

**PUBLIC SECTOR BUSINESS CASES
USING THE FIVE CASE MODEL**

**GREEN BOOK SUPPLEMENTARY GUIDANCE ON
DELIVERING PUBLIC VALUE FROM SPENDING
PROPOSALS**

BUSINESS CASE GUIDANCE

Index

Forewords

Chapters

- 1. Introduction and background**
- 2. Overview of the Five Case Model**
- 3. Overview of the Business Case Development Process**
- 4. Determining the strategic context and preparing the Strategic Outline Programme (SOP)**
- 5. Scoping the proposal and preparing the Strategic Outline Case (SOC)**
- 6. Planning the proposal and preparing the Outline Business Case (OBC)**
- 7. Procuring the proposal and preparing the Full Business Case (FBC)**
- 8. Reviewing the Business Case: SOC, OBC and FBC**

Annex

- 1. The Use of Workshops for the development of the business case**
- 2. The use of the Options Framework**
- 3. Common Causes of Project Failure and their Remedies.**
- 4. Overview of the SOC, OBC and FBC Structure and Content**
- 5. Overview of the Systematic Approach: steps and actions**
- 6. Glossary**
- 7. Bibliography**

Foreword

The need to get the best possible value from spending public money will always remain a constant for those entrusted with spending decisions. The need to reduce overall spending resulting from the financial crisis of 2008 has sharpened this requirement. The continuing downward pressure on the availability of public sector finance together with the ever growing upward pressures of demand for public services will continue to further increase the need to make better use of the resources available, the challenge has never been greater.

In this context it is vital that capital spending decisions are taken on the basis of highly competent professionally developed spending proposals. This Treasury guidance which has been refined and tested over many years provides a clear framework for thinking about spending proposals and a structured process for appraising, developing and planning to deliver best public value. All of which is captured through a well prepared business case which supports evidence based decisions.

This latest version of the Treasury guidance provides a practical “step by step” guide to the development of business cases, using the Five Case Model – using an approach which is both scalable and proportionate. It is recognised as best practice and is the Treasury’s standard methodology. Experience has demonstrated that when this guidance is embedded in public sector organisations, better more effective and efficient spending decisions and implementation plans are produced. At the same time the approach when correctly understood and applied provides a more efficient planning and approval process saving between 30% and 40% in time taken and cost of production of business cases compared with unstructured approaches.

It provides a framework for thinking and a process for approval which is flexible and scalable along with a range of tools that can be applied proportionately to provide clarity in the decision support process. The approach also provides a clear audit trail for purposes of public accountability.

All centrally funded public spending proposals including those subject only to departmental approval are required to use the Treasury approach and all Major Projects considered by the Treasury and Cabinet Office, through the Major Projects Review Group and projects approved by the Treasury must be prepared and presented using the Treasury’s Five Case Model method.

Now for the first time training in a correct understanding and use of the method will be widely available, links to which can be found via the Treasury web site. I am therefore very pleased to recommend the use of this guidance and the Treasury approved training and accreditation to all who are concerned with delivering best public value from capital spending decisions.

Sharon White
Second Permanent Secretary HM Treasury

Editors Note

This Green Book recommended methodology has been widely used and developed over many years. It brings together the Green Book approach to appraising public value with the Treasury spending scrutiny and approval processes and Cabinet Office project assurance and procurement methodologies.

This refreshed edition of the guidance and templates reflects current best practice. Thanks for this are mainly due to Joe Flanagan, the primary originator of the Treasury Five Case Model and author of the guidance, with whom I have been privileged to work on the Better Business Cases Programme which is run jointly by the Treasury and the Welsh Government.

Thanks are also due to others who over the years have made contributions to its development, including: Simon Brindle; Paul Nicholls; Dr Courtney Smith; Stefan Sanchez; Phil Saw; The Health Finance Management Association (HFMA); Barry Williams and to many other colleagues in HM Treasury and across the civil service whose experience has contributed to the latest version of this supplementary Green Book Guidance.

Joseph Lowe,
Editor
HM Treasury 2013

Chapter 1

Introduction and background

This guidance has been prepared to support practitioners engaged in producing and reviewing business cases using the Five Case Model, HM Treasury's and Welsh Government's standard for business cases.

It takes practitioners through the entire process – starting with the preparation of Strategic Outline Programmes (SOPs), through to the production of Strategic Outline Cases (SOCs), Outline Business Cases (OBCs) and finally Full Business Cases (FBCs) in support of individual schemes.

The guidance consolidates other reference sources and is consistent with HM Treasury's Green Book Guidance on Appraisal of Policies, Programmes and Projects, which it should be read in conjunction with it.

Copies of this guidance and of the Green Book and of related supplementary guidance can be accessed and downloaded from the Green Book pages of HM Treasury's public web site at:

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

A set of templates accompanies this guidance for the preparation of business cases. These templates result from many years of practical experience covering a wide range of public sector organisations and can be downloaded in Word format from the Green Book pages quoted above.

Application of this methodology has been shown to:

- Reduce the costs and timescales associated with producing business cases and to improve the efficiency and throughput of the spending approval process through clearer structure and presentation;
- Raise the quality of spending proposals, both in terms of their scoping and delivery and public value, as a result of the more effective comparison of alternative options for the achievement of objectives;
- Support the prioritisation of spending proposals and the management of spending portfolios through provision of standard information.

Who should read this publication?

Production of business cases is a mandatory part of planning a public sector spending proposal and preparing it for approval. The "Five Case Model" is the best practice standard recommended by HM Treasury for use in central Government by Departments and other Government bodies and by all those with responsibility for deciding how public money should best be spent.

The guidance should therefore be understood by all who are either responsible for developing and producing spending proposals or for their assessment and approval; in particular by:

- Senior Responsible Owners (SRO), Programme Directors and Project Managers, with responsibility for successful delivery;
- Directors of Finance, procurement and planning, with responsibility for the forward planning of operational aspects of a proposal;
- Members of approvals and management boards with strategic responsibility for approving proposals throughout their lifespan.

Why is the business case important?

Policies, strategies, programmes and projects will only achieve their spending objectives and deliver benefits if they have been scoped robustly and planned realistically from the outset and the associated risks taken into account.

The business case, both as a product and a process, provides decision makers, stakeholders and the public with a management tool for evidence based and transparent decision making and a framework for the delivery, management and performance monitoring of the resultant scheme.

The business case in support of a new policy, new strategy, new programme or new project must evidence :

- That the intervention is supported by a compelling **case for change** that provides holistic fit with other parts of the organisation and public sector– the “strategic case”;
- That the intervention represent best **public value** – the “economic case”;
- That the proposed Deal is attractive to the market place, can be procured and is **commercially viable** – the “commercial case”;
- That the proposed spend is **affordable** – the “financial case”;
- That what is required from all parties is **achievable** – “the management case”.

Why is the business case development process important?

The business case development process is key to public value in spending decisions, in terms of its scoping, options selection, delivery, monitoring and evaluation. The business case, therefore, must never be perceived or used as the vehicle for simply gaining approval for a proposal, because to deliver

public value all five components need to be planned for with integrity and satisfied.

Business cases should be developed over time. It is an iterative process and at each key stage further detail is added to each of the five dimensions. The level of detail and the completeness of each of the five dimensions of the Case are built up at different rates during the process.

For major spending proposals, there are three key stages in the evolution of a project business case, which correspond to key stages in the spending approvals process. These are the Strategic Outline Case (SOC), the Outline Business Case (OBC) and the Full or Final Business Case (FBC).

Major Policies and Programmes often comprise of multiple projects for their delivery and require a Strategic Outline Programme (SOP) business case. This does not require a three stage approach. In these instances, the initial assessment of the cost and benefit information may be at a high level; however, the delivery of new policies and programmes usually requires the formation of sub-programmes and projects before firm spending commitments can be finalised and approved. It is important to note that “five case model” is a framework for “thinking” and that the supporting methodology is flexible and can be applied at both strategic (macro) and tactical (micro) levels.

For minor spending proposals – relatively low value and non contentious items of spend for which pre-competed procurement arrangements exist – a one stage business development process using the Business Justification Case (BJC) can be used.

How does the Five Case Model Methodology relate to policy and strategy development?

The Five Case Model is a framework for “thinking” in terms how interventions can be best delivered. In this sense, it is just as relevant to the development of policies and strategies in terms of three basic questions:

- Where are we now?
- Where to we want to be?
- How are we going to get there?

Most organisations aim for long term strategic goals. The strategies that take them towards those goals are designed to respond flexibly to factors that suggest new directions as “drivers” for change.

There are always drivers for change acting on an organisation. These vary in nature and urgency, from external pressures such as competitive markets or changes in policy and internal pressures such as new working arrangements resulting from mergers and acquisitions. There will also be drivers for stability.

Fulfilling the strategy and responding to these drivers requires the completion of a number of programmes. The strategy sets the context for change and

provides the raw material for planning, running and completing the programmes.

In relation to the first question “Where are we now?” we need to understand the existing policy, strategy and programmes in terms of agreed services and policy outcomes (existing arrangements).

In terms, of the second question “Where do we want to be?” we need to understand what the goals are in terms of agreed services and policy outcomes (business needs).

In terms of the third question “How are we going to get there?” we need to understand:

- What the potential options are in terms of the potential scope, solution, delivery, implementation and funding of the underpinning policies and programmes
- How we deliver the chosen policies and programmes can be delivered in partnership with others
- What the resultant costs will be over the short, medium and long term
- Whether we have the resources within the public sector (HR, Marketing, Information technology etc) to deliver

The strategy sets out the context for change and provides the raw material for planning, running and completing the required programmes in accordance with agreed “policing” or policy.

The Five Case Model is a “thinking” framework that can be used for the development of policies and strategies, as well as programmes and projects. However the detail in this guidance relates specifically to programmes and projects.

Chapter 2

An Overview of the Five Case Model.

Introduction

This chapter provides an overview of the Five Case Model Methodology, which has been used successfully by UK Government departments and the wider public sector for many years and has now been adopted and widely copied around the world. It comprises of the following five key components:

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

These are expanded below.

The Strategic Case

The Strategic Case demonstrates that the spending proposal provides business synergy and strategic fit and is predicated upon a robust and evidence based case for change. This includes the rationale of why intervention is required, as well as a clear definition of outcomes and the potential scope for what is to be achieved.

This strategic case requires the spending authority to demonstrate how the spending proposal *fits* in relation to national, regional and local policies, strategies and plans and furthers the required outcomes.

It also requires the spending authority to demonstrate that the spending proposal has clear and concise spending objectives, which are **s**pecific, **m**easurable, **a**chievable, **r**elevant and **t**ime constrained (SMART).

The case for change must be based on a rigorous assessment of the issues (business needs) associated with the status quo (existing arrangements) and the potential scope of the proposed spend in relation to the anticipated benefits and potential risks.

Box 1.1: Content of the Strategic Case

Strategic Context

Organisational Overview

Current Business Strategies

The Case for Change

- Spending Objectives
- Existing Arrangements
- Business Needs – current and future
- Potential Scope
- Benefits and Risks
- Constraints and Dependencies

The Economic Case

The main purpose of the Economic Case is to demonstrate that the spending proposal optimises public value (to the UK as a whole).

It explains how this is achieved by, identifying and appraising a wide range of realistic and achievable options, known as the “long list”, in terms of how well they meet the spending objectives and critical success factors agreed for the scheme; and subjecting a reduced number of options, known as “the shortlist”, to cost benefit analysis (CBA).

The key to a well scoped and planned scheme is the identification of the right range of options, or choices, in the first instance; because if the wrong options are appraised the scheme will be sub-optimal from the outset.

To assist with the selection of the “long list”, the use of the “Options Framework” – a tool which helps identify the potential scope or range of services for the scheme is recommended, and in response to these, the potential service solutions, methods of service delivery and main choices for implementation and funding. From this analysis, we can distil a recommended direction of travel, or “preferred way forward” from which the short list may be drawn, including the “do nothing” and “do minimum” options, to be subjected cost benefit analysis (CBA).

The CBA conducted in accordance with Green Book guidance quantifies in monetary terms as many of the costs and benefits to the UK as possible for each of the shortlisted options this effort should be proportionate to the scale and risk of the proposal. This generates a future profile of costs and benefits, which are then netted off against each other to provide cost(-)/benefit(+) figures that are discounted and summed to produce a figure for the Net Present Value (NPV) of each option. This analysis should also consider whether there are significant distributional affects on some groups within society and where relevant should quantify these.

Where benefits are not quantifiable but are clearly material to the decision process then these qualitative costs, benefits and risks are also assessed, and taken into consideration in identifying the “preferred option”. This analysis enables the preferred option to be identified, which is generally the option with the best NPV; but may be another option where the qualitative costs and benefits are sufficient to justify the difference in the NPV.

The “preferred option” is then subjected to sensitivity analysis in order to test its robustness. The output of the economic case should never be a one number answer; rather it consists of an appraisal summary table which includes the preferred option NPV, risk analysis and sensitivity figures with switching values, a distributional analysis (where relevant), information on qualitative costs and benefits which may be decisive and information of other viable alternative options.

The costs of scheme monitoring (subject to proportionality) during implementation of the proposal and of post implementation evaluation (also subject to proportionality) should be included.

Box 1.2 Content of Economic Case

Critical Success Factors

Long listed Options

Short Listed Options (including do minimum, three or four is the recommended number)

Status quo; do nothing option (unless this is not credible)

Economic Appraisals of Costs and Benefits with CBA

Distributional Analysis (where relevant)

Optimism Bias adjustment

Risk Assessment

Sensitivity Analysis

The Preferred Option

The Commercial Case

The Commercial Case demonstrates that the “preferred option” will result in a viable procurement and well structured Deal.

This section of the business case includes the planning and management of the procurement. It requires the spending authority to set how the “preferred option” for spend will be procured competitively, in accordance with European Union (EU) and World Trade Organisation (WTO) rules and the current regulations for the public sector procurements.

It also requires the spending authority to clearly specify the service requirements for the spending proposal in output terms, together with the anticipated charging regime and the allocation of risk in the each of the design, build, funding and operational (DBFO) phases of the proposed scheme. In addition it includes the contractual arrangements and specifies the accountancy treatment to be used for the proposed service.

Box 1.3 Content of Commercial Case

Procurement Strategy

Service Requirements Charging Mechanism Risk Transfer Key Contractual Arrangements Personnel (TUPE) Implications Accountancy Treatment

The Financial Case

The Financial Case demonstrates that the “preferred option” will result in a fundable and affordable Deal.

This section of the business case requires the spending authority to set out the capital and revenue requirement for the spending proposal over the expected life span of the service, together with an assessment of how the Deal will impact upon the balance sheet, income and expenditure account and pricing (if applicable) of the public sector organisation.

Any requirement for external funding must be supported by clear evidence of Commissioners’ support for the scheme, together with any funding gaps.

Box 1.4 Content of Financial Case

Public Capital and Revenue Requirements Net Effect on Prices (if applicable) Impact on Balance Sheet Impact on Income and Expenditure Account (if applicable) Overall Funding and Affordability Commissioner Support (if applicable)

The Management Case

The Management Case demonstrates that the “preferred option” is capable of being delivered successfully, in accordance with recognised best practice.

This section of the business case requires the spending authority to demonstrate that the spending proposal is being implemented in accordance with a recognised Programme and Project Management (PPM) methodology and that there are robust arrangements in place for change management and contract management, the delivery of benefits and the management and mitigation of risk.

It also requires the spending authority to specify the arrangements for monitoring during implementation and for post implementation evaluation, as well as for Gateway reviews (if applicable), and the contingency plans for risk management of the scheme.

Box 1.5 Content of Management Case

Programme and Project Management Methodology (PPM) and Structure
Programme and Project Management Plans
Use of Specialist Advisers
Change and Contract Management Arrangements
Benefits Realisation
Risk Management
Monitoring during implementation (proportionate)
Post Implementation Evaluation Arrangements
Contingency Arrangements

Chapter 3

The Business Case Development Process

Introduction

This chapter provides an overview of the business case development process for large, medium and small spending proposals using the Five Case Model methodology and how it aligns with the Gateway Process for the review and assurance of policies, programmes and projects.

