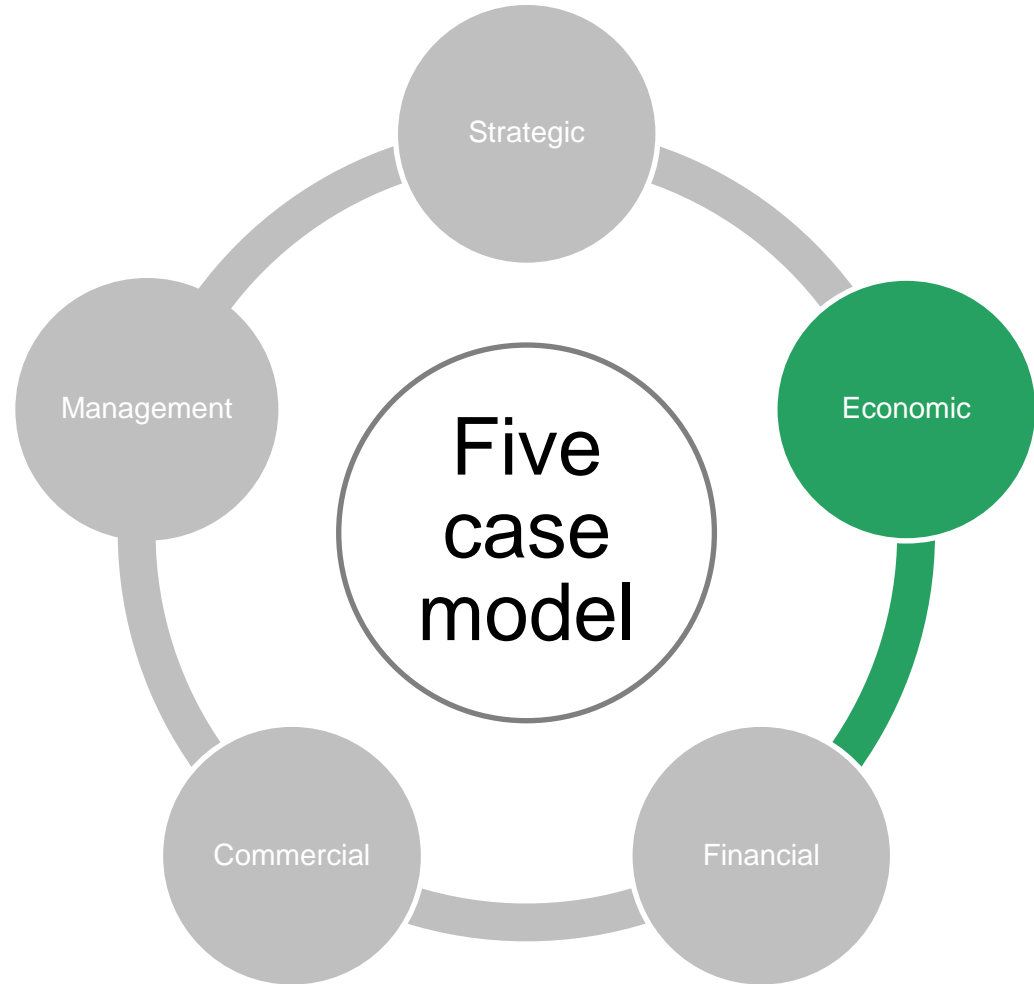


Economic Case Good Practice

14th April 2021



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Introduction

12-26 April Business Case Festival

Following the Introduction to Business Cases webinar held in November 2020, the Business Case Festival will see the TFDP host a webinar for each of the five cases, walking through towns in more depth the requirements and best practice guidance:

- Strategic case (13th April)
- **Economic case (14th April)**
- Commercial case (16th April)
- Financial case (19th April)
- Management case (26th April)
- Stakeholder engagement (22nd April)

Objectives

By the end of the Business Case Festival, we aim to help Towns gain a better understanding and knowledge of what is needed to produce a compelling and compliant business case.

Introduction

Audience

This session is aimed at practitioners who are developing Towns Fund business cases or managing their development.

It is pitched at those with some knowledge and experience of business cases.

Session Objectives

The Economic Case workshop will help analyse the benefits and costs of the project, and assess whether it is value for money. A case study will be presented as an example.

This workshop will look to integrate feedback received from other workshops held to date and will be referenced during future workshops.

Agenda

Speakers

Adriana Moreno Pelayo – an Economist at Arup with nine years of experience, including development of a wide variety of business cases across different sectors, particularly in the transport sector. She coordinates the transport business case network at Arup and sits in the committee of the Transport Economists Group. Adriana recently contributed to Arup's paper on how to reform the Green Book and has presented at different events on the topic. She led the Introduction to Business Case webinar back in November 2020.

Danny Collins – Director of Economics at Savills with over 15 years' experience of economic analysis in a property and development context, including town centre regeneration and master planned development projects. Danny has undertaken economic and land value uplift analysis to inform the development of town centre regeneration strategies and funding bids, including numerous successful Housing Infrastructure Funding (HIF), Future High Streets Funding (FHSF), Town Deal, and Brownfield Land Funding cases. As a specialist in Land Value Uplift the analysis generally considers the transformation growth impacts that projects can have and the direct LVU as well as wider LVU impacts on surrounding sites which can be demonstrated in the Economic Case.

