



SOLENT  
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PARTNERSHIP

# Advice to Scheme Promoters on the Development of Business Cases

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TOGETHER.STRONGER



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# 1 Introduction

This is version nine of our advice to scheme promoters on the development of business cases and signposts to central government guidance.

The Solent LEP Assurance Framework sets out the requirements for investment decision making, and in relation to larger and more complex projects an investment decision must be informed by a Full Business Case (FBC) that is developed in accordance with Her Majesty's Treasury (HMT) [Green Book](#) (or equivalent) guidance and a monitoring and evaluation framework, in line with the principles of the National Assurance Framework and [HMT's Magenta Book](#).

All FBCs that are being considered for investment will be published for public consultation on the Solent LEP website. The consultation period will ordinarily last for 12 weeks and a summary of consultation responses will also be published by the LEP within 12 weeks of the closing date of the consultation.

It is important that the LEP is able to demonstrate value for money<sup>1</sup> of its investments in accordance with HMT Green Book and scheme proposers will be required to demonstrate this through compliance with Departmental appraisal guidance that is current at the time of the submission of the business case.

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<sup>1</sup> The LEP Board may consider funding projects that do not demonstrate high value for money through standard appraisal methodology, where there is a compelling and / or transformational strategic case.

## 2 The Business Case

The business case is a management tool and is developed over time as a living document as the proposal develops. The Business Case keeps together and summarises the results of all the necessary research and analysis needed to support decision making in a transparent way. In its final form it becomes the key document of record for the proposal, also summarising objectives, the key features of implementation management and arrangements for post implementation evaluation. Business cases can cover a wide range of types and levels of spending. Each case will be developed to reflect the type of proposal being considered. The effort project sponsors expend on developing the proposal should be proportionate to the likely costs and benefits.

### Business Case Structure

Business cases can be broken down into five different aspects which are interconnected but distinct (namely, the strategic, economic, financial, commercial and management aspects of the case). The business case should enable The LEP (and if applicable, Government Departments) and other stakeholders to ascertain that proposals:

- are supported by a robust Case for Change – **the Strategic Case**;
- optimise Value for Money – **the Economic Case**;
- are commercially viable – **the Commercial Case**;
- are financially affordable – **the Financial Case**; and,
- can be delivered successfully – **the Management Case**.

All of these aspects are important; however, their size will vary from proposal to proposal depending upon its nature and complexity. Some less complex business cases particularly those not involving significant new procurement, new systems or new building construction may need little or nothing by way of a commercial case and require a less complex management case. These cases will be developed as the business case progresses.

The business case develops iteratively over time, often in three distinct stages with more detail being provided at each stage.

### Stage 1 – Strategic Outline Case (SOC) - the scoping stage.

The purpose of the SOC is to confirm the strategic context of the proposal; to make a robust case for change; and to provide stakeholders and customers with an early indication of the proposed way forward (but not yet the preferred option), having identified and undertaken SWOT analysis (Strengths Weaknesses Opportunities Threats) on a wide range of available options, together with indicative costs. This phase maps onto OGC Gateway 1 (Business Justification).

At this stage, you might expect:

- the Strategic Case – completed in full but may be revised later;
- the Economic Case – completed to the long-list of alternative options stage, with a recommended way forward and an initially recommended shortlist for further examination at OBC stage;
- the Commercial Case – addresses the fundamentals of any potential Procurement and Deal;
- the Financial Case – discusses the likely affordability of the proposed Scheme; and,
- the Management Case – outlines how the project will be set up and managed,

## **Stage 2 - Outline Business Case (OBC) - the detailed planning phase.**

The purpose of the OBC is to revisit the SOC in more detail and to identify a preferred option which demonstrably optimises Value for Money. It also sets out the likely Deal; demonstrates its affordability; and details the supporting Procurement Strategy, together with management arrangements for the successful rollout of the Scheme. This phase maps onto OGC Gateway 2 (Procurement Strategy).

At this stage, you might expect:

- the Strategic Case – revisited;
- the Economic Case – completed according to the Green Book;
- the Commercial Case – outlines envisaged Deal structure/s and key contractual clauses and payment mechanisms;
- the Financial Case – contains a detailed analysis of affordability and any funding gaps;
- the Management Case – develops in more detail how the scheme will be delivered with an outline of the proposed programme/project management plan and if ITC is involved in accordance with PRINCE 2 methodology.

The Solent LEP [Large Project Application Template](#) aims to capture the information that is required within an OBC.

## **Stage 3 - Full Business Case (FBC) - detailed final phase.**

This takes place within the procurement phase of the project, following detailed negotiations with potential service providers/suppliers prior to the formal signing of contracts and the procurement of goods and services. This is usually the stage at which final Treasury approval is required.