The key stages in the development and delivery of a spending proposal are as follows:

Stage 0 -	Determining a strategic Policy or Programme which provides the context through preparing the Strategic Outline Programme (SOP) A single SOP may result in multiple sub programmes and/or projects.
Stage 1 -	Scoping the scheme and preparing the Strategic Outline Case (SOC)
Stage 2 -	Planning the scheme and preparing the Outline Business Case (OBC)
Stage 3 -	Procuring the solution and preparing the Full Business Case (FBC)
Stage 4 -	Implementation
Stage 5 -	Evaluation

These stages correspond directly to the Gateway Review stages (0 to 5), of which review stages 0 to 3 are the primary focus of the business case development process.

The Business Case Development Framework

For large and medium scale public sector spending proposals that require competitive procurement in accordance with European Union (EU) and World Trade Organisation (WTO) rules and regulations, stages 1 to 3 involve 10 key steps as described below.

This is a practical process, based on many years experience of successful delivery across a wide spectrum of public sector spending proposals.

It is iterative – as the business case is developed, it is necessary to review previous steps in order to verify the continued applicability of work undertaken in the earlier stages.

The process is also flexible - the quantity and the depth of the work undertaken should be proportionate and tailored to the costs, benefits, risks and other requirements of each particular proposal.

The business case development framework may be summarised as follows:

Fig: 3.1 The business case development framework

Stage 0 – Determining the strategic context and preparing the Strategic Outline Programme (SOP)

Step 1: ascertaining strategic fit

Gate 0: strategic fit

Stage 1 – Scoping the proposal and preparing the Strategic Outline Case (SOC)

Step 2: making the case for change

Step 3: exploring the preferred way forward

Gate 1: business justification

Stage 2 – Planning the scheme and preparing the Outline Business Case (OBC)

Step 4: determining potential VFM

Step 5: preparing for the potential deal

Step 6: ascertaining affordability and funding requirement

Step 7: planning for successful delivery

Gate 2: delivery strategy

Stage 3 – Procuring the solution and preparing the Full Business Case (FBC)

Step 8: procuring the VFM solution

Step 9: contracting for the deal

Step 10: ensuring successful delivery

Gate 3: investment decision

Stage 4 – Implementation

Gate 4: 'Go Live'

Stage 5 – Evaluation

Gate 5: benefits realisation

Stage 0 – Determining the strategic context and preparing the Strategic Outline Programme

There is a natural hierarchy for spending interventions, which necessitates that spending proposals for specific schemes, or projects, should be grounded within an over arching policy, portfolio and programme that provides synergy and holistic fit in support a well documented and clearly understood business strategy.

The purpose of this stage is to verify that the strategic context for the proposed intervention is current, rational, approved in principle and still accepted. An early indication that all is well in respect of:

- A new policy - is the completion of a Cabinet Office “Starting Gate” Review;
- The portfolio of programmes - is an up-to-date and approved business and service strategy;
- The programme - is the existence of an approved Programme Business Case.

The production of a Strategic Outline Programme (SOP) Case should be considered if for any reason a current and approved Programme Business Case is not in place, which clearly sets out the overall costs, the anticipated benefits and risk profile of the project and demonstrates that all of the available options have been considered in relation to the encompassing projects and their critical path for delivery.

This stage maps onto the Cabinet Office Gateway Review point 0 (strategic fit) and comprises “Step 1” of the business case development framework; which is “ascertaining strategic fit.”

Stage 1 – Scoping the proposal and preparing the Strategic Outline Case (SOC)

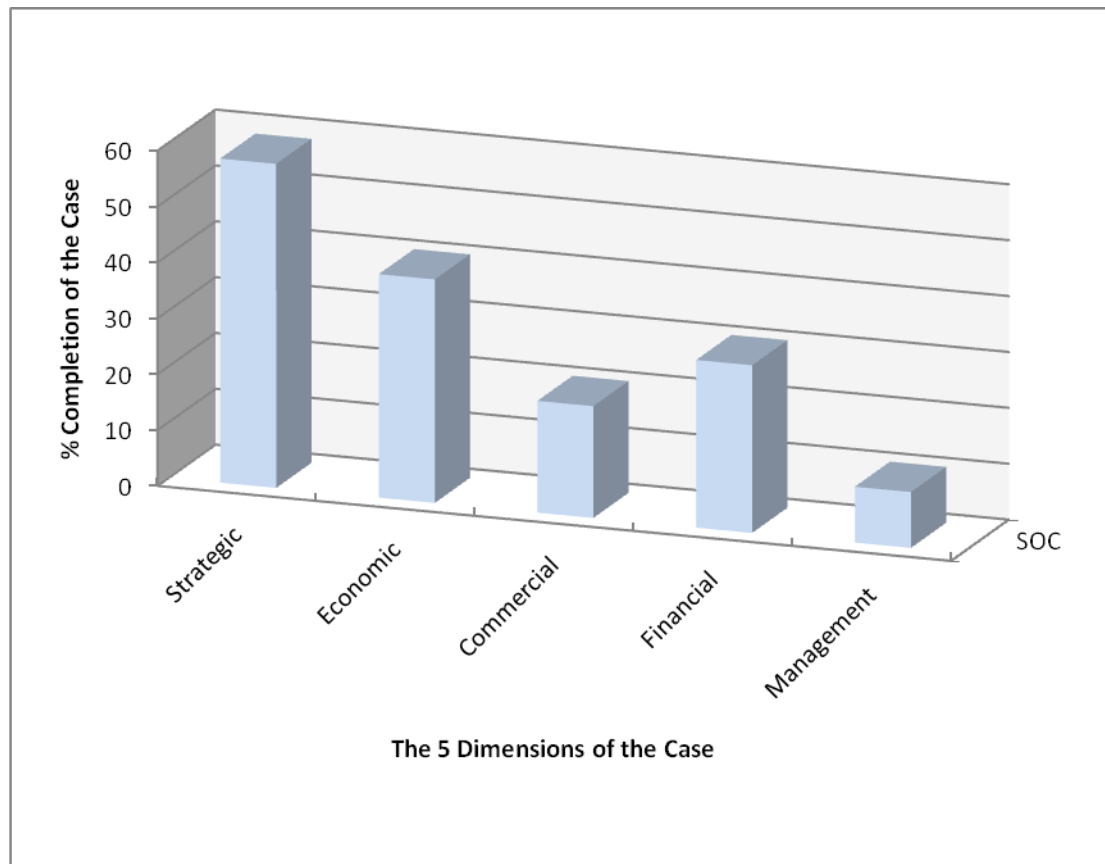
This is the scoping stage for the spending proposal which results in the production of the Strategic Outline Case (SOC).

The purpose of this stage is to confirm the strategic context of the proposal and to make a robust case for change, providing stakeholders and customers with an early indication of the “preferred way forward” (not the preferred option). The SOC identifies and undertakes a SWOT analysis on a wide range of available options, together where possible with an early analysis of the shortlist based on indicative costs and benefits and application of allowances for optimism bias.

This stage aligns with the Gateway Review point 1 (business justification) and comprises of the following business case development framework activities:

- Step 2: making the case for change
- Step 3: exploring the preferred way forward.

At conclusion of the SOC the development of the business case across the five dimensions of the Five Case model will have been completed as illustrated by the following diagram. This reflects the nature of the SOC in determine the direction of travel. At this stage it is not possible to provide the detailed economic analysis, commercial, financial and management arrangements, hence these aspects are relatively under-developed at this stage.



Stage 2 – Planning the scheme and preparing the Outline Business Case (OBC)

This is the detailed planning phase for the spending proposal which results in the production of the Outline Business Case (OBC).

The purpose of this stage is to revisit earlier SOC assumptions and analysis in order 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 delivery of the proposal.

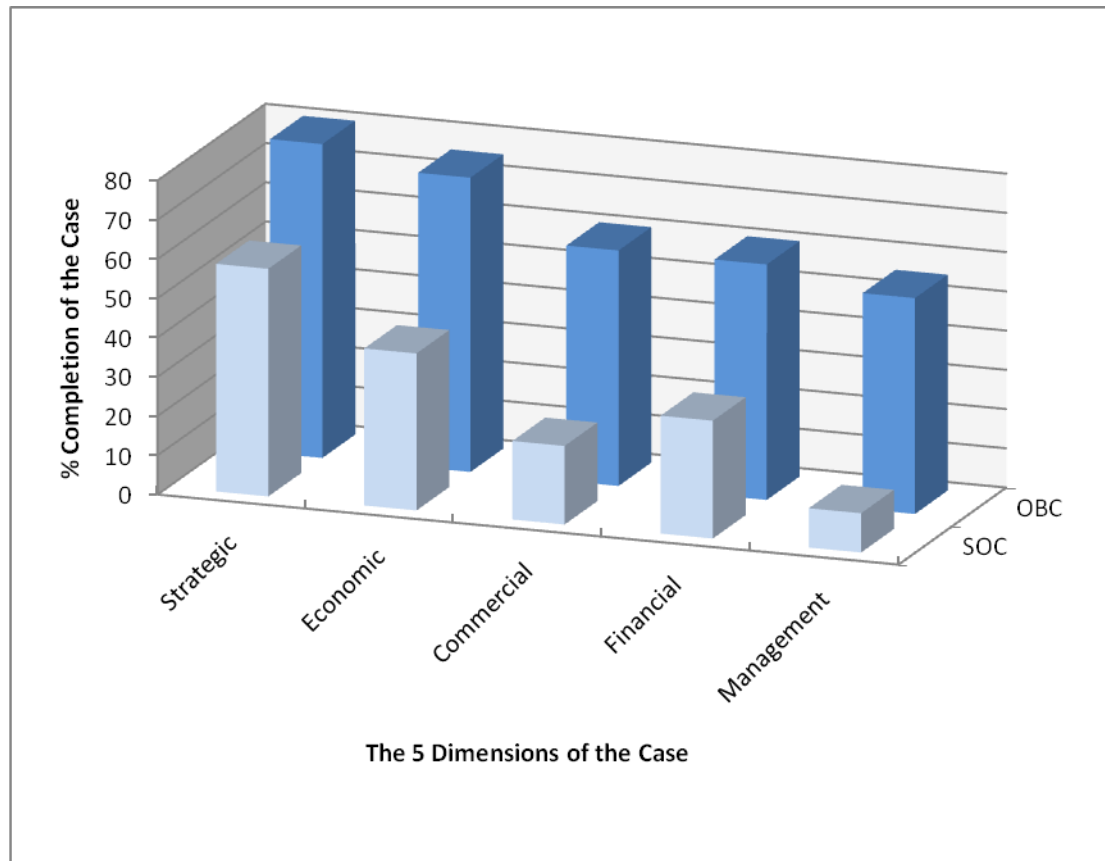
This stage aligns with the Gateway Review point 2 (delivery strategy) and comprises of the following business case development framework activities:

- Step 4: determining potential VfM
- Step 5: preparing for the potential deal
- Step 6: ascertaining affordability and funding requirement

Step 7: planning for successful delivery

The OBC summarises the results so far and sets out the facts seeking approval to proceed to a formal Procurement Phase.

At conclusion of the OBC the development of the business case across the five dimensions of the Five Case model will have been completed as illustrated by the following diagram which also shows its development relative to the SOC:



Stage 3 – Procuring the solution and preparing the Full Business Case (FBC)

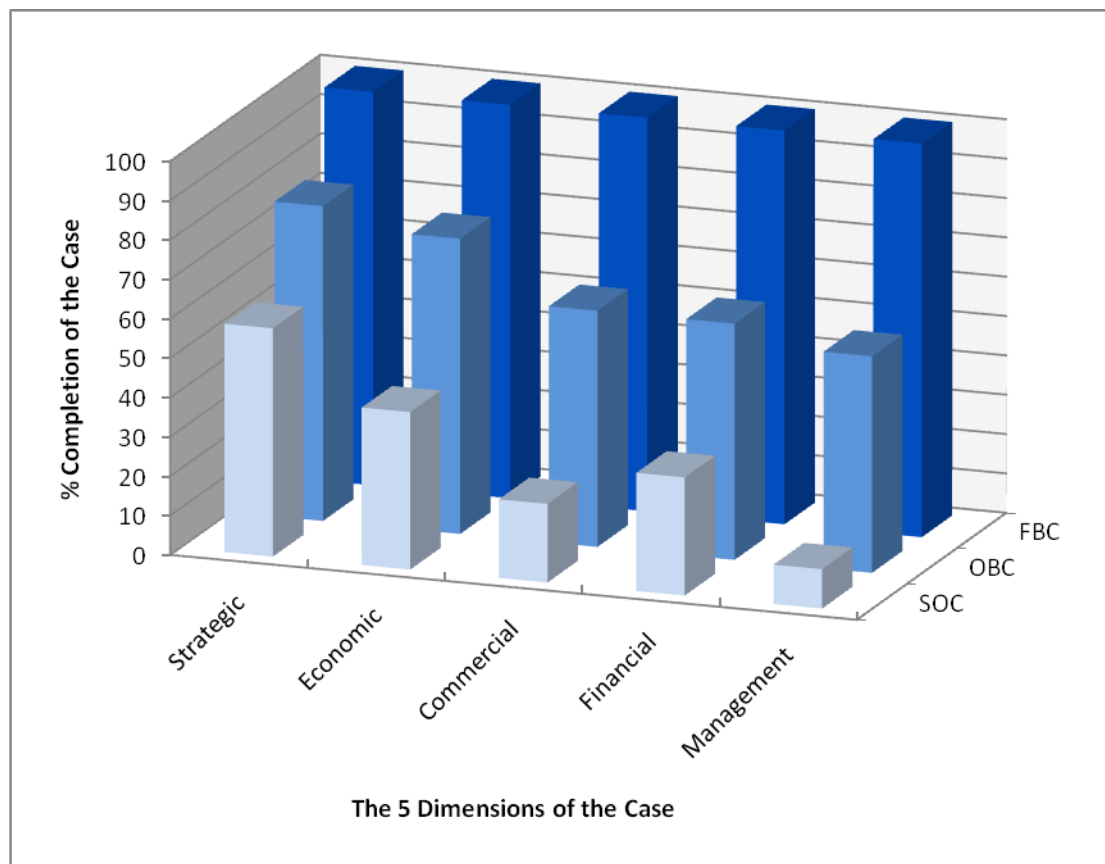
This is the procurement phase for the spending proposal, following detailed negotiations with potential service providers/suppliers prior to the formal signing of contracts and the procurement of goods and services.

The purpose of the FBC is to revisit and where required rework the OBC analysis and assumptions building in and recording the findings of the formal procurement. This case at its conclusions recommends the “most economically advantageous offer”, documents the contractual arrangements, confirms funding and affordability and sets out the detailed management arrangements and plans for successful delivery and post evaluation.

This stage aligns with the Gateway Review point 3 (spending/investment decision) and comprises of the following business case development framework activities:

- Step 8: procuring the VfM solution
- Step 9: contracting for the deal
- Step 10: planning for successful delivery

At conclusion of the FBC the development of the business case across the five dimensions of the Five Case model is complete as illustrated by the following diagram which also shows its development relative to the SOC and OBC:



The stages for the development of the spending proposal and production of the business case have now been completed. The business case, however, continues to play an important role in the remaining stages as follows.

Stage 4 – Implementation

The business case should be used during the implementation stage as a reference point for monitoring implementation and for logging any material changes that are required on the part of the procuring authority or the service supplier in respect of services and products.

The management tools developed in accordance with the development framework for the business case – the implementation plan, benefits register

and risk register etc. – should be used in delivery the scheme and they provide the basis for reporting back regularly to the Project Board.

This stage of the project aligns with Gateway Review point 4 (readiness for service).

Stage 5 - Evaluation

The business case and its supporting products should be used as the starting point for post implementation evaluation, both in terms of how well the project was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post implementation review).

This stage of the project aligns with Gateway Review point 5 (benefits realisation).

Other interested parties

From a wider perspective, the business case may also be of interest to Internal Audit, the National Audit Office (NAO) and the general public under the auspices of the Public Records Act and Freedom of Information Act

Smaller Proposals and the Business Justification Case (BJC)

The Business Case Justification case (BJC), is a 'lighter' single stage methodology that is available for smaller less expensive proposals that are not novel or contentious and where pre-competitively procured schemes, (in accordance with EU/WTO rules and regulations) are available such as framework contracts. A simplified business case template based on the fundamentals of the Five Case Model a template is available from the HM Treasury Green Book web pages at:-

< http://www.hm-treasury.gov.uk/d/greenbook_toolkittemplates170707.pdf >.

