Principles for developing a Business Case

September 2025

Scottish Government
Riaghaltas na h-Alba

1. Principles for developing a Business Case

1.1 Rationale

The development of a robust business case is an important stage of the decision-making process when considering a financial intervention into a distressed business. The process of developing a business case will help to set out the rationale for SG intervening, the intended outcomes and crucially the best route to deliver this.

The SPFM provides clarity by defining a business case as a document that *"*provides justification for undertaking a project, in terms of evaluating the benefit, cost and risk of alternative options and rationale for the preferred solution, against which continuing viability is tested. Its purpose is to obtain management commitment and approval for investment in the project".

1.2 Background and Purpose

As part of an evaluation of a previous Scottish Government financial intervention, a key recommendation was made in relation to developing a "streamlined [appraisal] process…to allow SG to quickly assess requests in time-pressured situations".

Whilst it is important to provide decision makers with a full options appraisal to support an investment decision, it is recognised that in certain rare circumstances investment decisions are required to be made 'at pace'. Such instances could relate to providing financial support to a business to support critical national infrastructure, or secure jobs in a strategically important industry where there is an immediate liquidity problem.

This guidance therefore looks to provide direction on developing business cases in general for commercial interventions, but judgement will need to be applied where there is time pressure on the essential aspects to focus on. This guidance is not intended to replace existing guidance on business case development within HMT Green Book, HMT guidance on how to develop business cases for projects and programmes and the Scottish Public Finance Manual. It will instead distil and summarise key aspects of this, providing useful links and direction on Scottish Government governance and sign-off to ensure as an efficient process as possible.

The intended audience is colleagues considering financial interventions, most notably those in Strategic Commercial Assets Division (SCAD). However. the principles can be applied to other areas of SG and the wider public sector.

2. Summary of existing Business Case guidance

2.1 The Five Case Model

The business case is important "because projects will only deliver their intended outputs and benefits if they are properly scoped, planned and cost justified from the outset. Using the five-case model provides decision makers and stakeholders with a proven framework for structured 'thinking' and assurance."[1]

It is recommended that business cases for strategic commercial interventions follow the HMT Business case guidance for projects and programmes.[2] The HMT Green Book Five Case Model[3] is a tool for decision makers, and a framework for considering the use of public resources to be used proportionately to the costs and risks involved. The use of the Five Case Model should take account of the context in which a decision is to be taken. It can be used for the development of:

- Strategic Outline Case (SOC) – sets out the problem, makes the case for change and develops a shortlist of options.
- Outline Business Case (OBC) – builds on the SOC and identifies the solution which offers optimal value for money.
- Full Business Case (FBC) – builds on the FBC and identifies the procurement route and delivery plans for the chosen option.

The five cases, outlined below, are interconnected and therefore should not be developed or viewed in isolation:

- Strategic – What is the rationale for the intervention in the business? How does the intervention align with policy objectives?
- Economic – What is the net value for money to the taxpayer of the options for intervention considered?
- Commercial – Is there a commercially viable plan in place to meet the objectives of the intervention that meets subsidy requirements?
- Financial – Is the intervention financially affordable?
- Management – Is the intervention achievable and deliverable?

Using this framework correctly ensures business cases for strategic commercial interventions:

- follow best practise and are consistent with appraisals of other public interventions across Scotland;
- consider all the necessary aspects; and
- provide a defensible position when subject to challenge and review.

---

[1] Business Case Guidance for Projects (HM Treasury, 2018)
[2] Business case guidance for projects and programmes - GOV.UK
[3] The Green Book: appraisal and evaluation in central government - GOV.UK (www.gov.uk)

2.2 Strategic Case

The strategic case sets out the rationale for the Scottish Government to intervene in the business. It should set out:

- The current situation with respect to the business including: recent financial performance; staffing; difficulties faced by the business; factors contributing to the difficulties faced; details of a previous intervention or support received.

- The socio-economic profile of the local authority area in which the business operates to gain an understanding of the significance of the business to the local area and the relative strength or fragility of the area. Key indicators to consider include gross value added (GVA), employment, unemployment and skills, and other socio-economic indicators (e.g. Small and mid-sized companies (SMID)).

- The rationale for government intervention in the business. The rationale for intervention usually rests on the presence of market failure[4] or on distributional or social welfare considerations. In the case of strategic commercial interventions, the rationale may be established by considering the function of the business and what is unique about it, for example, the business might provide: a strategic infrastructure asset; employment in a fragile area; a unique essential service/good to other businesses and consumers.