1. Guidance and Resources

2. Economic Case Overview

3. Case Study – Land Value Uplift

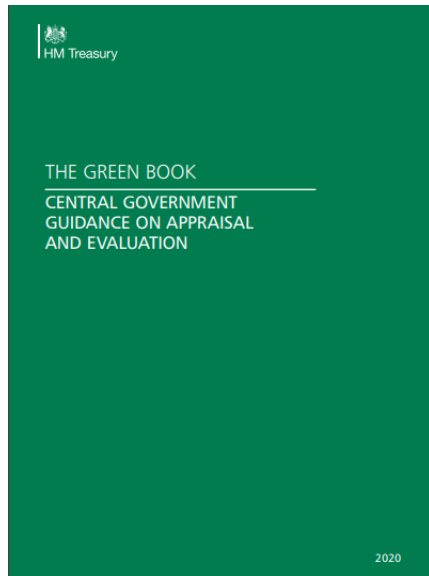
4. Tops Tips: Do's and Don'ts

5. Q+A

Guidance and Resources

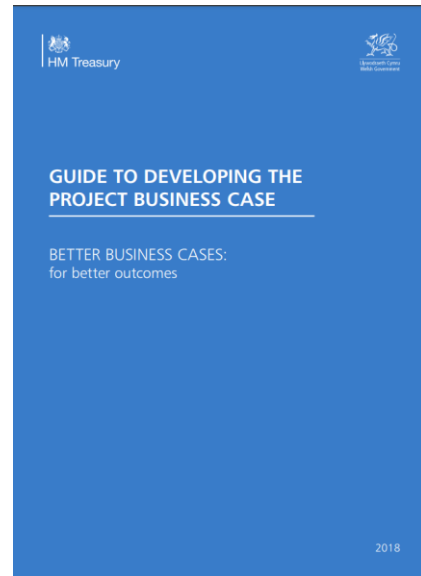
Guidance and Resources

The following guidance and resources are available online to support the Economic case:



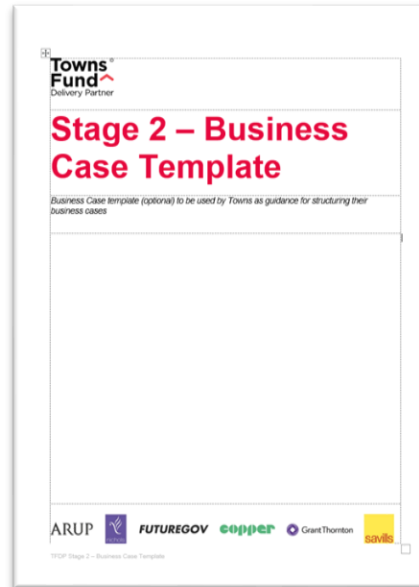
HM Treasury The Green Book

Guidance on how to appraise policies, programmes and projects



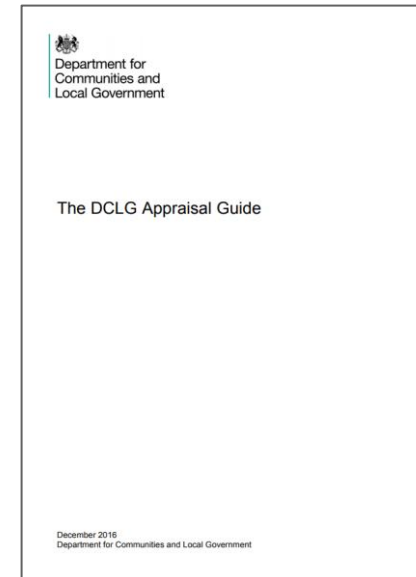
Guide to developing the business case

Guidance on how to appraise policies, programmes and projects



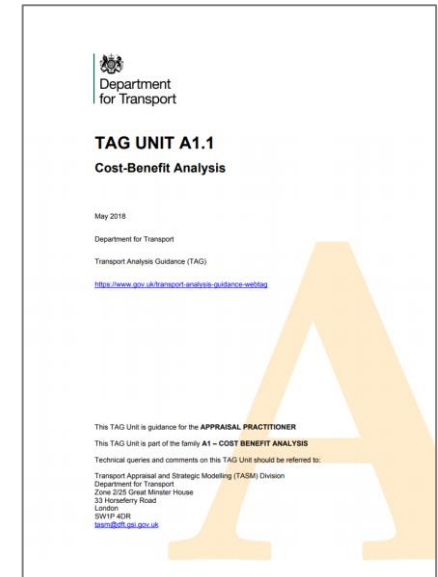
TFDP Business Case Template

Optional business case template and proportionality guide



MHCLG Appraisal Guidance

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



DfT TAG

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

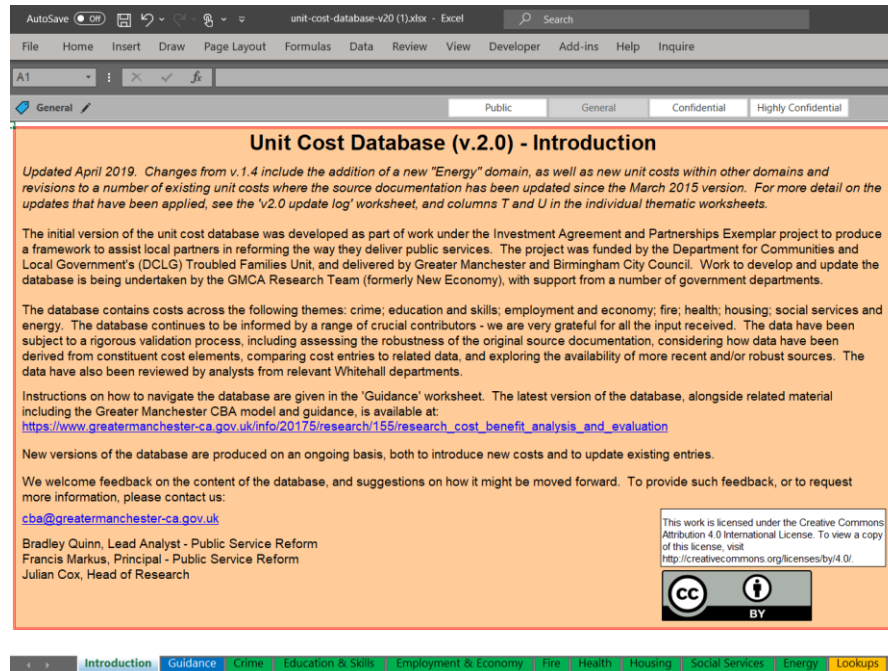
Guidance and Resources

The following guidance and resources are available online to support the Economic case:



The economic and social costs of crime

Report considering the economic and social costs of crime estimates



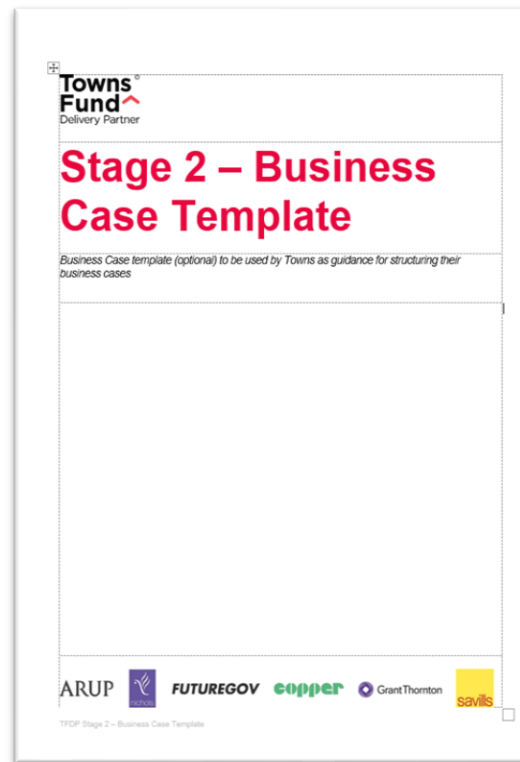
Greater Manchester CBA model and Unit Cost Database

A tool used to understand the value for money provided by an intervention. The unit cost database provides over 800 cost estimates covering thematic areas, for e.g. crime, education, housing and health.

TFDP Business Case Template

The optional TFDP Business Case Template and Proportionality Guide is available on the website.

- Best practice guidance on structuring your business case
- Includes the proportionality assessment tool, designed to help you understand the level of detail required for each project business case
- Summary document: as part of the business case process, the summary document is mandatory, and must be submitted to MHCLG for approval
- **Economics 101** guidance to be published this month



The image shows the 'PROPORTIONALITY ASSESSMENT TOOL' table. It is a matrix with three columns: 'Less detail', 'More detail', and 'More detail'. The rows are categorized into 'General', 'Strategic case', 'Economic case', and 'Financial case'. Each row contains a description of a criterion and its corresponding levels of detail, with arrows indicating the range between 'Less detail' and 'More detail'.

	Less detail	More detail	More detail
General			
Project size and value	<£1m	↔	£25m+
Regional and national significance	Local	↔	Regional / national
Innovation	Low	↔	High
Experience delivering similar projects	High	↔	Low / no experience
Strategic case			
Enabler of other projects and transformational change	Local impact	↔	Transformational change
Stakeholder picture	Simple	↔	Complex
Key dependencies with other projects	No dependencies	↔	Strong dependencies
Economic case			
Risk and novelty of project	Low	↔	High
Scenario definition	Simple	↔	Complex, including Covid-19 impacts
Certainty around costs and benefits	High certainty	↔	Low certainty
Disbenefits	No disbenefits	↔	Potential Disbenefits
Monetising benefits	Easy to monetise	↔	Difficult to monetise
Distributional impacts across groups	simple impacts, less relevant to project	↔	Complex distributional impacts
Financial case			
Co-funding and uncertainties	Clear co-funding approach	↔	High uncertainty and complex co-funding
Capital and Revenue restraints	None	↔	Some
Financial viability and key financial risks	Low risks	↔	High financial risks
Tax and accounting treatment	Clear	↔	Complex, to be defined

Economic Case Overview

What is the Economic case?

Purpose:

Determine the value for money of the investment. It should include an analysis of monetised benefits and costs, as well as non-monetised benefits. The benefits and costs assessed should be aligned to the objectives set out for the project in the Strategic Case. It is important that Economic and Strategic Cases are closely aligned.

Key questions the Economic case aims to address:

Box 5. 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?



Important to maintain a strong link and consistent narrative across both the Strategic and Economic cases

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?