Responsibility for producing the business case

The "ownership" of the business planning process, for which the business case represents the key repository for information, should remain within the Organisation, which in the case of significant spending should appoint a Senior Responsible Owner (SRO) for the project's direction at Board level, as recommended by the Gateway Process.

Responsibility for the direction and the production of the business case should not be "outsourced" to external consultants. External consultants may, however, be of invaluable assistance where the necessary skills and resources are unavailable in-house.

The production of the business case should be the central spine of the overall business planning process, taking account of advice and guidance from business managers, users and technicians involved in the scheme and should not be treated as a mere hurdle to be jumped for approval purposes.

Relationship of the business case to programme and project management methodologies (PPM)

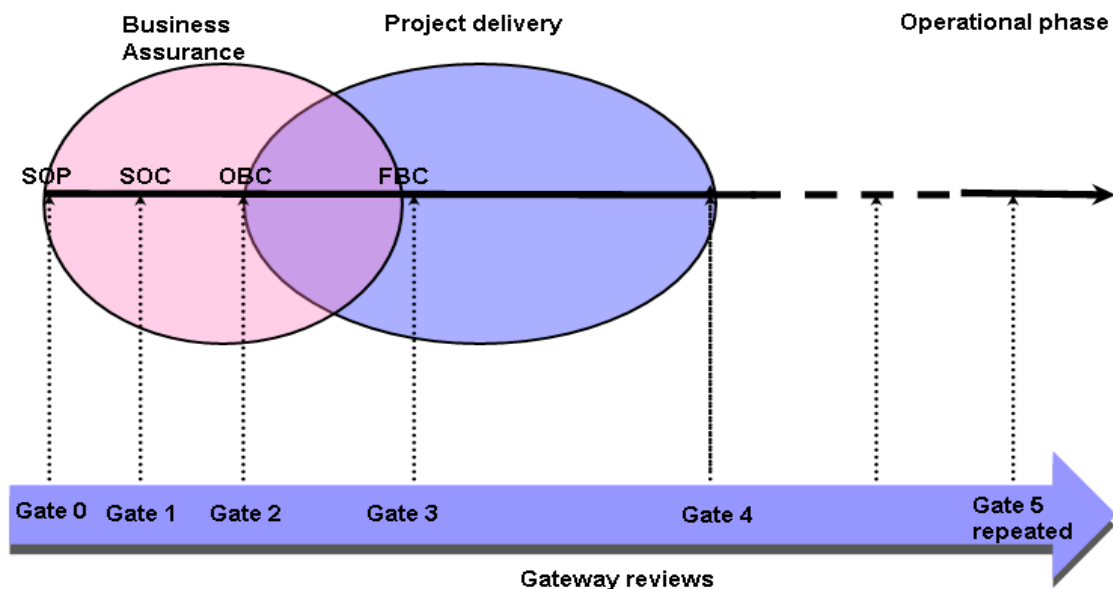
Business Assurance means '*doing the right things at the right time*' and is the process of scoping, planning and procuring investment programmes and projects and providing assurance to the Accounting Officer responsible for the spend.

Programme and Project Management Assurance (PPM) means '*doing things right*' and is the process of delivering the programmes and projects and providing assurance to the Senior Responsible Owner (SRO) leading the delivery of the scheme.

Best practice PPM Assurance tools include:

- **Managing Successful Programmes (MSP)** for programme delivery a best-practice framework for delivering complex programmes in accordance with long-term strategies
- **PRINCE2** for project delivery – to provide a defined organisation structure for the management of a project and project management team, emphasising dividing the project into manageable and controllable stages
- **Gateway Reviews** and health checks for programme and project assurance – to provide an assessment of the health of a policy, programme or project at key stages of development from inception to reviewing benefits that are being realised

High quality Business Assurance and PPM Assurance are critical if we are to gain the most out of the diminished resources we have and achieve our ambitions for Wales. The diagram below shows the relationship between the best practice tools and key stages of delivery.



Business Assurance
'Doing the right things at the right time'
Strategic fit

- Scoping and planning of proposals
- Options appraisal and identification of optimal solution
- Confirmation of VfM
- Allocation and commitment of resources
- Tools – 5 Case Model approach
- Formal intervention points – AO sign off at SOP, SOC, OBC, FBC

PPM Assurance
'Doing things right'

- Delivery assurance – ensuring the scheme delivers agreed outcomes
- Control and ability to intervene
- Tools – MSP, PRINCE2, Gateway
- Reviews

Chapter 4

Determining the strategic context and preparing the Strategic Outline Programme (SOP)

Overview

The need for the project may be perceived as “obvious”, but a spending proposal should never be taken forward without revisiting why it is required in relationship to:

- the policies it supports;
- the other programmes within the strategic portfolio;
- the other projects within the programme;
- impact upon other government policies and programmes;
- wider public welfare.

A strategic review is required if the response to any of these points is unclear.

The action required within this step is shown in context below:

Stage 0	Determining the strategic context	Deliverables
Step 1/ Action1	Ascertain strategic fit	Strategic context - SOC
Review point	Gateway 0 – strategic fit	

Policies, strategies, programmes and projects

Policies, strategies, programmes and projects are integral components of the business planning process, which together form the framework for delivery.

Policies set out goals and the parameters by which success will be judged and “policed”.

Strategies focus on how these policy goals will be achieved, together with tactical arrangements for the deployment of the resources required.

Portfolios set out the enabling programmes.

Programmes comprise the enabling sub programmes (work streams) and projects for achieving the required “outcomes.”

Projects are the individual schemes focussed on delivery of the required “outputs”.

Thus the policy sets the parameters for the business strategy, which in turn consists of the portfolio, a number of work programmes, which may consist of

a number of related work streams (or sub programmes) that consist of schemes (or projects).

Programme and Project Management Methodologies (PPM)

The policies, strategies, programmes and projects within an organisation should be in alignment and the ‘critical path’ for deliverables and delivery timescales understood and documented by qualified practitioners using a recognised PPM methodology and best practice tools and techniques as follows:

Component	Deliverables	Best practice documentation
Policy	Clear goals	Policy statement
Strategy	Long term aims	Implementation strategy Portfolio of Programmes
Programme	Medium-term outcomes	Programme Business Case/SOP Blue Print
Project	Short-term outputs	Business Case – SOC, OBC, FBC or BJC

This requires the use of:

1. Clear, concise and detailed policy statements.
2. Detailed *implementation strategies* for the internal management and control of published business strategies and business plans.
3. A professionally recognised methodology for the delivery of the portfolio of programmes within the published business strategy. The recommended standard for use in the UK public sector is “Managing the Portfolio”.
4. A professionally recognised methodology for the delivery of the individual programmes within the portfolio. The recommended standard for use in the UK public sector is **Managing Success Programmes (MSP)**. This provides the *blue print* required in support of the Programme Business Case, which is akin to the Strategic Outline Programme (SOP).
5. A business case prepared in accordance with the five case model and the guidance provided by HMT’s Green Book, as set out in this guidance.
6. The use of a professionally recognised methodology for the delivery of the project or scheme. The recommended standard for use in the UK public sector is **Project in a Controlled Environment (PRINCE2)**. Note that the PRINCE2 business case is for initiating and approving the creation of the project rather than scoping, planning and cost justifying the way forward. The two products should not be confused.

Strategic reviews

All business strategies should be reviewed on a regular and periodic basis and always in advance of commencing a new programme or scheme in order to verify strategic fit. The general purpose of the strategic review is to revisit the 'accepted' answers to the following questions:

- Where are we now?
- Where do we want to be?
- How will we get there?

In practice, this involves:

- Reviewing the policies, strategies, portfolios, programmes and projects in place within the organisation verifying how they fit together, in terms of their scope, milestones, timescales and desired outcomes;
- Validating that the programmes and projects are well structured, organised and funded; and that they have the required competencies and capabilities in place to deliver successfully;
- Making sure that effective performance management, measurement and monitoring is place and in particular that:
 - the projects have defined benefits and outputs;
 - ownership of the delivery of benefits remains with the programme manager;
 - outputs of the project remain consistent with changing aims and objectives;
 - targets and achieved benefits are measured, reported and communicated;
 - cost is closely monitored and managed; forecast costs and benefits are frequently reviewed; management data due 'fit for purpose'; and sufficient controls are in place to ensure accuracy.

Strategic Outline Programme (SOP)

Prior to the commencement of a project and putting in place the necessary management arrangements, an initial assessment of the proposal should be undertaken to verify the holistic fit and synergy with overarching policies, strategies, other programmes, and the programme's constituent projects.

To ensure that the proposal makes sense in terms of the wider context, a strategic outline programme (SOP) should be considered at this stage; particularly, if a strategic review has not been undertaken in the past year and/or the options for taking forward the programme, in the programme's *blue*

print, have not been clearly established and appraised in accordance with the HM Treasury Green Book.

The preparation of the SOP:

- Revisits the strategic context of the spending proposal;
- Verifies the potential need and scope for the programme;
- Confirms the critical path, priority and indicative costs, benefits and risks (*net present values*) of its constituent projects;
- Prepares the programme for any review required; for example, Gateway Review 0 – *strategic fit*;
- Provides an essential source of information for the project business case.

The core content of the SOP is as follows:

Executive Summary	Content
Strategic Case	Organisation Overview Strategy and Programme Spending aims Existing arrangements Business needs Potential scope and Service requirements
Economic Case	Critical Success Factors Dependencies and Constraints Main Options Indicative Wider Public Costs Indicative Wider Public Benefits Risks Preferred Way Forward
Commercial Case	Commercial Strategy Procurement Strategy
Financial Case	Indicative Costs Funding Arrangements Affordability
Management Case	Programme Management Arrangements Programme Milestones Programme Assurance

Checklist for step 1

There should now be a clear understanding of the strategic context for the spending proposal in terms of how it provides holistic fit and delivers synergy with other components within the programme blue print and implementation strategy.

Output of phase 0 and step 1

The strategic context section of the Strategic Outline Case (SOC) has now been verified and a Strategic Outline Programme (SOP) document completed, as required.

The programme should now be considered for Gateway Review 0 (strategic fit).

Chapter 5

Scoping the proposal and preparing the Strategic Outline Case (SOC)

Overview

The purpose of the Strategic Outline Case (SOC) is firstly to establish the case for change and the need for the proposal; and secondly, to provide a suggested way forward for the early approval of management providing an 'initial agreement to proceed' to further develop the case for the scheme.

It is important that the 'preferred way forward' within the SOC is not confused with the 'preferred option' which emerges from the OBC. The preferred way forward provides management with a recommended direction of travel, following the initial assessment of the long list upon completion of the SOC whereas the preferred option is the recommended VFM choice, following the detailed appraisal of the short list upon completion of the OBC.

SOCs are good practice for the following key reasons:

- They provide an early opportunity for the organisation and key external stakeholders to consider a project and influence its direction;
- They provide a basis for better decision making through reaching agreement from the outset about key issues for the options;
- They prevent too much effort being put into projects which should not proceed.

Step 2: making the case for change

Introduction

This part of the business case defines the rest of the case, as it describes the organisation in which the proposed spending will take place and identifies the objectives from the key strategic drivers.

The main actions within this step are set out below:

Stage 1	Scoping the proposal and preparing the Strategic Outline Case (SOC)	Deliverables
Step 2	Making the case for change	Strategic case
Action 2	Agree strategic context	
Action 3	Determine spending objectives, existing arrangements and business needs	
Action 4	Determine potential business scope and key service requirements	
Action 5	Determine benefits, risks, constraints and	

Action 2: agree strategic context

This section of the SOC provides an overview of the organisation and demonstrates how the proposed scheme provides business fit and synergy with other parts of the organisation's business strategies.

Organisational overview

This part of the SOC provides a brief profile of the organisation, together with a statement of what it is seeking to achieve and the nature and level of resources currently at its disposal. The key areas of interest will include the organisation's:

- The Mission;
- Strategic vision, goals, business aims and service objectives;
- Current activities and services, including key stakeholders and customers;
- Organisational structure, staff complement, business turnover and geographical position;
- Existing financial and funding arrangements.

Much of this information may be gleaned from annual reports. However, it is important to provide a current snapshot of the organisation.

Existing business strategies

This part of the SOC explains how the proposed scheme fits within, supports and promotes the agreed strategy and work programme of which the project is an integral part. In doing so, it explains how the proposed scheme helps to achieve the business goals, strategic aims and plans of the organisation.

All relevant strategies should be referenced including those at national, regional and local levels. Importantly, these strategies will highlight the high level policy aims (strategic aims) and business goals of the organisation from which the objectives for the spend will flow.

Much of this information should be available from existing documentation prepared at departmental and organisational levels and the outcome of deliberations at Phase 0 – determining the strategic context.

Action 3: determine spending objectives, existing arrangements and business needs

A robust case for change requires a thorough understanding of what the organisation is seeking to achieve (the spending objectives); what is currently happening (existing arrangements); and the present problems and future service gaps (business needs). Analysing a project in this way helps to

provide a compelling case for spending, as opposed to it simply being ‘a good thing to do’.

Spending objectives

This stage is probably the most important stage of all, and possibly the most underrated. It is concerned with defining the spending objectives for the project in terms of the desired outcomes and ‘where we want to be’, within the context of Stage 0/step 1 (determining the strategic context/ strategic fit).

The spending objectives for the project must clearly relate to the underlying policies, strategies and business plans of the organisation. They should also be made SMART – specific, measurable, achievable, relevant, and time-constrained – to help facilitate the subsequent generation of options and provide the foundation for post-implementation review and evaluation.

Spending objectives should:

- Be customer focused and distinguishable from the means of provision;
- Focus on what needs to be achieved in terms of the desired outcomes (programmes) and outputs (projects), rather than inputs in relation to the potential solution.

It is also important that spending objectives are not so narrowly defined that they exclude important options, or so broad that they cause unnecessary work at the option appraisal stage.

The setting of robust spending objectives is an iterative process as subsequent appraisal (step 3, action 7) may refine them. In practice, they will generally be predicated on a number or all of the following key objectives for spend to:

- Reduce the cost of an existing service (**economy**). “Invest to Save” schemes and spend on new information technology often fall into this category;
- Improve the throughput of the service whilst reducing unit costs (**efficiency**). This may relate to the number of transactions required and should consider “doing more for less” (cost efficiency);
- Improve the quality of the service, both in terms of its operational outputs and business outcomes (**effectiveness**). This could include meeting policy changes, and delivering new operational targets.
- Replace elements of the existing service (**reprocurement**).
- Meet some form of statutory or regulatory requirement, or organisational requirement (**compliance**). This could range from the adoption of primary and secondary legislation (health and safety, environmental standards) to the adoption of organisational best practice.

Procuring an asset or service, or putting in place a scheme is rarely a spending (or investment) objective in itself. It is what a public organisation is seeking to achieve in terms of identifiable, measurable outcomes that is important, this is what constitutes public value in terms of return for money spent.

Existing arrangements

Within the parameters of the scope determined by the project's spending objectives, this stage sets out the status quo. In other words, it looks at the existing arrangements and explains how services are currently organised, provided and supplied.

It also includes details about stakeholders, customers and associated throughput and turnover. In doing so, it provides a snapshot of 'where we are now' and consequently the basis for the 'do nothing' or "status quo" option.

Importantly, it does not delve into what is wrong with the existing arrangements.

Business needs

Having fully understood the existing arrangements for the service, this stage pinpoints the 'business gap'. In other words, the difference between 'where we want to be' (as suggested by the spending objectives) and 'where we are now' (in terms of existing arrangements for the service). This highlights the problems, difficulties and inadequacies associated with the status quo.

This analysis should take into account existing and future changes in the demand for services. In most cases, it will be necessary to include:

- confirmation of the continued need for business operations, including supporting evidence;
- projections of the nature and level of demand for future services
- deficiencies in current provision;
- a summary of user requirements, clearly distinguishing between the current and future.

A useful technique for populating this section of the business case is to complete the following template for each of the spending objectives:

Spending objective	What we are seeking to achieve
Existing arrangement	The status quo
Business need	The problems associated with the status quo

Action 4: determine potential business scope and key service requirements.

