CA will provide project level guidance, identifying requirements and restrictions that each project must observe in order to be considered. It will specify which elements of this guidance are compulsory and which are advisory.

This guidance will be provided at the fund and/or sectoral/thematic level, whichever is most likely to guide project sponsors in understanding the criteria.

Project parameters will include size; likely SIF/public funding intensity (for which we will differentiate between repayable and non-repayable funding); timing of launch, delivery and operation; stakeholder support; private investment and match funding. The CA will address impact and outputs separately; this section will refer to the formation and delivery of the project rather than its impact.

*Minimum requirements: Necessary and desired project parameters, excluding impact.*



## **Funding Parameters**

The CA will outline a range and limits for the repayable and non-repayable funding we will consider providing to any project. As with the project parameters, it will specify whether the range is indicative or compulsory.

When specifying these parameters, the CA may provide non-binding guidance on the funding approach it is seeking to obtain for different types of project.

*Minimum requirements: Advisory and compulsory funding parameters.*

## **Outputs Sought and Appraisal Criteria**

For funds overall, and each eligible sector or theme, the CA will specify the intermediate outputs it is targeting in making the call.

For example, transport projects requesting £5 million or more of public funds are required to submit a more detailed appraisal. It follows naturally that projects of this type will provide a Benefit Cost Ratio calculated under the WebTAG methodology and that the CA will consider that output in reaching its funding decision.

The CA may provide reference rates that indicate the output intensity it expects from projects as well as hurdle rates that projects must achieve in order to be considered for funding. For instance, the CA may state that the national cost per job range in sector A is £10,000 and that it expects all projects to meet a cost per job hurdle of £15,000 or less.

The CA may also provide guidance on outputs it expects to be delivered but not expect formally to appraise. These may include local employment intensity, contributions to inclusive growth or environmental improvements. Wherever guidance is issued it will state clearly the role the outputs have in project appraisal.

Finally, the CA will confirm the approach it will take in appraising projects. This will be done with reference to the investment strategy and assurance framework since these documents formalise the CA's approach, and to provide further guidance only by exception.

*Minimum requirements: target outputs by funding source, sector and theme, detailing reference, hurdle and additional criteria; confirmation of appraisal methodology.*



### **Call Particulars**

Finally, the CA will define the key dates and requirements for each call. It will confirm the timing of the call and the date by which project sponsors must have submitted their completed and satisfactory expression of interest; the format of the expression of interest to be submitted; and other factors sponsors need to observe in considering their position.

As the CA matures, it will look to provide indicative timescales for project approval.

*Minimum requirements: timing of call, format of registering interest.*



## Annex 3: Summary Contents of a Final Review (FBC)

<b>Full Business Case Requirements</b>	
<b>All Applications</b>	<b>Supporting Evidence</b> (to include as appropriate)
<p><b>Project Details and Overview</b> Overview, timetable and changes since last submission</p> <p><b>Strategic Case</b> Strategic Fit and Case for Change Investment Objectives Outcome of Options Analysis Equality and Diversity and Inclusive Growth</p> <p><b>Economic Case</b> Results of Economic Appraisal Key Metrics (NPPV, BCR, Jobs, Leverage) Non-monetised Impacts</p> <p><b>Financial Case</b> Business Plan Key Sensitivities Financial Projections Funding Sought and Key Terms Explanation of Market Failure</p> <p><b>Commercial Case</b> Risks – to CA and for Project Diligence and Legal Commentary</p> <p><b>Management Case</b> Deliverability &amp; Leadership Outstanding Issues and Conditions to Funding Monitoring and Evaluation Plan</p> <p><b>Other</b> State Aid Approach Panel Comments Other Factors</p>	<p>External Diligence Reports / Findings Market Analysis Green Book / Departmental Appraisal Results (for public sector sponsors) Economic Appraisal Results Financial Appraisal Results Terms of Funding (inc. proof of match funding) State Aid Opinion Key Permissions, Authorities and Investigations Options Annex</p>



## Annex 4: Guidelines for the Provision of Pre-development Funding from the Strategic Investment Fund

Item	Detail
Pre-development Funding	Financial support in aid of potential SIF projects, to be drawn from funds available for SIF investment.
Duration	Pre-development Funding shall be available for 2 years under this funding. The CA may at any time seek to amend these terms by approval of CA Members.
Amount	The CA shall request 6% of funds SIF available for transport projects and 2% of all other funds available to invest.
Purpose	To provide funding that could identify, improve or expedite a project with high probability of receiving SIF support under the SIF investment strategy and, usually, within the scope of an existing / forthcoming funding round.
Eligible Projects	<ol style="list-style-type: none"> <li>1. A project which, sufficiently elaborated, has a high probability of meeting the objectives, priorities and requirements established by the SIF Investment Strategy and therefore receiving support.</li> <li>2. A study which seeks to establish the market and key parameters for a project which, sufficiently elaborated, has a high probability of meeting the objectives, priorities and requirements established by the SIF Investment Strategy and therefore receiving support.</li> </ol> <p>For the avoidance of doubt, these requirements include the ability to meet the SIF's value for money criteria and expectations.</p>
Eligible Activities	<ul style="list-style-type: none"> <li>• Project preparatory work until the earlier of:               <ul style="list-style-type: none"> <li>○ Selection of a preferred option for detailed design (e.g. GRIP stage 3 for Network Rail)</li> <li>○ Ability of the sponsor to capitalise costs associated with preparation</li> <li>○ Approval of SIF funding commitment</li> </ul> </li> </ul>



