



**TRANSPORT
SCOTLAND**
CÒMHDHAIL ALBA

Guidance on the Development of Business Cases in Transport Scotland
Transport Scotland – Finance, Corporate and Analytical Services, December 2015



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1 Background

A business case is a document providing the reasoning and justification behind a project. This paper provides guidance on the business case process within Transport Scotland as a scheme moves from Scottish Transport Appraisal Guidance (STAG)¹ assessment to delivery. The framework is based on HM Treasury guidance. Throughout the guidance, an attempt is made to acknowledge current practices whilst providing a consistent approach that can be applied to all schemes and projects.

Currently, although all major transport schemes are initially appraised using the same methodology (STAG), some users of STAG have asked for clarification on the link between STAG and the business case development process. All projects should follow the business case process described in this guidance to take them through to the delivery stage and put in place post project evaluation. The purpose of the guidance is to provide a consistent approach, regardless of mode, and as such is suitable for the delivery of any transport project. The business case is not simply a vehicle for gaining approval for a scheme. Irrespective of whether approval is required, the process outlined in this section must be satisfied for all public sector schemes. Within Transport Scotland, the business case is used by its Investment and Decision Making Board to inform decisions on investment.

2 The Business Case Development Process

The business case development process should follow the Office of Government Commerce (OGC) and HM Treasury guidance². The stages are:

- stage 0 – Business planning: Strategic Outline Plan (SOP)
- stage 1 – Scoping: Strategic Business Case (SBC)
- stage 2 – Planning: Outline Business Case (OBC)
- stage 3 – Procurement: Final Business Case (FBC)

3 STAG and the Business Case Development Process

Scottish Transport Appraisal Guidance (STAG) represents the first stage in the assessment of potential solutions to transport problems and can be seen as forming the key part of the Strategic Business Case.

The STAG process is designed to:

¹ <http://www.transportscotland.gov.uk/analysis/scottish-transport-analysis-guide/STAG>

² Public Sector Business Cases using the Five Case Model: a Toolkit, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector_business_cases_2015_update.pdf

- identify existing and potential problems in the transport network
- identify a range of schemes which could address these problems
- assess these schemes against a range of criteria, including value for money.

As such, it is clear that the outcomes of a STAG report would be expected to contribute significantly to the strategic and economic elements of the business case, but less to the commercial, financial, and management elements.

The STAG process results in potential solutions to a transport problem and provides the information required for a decision maker to choose a preferred option or options.

This preferred option or options are then subjected to detailed design work and as a single preferred option is developed it is appropriate to revisit the STAG process in terms of this detailed design. This check should be to ensure that the original objectives are still being met but there should also be an update of the assessment against the STAG criteria. There is no requirement to revisit previous options unless the performance of the preferred option is significantly degraded.

4 The Five Case Model

The business case development process follows the Five Case Model:

- The Strategic Case
- The Economic Case
- The Commercial Case
- The Financial Case
- The Management Case

Each component of the Five Case Model should be satisfied. The Five Case Model is the recommended standard for the preparation of business cases and is used extensively within central government departments and their agencies. The purpose of the business case is to ensure that programmes and projects meet their intended objectives and deliver their intended benefits by making sure schemes:

- make a robust case for change – the ‘strategic case’
- optimise value for money in terms of economic, social and environmental benefit – the ‘socio-economic case’;
- are commercially viable – the ‘commercial case’
- are financially viable – the ‘financial case’

- are achievable – the ‘management case’. Typically, the first two components of the Five Case Model will be covered within the SBC, with all components being covered in the OBC in greater depth.

Typically, the first two components of the Five Case Model will be covered within the SBC, with all components being covered in the OBC in greater depth.

The tables in this paper (based on the HM Treasury’s guidance and information set out by the OGC³) further lay out how each component of the 5 Case Model aligns with the business case development process, and what should be included in each part.

The following tables provide general information and guidance on each stage of the Business Case development process and how the Five Case Model applies.

It is important to note that in transport, Stage 0, the Strategic Outline Plan, is covered by existing documents such as Scotland’s Economic Strategy, the National Transport Strategy and its supporting documents and potentially, regional or local transport strategies. As such this guidance focuses on Stages 1 (SBC) to 3 (FBC).