This stage highlights the potential scope of the project and the services required to satisfy the identified business needs and gaps.

Potential business scope

This action ascertains the scope of the project from the standpoint of the business, in terms of affected business areas, functionality and organisation.

This is an important action as it effectively sets out the boundaries, or limitations, of the project – only options within this scope will be assessed within the economic case. If the scope is left open or vague at this stage, the result will lead to ‘scope creep’ and additional cost at the procurement phase.

Resultant service requirements

Within the chosen scope for the project, this stage highlights the required services, which in turn will form the basis of the ‘statement of needs’ (SON) or ‘statement of service requirements’ (SSR) for the project.

In practice, it is beneficial to assess the potential scope and the associated service requirements in terms of a continuum of business needs, ranging from ‘core’ (minimum requirement) to ‘core plus desirable’ (intermediate requirement) to ‘core plus desirable plus optional’ (maximum requirement).

At this stage, core denotes ‘the things that we must have’; desirable ‘the things that we are prepared to consider on a cost/benefit basis’; and optional ‘the things we that we might accept’ providing they are exceptionally low cost. The table below can be used to record business needs at each level:

	Minimum	Intermediate	Maximum
Potential business scope			
Key service requirements			

Action 5: determine benefits, risks, constraints and dependencies

On the basis that the required services are put in place, this stage captures the key benefits and risks associated with the proposed spending. It also highlights the constraints and dependencies associated with the proposed scheme.

Alongside the key spending objectives for the project, these aspects provide a basis for selecting and evaluating options in the next stages.

Main benefits criteria

The benefits criteria should be developed by the parties most directly affected by the proposal – usually the main stakeholders and customers (users) of the proposed services.

The benefits criteria fall into four main categories:

- cash releasing benefits (CRB);
- financial but non-cash releasing benefits (non CRB);
- quantifiable (or quantitative) (QB);
- non quantifiable (or qualitative) benefits.

The framework below gives an indication of the likely nature of benefits criteria for different types (or 'class') of spending objective:

Class	Relative value	Relative timescale	Benefits criteria
Strategic (wider social and business related)	High	Long-term	Qualitative Indirect/direct Non-cash releasing
Operational (organisational and management related)	Medium	Medium-term	Qualitative and quantitative Direct Cash-releasing Non-cash releasing
Job (task related)	Low	Short-term	Quantitative Direct Cash-releasing Non-cash releasing

The benefits – both direct and indirect to the organisation – should be captured for each spending objective against the relevant criteria. This helps to:

- indicate the relative value, or weight, of each spending objective. This is essential later for the ranking, weighting and scoring of the non-financial benefits and dis-benefits
- pin point the main beneficiaries of the scheme – both those within the organisation (direct) and those elsewhere in the public service (indirect). This recognises that occasionally those investing the most financially might not always be the main beneficiaries of the scheme
- ascertain whether the benefits are economic (non-cash releasing) or financial (cash releasing); measurable, but not in cash terms; or simply qualitative.

All categories will subsequently need evaluating.

Main risks

The main risks associated with the project and the proposed 'counter measures' should be identified at this stage. The emphasis should be on the 20% of risks which will account for 80% risk value. These risks will fall into the following key categories:

Risk categories	Description
Business risks	These are the strategic risks which remain (100%) with the public sector organisation regardless of the sourcing method for the proposed spending. They include political risks.
Service risks	These are the risks associated with the design, build, financing and operational (DBFO) phases of the proposed spending. They can be shared with business partners and service providers.
External environmental risks	These risks affect all organisations regardless of whether they are public or private sector. They include secondary legislation and general inflation.

Note: optimism bias also needs to be considered at this stage – see step 4, action 12 and departmental guidance for more details.

Constraints

Constraints are externally imposed and must be identified and managed from the outset, such parameters may include acting in accordance with a particular Government policy, directive, initiative or regulation and remaining within a spending or affordability envelope for the scheme.

Dependencies

Any actions or developments required of others should be considered if the ultimate success of the project is dependent upon them. This could entail the successful delivery of the outputs associated with another project in the overall programme of which the spending is an integral part.

A useful technique for populating this section of the business case is to build upon the earlier recommended template for each spending objective (step 2, action 3) as follows:

Stage1	
Spending objective	What we are seeking to achieve
Existing arrangement	The status quo
Business need	The problems associated with the status quo
Stage 2	
Potential scope	What we need to put in place to overcome these problems
Potential benefits	The benefits we would accrue as a result
Potential risks	The potential risks which might arise
Potential constraints	The limitations we face
Potential dependencies	The things that must be in place and/or managed elsewhere

Checklist for step 2

There should now be:

- clear SMART spending objectives for the project
- a clear understanding of the existing arrangements
- a clear exposition of the business needs
- a clear understanding of the potential scope for the project and/or procurement
- a clear statement of the associated benefits, risks, constraints and dependencies for the project.

Output for step 2

The first draft of the strategic case section within the Strategic Outline Case has now been completed.

Step 3: exploring the way forward

Introduction

This is the technical core of the business case and is a fundamental requirement as it fulfils HM Treasury's requirements on how to demonstrate VFM.

Having determined the strategic context for the project (phase 0/ step1) and established a robust case for change (phase 1/ step 2), this stage of the planning process focuses on the main choices (or options) available for delivering the required services, with a view to formulating a preferred way forward for the subsequent approval of management.

Importantly, it should be noted that an early indication of the possible, or preferred way forward could avoid considerable unnecessary work being undertaken at the OBC stage.

We are now in the territory of the 'economic case'. The main actions within this step are shown below:

Stage	Scoping the proposal and preparing the Strategic Outline Case (SOC)	Deliverables
Step 2	Making the case for change	Strategic Case
Step 3	Exploring the preferred way forward	Economic case – part 1
Action 6	Agree critical success factors (CSFs)	Including outline commercial, financial and management cases
Action 7	Determine long list options and SWOT analysis	
Action 8	Recommend a preferred way forward	
Output	Strategic Outline Case (SOC)	
Review point	Gateway 1: business justification	

Action 6: agree critical success factors for the spending

By definition, the critical success factors (CSFs) are the attributes essential to the successful delivery of the scheme, against which the available options are assessed. Alongside the assessment against CSFs is the assessment of how well the options meet the scheme's spending objectives and benefits criteria.

CSFs will invariably differ from project to project, both in content and relative importance; but the key point is that they must be crucial (not desirable) and set at a level which does not exclude important options.

As a starting point, projects could consider the following, which are predicated upon the 'Five Case Model':

Key CSFs	Broad Description
Strategic fit and business needs	How well the option: <ul style="list-style-type: none"> • meets agreed spending objectives, related business needs and service requirements • provides holistic fit and synergy with other strategies, programmes and projects.
Potential VFM	How well the option: <ul style="list-style-type: none"> • maximises the return on the required spend (benefits optimisation) in terms of economy, efficiency and effectiveness from both the perspective of the organisation and wider society. • minimises associated risks.
Potential achievability	How well the option: <ul style="list-style-type: none"> • is likely to be delivered in view of the organisation's ability to assimilate, adapt and respond to the required level of change • matches the level of available skills which are required for successful delivery.
Supply-side capacity and capability	How well the option: <ul style="list-style-type: none"> • matches the ability of the service providers to deliver the required level of services and business functionality • appeals to the supply-side.
Potential affordability	How well the option: <ul style="list-style-type: none"> • meets the sourcing policy of the organisation and likely availability of funding • matches other funding constraints.

Action 7: determine the long list options and undertake SWOT analysis

The purpose of this action is to identify as wide a range of options as possible that meet the spending objectives, potential scope and benefits criteria identified in step 2. It also involves looking at the associated strengths, weaknesses, opportunities and threats.

The Treasury's Green Book suggests in the order of a dozen main options in the first instance. This is known as the 'long list'. Best practice suggests that these options should be generated by working parties (brainstorming exercises) comprised of senior managers (business input), stakeholders and customers (user input) and specialists (technical input).

It is important to include an option which will act as a baseline for VFM. This may either be the 'status quo', 'do nothing' or 'do minimum', depending on which is the most realistic option in the circumstances.

Options may sometimes appear to be ruled out for legal, financial or political reasons. In such cases, undue time, effort and expense should not be expended on appraising these options. However, it is equally important to ensure that the constraints in question have not been imposed artificially.

Creating options: HM Treasury Green Book

For creating the long list of options, the Green Book suggests:

- researching existing reports and consulting widely with practitioners and experts to gather the set of data and information relevant to the objectives and scope of the problem;
- analysing the data to understand significant dependencies, priorities, incentives and other drivers;
- from the research, identify best practice solutions, including international examples, if appropriate;
- considering the full range of issues likely to affect the objective;
- identifying the full range of policy instruments or projects that may be used to meet the objectives. This may span different sorts or scales of intervention; regulatory (or deregulatory) solutions may be compared with self-regulatory, spending or tax options;
- developing and considering radical options. These may not become part of the formal appraisal but can be helpful to test the parameters of feasible solutions. Well-run brainstorming sessions can help to generate such a range of ideas.

Use of the options framework: long list

The options framework provides a simple and straightforward approach to the identification and assessment of a broad range of relevant options - the long list. It has been tested thoroughly in a wide range of public sector schemes and proven to be particularly useful in getting senior management signed-up and committed to the preferred – or indicative – way forward early on in the business planning process.

The following table sets out an approach for identifying options for the long list using a number of ‘categories of choice’ formulated around the who, the what, the when, the where and the how.

Category of Choice	Brief Description
Scoping options	In relation to the proposed scheme, ‘the what in terms of coverage’ (for example, levels of functionality; geographic coverage; population/user base; organisation etc).
Service solution options	In relation to the preferred scoping option, ‘the what in terms of the how’ (for example,

	potential solutions and answers, use of technologies etc).
Service delivery options	In relation to the preferred service solution, 'the what in terms of the who' for service delivery (for example, in-house; outsource; PF2 etc).
Implementation options	In relation to the preferred method of service delivery, 'the what in terms of the when' for the rollout and delivery of the scheme (for example, big bang, phased, modular delivery etc).
Funding options	In relation to the preferred method of implementation, 'the what in terms of the funding'. For example, the use of capital v revenue; private v public finance (see action10, the use of PPPs/PFI); national v local funding etc.

To use the options framework, the following actions should be taken:

- identify the options within the first category of choice (scope);
- assess how well each option meets the evaluation criteria – the spending objectives and CSFs. (The assessment of the benefits takes place at a “high” level at this stage, deferring detailed examination until the CBA stage);
- decide whether each option is ‘out’, ‘in’ or a ‘maybe’. In other words, whether it should be discounted immediately; or carried forward, either as the preferred choice in the category or a possibility for consideration;
- consider the options for the delivery of the preferred choice (scope) in relation to the next category of choice (service solution);
- repeat the process for all other categories of choice.

At each stage it is helpful to record the results in a table – for example, for scoping options it could look like this, the use of Red Amber Green ratings is recommended for each option to indicate possible (Green), take forward to consider further (Amber) or reject (Red).

Summary assessment of scoping options

Reference to:	Option 1.1	Option 1.2	Option 1.3	Option 1.4
Description of option:	Do nothing	Minimum	Intermediate	Maximum
Spending objectives				
	x	?	✓	✓
	x	?	✓	✓
	x	?	✓	✓
	?	?	✓	✓
	x	?	✓	✓
Critical success factors				
Business need	x	?	✓	✓
Strategic fit	x	x	✓	✓
Benefits optimisation	x	?	✓	?
Potential achievability	✓	✓	?	?
Supply-side capacity and capability	✓	✓	✓	?
Potential affordability	x	✓	?	x
Summary	Discounted	Possible	Preferred	Discounted

A worked example of the use of the options framework is included at Annex 2.

Assessing the potential of Private Finance at the long list stage

Consideration of the use of a PF2 or similar private finance arrangement where it is a viable option should initially take place during long list analysis of options at the SOC stage. It may be a consideration at the “service delivery,” “service implementation” and “funding” stages. Actual bid PPP costs will not be available at this stage. The indicative outline cost of a proposal that provides the facilities and associated services defined in the proposals output specification, if using direct public funding, provides the basis on which an initial indicative cost estimate of possible PF2 solutions can be based. The public sector base option on which these estimates are derived and with which they are compared is sometimes referred to as the Public Sector Comparator or PSC. It may on occasion be possible to estimate the outline cost of PF2 based on similar projects.

Assessing the potential of Privately Financed solutions

The following table provides useful criteria for assessing the suitability of PF2 for public sector schemes. It can help to inform decisions at the long list stage (see step 3, action 7) and can be used to assess the potential for a successful use of PF2 for project.

Spending Criteria	High	Medium	Low
1. Output/service-delivery driven			
2. Substantial operating content within the project			
3. Significant scope for additional/alternative uses of the asset			
4. Scope for innovation in design			
5. Surplus assets intrinsic to transaction			
6. Long contract term available			
7. Committed public sector management			
8. Political sensitivities are manageable			
9. Risks primarily commercial in nature			
10. Substantial deal			
11. Complete or stand-alone operations to allow maximum synergies			

Two principle ways of structuring a PF2 option have been:

- a design, build and finance contract with private sector providers for the provision of an asset, this may sometimes be accompanied with a separate contract for maintenance and possibly service provision.
- a design, build, finance and operating contract with private sector providers covering the construction and whole life maintenance of an asset which may or may not also include delivery of associated services.

Tax differentials

In the economic dimension of the case prices are based on resource costs and tax is not included because it is a transfer payment that does not of itself affect public welfare. In the Financial dimension of the case the actual cost paid is the basis for costs. Where privately financed options are involved total costs need to be adjusted to remove the distortionary effects of taxes (including company taxation) on the costs of private delivery options. It is important to understand this at both the SOC and later OBC stage when considering a shortlist containing private finance options. For further guidance on this or any of the above, refer to HM Treasury's Green Book.

Drafting the long list

It is essential to be even handed when considering options in the long list and to record all the relevant facts and details. It is therefore recommended that the following headings are used when appraising options:

Heading	Rationale
Description	Full details of the option under consideration – this may be with reference to a category of choice under investigation within the options framework.
Main advantages	In relation to the spending objectives, benefits criteria and critical success factors for the scheme.
Main disadvantages	As for advantages above.
Conclusions	Overall assessment, indicating whether the option is the preferred choice, or should be carried forward for further assessment in the short list; or discounted and discarded.

Action 8: recommend a preferred way forward

This stage recommends a potential way forward, for the approval of management, based on the appraisal of the main options (long list) for the successful delivery of the proposal. In practice, this will consist of a 'direction of travel' for the delivery of the scheme, supported by a limited number of attractive options – known as the 'short list' – for further evaluation in the OBC.

Short-listed options

In accordance with the Treasury Green Book, the SOC must outline a minimum of five short-listed options for further examination at the OBC stage.

These must include:

- the 'do nothing'; status quo; which provides the benchmark for adding public value throughout the appraisal process
- the 'do minimum' option; which provides a benchmark to identify so called "Gold Plating" where an option loads on costs for little real gain in functional benefit
- reference option which gives a base comparison for completion of the proposal by direct public financing and is sometimes referred to as the outline public sector comparator (PSC).
- two other realistic options based on realistic "second choices".

Care should be taken to avoid "rigging" options in order to pre-determine choice.

Indicative costs and delivery arrangements

Indicative costs for each of the above short-listed options should be provided at SOC stage, along with an overview of the financial, commercial and management arrangements for the successful delivery of the proposed scheme.

Indicative benefits should also be included if these are available, together with some allowance for 'optimism bias', if appropriate – see the section on optimism bias in step 4, action 12.

Use of the options framework: short list

The results of the assessment of the long list may be used to help generate the short list options and inform the choice of the decision maker as follows:

Category of Choice	Option 1	Option 2	Option 3	Option 4
Scoping	Discount	Preferred	c/f – less	c/f – more
Service solution	c/f – more	Discount	Preferred	c/f – less
Service delivery	c/f – less	c/f – more	Discount	Preferred
Implementation	Preferred	c/f – less	c/f – more	Discount
Funding	Discount	Preferred	c/f – less	c/f – more

Note: this table is populated by taking the results from each stage of the options framework – for example, the scoping results shown come from the summary assessment of scoping options.

