

An Introduction to Business Cases

Webinar 23 November 2020

NB: These slides have been produced prior to the publication of the Towns Fund Business Case guidance. They will be updated in the future after new guidance is published

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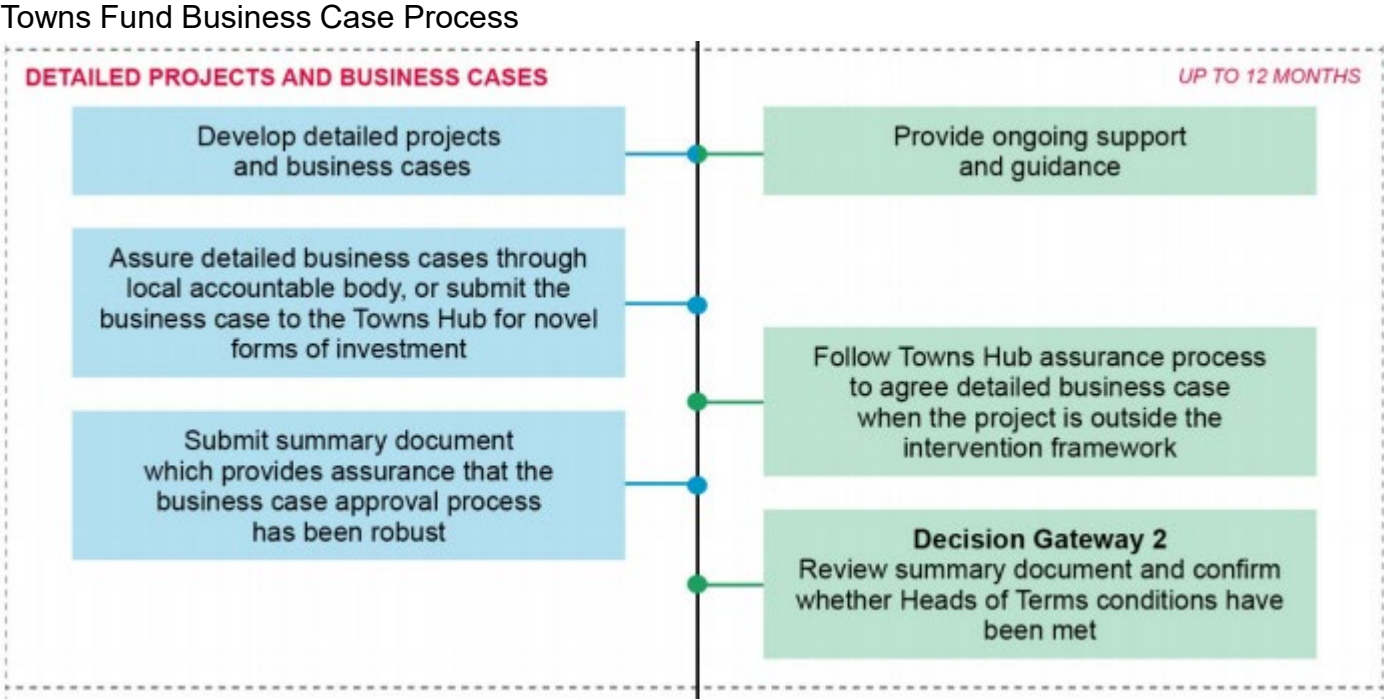
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Agenda

- Towns Funds Business case process
- Introduction to Business case content and structure
- Towns Fund specific requirements
- Support to be provided
- Q&A

Context

In Stage 2 of the Towns Fund application process, following the agreement of the Heads of Terms, towns will have up to one year to develop agreed projects in detail, complete and assure comprehensive business cases. They will then submit a Summary Document to MHCLG to show that this has been completed in line with the agreed conditions and requirements in the Heads of Terms. Where the Heads of Terms agree to fast track a project, this stage of the process can proceed considerably faster.



The Business Case Process

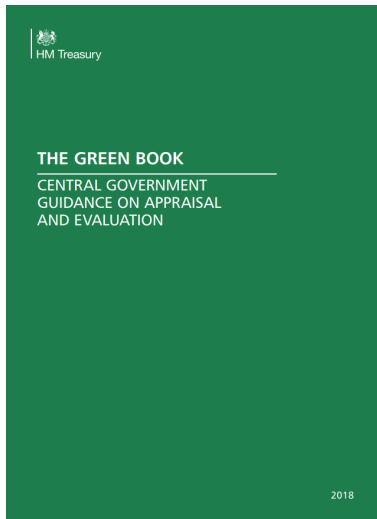
What is a Business Case?

