Ministry of Housing,
Communities &
Local Government

Towns Fund guidance (stage two): business case development

16 December 2020

1. Introduction

1.1. Once Heads of Terms has been agreed, towns are required to develop business cases for each project and submit a Summary Document to Ministry of Housing, Communities and Local Government (MHCLG). MHCLG will need to review and be satisfied with the Summary Document before funding can be released.

1.2. This guidance covers the development and appraisal of business cases for the Towns Fund, and other requirements related to project development and submission of the Summary Document. MHCLG and the Towns Fund Delivery Partner will provide support and guidance throughout this phase.

2. Overview of requirements

2.1. After agreeing Heads of Terms, towns have **two months** to confirm which projects will be taken forward as part of their Town Deal, this should include the following information on each project:

1. Towns Fund ask
2. match-funding total and breakdown
3. expected outputs and outcomes
4. plan for addressing key conditions
5. whether the project will be fast-tracked
6. proposed financial profile and the Revenue/Capital split (approval at MHCLG's discretion)

2.2. This information should be presented in the project confirmation table at Annex A, and submitted to the Towns Fund central inbox (towns.fund@communities.gov.uk) within two months of the deal being agreed. MHCLG will review and, if suitable, approve this information.

2.3. Towns should develop full business cases for each agreed project in line with HM Treasury's Green Book[1].

2.4. The accountable body (as identified in the Town Investment Plan) will be accountable for implementing the Town Deal. The Town Deal Board should have an ongoing role and have sight of decisions as projects are developed in more detail or possible changes are made. The nature and degree of the Board's oversight should be agreed locally.

[1] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

2.5. Locally, ultimate decision-making responsibility will lie with the accountable body, but the Town Deal Board Chair will be a signatory to the Summary Document and should make decisions in partnership and collaboration with the Town Deal Board.

2.6. A business case must be developed for each selected project in line with the conditions agreed in the Heads of Terms. Each business case should cover one project, as submitted in the project template. If a project consists of a package of smaller interventions, these can be grouped into one business case, as long as a strong strategic case is put forward demonstrating how the separate interventions link together to deliver a coherent vision. The value for money assessment must cover the project as a whole, but each intervention must be costed in the Financial Case.

2.7. Public Sector Equality Duty (PSED) should be fulfilled through a programme-level impact assessment; relevant project-level impact assessment should also be undertaken. It is recommended that this is undertaken by the accountable body. A summary of this work should be included as part of the Summary Document. Relevant Environmental Impact Assessments should also be undertaken.

2.8. Accountable bodies should work with appropriate partners to ensure effective delivery. For some individual projects it may be appropriate for other local delivery bodies (for example upper-tier authority or university) to lead on the development of business cases and on the delivery of the project. Where this is the case, a clear agreement should be made between the accountable body and the delivery body (for example in the form of a memorandum of understanding) for the allocation of any Towns Fund monies. All grant payments from the Towns Fund will be made to the accountable body.

2.9. All business cases should pass through local assurance mechanisms with oversight from the Town Deal Board: a plan should be in place to enable this. MHCLG also reserves the right to call in any business case to be assured centrally.

2.10. MHCLG will need to review and be satisfied with completed Summary Documents before funding can be released.

3. Guidance on developing business cases

3.1. Green Book compliant business cases should be developed for each project in order to allocate government funds. MHCLG may only require sight of the Summary Document, although MHCLG also reserves the right to call in any business case to be assured centrally. We expect business cases to include:

a. The evidence for the intervention using rigorous analysis of quality data and the application of best practice.

b. An assessment of value for money. Attention should be given to how different types of projects will be compared and assessed. Typically, this would include the following considerations at a level proportionate to the scale of funding required for the proposal:

i. a clear economic rationale that justifies the use of public funds in addition to how a proposed project is expected to contribute to strategic objectives
ii. clearly defined inputs, activities, outputs and anticipated outcomes, ensuring that factors such as displacement and deadweight have been considered
iii. benefits that exceed the costs of intervention using appropriate value for money metrics
iv. appropriate consideration of deliverability and risk along with appropriate mitigating action (the costs of which must be clearly understood).

3.2. Recognising the diversity of market conditions and the acute nature of the Covid-19 impact in some localities, no minimum value for money threshold is set for Towns Fund projects. However, to follow best practice, all business cases must contain robust value for money assessments. If value for money values are low, then additional justification should be provided. A variety of measures can be used to summarise value for money, this includes estimates for:

a. **Net Present Social Value** - defined as the present value of benefits less the present value of costs. It provides a measure of the overall impact of an option.

b. **Benefit-Cost Ratios** - defined as the ratio of the present value of benefits to the present value of costs. It provides a measure of the benefits relative to costs.

3.3. Net present social value and benefit-cost ratios should not be treated as a full representation of value for money. Rather, they should be used to summarise the benefits and costs that can be readily monetised or quantified. There may be wider strategic or social value to an intervention which may not be easily assimilated into calculations.