The following actions should be taken:

- to construct our reference project (or outline PSC) from the “preferred” choices in each category; i.e. an amalgamation of option 2 for scope, option 3 for service solution, option 4 for service delivery, option 1 for implementation and option 2 for funding;
- to construct another realistic option, possibly a more ambitious reference project from either some or all of the ‘c/f – more scope, faster implementation etc’ recommendations;
- to construct another realistic option, possibly a less ambitious reference project from either some or all of the ‘c/f – less scope, slower implementation etc’ recommendations;

The short list must also include the ‘do nothing’ or ‘status quo’ options.

It should be noted that the reference project is essentially our preferred way forward given that it is predicated upon our best assessment at this stage of the possible scope, service solution, method of service delivery, implementation and funding, following SWOT analysis of the available options in each category of choice. Moreover, it has been arrived at logically and systematically.

A brief outline reference to the other cases

A brief reference to other elements of the Five Case Model is required at this point in the SOC to outline expected arrangements within the:

- Commercial case

an assessment of the likely attractiveness of the project to potential service providers, taking into account the PPP (PFI), as required.

- Financial case
 - a statement of the organisation's financial situation
 - resources available for the project, including assessment of the resource holder's ability to provide support
 - capital and revenue constraints
 - statements of strategic (in principle) support from the stakeholders.
- Management case
 - who is involved in the project, both inside and outside of the organisation, including users, commissioners and other key stakeholders
 - achievability of the project, taking into account the organisation's readiness and resources
 - how the project is to be managed
 - other key managerial considerations, including: change management, training, evaluation and timetable
 - nature of further work needed to develop management proposals.

Checklist for step 3

There should now be:

- a clear understanding of the project's critical success factors (CSFs);
- a long list of 10 to 12 options , which have been subjected to SWOTanalysis;
- an emerging preferred way forward;
- a shortlist of 3 to 4 options with indicative costs, as a minimum requirement, for full evaluation in the OBC;
- an outline consideration of the financial, commercial and management cases for the project.

Output of step 3

The first draft of the economic case, including the long list and proposed short list, has now been completed.

Output of stage 1 and Gateway Review Process

The SOC has now been completed. A Gateway 1 or Health Check 1 for the business justification stage should now be considered for the project, prior to the formal submission of the SOC to the approving authority for agreement (if required).

Outcomes from the SOC

SOCs are good practice. They lay the basis for better decision making through reaching agreement from the outset on the case for spending and the key issues in the choices. SOC also prevent too much effort being expended on projects that should not proceed.

Management recommendations will focus on either:

- abandoning the project, because it is considered unaffordable, too ambitious, or too high risk in relation to the expected return
- modifying the project
- undertaking a pilot exercise to test out the assumptions and to inform an eventual decision
- moving ahead with the project more or less as originally conceived with a set of recommendations on how to proceed, including agreement or adjustment to the proposed short list.

Chapter 6

Planning the scheme and preparing the Outline Business Case (OBC)

Overview

The purpose of the Outline Business Case (OBC) is to:

- identify the spending option which optimises value for money (VFM);
- prepare the scheme for procurement;
- put in place the necessary funding and management arrangements for the successful delivery of the scheme.

The preparation of the OBC is a mandatory part of the business case development process.

Step 4: determining potential VFM

Introduction

This is the spending (or 'options') appraisal phase of the project, where the potential VFM of the scheme is determined in relation to the various options for delivery, in accordance with the tools and techniques devised by HM Treasury for use by public sector organisations.

Whilst bringing together a variety of information on costs, benefits and risks means option appraisal aids decision making, it should not be seen as unequivocally providing the 'right' answer. The goal is 'optimal' – in other words, the option we are looking for is the one which best balances the costs in relation to the benefits and risks.

The main actions within step 4 are shown below:

Stage 2	Planning the scheme and preparing the Outline Business Case (OBC)	Deliverables
Step 4	Determining potential VFM	Economic case – part 2
Action 9	Revisit SOC and determine short list, including the Reference Project (outline PSC)	
Action 10	Prepare the economic appraisals for short-listed options	
Action 11	Undertake benefits appraisal	
Action 12	Undertake risk assessment/appraisal	
Action 13	Select preferred option and undertake sensitivity analysis	

Action 9 – revisit the SOC and determine the short list

This action is concerned with:

- revisiting the case for change (contained within the strategic case of the SOC);
- reviewing the efficacy of the preferred way forward and options recommended (contained in the economic case within the SOC) – bearing in mind that the key place for options appraisal is the OBC and that only a preferred way forward (to be tested) has been agreed.

Revisiting the strategic case

The case for change should be reviewed, because:

- management approval of the SOC may have been conditional on some changes and adjustments to the case;
- the early opportunity for the organisation and key external stakeholders to consider the project may have influenced its subsequent direction;
- some time may have elapsed between SOC approval and the commencement of the OBC;
- elements of the scheme may have changed.

All changes made to the underlying assumptions in the SOC should be noted within the opening section to the strategic case in the OBC.

Reviewing the economic case

The early work on the long list and the preferred way forward will need reviewing and refining.

The recommended short list contained in the SOC should be tested against the following 'long list to short list' criteria:

- Do any of the options fail to deliver the spending objectives and CSFs for the project?
- Do any of the options appear unlikely to deliver sufficient benefits, bearing in mind that the intention is 'to invest to save' and to deliver a positive net present value (NPV)?
- Are any options clearly impractical or unfeasible – for example, the technology or land is not available?
- Is any option clearly inferior to another, because it has greater costs and lower benefits?
- Do any of the options violate any of the constraints – for example, are any clearly unaffordable?

- Are any of the options sufficiently similar to allow a single representative option to be selected for detailed analysis?
- Are any of the options clearly too risky?

All changes made to the underlying assumptions in the SOC should be noted within the opening section to the economic case in the OBC.

Action 10 – prepare the economic appraisals for short-listed options

This action is concerned with:

- estimating the costs for the economic appraisals;
- estimating the benefits for the economic appraisals;
- producing the economic appraisals.

Estimating the costs and benefits for the economic appraisals

This section contains essential guidance on:

- HM Treasury Green Book principles;
- the key differences between economic and financial appraisals;
- relevant costs to include in the economic appraisals;
- estimating benefits for the economic appraisals;
- adjustments required to the values of costs and benefits.

HM Treasury Green Book principles

The Treasury Green Book sets out rules that should be followed for the treatment of costs and benefits:

- the relevant costs and benefits to government, the public sector and society of all the (short-listed) options should be valued and the net benefit and costs calculated. 'Relevant' in this instance means all those costs and benefits that can be affected by the decision at hand;
- the costs and benefits should cover the useful lifetime of the assets; or the contractual period for the purchase of the service outputs and outcomes;
- the costs and benefits should be based on market prices, wherever possible, and reflect the best alternative uses (the 'opportunity cost') that the goods, assets and services could be put to;
- the wider social and environmental costs – for which there is no market price – should also be taken into account;

- the sources and assumptions underlying each cost and benefit line in the economic appraisals must be explained in full within an accompanying appendix;
- all cost and benefit estimates must be stated in the same base year at a common price level. The base year should be the same for all options. The base year is defined as 'year 0'.

Economic and financial appraisals

Many practitioners confuse the appraisals for the economic case with those for the financial case at this stage. Economic appraisals have a wider perspective and focus on VFM analysis; whereas financial appraisals have a narrower perspective and focus on affordability. The key differences can be summarised as follows:

Economic Appraisals	Financial Appraisals
Focus: <ul style="list-style-type: none"> • VFM – net present value (NPV) 	Focus: <ul style="list-style-type: none"> • Funding and affordability – cash flow and stock
Coverage: <ul style="list-style-type: none"> • wide coverage – Government and Society ('UK Ltd') 	Coverage: <ul style="list-style-type: none"> • relevant organisation(s)
Relevant standards: <ul style="list-style-type: none"> • HM Treasury Green Book and supplementary guidance • discount rate (3.5%) applied 	Relevant standards: <ul style="list-style-type: none"> • organisational accounting rules and standing orders • no discount rate applied
Analysis: <ul style="list-style-type: none"> • constant (base year) prices • includes opportunity cost • includes all quantifiable costs, benefits and risks to both organisation and wider society • includes environmental costs • excludes all Exchequer 'transfer' payments – for example, VAT • excludes general inflation • excludes sunk costs • excludes depreciation and capital charges. 	Analysis: <ul style="list-style-type: none"> • current (nominal) prices • benefits – cash releasing only • includes capital and revenue costs • includes transfer payments (for example, VAT) • includes inflation • includes depreciation and capital charges.

Relevant costs for the economic appraisals

The following provides an overview of the costs which should be included in the economic appraisals:

- **Capital costs:** these include the opportunity cost of existing assets such as land and can broadly be broken down into: land and property; construction and refurbishment costs; professional fees; equipment

(furniture, fittings, lighting and wiring); and the cost of technology. Assets may require replacement, refurbishment or upgrading over the lifetime of the appraisal period. These 'life-cycle' costs should also be included.

- **Revenue costs:** these are the running costs and are at least as important as capital costs. They must be included but it should not be assumed that they will remain unchanged for the baseline option over time. The assessment of revenue costs must:
 - assume that the running costs of each option will normally be different; distinguish between them and explain the differences between options
 - include all the running costs
 - state the assumptions made (for example, about service performance, efficiency savings and real cost trends).
- **Fixed, variable, semi-variable and step costs.** These costs should be distinguished between within the economic appraisals and their relationships explained in full:
 - *fixed costs* remain constant over a wide range of activities for a specified period of time – for example, the building
 - *variable costs* vary according to the volume of activity – for example, training costs
 - *semi-variable costs* include both fixed and variable components – for example, a combination of fixed maintenance costs and variable call-out charges
 - *step costs* for a pre-determined level of activity that eventually rise by a given amount – for example, the need for a new call centre after a certain volume of calls.
- **Opportunity costs.** These must be explored in full. In relation to land and manpower, they should be assessed against the most valuable alternative use rather than current use. Full time equivalents (FTE) costs should be used to estimate the costs of employees' time to the employer and must include all costs in addition to basic pay – for example, pensions, national insurance and allowances etc.
- **Sunk costs.** These are amounts that have already been spent and cannot be recovered. They should be noted in the case and excluded from the economic appraisals.
- **Full economic costs.** The full costs (direct, indirect and attributable) of each option, rather than its net cost in relation to the baseline proposal must be shown. This means 'bottom up' costing, which provides a better understanding of the cost differences between options and is more transparent.

- **Attributable costs.** These include the opportunity cost of staff time in relation to the implementation of the spending. These costs are likely to be significant in relation to business change and business re-engineering programmes.
- **Organisational development.** These costs can form a significant proportion of the overall costs. They should not be underestimated, because if insufficient resources are allocated to developing staff and changing working practices, the full benefits of the project will not be achieved.
- **Avoided costs.** These should be included as a cost in the 'do nothing' option and not as a benefit in the other options.
- **Contingent liabilities.** Commitments to future expenditure if certain events occur should be included in the economic appraisals. For example, the cancellation costs for which a public sector body may be liable if it prematurely cancels a contract. Note that although redundancy costs are transfer payments, they can occasionally fall into this category. In such cases, the advice of an economist should be sought on the wider social and economic consequences of these payments.

Estimating benefits for the economic appraisals

The purpose of valuing benefits is to ascertain whether an option's benefits are worth its costs, and to allow alternative options to be compared systematically in terms of their net benefits or costs.

The 'golden rule' is that all benefits must be quantified (in £s) prudently, wherever possible; and that the economic appraisals should take these into account from the perspective of society as a whole - the public, private and third sectors.

The benefits for spending typically fall into four main categories:

- **cash releasing benefits (CRB).** These benefits reduce the costs of organisations in such a way that the resources can be re-allocated elsewhere. This typically means that an entire resource is no longer needed for the task for which it was previously used. This can be staff or materials/assets
- **financial but non-cash-releasing benefits (non-CRB).** This usually involves reducing the time that a particular resource takes to do a particular task; but not sufficiently to re-allocate that resource to a totally different area of work;

- **quantifiable benefits (QB).** These benefits can be quantified, but not always easily. The extent to which QBs are measured will depend on their significance. However, as a general rule every effort should be made to quantify benefits financially wherever possible and proportionate to do so;
- **non-quantifiable benefits (non-QB).** These are the qualitative benefits, which are of value to the public sector that cannot be quantified.

All the monetised benefits – cash releasing and non-cash releasing – must be accounted for in the economic appraisals to derive the net present value (NPV). However, only the cash releasing savings relevant to the organisation(s) should be accounted for in the financial appraisals – see step 6 (ascertaining affordability and funding).

Weighting and scoring techniques should be used to evaluate the non-financial benefits – both quantifiable and qualitative.

Real or estimated market prices

Real or estimated prices provide the first point of reference for the valuation of benefits and there are few cases where valuing at market prices is not suitable. These include:

- revealed preference approach (i.e. inferring a price from consumer behaviour); and
- willingness to pay (i.e. inputting a price by means of carefully constructed questionnaires and interviews to indicate how much people are prepared to pay to consume a particular output – for example, improved access to services or savings in time, or to avoid undesirable outcomes). The values obtained from this approach will vary between individuals, depending on their income, socio-economic status and personal circumstances.

Adjustments required to the values of costs and benefits

While developing the 'base case' (i.e. the best estimate of how much a proposal will cost in economic terms), adjustments may be required to take account of 'distributional impacts' and 'relative price changes'. All adjustments should be shown separately and clearly stated in supporting tables of data.

Relative price changes

The costs and benefits presented in the economic appraisals should be expressed in 'constant prices', as opposed to current prices. The effect of future inflation should therefore be excluded.

Where particular prices are expected to increase at significantly higher or lower rates than general inflation, the relative price change should be calculated and factored into the economic appraisals.

Presenting the economic appraisals

Following the identification and measurement of the costs and benefits for each option, it should now be possible to estimate the net present value (NPV) for each option, using the Green Book discount rate – the preferred method of spending appraisal within the public sector.

This section is concerned with compiling the economic appraisals for the short listed options – including the ‘do nothing’ or ‘do minimum’ in their most basic format. Guidance is given on the following:

- methods for option appraisal;
- discounting in the public sector;
- calculating the NPV;
- the equivalent annual cost (EAC);
- required rates of return and pricing rules;
- the treatment of PPP (PFI) schemes, if applicable;
- tax differentials.

Methods for spending appraisal

There are two main schools of thought for evaluating the performance of a project, namely the ‘accounting method’ and ‘economics method’.

The accounting method focuses on liquidity/pay back period and profitability (see the financial case – step 6/ action 19); whereas the economics method focuses on welfare maximisation, resource allocation and considerations of risk and uncertainty.

The two main economics methods are NPV and the internal rate of return (see ‘required rates of return and pricing rules’ below).

The recommended approach within the public sector is to calculate the NPV, which is the sum of discounted costs and benefits.

Discounting in the public sector

Discounting is a technique used to compare the costs and benefits that occur in different time periods. It must not be confused with inflation and is based on the premise that ‘a pound today is worth more than a pound tomorrow’. Consequently, people prefer to receive goods and services today, rather than tomorrow. This is known as the ‘time preference’ and for society as a whole, as ‘the social time preference’.

The discount rate used in public sector projects is the social rate of time preference (STP) and is stipulated by HM Treasury's Green Book as 3.5% in real terms. The Treasury's Green Book contains guidance on discount rates their use and tables of annual discount rates and discount factors and can be accessed on line by following by pasting this URL into your browser (<http://tinyurl.com/H-M-Treasury-Green-Book>) or by following this [link to Green Book](#) and then going to Annex 6 pages 97 to 100.

Calculating the NPV

The following case study shows how the NPV is calculated:

Case Study						
Alternative projects, A and B, are both expected to improve the quality of a public sector organisation's work and reduce staff costs. The base case of each option is being estimated.						
Option A requires £10 million in initial capital expenditure to realise benefits of £2.5 million per annum for the following four years - £2 million in reduced staff costs and £0.5 million in quality improvements.						
Option B requires £5 million in initial capital expenditure to realise benefits of £1.5 million per annum for the following four years - £1 million in reduced staff costs and £0.5 million in quality improvements.						
Year - £ million	0	1	2	3	4	NPV
Discount factor	1	0.9962	0.9335	0.9019	0.8714	
Option A						
Costs	-10	0	0	0	0	
Benefits	0	2.50	2.50	2.50	2.50	
NPV	-10	2.42	2.33	2.25	2.18	- £0.82
Option B						
Costs	-5	0	0	0	0	
Benefits	0	1.50	1.50	1.50	1.50	
NPV	-5	1.45	1.40	1.35	1.31	£0.51
Project B yields a positive NPV of £0.51 million compared with a negative NPV of £0.82 million for project A and zero for the implicit do minimum or do nothing alternative. Therefore Project B is preferable.						