Content of the Economic Case

TFDP Business Case Template: Content of the Economic Case

- Introduction
- Approach to Economic Case
 - Scenarios / options
 - Modelling approach
- Economic benefits
 - Direct benefits (annual, real, undiscounted)
 - Wider benefits
 - Consideration of place-based impacts
 - Distributional impacts
- Economic costs
 - Capital costs (incl. optimism bias)
 - Operating costs
- Value for money assessment
 - Discounting over appraisal period
 - Net Present Value and Benefit-Cost Ratio
 - Sensitivity tests
- Non-quantified benefits
- Summary

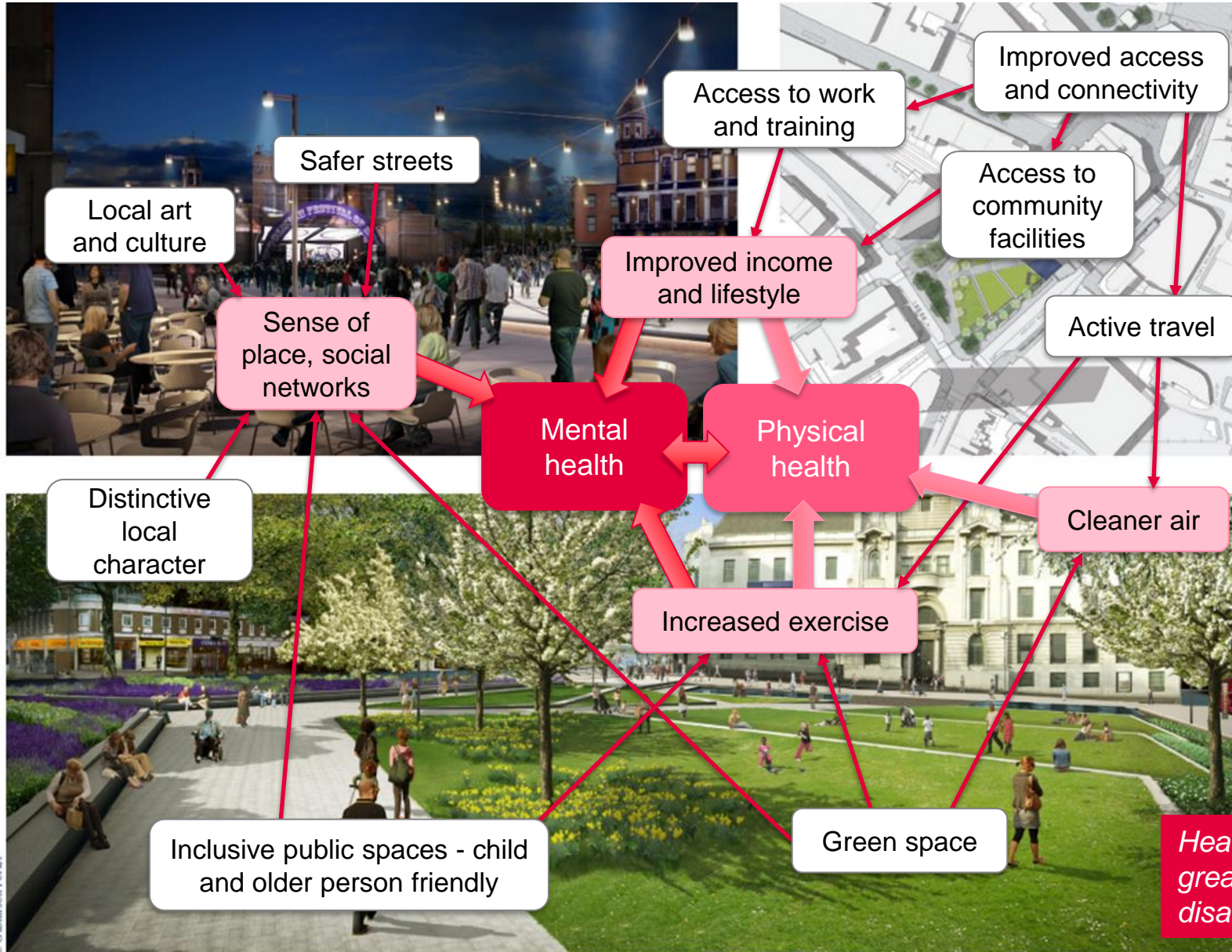
Considering proportionality

Economic case			
Risk and novelty of project	Low	←————→	High
Scenario definition	Simple	←————→	Complex, including Covid-19 impacts
Certainty around costs and benefits	High certainty	←————→	Low certainty
Disbenefits	No disbenefits	←————→	Potential Disbenefits
Monetising benefits	Easy to monetise	←————→	Difficult to monetise
Distributional impacts across groups	simple impacts, less relevant to project	←————→	Complex distributional impacts

Types of economic benefits

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) Health benefits Reduction in accidents Environmental benefits Amenity benefits 	<ul style="list-style-type: none"> 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. crime benefits, 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 Increases in local employment and GVA Community cohesion 	
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

Non-quantifiable benefits – health and wellbeing



Health outcomes

- Improved physical health
 - life expectancy
 - proportion of life in good health
- Improved mental health
 - increased life satisfaction
 - improved mental wellbeing

Economic benefits

- Increased participation in the workforce, leading to:
 - a stronger local economy; and
 - increased tax revenues
- Reduced sick leave and increased productivity of workers
- Reduction in cost to the NHS
- Reduction in cost of social care

Health and economic benefits of regeneration will be greatest if they reduce inequity i.e target disadvantaged communities with existing poor health

Key concepts

Real prices – all prices are expressed in relation to the first year with inflation removed. Note that the Financial Case uses values in nominal prices (with inflation).

Discounting – process of converting costs and benefits into present values by discounting with the social time preference rate to allow comparison of future values in terms of their value in the present. Based on the theory of society's preference for now compared with the future. In the UK, the recommended discounting rate is 3.5% for the first 30 years.