Item	Detail
	<p>Such work may include:</p> <ul style="list-style-type: none"> <li>• Feasibility Studies;</li> <li>• Options Appraisals;</li> <li>• Market Studies;</li> <li>• Business Plan Development;</li> <li>• Outline design work;</li> <li>• Master Planning;</li> <li>• Pre-application planning activities / scoping studies, transport impact analysis, environmental impact;</li> </ul> <p>Such development work must be required in order for the applicant to submit a later application for SIF funding.</p> <p>No Pre-development Funding shall support a recipient organisation's internal costs (though internal costs may be considered as co-financing at the CA's sole discretion).</p>
Approval Process	<p>The CA, through its Internal Panel, will determine the eligibility of projects and studies.</p> <p>Unless by exception, it will consider project funding requests at the Outline stage of the SIF approval process. It will consider studies at an earlier stage.</p> <p>Application for development funding to be presented to Internal Panel, detailing:</p> <ul style="list-style-type: none"> <li>• Proposed long-term project;</li> <li>• Purpose of Development Funding/Eligible Activities and link to overall project / why required prior to SIF application;</li> <li>• Link to SIF objectives and priorities;</li> <li>• Amount required;</li> <li>• Confirmation that funding requested is additional; and</li> <li>• Public Procurement approach (see below)</li> </ul> <p>Information above to be incorporated into a standard short application form.</p>



Item	Detail
Reporting to the CA	<p>The Investment Team will report quarterly on:</p> <ul style="list-style-type: none"> <li>• Projects supported with Development Funding;</li> <li>• Amount allocated;</li> <li>• Amount spent; and</li> <li>• Outcome of support</li> </ul>
Review of Decision Making	<p>A CA Member may request the review of an award or refusal to award Development Funding. The Metro Mayor and portfolio holder for economic growth will hear this review.</p>
Minimum/Maximum Funding Available	<p>Pre-development funding shall be:-</p> <ul style="list-style-type: none"> <li>• provided in the minimum amount necessary to secure the specified (and agreed) outcome</li> <li>• additional, and is not intended to replace other organisations' project development capacity</li> </ul>
Main Conditions	<ul style="list-style-type: none"> <li>• Development Funding shall only meet external costs (such as professional advisors) related to such eligible activities. Organisations' internal costs (staff time etc.) are not eligible.</li> <li>• Funding required to be approved by CA prior to commencement of Eligible Activities;</li> <li>• For projects sponsored by the CA (Commissioned Projects): up to 100% of the cost of Eligible Activities;</li> <li>• For projects sponsored by 3<sup>rd</sup> parties: up to 90% of the cost of Eligible Activities in the transport sector and up to 60% in all other sectors;</li> <li>• A development work agreement in place with the Sponsor (for projects sponsored by 3<sup>rd</sup> parties) covering: <ul style="list-style-type: none"> <li>• Agreed scope of work of third parties or such scope to be agreed with CA prior to commencement;</li> <li>• Requirement of CA to approve identity of parties and contracts (so that there are no adverse limitations on Intellectual Property / restrictions of use) undertaking the</li> </ul> </li> </ul>



Item	Detail
	<p>work (if not already identified);</p> <ul style="list-style-type: none"> <li>• CA to be co-beneficiary/addressee of work undertaken / relevant 3<sup>rd</sup> party to have equivalent duty of care to CA. All reports / deliverables to be provided to the CA.</li> <li>• Except where commercial confidentiality requires otherwise, CA be able to use deliverables for wider purpose;</li> <li>• Sponsor accepts CA's obligations as a public body (such as FOI and public sector procurement requirements);</li> <li>• Where considered appropriate, CA entitlement to attend any meetings with external third parties in respect of progress reporting / interim findings etc.; and</li> <li>• Funding drawn down on provision of copy invoices certified as properly payable by the Sponsor</li> </ul> <p><b>In general, it is anticipated such agreement will be set out in a letter to be countersigned</b></p>
Public Procurement	<p>Where 3<sup>rd</sup> parties are being engaged by recipient of funding this may fall within CA requirements to undertake a procurement exercise. Where relevant, waiver of requirement to undertake a procurement exercise will be sought as part of the Approval Process.</p>
State Aid	<p>It is expected that any funding provided will fall below <i>de minimis</i> limits. Where this is not the case, the CA will require a State Aid compliant funding route.</p>