Stage 1	Strategic Business Case (SBC)
Aim/Purpose	The SBC should provide a rationale for intervention and provide enough evidence for a scheme/project to proceed to development. It should detail the need for intervention and propose a variety of options with which to deal with the issue(s), in the context of Government objectives (or in some cases, as part of a wider strategic level assessment, i.e. the Strategic Transport Projects Review).
Further Information	As a minimum, this section should set out the Investment Objectives , and how they help meet Government strategy ⁴ . This stage should include the STAG Report and STAG Option Summary Table - little else is required at this stage. Usually this stage will contain/constitute the first version of the Strategic Case from the Five Case Model (making a robust case for change), which will be revisited in the OBC. Typically, the SBC is presented to decision makers and if successful, may proceed to development. Given the nature of the STAG process, schemes with a completed STAG appraisal will have demonstrated a sufficient level of detail to

³ <http://webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/documents/BusinessCaseTemplate-MinimalContent.pdf>

⁴ <http://www.scotland.gov.uk/Publications/2011/09/13091128/0>

Stage 1	Strategic Business Case (SBC)
	provide the Strategic Case.

Stage 2	Outline Business Case (OBC)
<p>Aim/Purpose</p>	<p>The purpose of the OBC is to revisit the SBC in more detail and to identify a preferred option which demonstrably optimises value for money. By this point it is expected that there will be a shortlist of options. It also sets out the likely solution; demonstrates its affordability; and details the supporting procurement strategy, together with management arrangements for the successful rollout of the scheme.</p>
<p>Further Information</p>	<p>This is the detailed planning phase of the investment. The OBC should provide the information required to proceed to procurement. All 5 components of the Five Case Model should feature here.</p> <p>OBCa The Strategic Case – Summarise the findings of the SBC and revisit the strategic context of the scheme, including the rationale for intervention as identified at the SBC stage and a demonstration of how the preferred option will satisfy the objectives of the scheme as well as the overall objectives of the Scottish Government. Should also summarise both the existing route arrangements and the potential changes as a result of the preferred option. Additionally, should identify the key stakeholders, constraints, dependencies and strategic risks that are associated with the project, and outline how the realisation of the scheme benefits will be measured.</p> <p>OBCb The Socio-Economic Case - Revisit the STAG appraisal, ensure that the identified problem(s) still exist and that the options assessed will still offer solutions to the problem(s) at value for money (under the 5 STAG criteria (Economy, Environment, Safety, Integration and Accessibility and Social Inclusion)). The preferred option should be identified (i.e. the option that contributes most to the SG’s Purpose and Objectives). This component will typically feature a high level appraisal (also called ‘cost-benefit analysis’) which quantifies costs and benefits in order to provide an estimate of the value for money of the project. It is important to note however that this form of appraisal will only contain an estimate of 3 of the 5 STAG criteria (Economy, Environment, Safety), and so it is crucial that this section also includes analysis of ‘soft’ benefits what cannot be quantified or monetised – typically those which fall under the ‘Integration’ or ‘Accessibility and Social Inclusion’ STAG criteria.</p> <p>OBCc The Commercial Case – The OBC should here identify</p>

Stage 2	Outline Business Case (OBC)
	<p>the procurement strategy of the preferred option. The Procurement Strategy should identify all potential risks (see ANNEX E), with the primary objective here being to identify the strategy which offers the best value for money for the taxpayer.</p> <p>OBCd The Financial Case – A full financial appraisal of the preferred option must be carried out, based on resource accounting and budgeting principles, including information on funding, budgeting over the life of the project and scheme cash flow. At this stage it is important to be continually identifying risks and uncertainties that could affect the project's affordability.</p> <p>OBCe The Management Case – this section should detail the project management plans, outlining the framework for managing risk, benefit realisation, post-project evaluation and the project as a whole. Within the risk management framework it is important to fully consider all options available for risk mitigation, and for a risk register to be drawn up identifying which party is responsible for each risk. As part of the Benefits Realisation criteria, this section should include the history of similar schemes from the past and any lessons learnt should be recorded.</p>

The five components of the Five Case Model that make up the OBC represent the information required for a decision to be taken on whether to proceed to the procurement stage. In some cases, the OBC should be subject to a Gateway 2⁵ Review.