- The objectives of the intervention and how these fit with wider government policies and objectives including National Strategy for Economic Transformation (NSET) and any local government strategies. Objectives must be SMART (specific, measurable, achievable, relevant and time-bound). Consideration should be given as to whether returning the business to profitability so it can be sold back into private ownership or repay SG loans should be included as an objective. Objectives should be set early on as part of due diligence.

- The options for intervention available to meet the objectives: this should include a 'do nothing' option (not intervening in the business) and different forms of intervening to meet the objectives specified including a 'do minimum' option. This might include considering different types of financial support (e.g. loan v guarantee) and non-financial support.

- The external constraints that the intervention must work within e.g. legal and subsidy control, political, ethical or technological.

2.3 Economic Case

The economic case sets out the expected social, economic and (where appropriate) environmental costs and benefits of the various options for interventions, quantifying these where possible, to determine which option offers the greatest value for money to the taxpayer and best meets the objectives. It should explicitly set out:

---

[4] The most common causes of market failure include public goods, imperfect information, externalities and market power. Please see page 29 of the Green Book for further information.

- The likely socio-economic impacts of the 'do nothing' option to understand the consequences of not intervening and to establish a baseline against which the options for intervention can be compared. Establishing what would likely happen in the counterfactual "do nothing" option is challenging. Where appropriate, consideration should be given to whether the business' assets would have alternative uses and what capital expenditure would be required to create alternative uses, if this information is available. Consideration should be given to the likely impact on the local economy in terms of the potential loss of the jobs and gross value added (GVA) supported by the business directly and indirectly through supply chain and re-spending of wages effects (using input-output modelling), including the likelihood that any jobs lost will be absorbed into other parts of the economy.

- The expected socio-economic costs and benefits of each intervention option over the period of investment, quantified where possible and discounted to 'present value'.[5] Here, we are considering impacts on those external to the business itself, e.g. the local economy, the users of the business' assets or services, environment etc.

- The nature of many of the socio-economic benefits of strategic commercial interventions may mean that quantifying them is difficult and it may therefore be necessary to describe them in qualitative, rather than quantitative terms. Forecasted revenues should be set out and discounted to covert future costs into their present value.

- Economic costs should be easier to quantify than the benefits. The main difference between economic and financial costs is that economic costs should: distinguish between operating/running and capital costs where relevant; exclude 'sunk' costs; be discounted to covert future costs into their present value; and exclude inflation and tax.

- Risks associated with each option.

- Value for money: usually, a benefit cost ratio (BCR) is calculated to determine the value for money of an intervention. However, given that many of the benefits associated with these types of interventions may be intangible and therefore non-quantifiable, it may not be possible to calculate a BCR. An alternative indicator of value for money is the total economic cost to government of the intervention, sometimes referred to as Cost Effective Analysis (CEA): the sum of the discounted costs (operating and capital) minus the sum of the discounted revenue, excluding any capital receipts. To note that most government interventions (particularly support of distressed assets) are not designed to achieve a positive financial return but instead are anticipated to provide wider socio-economic benefits that can't be quantified.

- A market assessment should also be undertaken to understand the businesses' competitors, consumers and other industry stakeholders. The market assessment

[5] Discounting costs and benefits realised at different points in time allows for the comparison of future values in terms of their value in the present. For more information on estimating and discounting costs and benefits, please see the Green Book.

should enable you to understand the demand for the business's offerings and the broader market they operate within.

- The preferred option is to choose based on a range of factors including the value for money of the option, the net whole life cost of the public resources involved and the unquantifiable costs and benefits. The overall risk of the option to the public and the public sector should also be considered.

2.4 Commercial Case

The commercial case sets out the strategy and arrangements required to realise the preferred option. It should set out:

- The business plan to meet the objectives of the intervention (which might include returning the business to profitability and commercial viability. This should include financial forecasts of when the business will return to profitability under a number of scenarios to take into account the risks and uncertainties underpinning the forecasts. The forecasted timeframe for divestment should be made clear (if the intention is to return the business to private ownership). It is likely that the business plan will need to be contracted out to obtain the necessary financial and market expertise. The expected rate of return on the investment upon divestment (if the intention is to return the business to private ownership).

- Risk register: an assessment of the risks of the investment, particularly around returning the business to commercial viability, how those risks will be mitigated and by who.

- If/how the intervention meets Subsidy Control requirements. You should contact the Subsidy Control team at the earliest possible opportunity to ensure any intervention is compliant.

- Details of any commercial arrangements – key contracts required.

- Details of any planning and approvals required.

- Details of any procurement exercise.