A business case is a document setting out the case for investment, often used to justify public spending. It needs to clearly set out the case for change, demonstrate that the investment is good value for money, affordable and deliverable.

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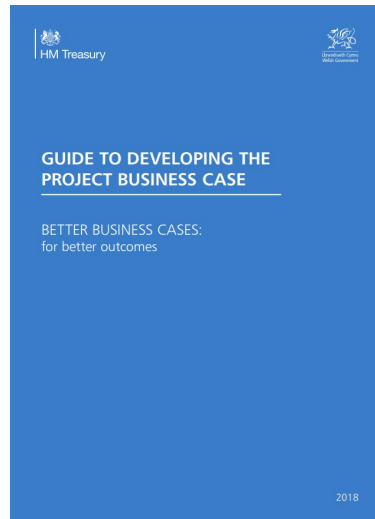
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Key Government guidance documents include:



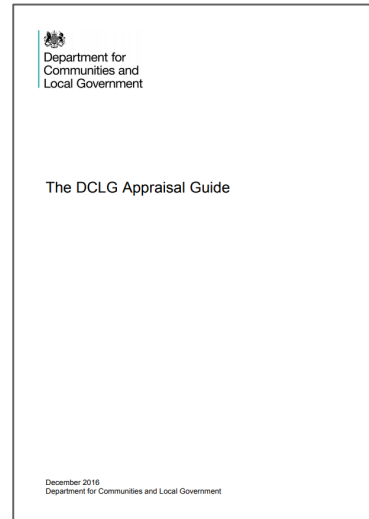
HM Treasury Green Book

Guidance on how to appraise policies, programmes and projects



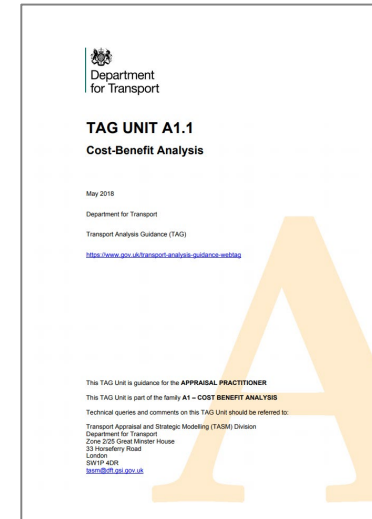
Guide to developing the business case

Guidance to assist senior managers and executives responsible for designing, delivering and approving projects



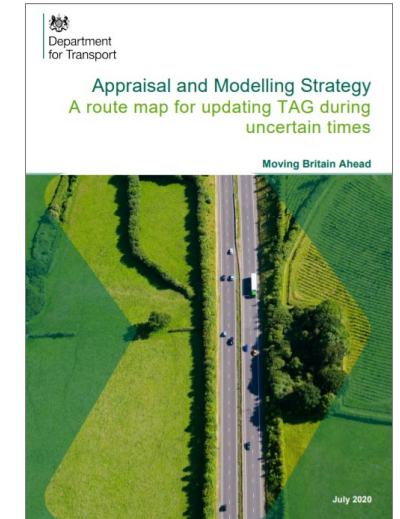
MHCLG Appraisal Guidance

Provides method and assumptions for scheme appraisal, with a focus on development