The purpose of the FBC is to revisit the OBC and record the findings of the subsequent procurement activities; together with the recommendation for an affordable solution which continues to optimise value for money, and detailed arrangements for the successful delivery of required goods and implementation of services from the recommended supplier/s. This phase maps on OGC Gateway 3 (Investment Decision).

At this stage, you might expect:

- the Strategic Case – revisited and revised if required.
- the Economic Case – the findings of the procurement included in the analysis and recorded;
- the Commercial Case – the recommended Deal written-up;
- the Financial Case – affordability and funding issues resolved;
- the Management Case – the detailed plans for delivery and arrangements for the realisation of benefits, management of risk; and post evaluation are recorded.

**The scheme lead is responsible for all costs associated with the development of the Business Case unless agreed with the LEP. All business cases are developed at the risk of the scheme lead.**

### 3 Central Government Guidance on the Development of Business Cases

To access LEP funding for large projects, the Solent LEP will invite the scheme lead / promoter to develop an Outline Business Case (OBC) and / or a Full Business Case (FBC). Each is developed at risk by scheme proposer.

The OBC and the FBC are described in section 2. OBCs and FBCs must be developed in accordance with the guidance (or any subsequent guidance issued) by Government and the LEP's accountable body (Portsmouth City Council) as signposted below. It is the responsibility of the scheme lead / promoter to ensure that they are using the latest guidance issued.

#### **Equalities Act 2010**

In developing business cases, applicants must be very mindful of the obligations under the Equality Act 2010 and in particular the impact of the proposals on groups with protected characteristics. Consideration of the requirements of the Act should be demonstrated within the business case. Further information on Equalities Impact Assessment can be found here:

[https://www.portsmouth.gov.uk/ext/the-council/equalities/equality-impact-assessments-\(eia\)](https://www.portsmouth.gov.uk/ext/the-council/equalities/equality-impact-assessments-(eia))

#### **Guidance**

Advice on the production of a Green Book compliant business case is available in <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>.

In December 2016 the Department for Communities and Local Government (DCLG) published [The DCLG Appraisal Guide](#), which focusses on mainly the economic appraisal of development, including housing, commercial development and land-based interventions. However, the Guide also provides guidance on the metrics and appraisal information that needs to be calculated and presented for all policies.

For transport schemes, business cases must be developed in accordance with WebTAG advice provided by Department for Transport:

<https://www.gov.uk/guidance/transport-analysis-guidance-webtag>.

In line with guidance from the [Department for Transport](#), any bidding Local Authorities will also be required to place their business case on their own websites when bids are submitted for funding. During the period when Solent LEP is consulting on a For Full Business Case, a Local Authority will be required to provide a link to the consultation on their FBC on the Solent LEP website.

For all other investments, business cases should be developed in accordance with the guidance provided by HM Treasury:

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

Business cases will need to demonstrate how the proposal is state aid compliant. Additional guidance on this may be issued.

## 4 Decision Making

Parts D and E of the Solent LEP Assurance Framework set out the decision making process and this will also be set out in the relevant Fund guidance.

The following documents will be made available to the LEP Board (or relevant investment panel in line with the scheme of delegation) in advance of making funding decisions in order to inform the Board or Panels decision making in relation to a project:

- The application made for funding;
- An appraisal of the application (This will include the independent appraisal that Solent LEP adopt for large scale projects and SME investments over £100,000 alongside the executive and accountable body appraisal);
- A view by a legal expert;
- A recommendation to as to whether to approve the funding proposal or not;
- A recommendation about conditions which should be attached to the proposal.

## 5 Performance Management

The publication of the LEP Review on 24 July 2018 re-affirms the expectation of HM Government that LEPs should support their decision making with a robust evaluation of individual projects and interventions. Solent LEP has strengthened its approach to robust monitoring and intervention, providing additional guidance to scheme promoters in relation to the assurance framework, ensuring that funding beneficiaries operate on organisational structures that provide the highest possible level of assurance over the management of public funding.

As a result, Solent LEP have published a statement regarding its approach to intervention where there are instances of non-compliance or underperformance. This will ensure that any intervention in relation to LEP funded schemes is proportionate and provides the appropriate levels of support to rectify issues. In the majority of cases, intervention will be minimal, operating through the monitoring and evaluation framework that is already embedded into funding agreements and our local assurance framework. Where there are significant concerns, the Solent LEP will explore using a spectrum of options ranging from: regular, minuted performance meetings; the agreement of specific action/improvement plans with milestones; and risk based deep-dives / gateway reviews. In the most extreme instances, this could include direct intervention to express the LEP's loss of confidence in the scheme lead and / or project by withholding or withdrawing funding.

Solent LEP, in partnership with our Accountable Body (Portsmouth City Council), will continue to monitor projects on a quarterly basis and will supplement this with annual performance reviews and the ongoing quarterly monitoring of data returns for all projects to monitor risk. In order to strengthen this system, the LEP will also undertake a mid-year review and the outcome of the mid-year review of each project will be notified to the nominated senior reporting officer for each project. Such performance assessments will be grounded in the three themes encompassing the objectives of a LEP: 'Governance', 'Delivery' and 'Strategy'. This will enhance the existing annual performance review meetings with HMG and reporting to the LEPs Funding, Finance and Performance Management Group and the LEP Board.