3.4. Business cases should address, in a proportionate manner, the five cases set out in the HM Treasury Green Book. The Green Book has recently been updated to ensure the methodology supports the delivery of Government's levelling up ambitions and other policy priorities. These updates include a much stronger emphasis on the strategic case backed up by rigorous theory of change analysis, and renewed clarity on what constitutes value for money. The full conclusions drawn from the review can be viewed in a HM Treasury report[2].

3.5. Business cases should be developed to meet the assurance requirements of the accountable body. In addition to the Green Book, other appraisal guidance should be followed for specific thematic interventions where available.

3.6. The five cases in the Green Book are:

I. **strategic case** – must show the rationale, background, policy context and strategic fit of the public expenditure or public intervention, this should include clear objectives with a robust logic of change from inputs to outcomes.

II. **economic case** – with evidence of why a privately provided solution would fall short of what is optimal (market failure) and a list of options to achieve a better outcome. "Do nothing" should always be an option. The case must build on robust verifiable evidence, consider additionality, and displacement of activity, and include a sensitivity analysis and a correction for optimism bias if risk is a factor for success. Value for money is ideally demonstrated in a credible Benefit-Cost Ratio, but where some of the costs and/or benefits cannot be monetised at the present time, the economic case should proportionally capture these impacts and specify a partial value for money measure. Wider benefits and costs should be considered and specified where these are sizeable, compared with the direct impacts. Towns should decide how to treat Covid-19 impacts.

III. **commercial case** – demonstrate commercial viability or contractual structure for the project, including procurement where applicable.

IV. **financial case** – standard appraisal of financial implications of the project, where applicable this should include budgets, cash flow, and contingencies.

[2] https://www.gov.uk/government/publications/final-report-of-the-2020-green-book-review

V. **management case** – of how the project is going to be delivered.

3.7. Accountable bodies must ensure that the commercial, financial and management arrangements are appropriate for effective delivery. Where applicable, appropriate resources should be consulted for situation specific project appraisals. To assist with this, the Infrastructure and Projects Authority have produced a Project Initiation Routemap Handbook[3] and associated modules which provides a framework to support infrastructure providers to improve the delivery of their projects and programmes. For analogous best practice guidance on the delivery of projects and programmes we also advise you to refer to the Infrastructure and Project Authority's Project Delivery Functional Standard[4].

3.8. MHCLG's Appraisal Guidance[5] provides more information on how the department assesses the value for money of property and land use projects.

3.9. The Department for Transport have produced transport analysis guidance (TAG)[6] on the principles of cost-benefit analysis and how they should be applied in the context of transport appraisals.

4. Business case assurance

4.1. For each business case, the accountable body should follow their local assurance processes. This should include sign off from relevant individuals and groups within the council (for example the S151 officer and cabinet). It is important that the organisation responsible for developing business cases does not have sole responsibility for appraisal.

4.2. MHCLG may carry out spot checks on projects during the business case development stage. This will be in the form of a working-level conversation targeted at those projects where there are concerns or risks to confirm that the business case is being developed in line with this guidance.

4.3. Where a project is deemed novel or contentious (for example if it does not fully align with the intervention framework) or if the project value is over £25

[3] https://www.gov.uk/government/publications/improving-infrastructure-delivery-project-initiation-routemap
[4] https://www.gov.uk/government/publications/project-delivery-functional-standard
[5] https://www.gov.uk/government/publications/department-for-communities-and-local-government-appraisal-guide
[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940962/tag-a1-1-cost-benefit-analysis.pdf

million, MHCLG reserves the right to appraise business cases centrally to assess project viability and value for money.

4.4. Following assessment, if existing concerns are not addressed, or if new ones arise, MHCLG may hold a working-level challenge conversation to provide the town with another opportunity to demonstrate the viability and value for money of the project. An improvement plan may be agreed for the project which the accountable body will be responsible for implementing.

4.5. Once the funds are allocated to a specific purpose, following the local or central approval of a five-case business case, it is the responsibility of the accountable body to spend these funds for the purpose they were given. The procurement policies of the accountable body should be transparent and fair but need not require contractors to argue a five-case business case.

5. Project changes and adjustments

5.1. There may be circumstances where towns wish to make adjustments to projects, or indeed replace them with alternatives. Accountable bodies should engage with their Town Deal Boards to discuss any changes and must be proactive in consulting their local Towns Fund lead on any potential changes to approved plans.

5.2. Adjustments can be made following a Heads of Terms offer before the final list of projects are agreed, up to two months after Heads of Terms offer. In most cases a project adjustment form is not required at this stage, but updated information should be provided as listed in paragraph 2.1. However, any change should be made clear and any change outside of the list in paragraph 2.1 should be made using a project adjustment form at this stage (the stage when submitting final projects information at the two months after Heads of Terms are offered). The local Towns Fund lead should be consulted in the first instance.

5.3. Changes may also be made between agreeing the final list of projects and completing the full business case, where there has been a change in circumstances- a project adjustment form is required.

5.4. The local Towns Fund lead should be consulted in the first instance. Then, having agreed in principle with the town lead, an email should be sent to towns.fund@communities.gov.uk setting out the intended change and rationale, as well as confirming the agreement of relevant stakeholders. A template form is at Annex B.