⁵ For more information on Gateway 2 Reviews please visit:
<http://intranet/InExec/AboutUs/Directorates/Procurement/aboutourdirectorate/CentreofExpertise/CofEGatewayRev/GatewayReviews#a4>

Stage 3	Final Business Case (FBC)
<p>Aim/Purpose</p>	<p>Simply put, the FBC is an updated version of the OBC. Everything on which the OBC was based on should be revisited here, including costs and benefits from the Investment/Economic Case (though they need not be recalculated unless information has changed). The FBC 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. The purpose of the FBC is to revisit the OBC and record the findings of the subsequent procurement. It also sets out the recommendation for an affordable solution which continues to optimise Value For Money (VFM), and includes detailed arrangements for the successful delivery of goods and implementation of services from the recommended supplier.</p>
<p>Further Information</p>	<p>The FBC can be split into 6 stages:</p> <p>FBCa Revisit the rationale for intervention – It should be noted here if the case for intervention is still valid following the OBC. Any and all changes to the scheme context, benefits or costs should be detailed within the FBC. The appraisal (OBCa) should also be revisited to ensure that the option being taken forward is still the best performing of those previously short-listed.</p> <p>FBCa Revisit the rationale for intervention – It should be noted here if the case for intervention is still valid following the OBC. Any and all changes to the scheme context, benefits or costs should be detailed within the FBC. The appraisal (OBCa) should also be revisited to ensure that the option being taken forward is still the best performing of those previously short-listed.</p> <p>FBCb Revisit the Procurement Strategy – Before finalising the procurement process and selecting a bidder, it should be checked that the procurement method pursued continues to offer the best value and that there has been no change to the risk profile.</p> <p>FBCc Select the preferred bidder – the basis on which potential bidders were selected/discarded should be recorded, together with any provisions for ensuring continuing Value . (If it is the case that the preferred bidder has already been</p>

Stage 3	Final Business Case (FBC)
	<p>selected – e.g rail projects that are being progressed with Network Rail then FBCc is not required).</p> <p>FBCd Set out the negotiated deal and contractual arrangements – The services/outputs that have been contracted for should be clearly laid out, together with timescales for delivery, the type of contract, key contractual issues, details of the risk allocation between TS and the service provider, and the method of payment for the preferred solution including premiums for risk transfer.</p> <p>FBCe Set out the financial implications – This should explain the financial implications of the solution with respect to TS. The capital and revenue implications of the solution should be detailed, including any costs incurred by TS, and the impacts on TS’s balance sheet.</p> <p>FBCf Finalise the project management plan – The project management plans as drawn up as part of OBCd should be updated, with an emphasis on detailed arrangements regarding the design, build, and operational phases. Benefit Realisation and post project evaluation should not be overlooked, and plans will need to be expanded from the outline stage. It is crucial that the FBC project management plan puts in place arrangements for the ex-post evaluation of the scheme.</p>

Once completed, the FBC may be subject to a Gateway 3 review, and, subsequently submitted to decision makers for consideration. If approved, prior to the contract being signed, should the costs or benefits of the scheme vary by 10% or more, or the contract terms vary significantly from those approved, the FBC must be revised and submitted to the decision makers for re-consideration.

5 Reporting of Costs in the Financial Case

In economic appraisal, as set out in the Green Book⁶, costs relevant to an economic appraisal are those about which decisions can still be made, in other words, those costs which will be incurred subsequent to appraisal and the decision to go ahead. 'Sunk costs', which are the costs of goods and services that have been committed to prior to scheme appraisal and which are irrevocable, should therefore be excluded in an appraisal. This reflects the principle that evidence should support decisions on spending over which the spending organisation has discretion

To ensure transparency of the full financial impact of projects however, in the Financial Case, it is prudent to separately report full costs, including sunk costs and to explain the difference between the costs included in appraisal and full financial project costs. This could take the form of a simple table setting out the two costs with a brief explanation of why sunk costs are not included in appraisal costs and of other differences, such as the impact of discounting and any difference in the price base.

6 After the Business Case

The Final Business Case represents the point where contracts are signed and the transport intervention is committed. It is good practice to return to the information in the various business cases as the scheme moves to completion and opening.

There is also a requirement that formal ex-post evaluation takes place in accordance with the plan laid out in the Final Business Case.