Net Present Value – the difference between benefits and costs. The NPV is another form of assessing value for money. This varies depending on the size of the project while the BCR can be used to compare projects of different sizes.

Benefit-Cost Ratio – the ratio between benefits and costs which indicates the value for money of the investment. A BCR over 1 indicates value for money, typically schemes with a BCR over 2 are considered to have a good value for money.

Optimism Bias – adjustment factor applied to costs to reflect the fact that actual costs often tend to be higher than planned costs. OB for large projects can typically be up to 66%. OB should go down as the project develops and there is more certainty around costs.

Place-based impacts – “where proposals have a focus on a specific part of the UK, place based analysis should be performed and be central to appraisal advice” (Green Book). This has been introduced in the latest Green Book. These impacts refer mostly to employment changes in the area under consideration. Annex A2 of the new Green Book provides an example on how to calculate these.

Additionality – isolating impacts that are strictly additional. In the case of employment impacts, these should be adjusted for deadweight, leakage, substitution and displacement.

Sensitivity tests – tests performed to explore the sensitivity of expected outcomes to potential variations in key input variables

Economic Case vs. Financial Case

ECONOMIC CASE

“Economic appraisals focus on public value from the perspective of society and take into account all social, economic, environmental costs and all effects on public welfare. Financial appraisals focus on affordability from the perspective of the public purse, often expressed in terms of the public funding the project.”

Economic Appraisals	Financial Appraisals
<p>Focus:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Net Present Social Value (NPSV) for money. 	<p>Focus:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Funding and affordability – cash flow and stock.
<p>Coverage:</p> <ul style="list-style-type: none"> <input type="checkbox"/> UK Society as a whole and distributional analysis where relevant. 	<p>Coverage:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Relevant public organisation(s) budget.
<p>Relevant standards:</p> <ul style="list-style-type: none"> <input type="checkbox"/> HM Treasury Green Book and supplementary guidance <input type="checkbox"/> discount rate applied. 	<p>Relevant standards:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Public sector accounting rules and standing orders.
<p>Analysis:</p> <ul style="list-style-type: none"> <input type="checkbox"/> real (relative base year) prices <input type="checkbox"/> use of opportunity costs <input type="checkbox"/> includes quantifiable welfare costs and benefits to society <input type="checkbox"/> includes environmental costs <input type="checkbox"/> excludes Exchequer ‘transfer’ payments – for example, VAT <input type="checkbox"/> excludes general inflation <input type="checkbox"/> excludes sunk costs <input type="checkbox"/> excludes depreciation, impairment and capital charges. 	<p>Analysis:</p> <ul style="list-style-type: none"> <input type="checkbox"/> current (nominal) prices <input type="checkbox"/> benefits – cash releasing only <input type="checkbox"/> includes capital and revenue costs <input type="checkbox"/> includes transfer payments (for example, VAT) <input type="checkbox"/> includes inflation.

Relevant Green Book (2020) updates

For Towns transitioning into Stage 2 – Business Case Development, the revised Green Book guidance incorporates a number of key updates Towns need to take into account, including:



Investment decisions will not be solely based on the BCR



Demonstrating the proposal's objectives aligns and contributes to wider strategic objectives, including levelling up and net zero



Clearly illustrating the 'golden thread' is vital, supported with an upcoming project scorecard



Further guidance on capturing and presenting transformational change



Place-based analysis is a new requirement for proposals with a geographical defined focus



Potential differential impact on different people within the target area must be identified



Implications for Economic Case:

- Include place-based impacts
- Assessment of distributional impacts
- Maintaining the Golden Thread with the Strategic Case
- Assess environmental impact where relevant
- Assessment of transformational change

Case Study – Land Value Uplift

Case study – Land Value Uplift

Project Overview

- Town Centre in North of England
- Major town centre site has been long term vacant
- Failed retail-led masterplan
- Currently in disrepair and resulting in negative perceptions of the town
- Also contributing to crime and antisocial behavior issues
- Limited market demand, low values, and declining quality in the town
- Redevelopment scheme identified to include 200 residential units, a new community hub, public space would transform the town
- Potentially act as a catalyst for other development sites
- Bid for £20 million of Future High Streets Funding to cover land acquisition and site preparation works