Action 11 - undertake benefits appraisal

Benefits which can be quantified financially (in £s) should be included in the economic appraisals and subject to cost benefit analysis (CBA). However, in many spending proposals some benefits are not amenable to monetary

values – for example, the ‘future proofing’ of the organisation; improvements in staff morale and customer relations; flexibility and improved accuracy.

A method in common use within options appraisal is to weight and score the non-financial benefits for each option. This is preferable to simply ranking the benefits, as placing them in their order of priority does not in itself provide any objective assessment of how the incidence of these benefits varies from option to option.

Weighting and scoring of benefits

Weighting and scoring provides a technique for comparing and ranking options in terms of their associated non-financial benefits. It should be undertaken as follows:

- exclude all financial benefits, whether cash-releasing or non-cash releasing;
- group the quantifiable (non-financial) and qualitative benefits according to their relevant spending objective, and/or other benefit criterion for the scheme as a whole;
- select an expert and representative team to weight and score the benefits for each short-listed option;
- give a weight (0 to 100) to each of the spending objectives and/or benefit criteria;
- give a score (1 to 10) to each option for how well it delivers the benefits associated with each spending objective or benefit criterion;
- multiply the weights and scores to provide a total weighted score for each option;
- rank the options in terms of benefit delivery and identify the preferred option on the basis of the highest score.

Baseline benefits levels

It is important to try and distinguish between the benefits derived from each option and the benefits which would be derived anyway. The total benefits of the ‘do nothing’ option is the baseline for comparison of the benefits of the other options. The benefits of doing nothing (even if there are none) must, therefore, be assessed in the same way as the other options.

Recording the results

The process and reasoning behind the scores and weightings must be documented clearly to demonstrate that a robust analysis has been carried out. Again, it is important to recognise that the assigned weights and the scores given to options are value judgments. In order to assign weights and scores, negotiation and compromise needs to take place. It is the number of people involved in the process and their expertise that lends credibility to these value judgments. It is, therefore, worth spending some time choosing a

representative 'benefits team' which should include stakeholders, customers (users), and business and technical representatives. The people involved should be named as part of the recording process.

Case study

The benefit criteria (attributes), weights and scores for the OBC in support of an NHS accommodation scheme are shown below. It uses a score out of 10 according to how well each of the options match-up to the benefit criteria. These scores are then multiplied by the pre-agreed weightings to give a total score for each option.

Benefit Criteria	Weight	Do Nothing		Option B		Option C	
		Score	Weight x score	Score	Weight x score	Score	Weight x score
Quality of clinical care	30	0	0	0	0	7	210
Patient accessibility	15	0	0	1	15	4	60
Flexibility of accommodation	20	0	0	4	80	6	120
Quality of hotel services	20	0	0	5	100	4	80
Disruption to services	15	0	0	0	0	3	45
Total	100		0		195		515

Supplementary guidance is available on the HM Treasury website.

Action 12 – undertake risk assessment and appraisal

The Treasury Green Book and departmental manuals have always required public sector organisations to undertake a risk assessment of the short listed options.

The service risks associated with a significant proposal or scheme should be measured and quantified in monetary terms as early as possible in the business planning process. Although initial estimates will be little more than an allowance for optimism bias, as the planning process unfolds more informed estimates of the cost of mitigation and the likelihood of occurrence of specific risks should be developed and these should be built into the costs of each option and optimism bias reduced accordingly:

- allowance for 'optimism bias' (OB) should be applied at the SOC stage;
- service risks should be quantified (in £s) at the OBC and FBC stages and the OB reduced accordingly;
- the use of weighting and scoring of risks should be confined to the initial long list assessment of options at the SOC stage, thereafter at OBC and FBC stages it should only be applied to relatively small low spending proposals where the effort to produce detailed costings is considered to be disproportionate.

Optimism bias

Within both the public and private sectors, there is a demonstrated and systematic tendency for project appraisers to be overly optimistic. This is a worldwide phenomenon, whereby appraisers tend to overstate benefits and understate timings and costs, both capital and operational.

To redress this tendency, appraisers are now required to make explicit adjustments for this bias. These will take the form of increasing estimates of the costs and decreasing and delaying the receipt of estimated benefits. Sensitivity analysis should be used to test assumptions about operating costs and expected benefits.

Adjusting for optimism provides a better and earlier estimate of key project parameters. Enforcing these adjustments for optimism bias is designed to complement, rather than replace, existing good practice in terms of calculating project specific risk. It is also designed to encourage more accurate costing. Accordingly adjustments for optimism bias may be reduced as more reliable estimates of relevant costs are built up and project specific risk work is undertaken.

Adjustments should be empirically based – for example, using data from past projects or similar projects elsewhere, and adjusted for the unique characteristics of the project. Guidance for generic projects is available (see below) and should be used in the absence of more specific evidence.

Departmental guidance is also available and should be referred to at this stage.

Guidance for generic projects

The definitions of project types are as follows:

- **standard building projects** – these involve the construction of buildings which do not require special design considerations (i.e. most accommodation projects – for example, offices, living accommodation, general hospitals, prisons, and airport terminal buildings);
- **non-standard building projects** – these involve the construction of buildings requiring special design considerations due to space constraints, complicated site characteristics, specialist innovative buildings or unusual output specifications – for example, specialist hospitals, innovative prisons, high technology facilities and other unique buildings or refurbishment projects);
- **standard civil engineering projects** – these involve the construction of facilities, in addition to buildings not requiring special design considerations – for example, most new roads and some utility projects;
- **non-standard civil engineering projects** – these involve the construction of facilities, in addition to buildings requiring special design considerations due to space constraints or unusual output specifications – for example, innovative rail, road, utility projects, or upgrade and extension projects;
- **equipment and development projects** – these are concerned with the provision of equipment and/or development of software and systems i.e. manufactured equipment, information and communication technology development projects or leading edge projects;
- **outsourcing projects** – these are concerned with the provision of hard and soft facilities management services – for example, information and communication technology services, facilities management and maintenance projects.

Applying adjustments for optimism bias

The table below provides adjustment percentages for these generic project categories that should be used in the absence of more robust evidence. It has been prepared from the results of a study by Mott MacDonald into the size and causes of cost and time over-runs in past projects.

Project Type	Optimism Bias (%)			
	Works Duration		Capital Expenditure	
	Upper	Lower	Upper	Lower
Standard buildings	4	1	24	2
Non-standard buildings	39	2	51	4

Standard civil engineering	20	1	44	3
Non-standard civil engineering	25	3	66	6
Equipment/development	54	10	200	10
Outsourcing	n/a	n/a	41*	0*

* the optimism bias for outsourcing projects is measured for operating expenditure.

Recommended steps

Project managers should apply the steps set out below to derive the appropriate adjustment factor to use for their projects:

- **Step 1 – decide which project type to use**

Careful consideration needs to be given to the characteristics of a project when determining its project type. By way of guidance, a project is considered 'non-standard' if it satisfies any of the following conditions:

- it is innovative;
- it has mostly unique characteristics;
- the construction involves a high degree of complexity and/or difficulty.

A project which includes several project types (for example, an element of standard building, non-standard building, standard civil engineering, outsourcing and equipment/development) should be considered as a 'programme' with five 'projects' for assessment purposes

- **Step 2 – always start with the upper limit**

Use the appropriate upper bound value for optimism bias (see above table), as the starting value for calculating the level of optimism bias.

- **Step 3 – consider whether the optimism bias factor can be reduced**

Reduce the upper bound level for optimism bias according to the extent to which the contributory factors have been managed.

The extent to which these contributory factors are mitigated can be reflected in a mitigation factor. The mitigation factor has a value between 0.0 and 1.0. Where 0.0 means that contributory factors are not mitigated at all, 1.0 means all contributory factors in a particular area are fully mitigated and values between 0.0 and 1.0 represent partial mitigation.

Optimism bias should be reduced in proportion to the amount that each factor has been mitigated. Ideally, the optimism bias for a project should be reduced to its lower bound before contract award. This assumes that the cost of mitigation is less than the cost of managing any residual risks.

- **Step 4 – apply the optimism bias factor**

The present value of the capital costs should be multiplied by the optimism bias factor. The result should then be added to the total net present cost (or NPC) to provide the base case. The base case, as defined in the Green Book, is the best estimate of how much a proposal will cost in economic terms, allowing for risk and optimism.

- **Step 5 – review the optimism bias adjustment**

Clear and tangible evidence of the mitigation of contributory factors must be observed, and should be verified independently, before reductions in optimism bias are made. Procedures for this include the Gateway Review process.

Presenting the results

Following these steps will provide an optimism bias adjustment that can be used to provide a better estimate of the base case. Sensitivity testing should be used to consider uncertainties around the adjustment for optimism bias. 'Switching values' (see below – action 13) should be shown where appropriate. If the adjustment for optimism is shown as a separate piece of analysis, sensitivity analysis should be used to show the range of potential outcomes, not just the single optimism bias adjustment.

Reducing optimism bias

Project appraisers should review all the contributory factors that lead to a cost and time over-run, as identified by the research. The main strategies for reducing the bias are:

- full identification of stakeholder requirements (including consultation);
- accurate costing;
- project management and risk management.

The lower bound values represent the optimism bias level to aim for in projects with effective risk management by the time of contract award.

Case study

The capital costs of a non-standard civil engineering project are estimated to be £50m NPC in a SOC. No detailed risk analysis work has taken place at this stage, although significant costing work has been undertaken.

The project team reports to the project board and applies an optimism bias adjustment of 66% showing that, for the scope of the work required, the total cost may increase by £33m to £83m in total. This is based on consultants' evidence and experience from comparable civil engineering projects at a similar stage in the appraisal process.

As this potential cost is unaffordable, the chief executive requests reductions in the overall scope of the project, and more detailed work for the OBC. As the project progresses, more costs and specific risks are identified explicitly, despite the reduced cost. For the FBC the optimism bias adjustment is reduced until there remains only a general contingency of 6% for

unspecified risks.

Without applying optimism bias adjustments, a false expectation would have been created that a larger project could be delivered at a lower cost.

Operating costs and benefits

Optimism bias should still be considered for operating costs and benefits. If there is no evidence to support adjustments to operating costs or benefits, appraisers should use sensitivity analysis to check switching values (see below – action 13). This should help to answer key questions such as:

- By how much can we allow benefits to fall short of expectations, if the proposal is to remain worthwhile? How likely is this?
- By how much can operating costs increase, if the proposal is to remain worthwhile? How likely is this to happen?
- What will be the impact on benefits if operating costs are constrained?

Risk identification and measurement

There is always likely to be some difference between what is expected and what eventually happens, because of biases unwittingly inherent in the appraisal and the risks and uncertainties that materialise during the design, build, and operational phases of the project. As a result, risk management strategies should be adopted for the appraisal and implementation of large policies, programmes or projects and the principles applied to smaller proposals. This is because things can always go better than expected ('upside risk') as well as worse ('downside risk').

It is important to develop a risk register from the very beginning of the project (see management case). From then on the risk register should be updated and reviewed regularly and used on a consistent basis as the source for:

- identifying the main business and service risks (in the strategic case section);
- quantifying and appraising the business and service risks (in the economic case section);
- apportioning and transferring service risks (in the commercial case section);
- mitigating and managing risks over the entire life cycle of the scheme.

Risk identification

There are a number of techniques which may be used to identify the risks associated with projects. These techniques can be applied to any type of project. Three commonly used methods are:

- structured review meetings – these involve the project team and encourage participation and ownership of the risks by key personnel;
- risk audit interviews – these are conducted by experienced managers and/or advisers, with all those involved in the project with experience of risk;
- risk brainstorming workshops – these include all members of the project team and encourage imaginative ideas.

General types of risk

Risks fall into three main categories: business, service and external. Business related risks remain with the public sector and can never be transferred. Service related risks occur in the design, build and operational phases of a project and may be shared between the public and private sectors. External environmental risks relate to society and impact on the economy as a whole.

The generic types of risk that are likely to be encountered within these categories are set out in broad terms below:

Generic Risks	Description
Business risk	The risk that the organisation cannot meet its business imperatives.
Reputational risk	The risk that there will be an undermining of customer's/media's perception of the organisation's ability to fulfil its business requirements – for example, adverse publicity concerning an operational problem.
Service risk	The risk that the service is not fit for purpose.
Design risk	The risk that design cannot deliver the services to the required quality standards.
Planning risk	The risk that the implementation of a project fails to adhere to the terms of the planning permission or that detailed planning cannot be obtained; or, if obtained, can only be implemented at costs greater than in the original budget.
Build risk	The risk that the construction of physical assets is not completed on time, to budget and to specification.
Project intelligence risk	The risk that the quality of initial intelligence (for example, preliminary site investigation) will impact on the likelihood of unforeseen problems occurring.
Decant risk	The risk arising in accommodation projects relating to the need to decant staff/clients from one site to another.
Environmental risk	The risk that the nature of the project has a major impact on its adjacent area and there is a strong likelihood of objection from the general public.
Procurement risk	The risk that can arise from the contractual arrangements between two parties – for example, the capabilities of the contractor/ when a dispute occurs.
Operational risk	The risk that operating costs vary from budget and that performance standards slip or that a service cannot be provided.
Availability and performance	The risk that the quantum of service provided is less than that

risk	required under the contract.
Demand risk	The risk that the demand for a service does not match the levels planned, projected or assumed. As the demand for a service may be partially controllable by the public body concerned, the risk to the public sector may be less than perceived by the private sector.
Volume risk	The risk that actual usage of the service varies from the levels forecast.
Occupancy risk	The risk that a property will remain untenanted – a form of demand risk.
Maintenance risk	The risk that the costs of keeping the assets in good condition vary from budget.
Technology risk	The risk that changes in technology result in services being provided using sub-optimal technical solutions.
Funding risk	The risk that the availability of funding leads to delays and reductions in scope as a result of reduced monies.
Residual value risk	The risk relating to the uncertainty of the values of physical assets at the end of the contract period.
External environmental risks	The risks faced by society as a whole.
Economic risk	The risk that project outcomes are sensitive to economic influences – for example, where actual inflation differs from assumed inflation rates.
Legislative risk	The risk that legislative change increases costs. This can be divided into secondary legislative risk (for example, changes to corporate taxes) and primary legislative risk (for example, specific changes which affect a particular project).
Policy risk	The risk of changes in policy direction leading to unforeseen change. Again, this can either be general to all or specific to a particular project.

Risk quantification

It is good practice to quantify the cost of risk through a 'risk premium' which is added to the costs of the proposal to provide the full expected value of the options. As the appraisal proceeds, more specific risks will be identified, thus reducing the more general optimism bias.

An 'expected value' provides a single value for the expected impact of all risks. It is calculated by multiplying the likelihood of the risk occurring (probability) by the size of the outcome (impact) as quantified in financial terms, and summing the results for all risks and outcomes. It is therefore best used when both the likelihood and outcome can be estimated reasonably well.

Single point probability analysis

At its most basic, a risk analysis could consist of an estimate of the cost of each risk occurring, multiplied by a single probability of that risk occurring in a particular year – see the example below.

--

Case study: single point analysis	
Annual cost of service	£2 million
Estimated impact of risk of cost over-run	£200,000
Estimated probability of risk occurring	10%
Estimated value of risk = £200k x 10%	£20,000

Multi-point probability analysis

For any risk, a range of possible outcomes is more likely. An output probability distribution provides a more complete picture of the possible outcomes and recognises that some of these outcomes are more likely to occur than others. An 'expected outcome' is the average of all possible outcomes, taking into account their different probabilities. An example is given below:

Case study: expected costs of a construction project using multi point analysis			
It is estimated that a particular facility will cost £50m to build. The expected costs associated with construction cost uncertainties have been calculated as follows:			
Possible cost (£m)	Difference from estimated cost (£m)	Estimated probability of the event occurring	Risk value (£m)
45	-5	0.1	-0.5
50	0	0.6	0
55	+5	0.1	+0.5
60	+10	0.1	+1.0
65	+15	0.1	+1.5
The most likely outcome is that of no extra cost, as this outcome has the highest probability (60%). However, the expected outcome – the sum of each possible outcome multiplied by its probability – is an additional cost of £2.5 million. This needs to be calculated in NPV terms, taking into account the time period over which the risk occurs.			

