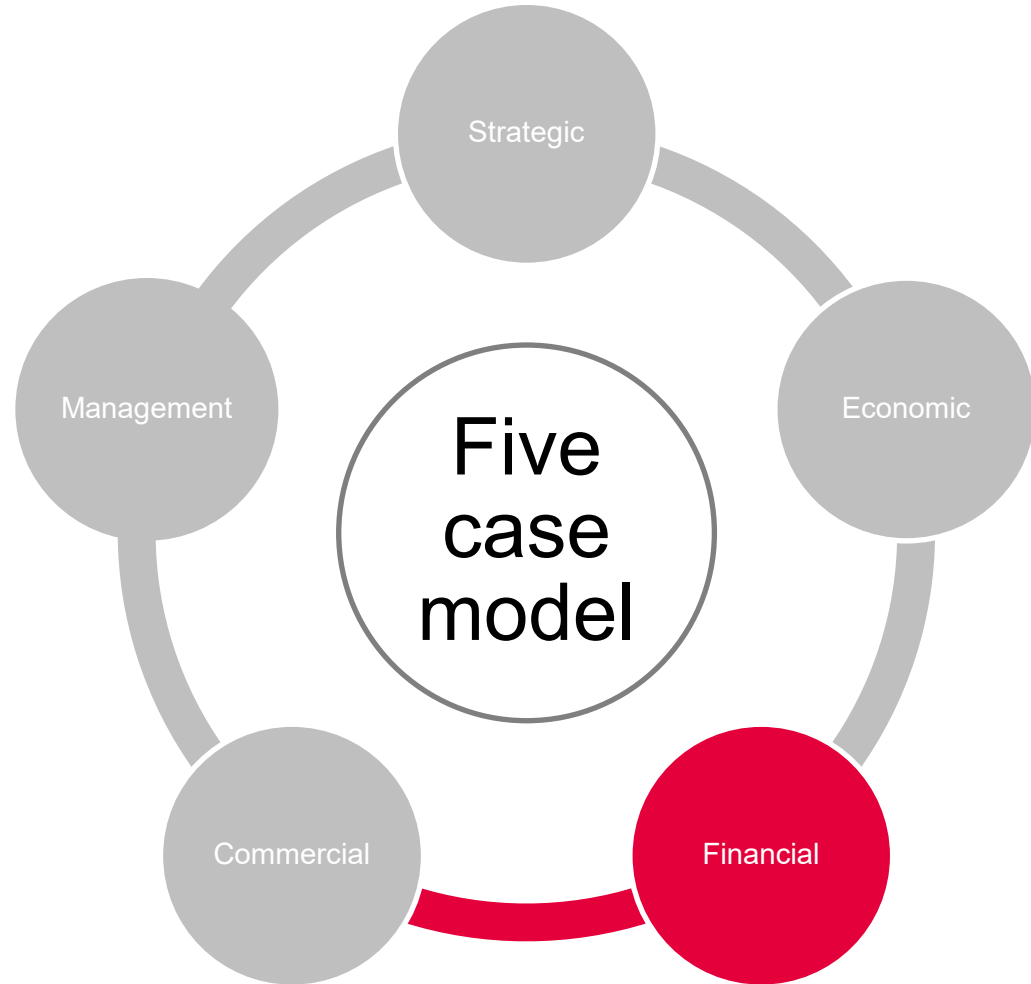


# Financial Case Good Practice

Monday 19th 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 (13<sup>th</sup> April)
- Economic case (14<sup>th</sup> April)
- Commercial case (16<sup>th</sup> April)
- **Financial case (19<sup>th</sup> April)**
- Management case (26<sup>th</sup> April)
- Stakeholder engagement (22<sup>nd</sup> 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.

The Financial Case workshop will help set out the whole life costs of the project, assess whether it is affordable and fundable over time alongside the wider revenue/capital implications.