Case study – Land Value Uplift

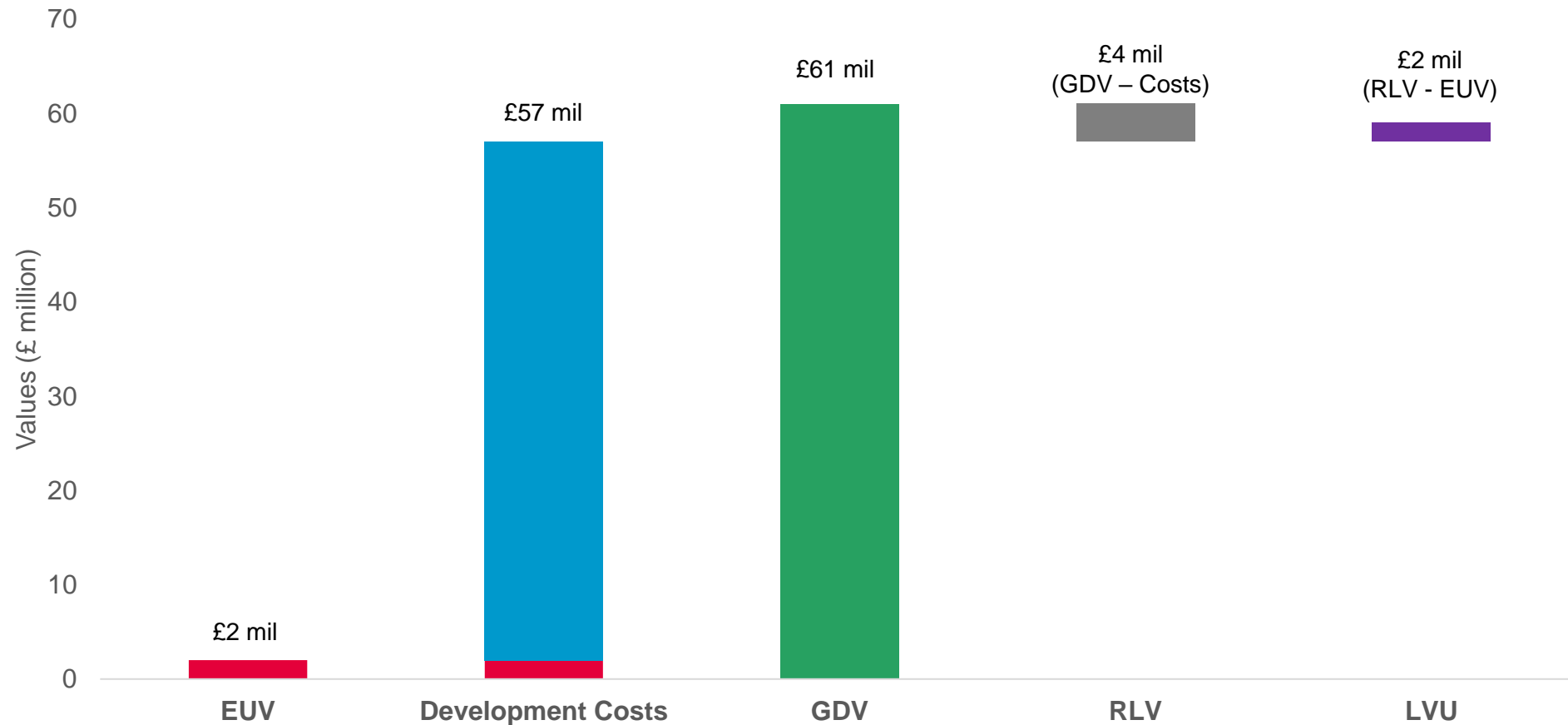
Key lessons

- Existing Use Value (EUV) difficult to define as acquisition costs do not reflect economic value of current use (vacant and derelict)
- Proposal included low value, but important community uses which create viability challenges, but deliver wider benefits
- Not all benefits captured by LVU, therefore Economic Case considered wider impacts including wider LVU, crime, health and amenity benefits
- LVU accrues over time and first phase could have a catalytic impact, as such wider LVU essential to making the case
- Potential for the scheme to put the town on a higher growth trajectory in terms of values, making future schemes more viable and leading to further benefits