Decision trees

Decision trees can be useful in this context. They are graphical representations useful in assessing situations where the probabilities of particular events occurring depend on previous events, and can be used to calculate expected outcomes in more complex situations. For example, the likelihood of a particular volume of traffic using a road in the future might depend on movements in the oil price. Different scenarios can be analysed in this way.

Monte Carlo and Latin Hypercube

There are a variety of packages available that take the analysis of risk a step further, using probability distribution.

Monte Carlo analysis is a risk modelling technique that presents both the range as well as the expected value of the collective impact of various risks. It is useful when there are many variables with significant uncertainties. However, expert advice is required to ensure it is applied properly, especially when risks are not independent of each other. Before undertaking or commissioning such an analysis, it is useful to know how data will be fed into the model, how the results will be presented, and how decisions may be affected by the information generated.

Latin Hypercube is a recent development in sampling theory, designed to reproduce accurately the input distribution through sampling using fewer iterations compared with the Monte Carlo approach. The distinguishing feature of Latin Hypercube sampling is stratification of the input probability distributions. A sample is then chosen from each stratified layer of the input distribution. Sampling is forced to represent values in each layer and thus recreates the input distribution. Convergence tests show that this method of sampling converges faster on the true distributions compared with Monte Carlo sampling.

Risk weighting and scoring

The weighting and scoring of risk is similar to the approach for evaluating the non-financial benefits. It should be undertaken as follows:

- exclude all the risks which can be measured financially;
- select an expert and representative team to weight and score the risks for each short-listed option;
- assess the impact of each risk (high, medium, low) and score (0 to 10);
- assess the likelihood of the risk occurring (high, medium, low) and score (0 to 10);
- calculate the expected score for each risk by multiplying the impact and likelihood scores;
- rank the options in terms of their risk and identify the preferred option on the basis of the highest score.

The full involvement of stakeholders and customers (users) is very important when evaluating non-financial risks.

Action 13 – select preferred option and undertake sensitivity analysis

This action is concerned with identifying the preferred option for delivering the scheme and with testing its robustness through sensitivity analysis.

Identifying the preferred option

If the required analyses have been undertaken rigorously, selecting the preferred option should be a reasonably straightforward step in the decision making process. The business case should present the information succinctly and clearly to help senior management reach the decision. The following format should be completed for each option:

Option	Undiscounted £	Discounted £
Capital Revenue		
Sub-total		
Cost of risk		
Total cost/ NPC		
- Cash releasing benefits		
- Non-cash releasing benefits		
Net present value (NPV)		
Benefits (non-financial) score		
Risk (non-financial) score		

The values of costs, benefits and risks are not always comparable, because some benefits and risks are non-quantifiable. Therefore, where an option has higher benefits, the decision needs to be made whether these benefits justify a higher net present cost and higher risk. If the additional benefits are not sufficient to justify the additional costs and risks, a lower cost and risk option should be selected.

Often a choice will remain between high cost/high benefit options and low cost/low benefit options. In these circumstances, a decision is required concerning the extent the higher benefits are worth paying for. The final choice of the preferred option lies with senior management and their stakeholders, drawing on professional advice.

Sensitivity analysis

An expected value is a useful starting point for undertaking the impact of risk between different options. But, however well risks are identified and analysed, the future is inherently uncertain. So it is also essential to consider how future uncertainties can affect the options.

Sensitivity analysis is fundamental to appraisal. It is used to test the vulnerability of options to unavoidable future uncertainties and to test the robustness of the ranking of the options. It involves testing the ranking of the options by changing some of the key assumptions. However, spurious

accuracy should be avoided and it is essential to consider how the conclusions may alter, given the likely range of values that key variables may take. Therefore, the need for sensitivity analysis should always be considered and dispensed with only in exceptional circumstances.

In itself, sensitivity analysis may not change the preferred option. However, if small changes in the assumptions alter the ranking, it is an indication that the investment process should proceed cautiously, because it has non-robust elements in it. This means that a more detailed analysis and testing of the costs, benefits and risks of some of the options should be considered.

Sensitivity analysis should be undertaken in two stages:

- first, switching values;
- second, scenario analysis based on the best and worst possible outcomes.

Switching values

This technique highlights the point at which the choice of the preferred option would switch to another option due to any uncertain costs and/ or benefits. The calculation of switching values is carried out by showing other options in relation to the preferred option using percentages (the preferred option is zero). This indicates by how much a variable would have to fall (if it is a benefit) or rise (if it is a cost) to make it not worth undertaking the preferred option. In other words how much variables would have to change for the preferred option to be 'dislodged'. This should be considered a crucial input to the decision as to whether a proposal should proceed. It therefore needs to be a prominent part of the appraisal.

Take as an example, a situation where the capital costs of the preferred option are £10,000, those of option 1 are £5,000 and option 2 £15,000. The costs of the preferred option would therefore have to decrease by 50% to equate to option 1 and increase by 50% to equate to option 2. As 50% either way shows that there is a high level of sensitivity, further investigation using scenario planning is worthwhile.

Scenario analysis

Scenarios are useful in considering how options may be affected by future uncertainty. Scenarios should be chosen to draw attention to the major technical, economic and political uncertainties on which the success of the proposal depends.

Careful consideration should be given before running the scenario analysis to the choice of circumstances, as sensitivity analysis does not simply involve changing costs, benefits and risks by an arbitrary 10 or 20%; but rather by the values that represent the most likely increases (or decreases) in cost etc. for documented reasons.

Scenario analysis may take the form of asking simple ‘what if’ questions for small and medium size proposals and extend to creating detailed models of ‘future states of the world’ for major programmes and projects. The expected NPV is then calculated for each scenario.

If the results for the scenario analysis are similar to the switching values, further work is required on the options to determine their robustness. Where appropriate, the sensitivity analysis of the economic appraisal findings should include the following:

Category	Assumptions and Estimates
Costs and benefits £	Capital costs
	Lifecycle costs
	Costs of core services
	Costs of non-core services
	Benefits valued in monetary terms
Qualitative benefits	Weights
	Scores
Timing	Delays in the project

More specifically, examples of variables that are likely to be both inherently uncertain and fundamental to an appraisal are:

- the growth of real wages;
- forecast revenues;
- demand;
- prices;
- the underlying assumptions about the transfer of risk.

A prior understanding of how costs fall into fixed, step, variable and semi-variable categories can help in understanding the sensitivity of the total costs of proposals.

Final selection of the preferred option

If a full cost benefit analysis has been undertaken, the best option is likely to be the one with the highest risk adjusted NPV.

In cost effectiveness analysis, the option with the lowest net present cost should be the preferred option, again assuming that the cost estimates are as accurate and reliable as possible.

If there is an affordability ceiling (constraint) then the combination of proposals should be selected that optimises the value of benefits. The ratio of the NPV to the expenditure falling within the constraint can be a useful guide to developing the best combination of proposals. However, in most cases, it

should not be assumed too readily that additional monies will not be made available to fund the proposal which offers demonstrably better VFM.

In practice, other factors will also affect the selection of the preferred option – in particular, consideration of the unvalued costs (if any), non-financial benefits and risks. However, as the scores are not expressed in monetary terms, judgment is required to compare the results of weighting and scoring with the cost benefit or cost effectiveness analysis. The two analyses should complement each other and may indicate that further analysis is required before the final decision can be reached. Fully involving stakeholders is very important in making judgments between financial and non financial effects.

The results for each short-listed option should be shown as follows:

Evaluation results	Option 1 Do Minimum	Option 2	Option 3	Option 4
Net Present Values NPVs				
Qualitative benefits appraisal				
Qualitative risk appraisal				
Overall ranking				

Other methods – pay back period and internal rate of return

The 'pay back period' is sometimes put forward as a decision criterion. But pay back ignores the difference in values over time and the wider impacts of the proposal. These drawbacks mean it should not generally be used as a decision criterion.

Similarly the 'internal rate of return' should be avoided as the decision criterion. Whilst it is very similar to NPV as a criterion, there are some circumstances in which it will provide different, and incorrect, answers. For example, IRR can rank projects that are mutually exclusive differently from NPV.

In some parts of the public sector, these techniques may be of interest in terms of assessing commercial and financial considerations.

Checklist for step 4

There should now be a clear understanding of the preferred option, which is supported and evidenced by:

- a revisited and updated OBC long list

- a revisited and updated OBC short list
- economic appraisals (NPVs) for the short-listed options – risk adjusted (in £s) and applying optimism bias
- assessments of both the non-financial risks and benefits
- an assessment of the uncertainties (sensitivity analysis)
- a detailed description of the preferred option.

Output for step 4

The first draft of the OBC economic case has now been completed.

Step 5: preparing for the potential deal

Introduction

This represents a departure from the past inasmuch as the commercials for the potential scheme have too often been left for detailed consideration until after the approval of the OBC, prior to the commencement of the procurement process.

The advent of Gateway 2 (procurement strategy) following the production of the OBC has reinforced the need to prepare for the potential deal at this stage.

The main actions within this step are as follows:

Stage 2	Scoping the scheme and preparing the Outline Business Case (OBC)	Deliverables
Step 4	Determining potential value for money (VFM)	Economic case - Part 2
Step 5	Preparing for the potential deal	Commercial case
Action 14	Determine procurement strategy	
Action 15	Determine service streams and required outputs	
Action 16	Outline potential risk apportionment	
Action 17	Outline potential payment mechanisms	
Action 18	Ascertain contractual issues and accountancy treatment	

Action 14: Determine procurement strategy

The procurement strategy focuses on how the required services, supplies or works can best be procured and should be considered from the outset.

Strategic considerations range from the choice of procurement method and the degree to which early consultation with the supply side is required, to whether, or not, the organisation should be seeking to act as a single procurement entity or procuring more collaboratively with other public sector organisations, as in the case of shared services, partnerships and cross cutting procurements.

Public sector organisations must act in compliance with the government agreements (WTO) and the European Union (EU) Procurement Directives and the Regulations that implement them in UK which set out the law on public procurements.

EU Procurement rules

The purpose of the EU procurement rules is to open up the public procurement market and to ensure the free movement of supplies, services and works within the EU. In most cases they require competition. The EU rules reflect and reinforce the value for money (VfM) focus of the government's procurement policy. This requires that all public procurements must be based on value for money defined as *the optimum combination of whole life costs and quality to meet the user's requirement*, which should be achieved through competition, unless there are compelling reasons to the contrary.

The relevant Directives are:

- *Directive 2004/18/EC* of the European Parliament and the Council of 31st March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts; and
- *Directive 2004/17/EC* of the European Parliament and the Council of 31st March 2004 coordinating the procedures of entities operating in the water, energy, transport and postal services sectors.

Directives in national law

The Directives have been implemented into national law in the UK by Regulations. The current Regulations came into force on 31 January 2006 to implement the above procurement Directives. These Regulations (and Directives) clarify, simplify and update previous regimes and are:

- *The Public Contracts Regulations 2006 (SI 2006 No.5)*, which applies to public authorities (the state, regional and local authorities and other public bodies); and
- *The Utilities Contracts Regulations 2006 (SI 2006 No.6)*, which applies to utilities, i.e. certain operators in water, energy and transport sectors.

These Regulations do not extend to Scotland where separate but similar Regulations have been made.

Choice of procurement method

Four award procedures are provided for in the Regulations:

- the *open procedure* under which all those interested may respond to the advertisement in the OJEU by tendering for the contract;
- the *restricted procedure* under which a selection is made of those who respond to the advertisement and only they are invited to submit a tender for the contract. This allows purchasers to avoid having to deal with an overwhelmingly large number of tenders;

- the *competitive dialogue procedure* following an OJEU contract notice and a selection process, the authority then enters into dialogue with potential bidders to develop one or more suitable solutions for its requirements and on which chosen bidders will be invited to tender;
- the *negotiated procedure* under which a purchaser may select one or more potential bidders with whom to negotiate the terms of the contract. An advertisement in the OJEU is usually required, but in certain circumstances, described in the regulations, the contract does not have to be advertised in the OJEU. An example is when the contract can only be carried out by a particular bidder for technical or artistic reasons, or because of the protection of exclusive rights.

Public authorities have a free choice between the open and restricted procedures. The competitive dialogue procedure is available where the contract cannot be awarded under open or restricted procedures. The negotiated procedures may only be used in the limited circumstances described in the regulations. Utilities have a free choice between the open, restricted and negotiated procedures, but the competitive dialogue procedure is not open to them.

Under restricted, competitive dialogue and competitive negotiated procedures, there must be a sufficient number of participants to be selected to proceed to the tender stage to ensure genuine competition. The regulations require a minimum of five for the restricted procedure and three for competitive dialogue and negotiated procedures.

EU procurement thresholds

The thresholds applicable from 1st January 2010 are shown below. The thresholds are net of VAT and revised every two years.

PUBLIC CONTRACTS REGULATIONS 2006

Council Regulation 1177/2009 (L314/64 01/12/09) and sterling equivalents published in c292/01 02/12/09

	Supplies	Services	Works
Entities listed in schedule 1	£101,323 (€125,000)	£101,323 (€125,000)	£3,927,260 (€4,845,000)
Other public sector contracting authorities	£156,442 (€193,000)	£156,442 (€193,000)	£3,927,260 (€4,845,000)
Prior indicative Notices (Regulation 11)	£607,935 (€750,000)	£607,935 (€750,000)	£3,927,260 (€4,845,000)
Small lots (Regulation 8 (12))	£64,846 (€80,000)	£64,846 (€80,000)	£810,580 (€1,000,000)

UTILITIES CONTRACTS REGULATIONS 2006

	Supplies	Services	Works
--	-----------------	-----------------	--------------

Threshold (Regulation 11)	£313,694 (€387,000)	£313,694 (€387,000)	£3,927,260 (€4,845,000)
Prior indicative Notices (Regulation 15)	£607,935 (€750,000)	£607,935 (€750,000)	£3,927,260 (€4,845,000)
Small lots (Regulation 11 (9))	£64,846 (€80,000)	£64,846 (€80,000)	£810,580 (€1,000,000)

OJEU advertising requirement

Contracts covered by the Regulations must generally be the subject of a call for competition by publishing a contract note in the Official Journal of the EU (OJEU). Use of the standard forms for OJEU notices - contract notice or contract award notice - is mandatory.

In most cases, the time allowed for responses or tenders must be no less than a set period, although some reductions are possible where:

- A prior information notice (PIN) has been published sufficiently in advance of the procurement or when accelerated procedures are used;
- If the contract notice has been submitted electronically in accordance with the requirements set out on the EU SIMAP website; and
- Where authorities offer full and unrestricted website access to tender documents (in accordance with specific requirements set out in the Regulations).

The OJEU advertising timescales are as follows:

Procedure	OJEU Text	Days
Open	Minimum time for receipt of tenders from the date contract notices sent	52
	Reduced when prior information notice (PIN) published (subject to restrictions) to, generally,	36
	And no less than -	22
Restricted	Minimum time for receipt of requests to participate from the date contract notices sent	37
	Minimum time for receipt of tenders from date invitation sent	40
	Reduced when prior information notice (PIN) published (subject to restrictions) to, generally,	36
	And no less than -	22
Restricted Accelerated	Minimum time for receipt of requests to participate from the date contract notices sent	15

	Minimum time for receipt of tenders from date invitation sent	10
Competitive Dialogue and Competitive Negotiated	Minimum time for receipt of requests to participate from the date contract notices sent	37
Competitive Negotiated Accelerated	Minimum time for receipt of requests to participate from the date contract notices sent	15

Stages in the procurement process

The regulations set out criteria designed to ensure all suppliers or contractors established in countries covered by the rules are treated on equal terms to avoid discrimination on the grounds of origin in a particular member state.