DfT Transport Appraisal Guidance

Provides method and assumptions for scheme appraisal, with a focus on transport



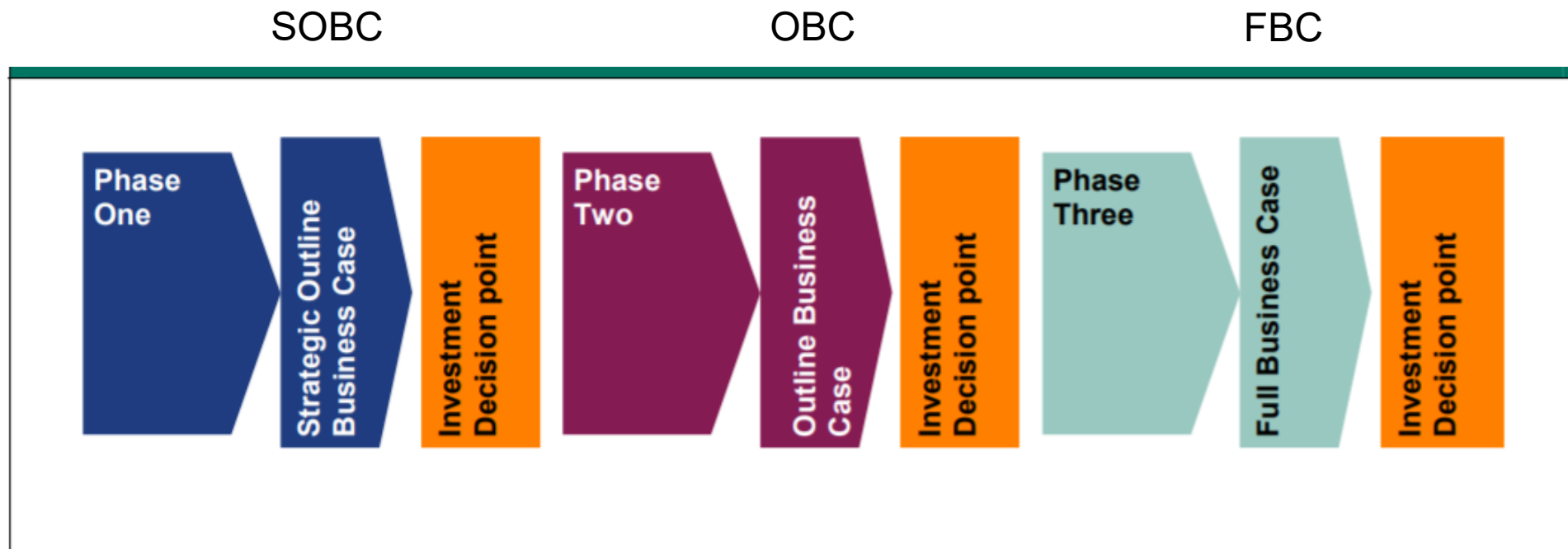
Note possible reform of Green Book focusing on levelling up

Plus this DfT review of appraisal guidance over 2020/21 to account for uncertainty around Covid-19 and incorporating findings from Green Book review

The Business Case process

Business Cases are often delivered in three stages, with each stage providing more detailed analysis to justify the investment. After each stage, a decision to proceed to the next stage is taken.

Usually, three business cases are produced with increasing level of detail until a project is procured and delivered: the **Strategic Outline Business Case (SOBC)**, the **Outline Business Case (OBC)** and the **Full Business Case (FBC)**.



Business Case Content and Structure

Structure and content of a Business Case

Business cases should follow a structure around **5 key chapters** or dimensions. This is usually referred to as the ‘5-case model’.

Analysis required (key examples)

Baseline analysis, Policy Review including local plans, Vision and objectives, options assessment



Economic appraisals including benefits (monetised and non-monetised) and costs, Benefit-Cost Ratio



Analysis of commercial delivery models



Funding and financing analysis, demonstrate affordability



Analysis of potential governance structures, delivery programmes and key risks



The Five Case Model

3.5 HM Treasury Business Case Guidance provides the framework for preparing business cases for spending proposals. It puts into practice the high-level policy cycle. Business cases are prepared according to a model which views proposals from 5 interdependent dimensions – known as the Five Case Model – shown in [Box 3](#) and outlined further below.

Box 3. The Five Case Model

Strategic dimension	What is the case for change, including the rationale for intervention? What is the current situation? What is to be done? What outcomes are expected? How do these fit with wider government policies and objectives?
Economic dimension	What is the net value to society (the social value) of the intervention compared to continuing with Business As Usual? What are the risks and their costs, and how are they best managed? Which option reflects the optimal net value to society?
Commercial dimension	Can a realistic and credible commercial deal be struck? Who will manage which risks?
Financial dimension	What is the impact of the proposal on the public sector budget in terms of the total cost of both capital and revenue?
Management dimension	Are there realistic and robust delivery plans? How can the proposal be delivered?