5.5. Approval will be at the discretion of MHCLG. Adjusted projects will be reassessed against the original project assessment criteria to determine what effect the adjustment has had on the project. If concerns are not addressed, the town will have the opportunity to make a more detailed case for the adjustment in a working-level challenge conversation with MHCLG.

5.6. If no additional concerns arise, and if the rationale for adjustment is well evidenced, the adjustment will be accepted. Where adjustments are accepted, the town will be asked to submit an updated project confirmation table (Annex A) reflecting the changes that have been made.

5.7. No additional funding will be allocated if new or adjusted projects are of higher value.

6. Timing for all business cases

6.1. Towns should regularly engage with their local lead on the development of business cases. Once business cases have been developed and appraised, a summary of all this work in the form of completed Summary Documents, should be submitted to MHCLG within 12 months of the Heads of Terms agreement.

6.2. The Summary Document will contain an overview of each business case and confirmation that key conditions have been addressed (where applicable). The Summary Document will be assessed by MHCLG before funding is released.

6.3. The Summary Document template is provided at Annex C.

7. Fast-tracked projects

7.1. Some projects may already be well developed by the time Heads of Terms has been agreed. Where this is the case, these projects can be fast-tracked for funding provided the business case development and appraisal meets all criteria in this guidance before all the others.

7.2. Where towns intend to fast-track projects, it will be indicated in Heads of Terms. Towns should keep their local leads informed of the status of business case development for fast-tracked projects.

7.3. A Summary Document for fast-tracked projects should be submitted to MHCLG as soon as possible, and following MHCLG's assessment, funding may be released. Projects should be grouped together as much as possible when submitting the Summary Document.

Note: the accountable body is responsible for ensuring that all templates submitted to MHCLG are accurate and complete representations of current circumstances.

Annex A: project confirmation table

Please complete the table below for each project and send to the Towns Fund central inbox, towns.fund@communities.gov.uk,within two months of agreeing Heads of Terms.

Project confirmation table					
Project name					
Date:					
Towns Fund ask (£ million)					
Match funding total and breakdown					
Expected outputs and outcomes					
Plan for addressing key conditions					
Fast-tracked project (Yes or No)					
Capital/revenue split					
Nominal Financial profile (£ million)					
2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Signature of Town Deal Board Chair and accountable body's Chief Executive Officer or S151 Officer					

Annex B: project adjustment form (this will be provided in Excel format)

After confirming projects (after annex A information has been agreed), where towns propose to make changes to a project please send a completed form to towns.fund@communities.gov.uk.

Project details	Original proposal	Adjusted proposal (where applicable)	Rational for adjustment (where applicable)	Details of how the Town Deal Board and relevant stakeholders have been consulted on changes (where applicable)
Project name				
Project description including: - rational and strategic fit; - how the project addresses need and opportunity - alignment with other plans and strategies				
Towns Fund ask (£ million)				
Total project cost (£ million)				
Outputs				
Outcomes				
Match funding total				

Match funding breakdown				
Capital/revenue split				
Financial profile				
Project completion date				

Annex C: Summary Document template

Towns should submit a completed Summary Documents for each project to MHCLG as soon as they are ready and within 12 months of agreed Heads of Terms.

Notes on the Summary Document template:

General conditions table: provide evidence of how general conditions, where applicable, have been addressed.

Project summary table: towns should complete this for each project. Set out what assurance has been carried out and confirm whether and how towns have addressed project-specific conditions.

Summary Document template

General conditions table

General conditions table
TIP improvement condition *Set out TIP improvement conditions as agreed in Heads of Terms*
Evidence *Provide evidence of how conditions have been addressed*
Public Sector Equality Duty (PSED) *Provide a summary of programme-level PSED analysis*
Signature of Town Deal Board Chair and accountable body's Chief Executive Officer or S151 Officer

Project summary table

Project summary table					
Project name					
Business case appraisal *Provide details of how the business case has been appraised*					
Is this project being fast-tracked?					
Total project value (£, million)					
Towns Fund funding allocated (£, million):					
Outputs *Provide a list of the final projected outputs, they must be clear and quantified*					
Outcomes *Provide a list of the final projected outcomes, they must be clear and quantified*					
Cost-benefit projection *(for example BCR or NPSV)*					
Public match funding *Provide the total (£, million) and breakdown of sources*					
Private match funding *Provide the total (£, million) and breakdown of sources*					
Nominal Financial profile (£, million)					
2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Actions taken to address project conditions *Provide details of actions taken to address any conditions that were attached to the project, where the condition was to provide a delivery plan this should be inputted in the section below*					

Delivery plan *Including details of:* - *partnerships* - *timescales* - *planning permission and other milestones* - *interdependencies* - *risks and mitigation measures*
Monitoring and evaluation plan* *Provide details on:* - *how spending and delivery will be monitored against expected milestones and outputs and outcomes* - *what Key Performance Indicators will be used* - *arrangements for sharing of data* - *the levers that are available to address any performance issues* - *who will be responsible for evaluating success*
Signature of Town Deal Board Chair and accountable body's Chief Executive Officer or S151 Officer

* Further guidance on monitoring and evaluation requirements will be provided in January 2020.