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

# Agenda

## Speakers

**Wayne Butcher** (Grant Thornton UK LLP) is the principal lead of providing specialist funding and investment advice to Towns, including guidance on delivery structures, funding options and risk management. Wayne specialises in the delivery of engagements to local and central government across property including housing, leisure, and mixed-use development schemes.

**Joe Gregory** (Grant Thornton UK LLP) has led on the funding and investment advice offered to Towns during Stage 1 of the Town Fund project. He has specialised on the review of TIPs submitted by the Northern Towns and has been part of the wider project team to create the business case templates for the Towns. Joe has over eight years of experience delivering infrastructure engagements across a portfolio of clients, including local and central government and private sector clients, predominantly within the real estate sector. He has advised multiple councils on their Future High Street Fund business cases.

**Shrikant Singhania** (Grant Thornton UK LLP) has been offering support on funding and financing during Stage 1 of the Towns Fund project as well as advice around project delivery. With a background in Public Services Real Estates & Assets Advisory, Shrikant has vast experience in advising local authorities on viable operational delivery structures and funding scenarios available for the project.

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1. Guidance and Resources & Slido Poll

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2. Financial Case Overview

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3. Case Study

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

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5. How We Can Assist

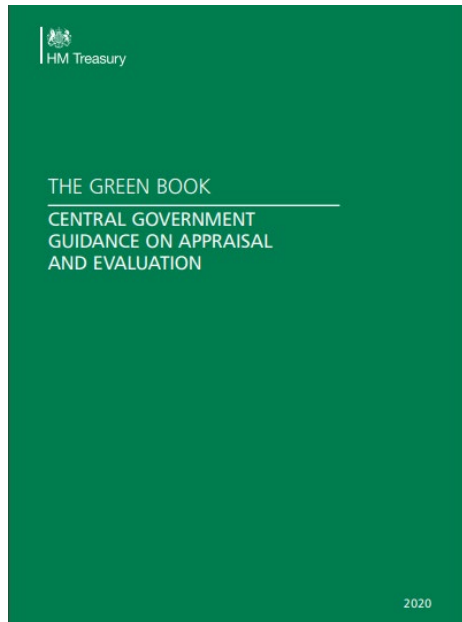
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6. Q+A

