TEMPLATE 17 · CONSULTANT TOOLKIT

Business Case & NPV

Make the case for an investment: the problem, the options, the value they create in today's money, and how it will be delivered.

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A good business case doesn't just justify a decision already made. It compares real options, including doing nothing, and shows the trade-offs honestly.

HOW TO USE IT

01 **Frame the problem** and the outcome you need, before any solution.

02 **Long-list, then short-list** three or four options, always including do nothing or do minimum.

03 **Model each option** over the same period with the same discount rate (Excel version).

04 **Write it on one page** (page 2), with the cash flow behind it (page 3).

Be conservative on benefits. Ramp them up realistically, and test what happens if they come in 20% lower or a year late.

FIVE QUESTIONS EVERY BUSINESS CASE ANSWERS

01 Strategic
Why change? The case for change and fit with strategy.

02 Economic
Which option gives best value? Options, costs, benefits, NPV.

03 Commercial
Can we buy or build it? Sourcing, contracts, suppliers.

04 Financial
Can we afford it? Funding, budget impact, cash flow.

05 Management
Can we deliver it? Plan, governance, risks, benefits tracking.

The structure follows the five-case model widely used for public-sector investment in the UK.

THE NUMBERS, IN PLAIN ENGLISH

- NPV (net present value): all future cash flows converted into today's money and added up. Above zero means it creates value at your discount rate.
- Discount rate: your cost of capital or hurdle rate, often 8–12% in the private sector. The UK Treasury Green Book uses 3.5% for public bodies.
- IRR (internal rate of return): the discount rate at which NPV is zero. Compare it with your hurdle rate.
- Payback: how long until cumulative cash flow turns positive.

HOW NPV IS CALCULATED

$$NPV = \Sigma \text{ net cash flow in year } t \div (1 + r)^t$$

Example: spend £500k now, save £200k a year for 4 years, discount at 10%. The savings are worth £634k today, so NPV = £634k − £500k = **£134k**. Payback is in year 3.

COMMON TRAPS

- Counting efficiency savings as cash when no cost leaves the budget.
- Leaving out running costs after go-live.
- Comparing options over different time periods.

WHAT DECISION-MAKERS LOOK FOR

01 A clear problem
Stated in business terms, with evidence, before any solution appears.

02 A fair comparison
Do nothing is costed honestly. Options are compared on the same basis.

03 Numbers they can trust
Sources for every assumption, and a sensitivity range, not one perfect figure.

04 Someone who owns it
A named sponsor for delivery and a named owner for each benefit.

Business case on a page

INVESTMENT

DATE

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1 Strategic case

The problem or opportunity, why now, and fit with strategy.

2 Economic case

Short-listed options and the preferred one.

Option 0: do nothing

Option 1

Option 2

Preferred option and why

NPV	IRR	PAYBACK	ROI

3 Commercial case

Build, buy or partner? Sourcing route and key contract terms.

4 Financial case

Total cost, funding source, budget impact by year.

5 Management case

Plan, governance, key milestones and how benefits will be tracked.

Key risks

And how they'll be managed.

Dependencies & assumptions

What must be true?

Decision requested

What, from whom, by when.

Five-year cash flow

£ thousands. Costs as positive numbers. Year 0 is the up-front investment.

LINE	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
COSTS							
Capital *Equipment, build, licences up front*							
One-off implementation *Programme team, consultants, training*							
Ongoing running costs *Support, licences, staff after go-live*							
Total costs							
BENEFITS							
Cash-releasing savings *Costs that leave the budget*							
Additional revenue *Net of cost of sales*							
Other quantified benefits *Show separately if not cash*							
Total benefits							
VALUE							
Net cash flow *Benefits – costs*							
Discount factor $1 \div (1 + r)^t$							
Present value *Net cash flow × discount factor*							
Cumulative present value							

NPV

IRR

PAYBACK YEAR

ROI

SENSITIVITY: NPV IF BENEFITS −20%