2.5 Financial Case

The financial case sets out the total net cost to the Scottish Government of the intervention, taking account of all financial costs and benefits that result. It considers affordability – the financial impact on the Scottish Government – whereas the economic case assesses whether the intervention delivers the best value. It should set out:

- Sources and use of funds.

- The total expected financial cost to the SG over the period of the investment, and whether it is affordable.

- Funding arrangements.

- Implications for the SG budget including on the income/expenditure account and on the balance sheet where applicable.

- Financial profile and key accounting measures e.g. cashflow, forecasts for balance sheets (assets and liabilities), working capital etc.

- Contingency for potential cost overruns or unexpected costs arising.

- Any contingent liabilities generated.

2.6 Management Case

The management case sets out the practical arrangements for implementing the intervention with the business – what needs to be done, when and by who. It demonstrates that the preferred option can be delivered successfully. It should explicitly set out:

- The provision and management of resources required to deliver the intervention.

- Governance arrangements including who is responsible for what.

- Arrangements for managing budgets.

- Arrangements for communications and stakeholder engagement.

- Timetable for the intervention including when agreed milestones will be achieved and who is responsible for each action. This should make clear the expected length of time that the SG expects to hold a stake in the business and an exit strategy for divestment, where appropriate.

- An assessment of the risks and plans for risk management of the preferred option (risk register).

- Arrangements for monitoring and evaluation. This should include:

    - plans for regular monitoring and reporting on the financial cost and value of the investment including monitoring the changing nature of the financial risk to which taxpayers are exposed
    - plans for monitoring a set key performance indicators based on the intervention's SMART objectives to understand if the investment is working as planned. This should include collecting data prior to the intervention to establish a 'baseline' from which the impact of the intervention can be assessed
    - plans for economic impact evaluation (to understand the outcomes and impacts of the investment and if it has met its objectives) and process evaluation (to understand how well the intervention was designed and delivered)

- resources for undertaking monitoring and evaluation and who will be responsible.

2.7 Ongoing review

This guidance has been drafted with the initial intervention in mind therefore it is focussed on the decision point at that stage in the process. Each project will need to be considered on its own merits, however further decision points may well be required in the life cycle of an intervention. In these instances, it will be good practice to review the original objectives in light of the socio-economic, financial and commercial considerations at that time to ensure value for money is continually being assessed.

3. Key aspects of a business case in a time-critical situation

If there is a quick turnaround to make an investment decision,[6] a comprehensive business case may not be able to be provided. However, it is essential that as much of the information from a full business case is provided using the five-case model structure set out above using agreed objectives, with options generated and value for money assessed and quantified where possible. If a scaled-back business case is, by necessity, produced it is recommended that when time allows, it is updated with a comprehensive business case to address any gaps.

3.1 General hints and tips

- Be proportionate
  - The level of detail in a business case should reflect the scale of the proposed investment, with each one judged on its own merit.

- Stay Focused
  - Stick to the essential information and avoid unnecessary details.

- Make best estimates
  - Attempt to provide information across as many aspects as you can and revisit to provide more detail at a later point.

- Use Templates
  - Leverage existing templates (Green Book, PPM etc) to save time.

- Collaborate
  - Delegate sections to functions / team members with relevant expertise.

- Set expectations
  - Be explicit about any shortcomings in the business case and the plan / timeline to rectify.

[6] For example, providing financial support to a business to support critical national infrastructure, or secure jobs in a strategically important industry where there is an immediate liquidity problem.

    - Make decision makers aware of what they are agreeing to.
    - Set out the reasons and benefits of making a quick decision based on possibly incomplete information i.e. time critical, significant job losses etc.

- Review & Revise

- Ensure clarity and coherence with a clear review and revise protocol.

3.2 Strategic Case:

- Led by – Policy Lead
- Objective – Clearly state purpose, how it aligns with strategic objectives, and exit plan
- Tips:
    - Use bullet point to outline the strategic fit and provide a concise description of the problem or opportunity

3.3 Economic Case:

- Led by – Economists
- Objective – Qualitative assessment of VfM, market in impacts, with a counterfactual
- Tips:
    - Focus on the key benefits and costs
    - Use a simple cost-benefit analysis table to compare options

3.4 Commercial Case:

- Led by – Various (Policy, Subsidy Control, Procurement, Finance, Legal)
- Objective – Detail procurement strategy, commercial viability, including subsidy control
- Tips:
    - Focus on priority material from AO template with further detail provided in slower time.
    - Summarise the procurement approach, key contract terms, and potential suppliers.
    - Highlight any unique selling points or competitive advantages.

3.5 Financial Case:

- Led by – Finance
- Objective – Show the project's costs, affordability and financial implications.
- Tips:
    - Provide a high-level financial summary, including funding sources and budget estimates.
    - Use clear and concise tables to present financial data.