# GUIDANCE & RESOURCES

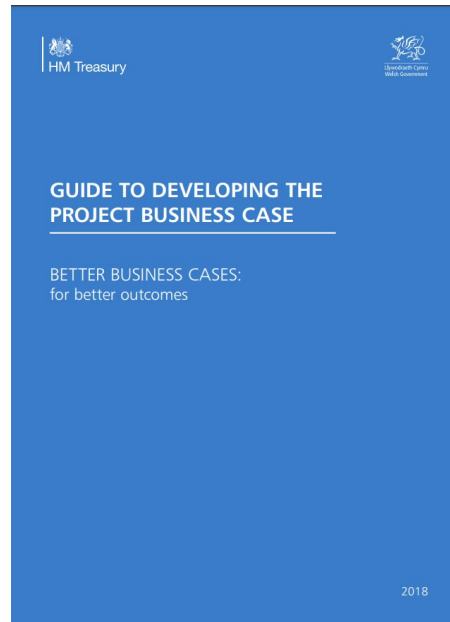
# Guidance and Resources

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



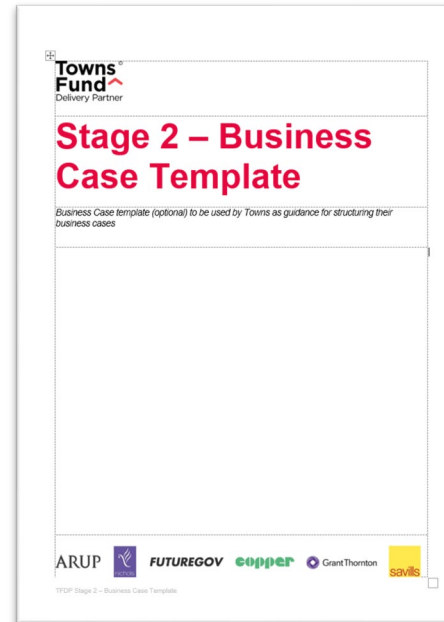
## HM Treasury The Green Book

Guidance on how to appraise policies, programmes and projects



## Guide to developing the business case

Guidance on how to appraise policies, programmes and projects



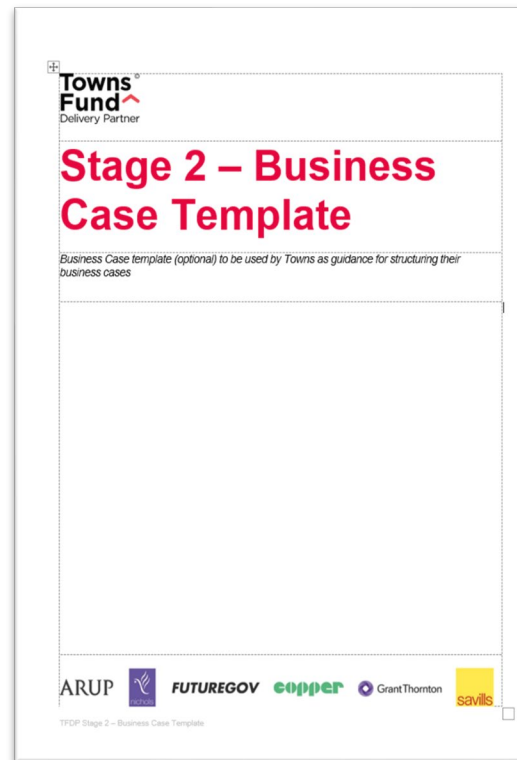
## TFDP Business Case Template

Optional business case template and proportionality guide

# 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



PROPORTIONALITY ASSESSMENT TOOL

	Less detail	More detail
<b>General</b>		
Project size and value	<£1m	£25m+
Regional and national significance	Local	Regional / national
Innovation	Low	High
Experience delivering similar projects	High	Low / no experience
<b>Strategic case</b>		
Enabler of other projects and transformational change	Local impact	Transformational change
Stakeholder picture	Simple	Complex
Key dependencies with other projects	No dependencies	Strong dependencies
<b>Economic case</b>		
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
<b>Financial case</b>		
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

# SLIDO POLL



# Question 1

**Which area of the financial case do you feel least confident about? (answers taken from a poll taken during the webinar)**

Financial modelling – 22%

Preparations of assumptions (Income / cost profiling) – 7%

Fundraising – 15%

**All of the above – 56%**

## Question 2

### What do we believe are the main aims of the financial case?

Affordability – 17%

Value for Money – 8%

Assessment of Financial Risks – 13%

**Deliverability & Robustness – 58%**

Other – 4%

## Question 3

**Where would you welcome the most support to achieving the following the main aims of the financial case?**

Advice on Funding Strategies – 11%

Advice on Financial Assumptions – 11%

Treatment of Co-Funding – 7%

Shaping the Narrative around the Financial Case – 18%

**All of the above – 54%**

# FINANCIAL CASE OVERVIEW

# What is the Financial case?

## Purpose:

A robust Financial Case demonstrates that the preferred option will result in a fundable and affordable project.

## Key questions the Financial case aims to address:

- Sets out the capital and revenue requirement for the spending proposal over the expected life span of the project
- Assesses the impact on the balance sheet, income and expenditure account and pricing (if applicable) of the Town / public sector organisation
- Any requirement for external funding must be supported by clear evidence of support for the project, together with any funding gaps
- Any updates in clarifying on how TF monies will be allocated to each Town

## TFDP Business Case Template: Content of the Financial Case

Capital and revenue requirements

Net effect on prices (if any)

Impact on balance sheet

Impact on income and expenditure account

Overall affordability and funding

Confirmation of stakeholder/customer support (if applicable)