⁶ <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

7 DMRB and GRIP

Both road and rail currently have their own procedures for taking projects from inception to implementation; these are the Design Manual for Roads and Bridges (DMRB), and Guide to Railway Investment Projects (GRIP) respectively. Further detail is provided in Table 1 below.

Table 1- Road (DMRB) and Rail (GRIP)

Road – DMRB	Rail – GRIP (Network Rail process)
<p>The DMRB procedures require a detailed assessment of schemes, covering their economic, environmental, and safety impacts. DMRB also contains detailed guidance regarding management and related contractual issues.</p> <p>The stages of DMRB are:</p> <ul style="list-style-type: none"> • stage 1: Preliminary Assessment • stage 2: Route Option Assessment • stage 3: Scheme Assessment <p>Where DMRB is lacking is concerning the means of scheme procurement. Procurement options are generally analysed in accordance with Scottish Government Financial Partnerships Unit Value for Money Guidance in parallel to the DMRB process.</p> <p>It is also worth noting that the STAG Integration and Accessibility and Social Inclusion criteria are not specifically addressed.</p> <p>With the exception of ongoing maintenance issues, road schemes generally do not have the financial or commercial implications of rail schemes and the DMRB/VfM process generally covers requirements</p>	<p>The GRIP process is very much focussed on identifying procurement and contracting issues throughout. GRIP was designed to take a project from inception to post-delivery, and so covers all the same elements of the business case process. The stages of GRIP are:</p> <ul style="list-style-type: none"> • stage 1: Output definition; • stage 2: Pre-feasibility; • stage 3: Option selection; • stage 4: Single option selection; • stage 5: Detailed design; • stage 6: Construction test and commission; • stage 7: Scheme hand back; and • stage 8: Project close out. <p>However, a key distinction of the GRIP process is that the rationale for intervention is taken as given and is not, generally, revisited during the process. This has prompted the use of a Design Development Appraisal which is in effect the analysis of a single option under the STAG framework in order to check the rationale for intervention remains as the project is subjected to detailed design.</p>

Furthermore, Table 2 below illustrates how each stage of DMRB/GRIP aligns with the Business Case process:

Table 1 – DMRB and GRIP within the Business Case Process

DMRB	Business Case	GRIP
Stage 1 - Preliminary Assessment	Strategic Business Case	Stage 1 - Output Definition
		Stage 2 - Pre-feasibility
		Stage 3 - Option Selection
Stage 2 - Route Option Assessment	Outline Business Case	Stage 4 - Single Option Development
Stage 3 - Scheme Assessment		
	Final Business Case	Stage 5 - Detailed Design
		Stage 6 - Construction Test and Commission
		Stage 7 - Scheme Hand Back
		Stage 8 - Project Close Out

An IDM decision point should come after each of the SBC, OBC and FBC, as shown in **Error! Reference source not found.** Stages 7 and 8 of GRIP take place after the FBC, and will align with the construction and ex-post evaluation stage of a project.

Further copies of this document are available, on request, in audio and large print formats and in community languages (Urdu; Bengali; Gaelic; Hindi; Punjabi; Cantonese; Arabic; Polish).

اس دستاویز کی مزید کاپیاں آڈیو کیسیٹ پر اور بڑے حروف کی چھپائی میں اور کیوئی کی زبانوں میں طلب کیے جانے پر دستیاب ہیں، برائے مہربانی اس پتے پر رابطہ کریں:

এই ডকুমেন্ট-এর (দলিল) অনতিরিক্ত কপি, অডিও এবং বড়ো ছাপার আকারে এবং সম্প্রদায়ের লোক ভাষায় অনুরোধের মাধ্যমে পাওয়া যাবে, অনুগ্রহ করে যোগাযোগ করুন:

Gheibhear lethbhreacan a bharrachd ann an cruth ris an èistear, ann an clò mòr agus ann an cànan coimhearsnachd. Cuir fios gu:

इस दस्तावेज़/कागजात की और प्रतियाँ, माँगे जाने पर, ऑडियो टैप पर और बड़े अक्षरों में तथा कम्प्यूनिटी भाषाओं में मिल सकती हैं, कृपया संपर्क करें:

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ISBN: 978-1-909948-62-4

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Published by Transport Scotland, January 2016.

An agency of
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