Case study – Land Value Uplift

Site Specific LVU Assessment

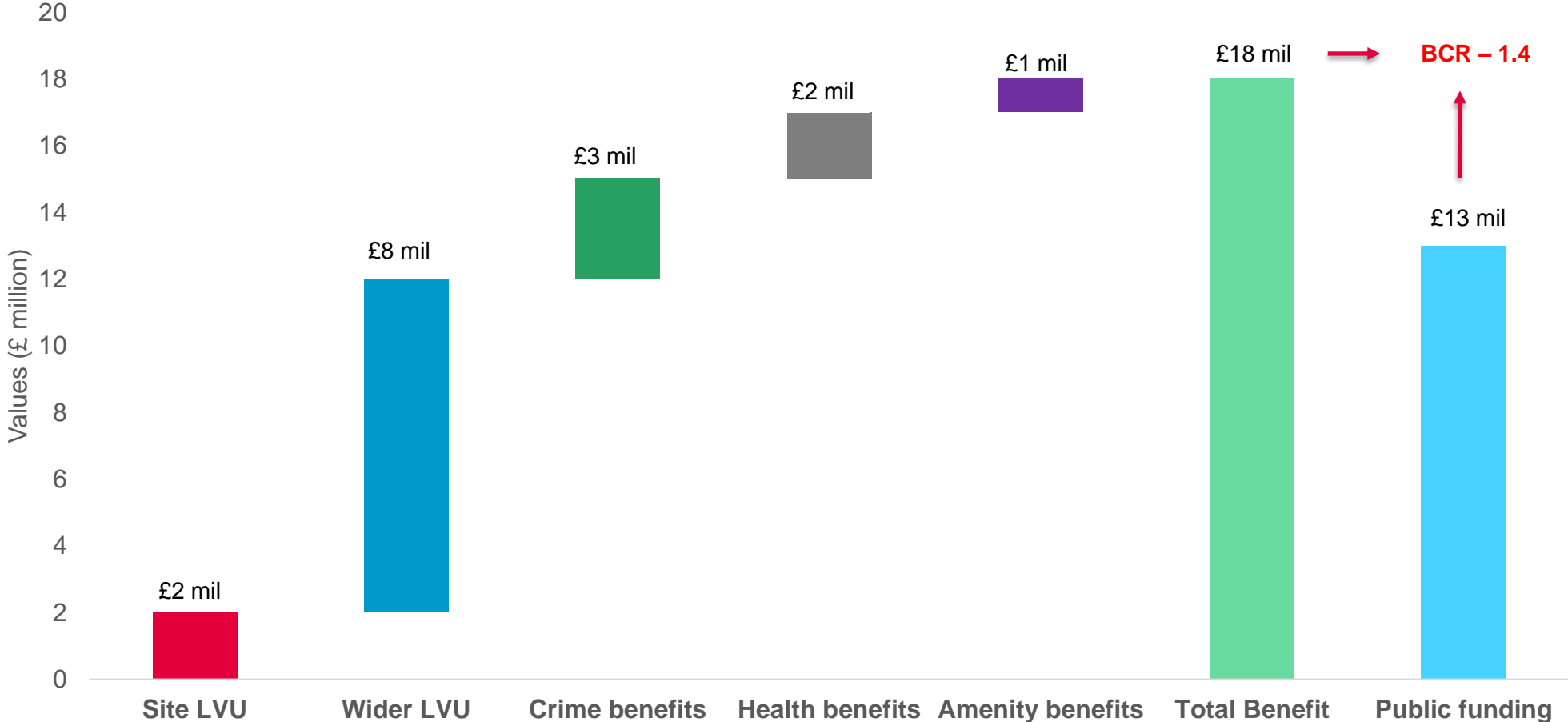


Source: Savills, 2021

* Note that values and costs are not those used in the case study and are illustrative

Case study – Land Value Uplift

BCR Analysis

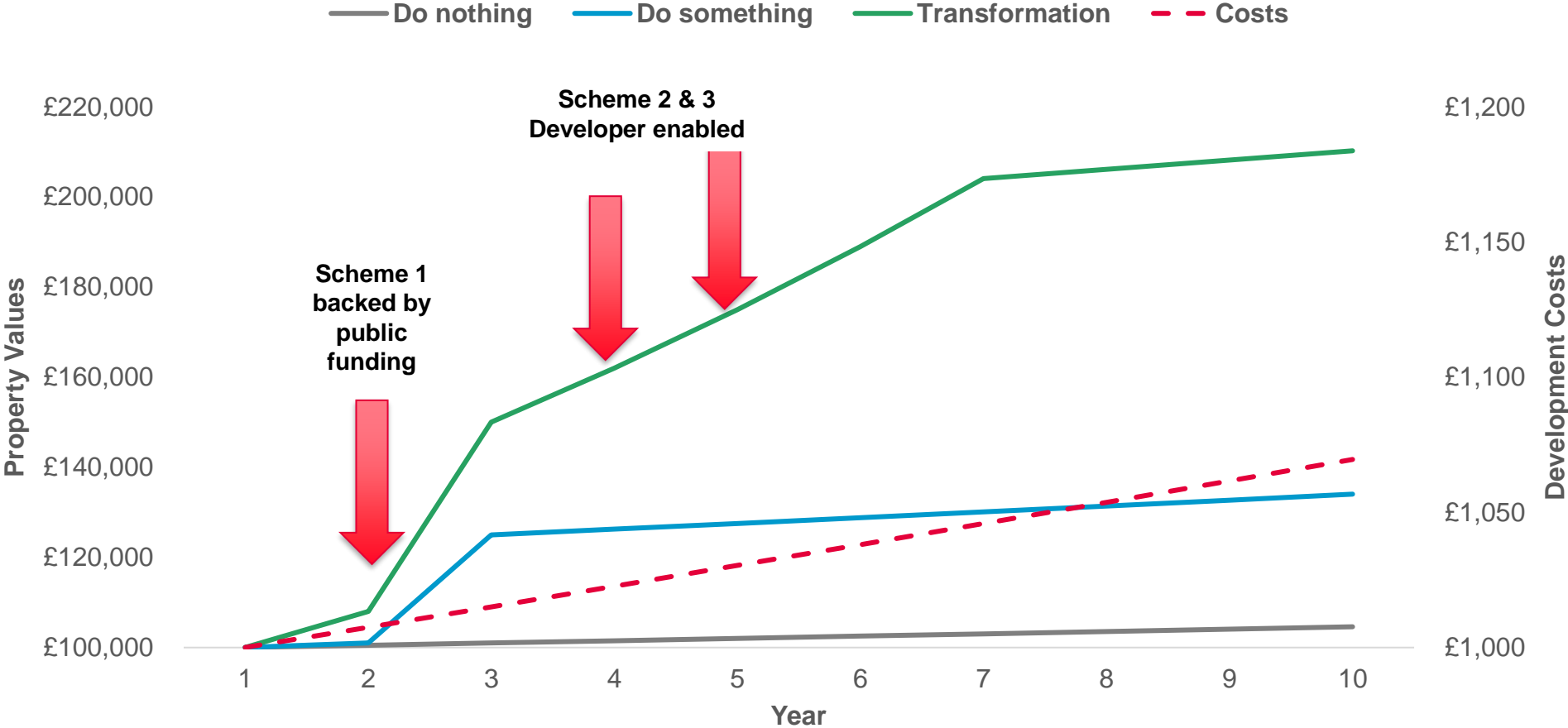


Source: Savills, 2021

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Case study – Land Value Uplift