# Cost and Funding Profiles

**Costing Profile** - clearly sets out the costing profile over the life of the project

	Total	Year	2020/21	2021/22	2022/23	2023/24	2024-
<b>COST</b>	£m		£m	£m	£m	£m	£m
<b>Total construction costs</b>	10		5	5			
<b>Professional fees</b>	4		0.5	0.5	0.5	0.5	2
<b>Land acquisition</b>	5		5				
<b>S106 / CIL</b>	0.2		0.1	0.1			
<b>Contingency</b>	1.5		0.5	0.5	0.5		
<b>Finance Costs</b>	2		0.25	0.25	0.25	0.25	1
<b>Others</b>	2.3				0.5	0.5	1.3
<b>Total</b>	25.0		11.35	6.35	1.75	1.25	3

**Funding Profile** - clearly sets out the funding requirement over the life of the project

	Total	Year	2020/21	2021/22	2022/23	2023/24	2024-
<b>FUNDING SOURCE</b>	£m		£m	£m	£m	£m	£m
<b>Towns Fund monies</b>	15		7.5	4	1	0.5	2
<b>Public sector match funds</b>	5		2.35	1.35	0.25	0.25	0.8
<b>Private sector co-funds</b>	5		1.5	1	0.5	0.5	1.5
<b>Total</b>	25		11.35	6.35	1.75	1.25	3

# Financial appraisal – Capital requirements

**Funding options** – Town should include amounts and sources of these funds and state whether match funding / co-funding is being used in addition to Towns Fund funding from the public and/or private sector

Type (Public / private)	Source	Detail	Amount (£m)
Public Sector	MHCLG	Town Fund monies	15
Private Sector	XYZ Limited	Development costs	3
Private Sector	ABC Limited	Skills enterprise support	2
Public Sector	Council	Land transfer	1.5
Public Sector	Other public sector body	Public grants	3.5
<b>Total</b>			25

**Costs** – key assumptions such as the date to which costs are based, when development costs will be incurred, inflation rates, discount rates, etc should be listed from a total and phased basis (see next slide).

To demonstrate how risk has been financially factored into costs, the Town should look to include any conclusions from undertaking any sensitivity analysis performed and comparison to scenarios which include contingencies (this is discussed later). Mitigation planning should be built around assumptions carrying more risk.

# Financial appraisal – Revenue requirements

**Financial Appraisal** - considers the flow of money in the project in revenue (e.g. maintenance costs) and capital (e.g. purchase of an asset) terms, which is then offset by funding:

Cost entry (£m)	2020/21	2021/22	2022/23	2023/24	2024-	Total
	£m	£m	£m	£m	£m	£m
<b>Revenue streams</b>	-	-	2	6	29	37
<b>Capital costs</b>	11.35	6.35	1.75	1.25	4.3	25
<b>Revenue costs</b>	-	-	3.5	1.5	5	10
<b>Total net revenue / costs</b>	(11.35)	(6.35)	(3.25)	3.25	19.7	2
<b>Funded by:</b>						
<b>TF amount, co-funding</b>	11.35	6.35	1.75	1.25	4.3	25
<b>Operational/revenue funding</b>	-	-	1.5	-	-	1.5
<b>Total funding</b>	11.35	6.35	3.25	1.25	4.3	26.5

**Sources and Uses** - Based on the assumptions provided and the cost/funding profile, the project's forecast financial outputs can be summarised in the table below, which lists the itemised sources and uses of cash during the whole project life. The balancing amount is the overall cash surplus/deficit made from the project.

Sources	£m	Uses	£m
TF amount	15	Development costs	25
Private and/or public sector co-funding	10	Operational costs	10
Capital receipts	-	Funding principal repayment	26.5
Revenue stream	37	Other costs	-
Other income / funding	1.5	CASH SURPLUS GENERATED	<b>2</b>
<b>Total</b>	<b>63.5</b>	<b>Total</b>	<b>63.5</b>



# Financial metrics

The following table lists the key financial metrics that may be used for assessing the financial outputs over the life of the project and allowing multiple options to be compared.