At an individual project level, the Solent LEPs performance monitoring takes account of three factors (delivery, finances and reputation) to assess the potential impact on deliverability of any challenges which a Project may face. This is shown in table 1. The score for each factor will be added together to arrive at a total which will determine the overall rating for each project. The score corresponds to a RAG rating colour as defined in table 2, which sets out the corrective actions the LEP and Accountable Body will take. Project ratings are reported to HM Government on a quarterly basis, and to each meeting of the Solent LEP Board and Solent LEP Funding, Finance and Performance Management Group.

**Table 1: LEP Performance Management Matrix**

<b>DELIVERY</b>	<b>SCORE</b>	<b>FINANCES</b>	<b>SCORE</b>	<b>REPUTATION</b>	<b>SCORE</b>
Major issues have caused significant delays (more than 3 months); processes have been interrupted or not carried out correctly (e.g. planning permission has not been secured); or significant changes have had to be made to the aims and scope of the project. Project likely to under deliver forecast project outputs.	5	A variance of over 10% against profiled financial forecast (total expenditure) or significant changes to project finances required (increases or decreases) due to poor or delayed delivery.	5	Challenges with project are undermining LEP credibility with public or key stakeholder. This negative reputation will continue longer term and be hard to recover from.	5
Issues have arisen causing longer delays to the timetable (3 months or more) but no significant changes required to overall project aims and scope. Correct processes are not yet developed. Outputs may still be deliverable but challenging.	4	A variance of between 7% & 10% against profiled financial forecast (total expenditure). Budget changes have been required due to issues with project delivery.	4	Significant damage to LEP credibility with public or key stakeholder for sustained period or at critical point.	4
Issues have arisen causing longer delays to the timetable (less than 3 months). Correct processes will be achieved but are not yet developed. Outputs deliverable but will require re-profiling.	3	A variance of between 5% & 7% against profiled financial forecast. Some budget changes have been required.	3	Undermine LEP credibility with public or key stakeholder in short term.	3
Minor issues have arisen causing small delays. Correct processes are developed. Project is on track to deliver outputs.	2	A variance of between 2% & 5%. Small re-profiling changes to budget required.	2	May lead to widespread criticism.	2
No significant problems arisen in previous quarter. Correct processes are in use. Project is on track to deliver outputs.	1	A variance of up to 2%. Spend is largely on track with any minor slippage expected to be picked up by end of next quarter.	1	May lead to minor external criticism.	1

Table 2: Corrective Actions

Score	Actions required
3	<b>No concerns identified</b>
	> Continue with regular monitoring activity as defined in funding agreement
4 - 6	<b>Minor concerns</b>
	> Conference call with project lead to discuss project status
	> Additional corrective actions identified and agreed as required
7 - 9	<b>Some concerns - Escalate to FFPMG</b>
	> Monthly call to monitor project status
	> Project lead to provide corrective action required to reduce risk with measurable objectives
	> Report provided to FFPMG and Project lead to attend FFPMG meeting if requested
	> If deemed appropriate, face-to-face meeting to discuss project issues
10 - 12	<b>Significant concerns - Escalate to Main LEP Board</b>
	> Face-to-face meeting including FFPMG Chair (or nominated representative) Accountable Body, PCC finance and legal to discuss project issues
	> Formal letter from Accountable Body and LEP (via FFPMG) setting out concerns and corrective action required
	> Report required from project lead setting out actions to be taken by when
	> Review of outputs to determine if they are still achievable
	> Projects with a score of 11 (and rising) - Deep dive/ gateway review initiated by LEP Board to identify the key issues which are presenting a high level of risk
	> Regular weekly calls until risk score drops to a minimum of 8
13 - 15	<b>Major concerns - Immediate action required - Chair of LEP Board, LEP Chief Executive and S151 Officer of Accountable Body</b>
	> Face to face meeting with LEP Executive and Chair and Accountable Body to discuss project issues
	> Formal weekly follow up conference calls until risk level is deemed acceptable (9 or under)
	> Formal letter from LEP Board and Accountable body setting out issues identified and corrective action required
	> Formal letter from Accountable Body if funding deemed at risk / funding agreement in breach
	> Mandatory attendance at Board to provide scheme update and actions taken
	> Report required from project lead responding to deep dive/gateway review * with action plan setting out actions to be taken by when
	> An updated Business Case may be required
	> Withholding of funding and / or funding claw back should be explored
	* Where deep dive has not yet been completed this will be actioned

## 6 Contact

For further information please contact the Solent LEP on:

[info@solentlep.org.uk](mailto:info@solentlep.org.uk)

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