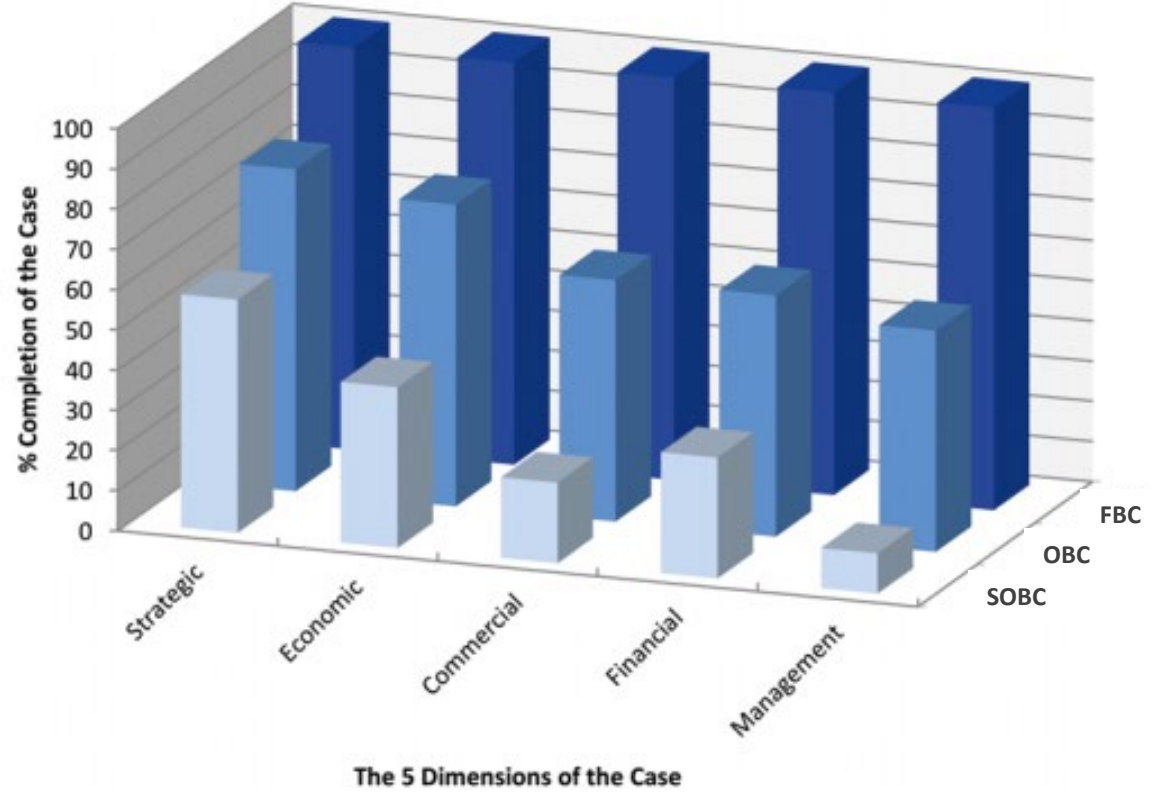
Source: HM Treasury (2018), *The Green Book*

Developing the five cases

Earlier in the Business Case process, the Strategic and Economic cases are the most important ones and those that need to be developed in more detail. This establishes the need for intervention and an indication of value for money before more resources are used to develop detailed proposals.

The Commercial, Financial and Management Cases are usually developed in more detail later on.

Percentage of completion by case and business case stage



Source: HM Treasury Green Book (2018), Guide to develop the project business case

Strategic Case

In the case of the Towns Fund, a lot of the evidence underpinning the Strategic Case will come from the TIP, including the evidence of need, vision and objectives and project prioritisation.