<b>Metric</b>	<b>Definition</b>
<b>Total net cash flow surplus (£m)</b>	The gain in funds over the lifetime of the project (after all obligations/creditors have been paid).
<b>Total project Net Present Value / NPV (£m)</b>	The difference between the present value of cash inflows and the present value of cash outflows over a period of time that considers the time value of money.
<b>Internal rate of return / IRR (%)</b>	IRR is a method to calculate an intervention's rate of return based on the operational cashflows of the intervention. Investments with a higher IRR are preferred, as it indicates that the project can absorb a higher cost of capital.
<b>Profitability (%)</b>	This assesses the surplus that can be generated from an intervention. This can be measured using quantifiable methods, such as considering gross and net profits, profit margins and net cash flows.
<b>Overall yield (%)</b>	The overall return on the investment.
<b>Total funding required (£m)</b>	Funding required to pay for the project.
<b>Peak debt (£m)</b>	Highest level of debt funding required and can be useful where there are limits in place.
<b>Return on Investment</b>	This measures net profit against the total level of investment in the project. This is used as a performance measure to evaluate the efficiency of funding sought for the project.

# Other areas to consider

## Benefits Appraisal

- Identify benefits that are quantifiable and can be expressed in monetary equivalent terms
- Benefits listed should easily reconcile to those identified in the Economic Case (note these should be in nominal terms in the Financial Case, whereas real terms should be used in the Economic Case)
- Avoid defining benefits that cannot be measured, assessed or evaluated in any realistic way as there is no established evidence base
- The use of a separate exercise needs to be performed to determine whether the project represents Value for Money (i.e. its cost is 'a price worth paying' in terms of its additional value)

## Tax and Accounting Considerations

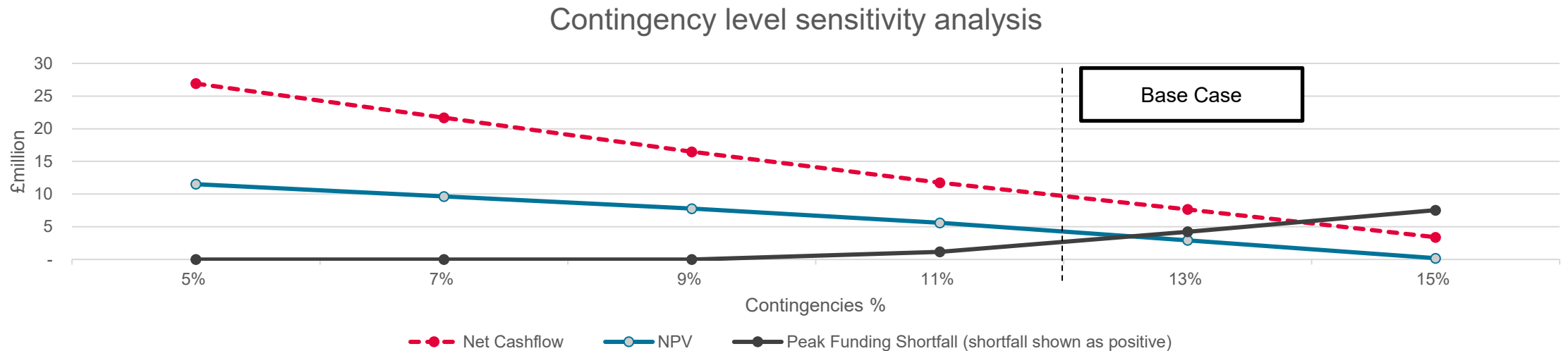
- Towns should seek specialist tax and accounting advice (e.g. for the treatment and classification of its project costs, including the correct definition of capital and revenue expenditure, stamp taxes for land transactions, VAT, etc)
- Consideration of the impact of an interventions on an existing body's balance sheet