3.6 Management Case:

- Led by – Policy Lead
- Objective – Outline the project's management structure and delivery plan.
- Tips:
    - Develop fully in slower time
    - Keep it simple by summarising the governance structure, key milestones, and risk management approach.
    - Use a Gantt chart for a visual representation of the project timeline

4. Governance & Sign-off Arrangements

1. **Understand your governance** – do you even need a business case?

- **Will the SG official / AO / Scottish Ministers be making the decision?** If the money doesn't come from SG nor there is a budget implication for SG, you may not be the right person to write this business case.

- Documents, tools, techniques that may help
    - Governance structure chart specific to your project

2. **Gather the right people around the table** – who has the data and expertise you need?

- Policy area, Sponsorship team, business/asset, SGLD, OCEA, Finance Business Partners, Subsidy Control, Project Board, SRO, SARG, external advisors and even more people and groups may all need to support the work or be involved. **Do you and they understand the task / objective? Do you know how to engage with them? Do they have capacity to give input timely? Do they, at the very short glance, see any gaps, issues or barriers that will need addressed?**

- Documents, tools, techniques that may help
    - RACI matrix specific to your stakeholders
    - Workshop / initiation meeting

3. **Write and confirm Strategic Outline Case** – is there an appetite to be looking into this?

- **Do the SG official/ AO / Scottish Ministers agree that now is the right time to be considering options to solve this problem?** Writing a business case at pace is a time-demanding and resource-intensive effort, so ensuring that writing it right now will bring value is crucial.

- Documents, tools, techniques that may help
    - A submission outlining the problem, suggesting writing a Business Case to assess the available options against the Critical Success Factors is likely to contain information required by a SOC

4. **Write Outline Business Case** – how do the options compare?

- **Do you clearly evidence what the options are, how they meet the CSFs and what their pros and cons are? Do you openly state any limitations or gaps in the evidence base?**

- **Is everyone included clear on the ask, the timescales and their role and responsibility in writing the OBC?** In addition to the experts' input, writing the OBC will require compiling and editing of a lengthy and complex document.

- Does your **Strategic Case** make the case for change and show strategic fit?

- Does your **Economic Case** appraise the social, environmental and economic costs, benefits and risks for the short-listed options and identifies the preferred option?

- Does your **Commercial Case** show that the preferred way forward is commercially deliverable and CMO-compliant?

- Does your **Financial Case** show that the preferred option is affordable?

- Does your **Management Case** demonstrate that the preferred option is possible to implement/deliver? ·

- Documents, tools, techniques that may help
    - Clear timeline
    - Check-in meetings
    - KANBAN / sprints
    - Commissioning Workshop

5. **Decide on Preferred option** – are the right people making the decision in the right way and based on the right information?

- **Do the decision makers / AO / Ministers approve of the OBC and preferred option as a way forward?** The OBC does not need to be perfect, some of their comments may be addressed at a Full Business Case stage as you continue working on the business case.

- Documents, tools, techniques that may help
    - Robust record of clearance, discussions and decision-making

6. **Write a Full Business Case** – are you ready to press 'GO' and deliver / implement?

- **Do you have a complete, robust, well-articulated evidence that clearly show why this decision is the best possible one and a full plan to ensure its implementation / delivery success?**

- Documents, tools, techniques that may help
    - Second pair of eyes from someone who was not very close to the project for proofreading and quality assurance

7. **Secure approval** – pressing GO!

- **Do the SG official / AO / Ministers approve of the FBC and want to begin delivery / implementation?**

- Documents, tools, techniques that may help
    - Robust record of clearance, discussions and decision-making
    - PPM tools for implementation, delivery and monitoring

8. **Implement** – do the doing!

- Documents, tools, techniques that may help
    - PPM tools, particularly delivery plan, benefits management and lessons learned exercises

5. Helpful links

The following links provide more detailed guidance on the completion of a business case and should be referenced throughout:

Business case - Service Manual which sets out the SPFM definition of a business case introducing the three phases and providing useful links.

The Green Book: appraisal and evaluation in central government - GOV.UK which contains guidance on how to appraise and evaluate policies, projects and programmes.

Guide to developing the Project Business Case which contains detailed guidance on how to build a business case.

Assessing business cases 'a short plain english guide' which is a non-technical short guide for individuals required to assess business cases.

This publication is available at **www.gov.scot**

Any enquiries regarding this publication should be sent to us at

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-83691-913-1 (web only)

Published by The Scottish Government, September 2025

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1625914 (09/25)

w w w . g o v . s c o t