Purpose:

Determine the rationale for investment and outline options for investment

Key steps:

- Baseline analysis of the study area identifying key challenges to be addressed
- Review of relevant local, national, strategic policies
- Develop and agree clear vision and objectives with key stakeholders
- Analyse need for intervention (is there a market failure we are trying to address?)
- Project prioritisation to identify option for investment
- Develop a clear theory of change for the investment
- Assess how the investment fits in with other investments, including consideration of interdependencies

Strategic case checklist:

- A strong evidence of need is presented setting a clear case for change
- Relevant policies are identified
- Clear vision and objectives are identified
- Objectives are SMART
- A summary of options developed and assessed is presented
- The proposed investment is clearly defined
- A clear Theory of Change of how the proposed investment will achieve the desired objectives is presented
- Key risks, constraints and interdependencies are identified

Economic Case

Purpose:

Determine the value for money of the investment

Key steps:

- Identify key benefits based on Theory of change
- Identify ways of modelling and monetising benefits based on Departmental guidance and considering the risk of double counting
- Determine costs, setting out clearly what they include, and apply relevant adjustment factors (e.g. optimism bias – accounting for the systematic tendency to be overly optimistic about costs. There is supplementary Green Book guidance on this)
- Value for money assessment over the appraisal period, including sensitivity tests (these are particularly important in relation to Covid-19)
- Consideration of non-monetised benefits including social value

Key terms:

- Present value (PV) of benefits
- PV of costs
- Net Present Value of benefits (PV Benefits – PV Costs)
- Benefit-Cost Ratio (BCR)
- Optimism bias
- Appraisal period

Economic case checklist:

- Options for investment are clearly justified
- Scenarios are clearly defined
- Benefits analysed are consistent with the Theory of change in the Strategic Case
- Key benefits are modelled and monetised
- Additionality of benefits is considered
- All values are in the same year's prices and values
- Public and private costs are identified separately
- Costs include Optimism Bias
- All economic costs and benefits are estimated and discounted for the length of the appraisal period in line with Green Book assumptions
- A BCR is estimated
- Sensitivity tests have been considered
- Non-monetised benefits (e.g. social benefits) have been analysed

Economic Case

Example benefits for each Towns Fund intervention theme

Towns Fund investment theme	Key benefits	Wider social and economic benefits (note adding all benefits may lead to double counting)	Key guidance to model and monetise benefits
Local transport	<ul style="list-style-type: none"> - User benefits (time savings, cost savings) - Reduction in accidents - Environmental benefits - Amenity benefits 	<ul style="list-style-type: none"> - Health benefits (from increased physical activity and improved air quality) - Productivity benefits (e.g. agglomeration) - Employment impacts - Attraction of investment - Social inclusion 	DfT's Transport Appraisal Guidance (TAG)
Digital connectivity	<ul style="list-style-type: none"> - User benefits 	<ul style="list-style-type: none"> - Productivity benefits for businesses which experience higher efficiencies - Attraction of investment - Social benefits from improved access to communication 	
Urban regeneration, planning and land use	<ul style="list-style-type: none"> - Land value uplift 	<ul style="list-style-type: none"> - Increases in local employment and GVA Community cohesion - Health benefits from increased active travel or use of new public / green spaces - Social benefits (e.g. improved personal security) 	MHCLG guidance
Arts, culture and heritage	<ul style="list-style-type: none"> - Increased retail revenue from increased footfall - Amenity benefits 	<ul style="list-style-type: none"> - Social benefits from improved access to culture 	
Skills infrastructure	<ul style="list-style-type: none"> - Land value uplift 	<ul style="list-style-type: none"> - Increased employment and income - Attraction of businesses interested in the skills offered by the new infrastructure 	MHCLG guidance
Enterprise infrastructure	<ul style="list-style-type: none"> - Land value uplift 	<ul style="list-style-type: none"> - Increased employment and income - Attraction of more businesses in the long term 	MHCLG guidance

Economic Case

Key tips to comply with Green Book assumptions and avoid double counting

- **Avoiding double counting** – local employment and GVA impacts should not be added to the overall Benefit-Cost Ratio as it leads to double counting. However reporting these in the Strategic Case is a good way of showing how the scheme can achieve local objectives. The Green Book assumes no net additionality of employment at a national level and therefore local employment effects are assumed to be displaced from other areas.
- **Net Land value uplift impacts** need to consider negative transport externalities from increased transport demand driven by new developments
- Costs should be adjusted for **Optimism bias and be in market prices**
- All prices and values need to be in the **same price base** (e.g. 2020) and in real prices

Financial Case

Purpose:

Assess the affordability of the investment

Key steps:

- Identify project costs, including capital and operating costs, and risks over time
- Ensure funding and financing are both covered (funding refers to where the payment for the up-front costs of the scheme comes from, financing refers to how the capital requirement is repaid over time)
- Assess funding sources, project cash flows over time and funding ask in a financial model
- Assess overall affordability of schemes
- Consider wider financial implications such as Balance Sheet treatment and tax issues
- Provide information on the due diligence that has been undertaken to ensure the project costs are robust and sensitivity testing to understand a range of possible outcomes

Financial case checklist:

- Project costs including risks are clearly identified
- A cost profile in nominal terms is provided
- A funding ask is clearly identified based on a robust assessment of potential funding sources
- An overall assessment of affordability is presented
- wider financial implications such as Balance Sheet treatment and tax issues are considered

Commercial Case

Purpose:

Assess the commercial viability of the investment

Key steps:

- Identify who the scheme promoter/sponsor is
- Develop a procurement strategy
- Set the commercial strategy and then set out key contractual arrangements, including personnel implications
- Consider social value in procurement
- Demonstrate market testing or other evidence that there is a market to deliver the project
- Determine the allocation of risks

Commercial case checklist:

- Commercial feasibility / deliverability of the project is demonstrated
- Contractual issues / milestones included
- Procurement strategy outlined
- Risk allocation set out

Management Case

Purpose:

Assess the deliverability of the investment

Key steps:

- Identify governance, including roles and responsibilities
- Develop a programme for investment with key milestones and decision points clearly identified
- Develop a stakeholder engagement and communications strategy
- Assess project risks and interdependencies
- Develop a benefits realisation plan and monitoring and evaluation strategy

Management case checklist:

- Governance arrangements, including key roles and responsibilities set out
- Programme and timeline for delivering the project included
- Approach to project management outlined, demonstrating capability for delivering the project
- Key stakeholders identified, and stakeholder engagement strategy presented
- Key risks identified
- Project interdependencies identified
- Benefits realisation plan included
- Monitoring and evaluation strategy developed

Towns Fund Specific Requirements

Towns Fund specific guidance

- MHCLG working on a towns fund specific **business case guidance to be released in the coming days**. The guidance will include high-level information on what business cases should include. Business cases need to be HM Treasury Green Book compliant, including the five cases covered in the guidance today.
- **One business case per project (in line with TIP submission)**. Projects may be grouped if they are strongly related.
- No business case template – towns should develop their business cases based on the **requirements according to their local assurance process**.
- MHCLG may carry risk-based spot checks targeted at projects where they may be concerns. If a project is above £25m, MHCLG will call in the business case.
- Towns will have **one year to produce and assure their business cases locally and submit a Summary document to MHCLG**. MHCLG will provide a Summary Document template as part of the business case guidance.
- Fast-tracked projects will need a business case but can be approved earlier. It is recommended that business cases are grouped if possible and that towns get in touch with their local leads to agree submission.
- Monitoring and evaluation requirements also to be confirmed before/after Christmas by MHCLG.

Support to be provided

Key questions to consider

1. How many business cases (maximum) will you need to develop?
2. Do you intend to fast-track any of your business cases? If so, which?
3. What current experience do you have within the team in developing 5-case business cases?
4. Will business cases be developed in-house or will you need additional expertise? Will you engage with other stakeholders to produce these business cases?
5. What are your requirements based on your local assurance process? How will you assure the business cases locally?
6. What support do you need from the TFDP?

Support to be provided

- These slides and session to be posted on the website
- More resources on the website – to be confirmed (suggestions welcome!)
- Check in / review sessions

USEFUL TOOLS AND LINKS

Useful links

HM Treasury Green Book <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

HM Treasury Project Business Case guidance

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf

HM Treasury Checklist for Assessment of Business Cases

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/190603/Green_Book_guidance_checklist_for_assessing_business_cases.pdf

Transport Business Case guidance https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/85930/dft-transport-business-case.pdf

Theory of Change for Transport guidance

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/3817/logicmapping.pdf

Transport Appraisal Guidance (TAG) <https://www.gov.uk/guidance/transport-analysis-guidance-webtag>

MHCLG Appraisal guidance <https://www.gov.uk/government/publications/department-for-communities-and-local-government-appraisal-guide>

DfT (2020), A route map for updating TAG during uncertain times

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/903176/tag-route-map-2020.pdf