Wider LVU Growth



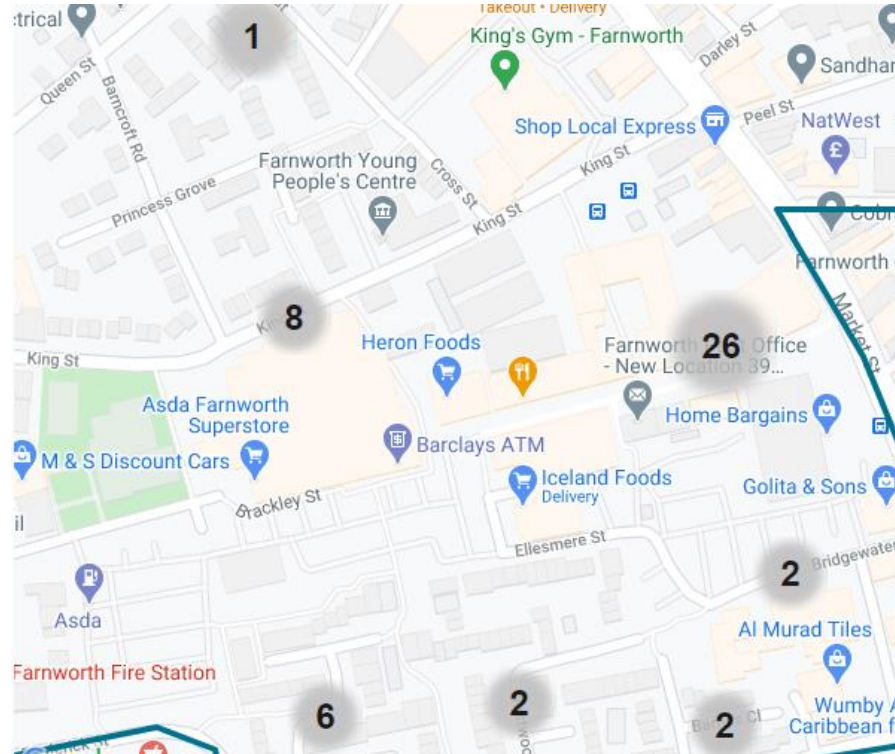
Source: Savills, 2021

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Case study – Land Value Uplift

Crime

- Crime data available from Police.uk
- Impact of regeneration on crime, including net additional reduction (as opposed to displacement) based on wide range of studies
- Value / cost savings of crime based on a wide range of studies including the Economic and Social cost of Crime, Second Edition (Home Office, 2018).



278 crimes were reported here in June 2019

Violence and sexual offences	102
Anti-social behaviour	42
Criminal damage and arson	27
All other crime	107

Source: Police.co.uk, 2021

* Note that values and costs are not those used in the case study and are illustrative

Top Tips: Do's and Don'ts

Top Tips: Do's and Don'ts

Do's

- Closely align with Strategic Case and other cases
- For BCR / NPV calculations, provide discounted, real values based on the same price base year
- Provide a place-based analysis and follow the latest Green Book guidance
- Assess wider benefits, including non-monetised benefits
- Include Optimism Bias in costs
- Use an appropriate appraisal period
- Apply correct additionality assumptions
- Consider the use of sensitivity tests and be transparent on forecast uncertainty

Don'ts

- Add benefits that should not be added together to boost the BCR
- Ignore benefits that can't be monetised
- Work on the Economic Case independently of the Strategic Case

TFDP offerings

The TFDP can offer:

- **Economic benefits and modelling workshops** – advice and guidance on how to estimate economic benefits
- Advice on **economic scenarios and Covid-19 sensitivities**
- **Advice on economic assumptions and parameters** such as discounting, appraisal periods, optimism bias, and other key issues
- Advice on the **assessment of non-monetised benefits** such as social value and health and wellbeing
- Advice on **shaping a strong narrative** around the economic case, particularly maintaining a strong link with the strategic case

Useful resources

Topic area	Existing resources	Forthcoming resources
Social value	<ul style="list-style-type: none"> • Social Value 101 • Social Value in Procurement (Crown Commercial Service) 	Social Value guidance for business cases
Health and wellbeing	<ul style="list-style-type: none"> • Including Health and Wellbeing in your TIP • Health and Wellbeing Dashboard • Mitigating the impacts of COVID-19 • Evidence in your TIP: Health and Wellbeing 	Estimating health and wellbeing benefits in your economic case
Climate Change / Net Zero	<ul style="list-style-type: none"> • You've declared a Climate Emergency – What next? • You've declared a Climate Emergency... Next steps: Transport • Taking account of Net Zero in your TIP • National Strategic Brief: Climate Change 	Further resources linking to strategic and economic case
Education and training	Introduction to Education, Skills & Enterprise	TBC
Planning & EIA	<ul style="list-style-type: none"> • Addressing your Planning, EIA and HRA needs in your business case • Road to Delivery: Planning & EIA requirements • Introduction to Planning, EIA and HRA • Introduction to Environmental Monitoring & Impact Analysis • EIA Screening Guidance • Biodiversity Net Gain Webinar 	Guidance on Public Sector Equalities Duty

Working with us

You can work with the TFDP to support the delivery of your business case by:



Online resources

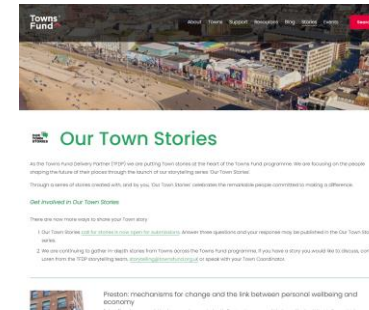
- Blog posts
- Guidance
- Tools



Expert drop-in sessions & 1-2-1 support



Online Workshops



Storytelling: Sharing your projects and experience



Town working group: connecting with other towns

Q+A