## Sensitivity analysis

- This is used to test the vulnerability of options against future uncertainties and the robustness of options.
- Considered alongside techniques such as the level of Optimism Bias within the cost appraisal (blind spots in project planning)

# Other areas to consider (continued)

- Sensitivity analysis should be undertaken in two stages:
  - Back-solving values to highlight the point at which the choice of the preferred option would switch to another option due to any uncertain costs and/or benefits
  - Scenario analysis based on the best and worst possible outcomes (to draw attention to the major technical, economic and political uncertainties on which the success of the proposal depends)
- To demonstrate the change in a cost estimate as part of the sensitivity analysis, such as the level of contingency costs, this may be presented as a table and/or graph. An example has been set out below on the level of contingencies for further reference:



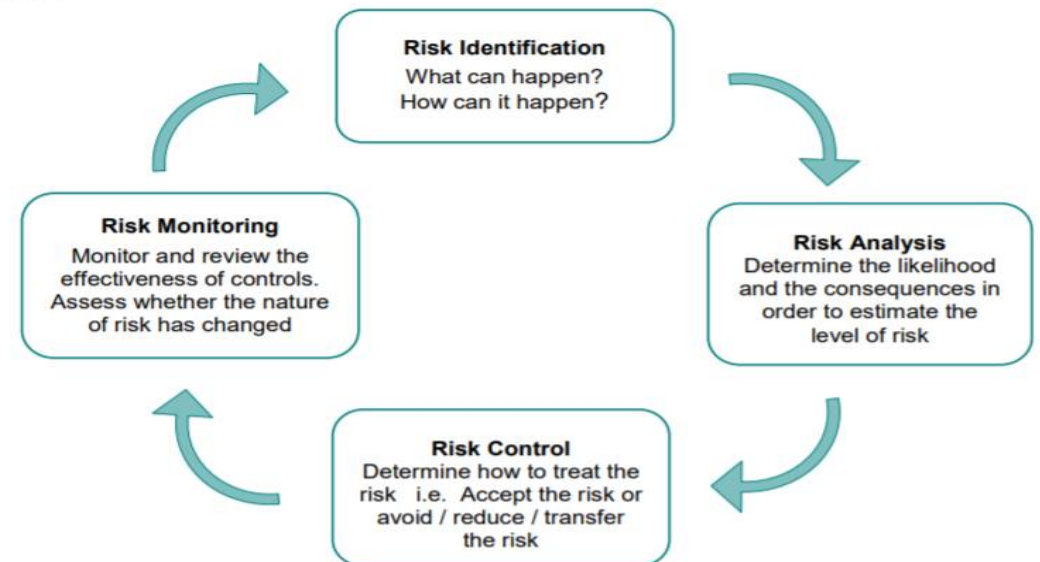
# Other areas to consider (continued)

## Financial Case Risks

- Where projects were submitted with unsecured funding amounts, there is a risk that the required funding amounts may not be available to meet the project costs
- Possible insufficient capital funding due to cost overruns incurred during the project's development phase
- Not all relevant costs are included in the financial viability assessment, rendering one or multiple interventions financially unviable
- Where operations are not at full capacity/interim position, there may be insufficient revenue funding to meet operational expenditure
- Funders may have strict performance-based covenants in place. If the project is unable to meet key performance metrics, loans may be called / step-in action taken

## Risk Tips

- Create a risk register to identify, assess, address and regularly monitor all associated financial risk
- Incorporate monitoring and evaluation processes within the Towns Board
- Further discussed in the Management Case



# Economic Case vs. Financial Case

## FINANCIAL 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
Focus: <input type="checkbox"/> Net Present Social Value (NPSV) for money.	Focus: <input type="checkbox"/> Funding and affordability – cash flow and stock.
Coverage: <input type="checkbox"/> UK Society as a whole and distributional analysis where relevant.	Coverage: <input type="checkbox"/> Relevant public organisation(s) budget.
Relevant standards: <input type="checkbox"/> HM Treasury Green Book and supplementary guidance <input type="checkbox"/> discount rate applied.	Relevant standards: <input type="checkbox"/> Public sector accounting rules and standing orders.
Analysis: <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.	Analysis: <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.

# Proportionality

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

# CASE STUDY

# Case study example

## Project Overview

- Previously commissioned to assist in writing the business case for a Future High Street Fund bid.
- We were responsible for helping the council draft final FBC submissions, providing the Council with commercial and financial advice and assisting with development of the economic case and the Value for Money (VfM) proposition.
- The assets targeted were a series of vacant commercial properties, on the high street, which are listed buildings. These were to be repurposed into a mixture of commercial (retail / shared workspaces / community hubs), residential and public realm spaces to bring them back to life. This consisted of 7 discreet interventions that together were designed to uplift a particular area of the city.
- Building on the preferred option that we set out in the economic case we considered: sources of funding; financial profile based on a set of key assumptions; financial appraisal; cash balances; sensitivity analysis; and financial risks.



# Case study example

## Key lessons

- **Funding Ask** – This is driven by the projects costs, which in turn are based / flexed on key assumptions in the model. Understanding the key assumptions (Optimism Bias, interest / discount rates, timings of receipts and payments i.e. cashflow) and project risks allows for a realistic funding ask to be generated.
- In a multiphase mixed use development such as this, phasing of construction is a key consideration, particularly when funding is limited.
- **Project Risks** - Understanding the project risks allows the user to flex the model and understand the range of project performance (profit, IRR, ROI etc) from a worst case to a best case scenario.
- **Shovel Ready** – Having part of the development determined as ‘shovel ready’ (e.g. business case in place and ability to begin construction within 6 months of funding received) gives confidence in deliverability of the scheme and that it has been thought through in sufficient detail.

# TOP TIPS: DO'S & DON'TS

# Top Tips: Do's and Don'ts

## ✓ Do's

- Set out all cost assumptions, including sources, in detail
- Include a contingency provision where relevant across key assumptions budgets
- Conduct cost benchmarking to base cost assumptions on the unit costs of comparable projects
- Ensure that funding profiles equal the total amounts requested
- Provide graphs and charts to show efficient use of funds

## ✗ Don'ts

- Do not confuse real and nominal costs. Only nominal figures should be included in the financial case
- Cost of project does not directly link to the project scope. The case must be clear in setting out what is actually delivered at different prices
- Treating vague commitments of funding as sacrosanct for risk purposes
- Not including cost of borrowing / interest costs

# HOW WE CAN ASSIST YOU

# Working with us

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



## Online resources

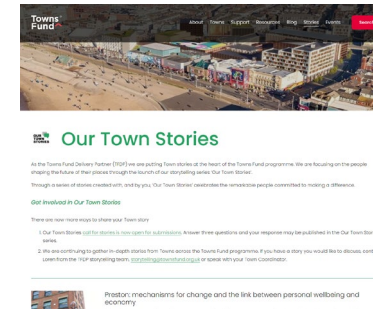
- Blog posts
- Guidance
- Tools



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



## Online Workshops



## Storytelling: Sharing your projects and experience



## Town working group: connecting with other towns

# TFDP offerings

The TFDP can offer:

- **Financial modelling workshops** – advice and guidance on building better financial models
- **Advice on funding strategies**, linked with your commercial case
- **Advice on financial assumptions and parameters** such as inflation, cost allowance, optimism bias, risk and other key issues
- Advice on the **treatment of co-funding and private sector funding**
- Help to **understand the level of certainty** required throughout the Business Case development and how best to address uncertainty
- Support with **understanding market prices and considerations for cost estimates**
- Advice on **shaping narrative** around the financial case, including private sector engagement
- We are running **business case workshops** with an accredited trainer

# Useful resources

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

# Q+A