The criteria cover:

- *Specification stage* – how requirements must be specified, avoiding brand names and other references which would have the effect of favouring or eliminating particular providers, products or services – and the requirement to accept equivalence. The regulations now make it clear that authorities may use performance specifications, rather than technical specifications. They also provide clarification on the scope to reflect environmental issues in specifications.
- *Selection stage* – the rejection or selection of candidates based on:
 - evidence that they are not unsuitable on grounds; e.g. of bankruptcy, criminal conviction or failure to pay taxes. Certain offences must now require, in normal circumstances, mandatory exclusion;
 - their economic and financial standing; e.g. that they are judged to be financially sound on the basis of their annual accounts; and
 - their technical capacity and ability; e.g. that they will be adequately equipped to do the job and that their track record is satisfactory
- *Award stage* – the award of contract is either on the basis of the “lowest price” or various criteria for determining which is the *most economically advantageous tender* (MEAT) “to the purchaser. UK Government policy is to use the latter criterion (MEAT), as this is consistent with the obligation to achieve value for money.

Post tender negotiations

There are restrictions on the use of post tender negotiations under the open and restricted procedures. The European Commission has issued a statement on post tender negotiations in which it is specially rules out any negotiation on price:

“In open and restricted procedures all negotiations with candidates or tenderers on fundamental aspects of contracts, variations in which are likely to distort competition, and in particular on prices, shall be ruled out; however, discussions with candidates or tenderers may be held only for the purpose of clarifying or supplementing the content of their tenders or the requirements of the contracting authorities, and provided this does not involve discrimination”.

Collaborative procurements

These strategic and ad hoc arrangements (at national, departmental/sector and local level) offer significant flexibility and potential VfM (through economies of scale) and considerable reductions in procurement costs (through pre-competition), and as a result, they should be considered at the outset.

Collaborative procurements range from ‘pre-competed’ arrangements and prices at national level to departmental and more local arrangements involving ‘call-off contracts’ and management frameworks for specified services, supplies and works.

Refer to your departmental or local centre of excellence for procurement advice and assistance.

Selection of a preferred bidder

A full explanation must be provided with the supporting rationale if a preferred bidder is to be selected during the procurement phase. This should also set out how the VFM imperative will be maintained throughout the continued negotiation phase of the procurement.

Procurement plan – proposed implementation timescales

The procurement timetable must be shown together with the proposed timetable for the implementation of the potential deal. This applies to all ‘procedures’. In the case of the competitive dialogue procedure (2004/18/EC) the following information is required:

Stage	Duration	Planned end-date
i. OJEU notice		
ii. Pre-qualification questionnaire (PQQ)		
iii. Select participants		
iv. Invitation to participate in dialogue		
v. Dialogue phase (including number of solutions and bidders)		
vi. Final tenders		
vii. Evaluation of tenders (including clarification, specification and fine tuning)		

viii.	Selection of preferred bidder and notification to PB and other bidders (commence 10 day standstill)		
ix.	PB clarification and confirmation of commitment		
x.	Award of contract		
xi.	Desired receipt of services – phased as required		

Draft OJEU notice

The draft OJEU notice must be attached to the OBC – if applicable. This must have been reviewed and approved by legal and procurement experts.

Evaluation criteria

The evaluation criteria for the various stages of the procurement should also be attached. There is a legal requirement to agree these prior to the formal commencement of the procurement. Again, this should have been reviewed and approved by legal and procurement experts.

Action 15: determine service streams and required outputs

The purpose of this action is to capture the scope and content of the potential deal. Generally, there are a number of fundamental principles to bear in mind:

- as far as possible, requirements must be specified in terms of the desired outcomes and outputs to be produced. Therefore, the focus should not generally be on the processes which produce them or the inputs and technologies required;
- the quality attributes of the services and outputs required and the performance measures against which they will be assessed must be specified;
- the deal must allow scope for the prospective service providers to suggest innovative ways of meeting the service requirements, including proposals which may require rethinking the business processes in place within the procuring organisation.

Services and required outputs

This section should summarise briefly the required services and outputs and the potential implementation timescales required.

Consideration should be given to capturing most, if not all, of the following details:

- the business areas affected by the procurement;
- the business environment and related activities;
- the business objectives relevant to the procurement;
- the scope of the procurement;
- the required service streams;

- the specification of required outputs;
- the requirements to be met, including: essential outputs, phases, performance measures, and quality attributes;
- the stakeholders and customers for the outputs;
- the possibilities for the procurement – including options for variation in the existing and future scope for services;
- the future – potential developments and further phases required.

Implementation timescales

This section should outline key milestones for delivery of the related services and outputs by the potential service provider. The focus here is on the deal to be negotiated and not on the procurement and project plans per se.

Where possible, more detailed information about the requirements should, be annexed to the OBC – for example, the statement of service requirements and the statement of needs (or ‘output based specification’).

Action 16: outline potential risk apportionment

The purpose of this action is to consider how the service risks (design, build funding and operational) may be apportioned between the public and private sectors. This is especially important when the successful delivery of the scheme is subject to significant risk, and not associated with the delivery of PPP schemes per se.

The governing principle is that risk should be allocated to the party best able to manage it, subject to the relative cost. Therefore, the optimal allocation of risk, rather than the maximising of risk transfer is the prime objective and it is vital that the best solution is found. This action provides the starting point.

Guiding principles

The principles that should underpin this action are:

- the degree to which risk may be transferred depends on the specific proposal under consideration;
- successful negotiation of risk transfer requires a clear understanding by the procuring authority of the risks presented by a proposal, the broad impact that these risks may have on the service provider’s incentives and financing costs (cost drivers) and the degree to which risk transfer offers VFM – hence the need to identify and cost individual risks
- where the private sector has clear ownership, responsibility and control, it should be encouraged to take all of those risks it can manage more effectively than the procuring authority. If the public sector body seeks to reserve many of the responsibilities and controls that go hand-in-hand with service delivery and yet still seeks to transfer significant risk, there is a grave danger that the private sector will increase its prices;
- appropriate transfer of risk generates incentives for the private sector to supply timely, cost effective and more innovative solutions. As a

general rule, the public sector should consider transferring risk to the private sector when the service provider is better able to influence the outcome than the procuring authority.

A risk allocation table (or 'risk transfer matrix') should be incorporated in this section (see below for an example format). This should illustrate the % of risk being borne. Ideally you should use percentages – however, if this is not feasible at this stage, use ticks.

Risk Category	Potential allocation		
	Public	Private	Shared
1. Design risk			✓
2. Construction and development risk			✓
3. Transition and implementation risk			✓
4. Availability and performance risk			✓
5. Operating risk	✓		
6. Variability of revenue risks	✓		
7. Termination risks	✓		
8. Technology and obsolescence risks			✓
9. Control risks	✓		
10. Residual value risks	✓		
11. Financing risks	✓		
12. Legislative risks	✓		
13. Other project risks	✓		

Action 17: outline potential payment mechanisms

This action considers and records how we intend to make payment over the life span of the contract.

Importantly, it considers how we intend to 'incentivise' our service provider to continue to provide VFM over time, and helps us deal with the inevitable business and service change encountered in the longer-term. It also explains how we intend to 'tie down' the risks identified and allocated in the previous action within the payment, or charging, mechanism for the potential deal.

The payment mechanism is the formula against which payment for the contracted services will be made. The underlying aim of the payment mechanism and pricing structure is to reflect the optimum balance between risk and return in the contract. As a general principle, the approach should be to relate the payment to the delivery of service outputs and the performance of the service provider.

If it is properly constructed, the payment mechanism will incentivise the service provider to deliver services in accordance with the business imperatives of the public sector in the following phases of the service:

- the pre-delivery phase – up to the acceptable delivery of the service and commencement of the payment stream;
- the operational phase – following acceptable delivery of the service up to the close of the primary contractual period;
- the extension phase – post primary contract period.

The pre-delivery phase

Two charging mechanisms are important in the pre-delivery design and build phases – fixed price/costs and payment on the delivery of agreed outputs.

Fixed price/costs

The service provider must be given an incentive to deliver services to time, specification and cost. This element involves a fixed price for the delivery of 'agreed outputs' within a fixed timetable, with appropriate remedies in place for delays and cost over-runs.

Payment on the delivery of agreed outputs

This element links payment to the delivery of key service outputs and does not commence until the contracted services come on stream, as agreed.

These payments may be staggered against the delivery of key outputs within the overall implementation plan for the complete service. However, the guiding principle is that a revenue stream to the service provider should only commence when an off-setting benefit stream is realised on the part of the public sector.

Ultimately, a service that fails to perform could result in termination of all the payment streams and in extreme circumstances, pass the rights to the underpinning assets for the service to the public sector.

The operational phase

A number of mechanisms are relevant here – each is discussed below.

Availability payment

This element links a proportion of the payment stream to the availability of the service. For example, the contract could stipulate that the service must be available for a minimum of 95% of the time between contracted hours.

In such instances, the procuring authority will need to negotiate service level agreements (SLAs), which outline the availability criteria. In some cases, it may be appropriate to treat availability as a threshold which releases a

payment stream based on a combination of other factors – for example, performance or throughput of service.

Failure on the part of the service provider to meet the agreed availability criteria should lead to reduced payments and, ultimately, to cessation of the service.

Performance payment

This element links a proportion of the payment mechanism to the performance of the service. Linking payments to specified performance targets helps to ensure that the service provider continues to deliver the agreed outputs throughout the life span of the service.

Transaction/volume payment

This element links a proportion of the payment mechanism to the achievement of business benefit – for example, the number of transactions or volume of business provided.

Linking payment to the productivity or usage of the service in this way gives the service provider the incentive to optimise the level of productivity and to invest further in the underlying infrastructure, if increased levels of productivity are required.

Incentive payment

This element of the payment mechanism is linked to potential improvements in the overall performance of the public sector's business processes and encourages the service provider to deliver new ways of working and additional benefits that can be shared by both parties.

Cost of change

This element of the payment mechanism seeks to minimise the cost of change by encouraging the service provider to build flexible and adaptable solutions in the first instance.

The cost of change represents a major risk to the public sector and should be mitigated through the contractual obligation to benchmark and market test the contracted services at regular intervals.

If it is not possible to agree exact prices for anticipated changes at some future time, the process for agreeing the cost of change should be established at the outset.

Third party revenues

This element of the payment mechanism gives the service provider the incentive to develop and exploit alternative revenue streams and new

business, wherever possible without prejudice to the standing of the public sector.

The price for core services will be reduced and overall VFM improved, if the scope for these potential revenue streams has been recognised and agreed, in principle, at the outset.

The extension phase

Technological obsolescence

During the operational phase, the service provider is delivering the service for an agreed revenue stream and will naturally invest in alternative ways of working and new technologies if this allows overall costs to reduce and profit margins to improve.

Two contractual devices can be employed to encourage the service provider to consistently upgrade the core technology. First, various upgrades can be included in the initial price to ensure that the infrastructure underpinning the service is kept up-to-date; and second, a proportion of the service provider's initial recoverable investment could be deferred – with agreement – until the end of the contractual period.

Contract currencies

Contract currencies are the variable measures that make the payment mechanism meaningful and effective in the service contract – for example, the number of complaints received; the proportion of users of the service requiring assistance etc.

The aim should be to choose contract currencies which demonstrate productivity and performance. In other words, comparative measures which provide service providers with the incentive to improve – a reduced payment for under performance and enhanced payments for performing in excess of the minimum requirement specified in the contract.

Action 18: ascertain contractual issues and accountancy treatment

This action outlines the contractual arrangements for the procurement, including the use of a particular contract, the key contractual issues for the deal and its accountancy treatment and personnel implications (if any).

Use of contract

The standard form of contract to be used must be stated.

Refer to the OGC and/or your departmental or local centre of excellence for procurement for assistance.

Key contractual issues

Contract management arrangements and key contractual issues should be considered and recorded in the OBC. These will vary from deal to deal but in most instances the principal areas of the contract may be categorised and appraised as follows:

- the duration of the contract and any break clauses;
- the service provider's and procuring authority's respective roles and responsibilities in relation to the proposed deal;
- the payment – or charging – mechanism, including prices, tariffs, incentive payments etc;
- change control (for new requirements and updated services);
- the organisation's remedies in the event of failure on the part of the service provider to deliver the contracted services – on time, to specification and price etc;
- the treatment of intellectual property rights;
- compliance with appropriate regulations, etc;
- the operational and contract administration elements of the terms and conditions of service;
- arrangements for the resolution of disputes and disagreements between the parties;
- the agreed allocation of risk;
- any options at the end of the contract.

Accountancy treatment

This section should provide details of the intended accountancy treatment for the potential deal, by stating on whose balance sheet – public or private sector, or both – the assets underpinning the service will be accounted for and the relevant accountancy standard(s).

Personnel implications

Public sector organisations are legally and morally obliged to involve their staff and their representatives in a process of continuous dialogue during significant projects involving considerable internal change. This also represents best practice in terms of human resources policies.

Consequently, the OBC should state explicitly whether there are any personnel implications to the scheme. In particular:

- whether the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) will apply, directly or indirectly;
- details of any terms regarding subsequent transfers at market testing intervals (if these apply);
- descriptions of terms regarding Trade Union recognition (if these apply);
- details of requirements for broadly comparable pensions for staff upon transfer (if these apply);
- that codes of practice (within the public sector) are in place for the well being and management of staff. The OBC should confirm that these have been adhered to (if applicable).

Checklist for step 5

There should now be a clear understanding of:

- the procurement strategy, including the proposed procurement methodology and the use of EC/WTO procurement processes;
- the scope of the potential deal and required services
- implementation timescales for the proposed deal;
- the supporting payment (or charging) mechanism;
- the (recognised) contract being proposed for use and key contractual issues, including TUPE (if applicable);
- a draft OJEU notice and statement of requirements (to support the above).

Output for step 5

The first draft of the commercial case has now been completed.

Step 6: ascertaining affordability and funding requirement

Introduction

The purpose of this step is to ascertain the affordability and funding requirements of the preferred option, in relation to the other short-listed options; and to demonstrate that the recommended deal is affordable.

In practice, this involves determining:

- the financial profile of each of the short-listed options;
- the impact of the proposed deal – its capital and revenue consequences – on the organisation's prices (if any), income and expenditure account and balance sheet.

The main action within this step is shown below:

Stage 2	Planning the scheme and preparing the Outline Business Case	Deliverables
Step 4	Determining potential VFM	Economic Case – part 2
Step 5	Preparing for the potential deal	Commercial Case
Step 6	Ascertaining affordability and funding requirement	Financial case
Action 19	Prepare financial model and financial appraisals.	

Focus of the financial appraisals

Many practitioners confuse the financial appraisals with the economic appraisals. The economic case focuses on VFM, taking into account resource costs and benefits. In contrast, the financial case focuses on 'affordability' of the options appraised in the economic case, with particular emphasis on the preferred option.

The costs and benefits appraised in the financial case reflect an accountancy based perspective. Consequently, both the resource and non-resource costs and benefits are factored into the analysis. For example, whereas we exclude VAT and capital charges (including depreciation) from the economic appraisals, these costs must be included in the financial analysis, because they have a direct bearing on the affordability of the options under consideration.

The key differences between economic and financial appraisals can be summarised as follows:

Economic Appraisals	Financial Appraisals
---------------------	----------------------

<p>Focus:</p> <ul style="list-style-type: none"> VFM – net present value/cost (NPV/NPC). 	<p>Focus:</p> <ul style="list-style-type: none"> Affordability – cash flow.
<p>Coverage:</p> <ul style="list-style-type: none"> Wide coverage – Government and society ('UK Ltd'). 	<p>Coverage:</p> <ul style="list-style-type: none"> Relevant organisation(s).
<p>Relevant standards:</p> <ul style="list-style-type: none"> HM Treasury Green Book rules. Discount rate (3.5%) applied. 	<p>Relevant standards:</p> <ul style="list-style-type: none"> Organisational accounting rules and standing orders.
<p>Analysis:</p> <ul style="list-style-type: none"> Constant (real) prices; Includes opportunity cost; Includes indirect and attributable costs – costs of others; Includes all quantifiable costs, benefits and risks; Includes environmental costs; Excludes all Exchequer 'transfer' payments – for example, VAT; Excludes general inflation; Excludes sunk costs; Excludes depreciation and capital charges. 	<p>Analysis:</p> <ul style="list-style-type: none"> Current (nominal) prices; Benefits – cash releasing only; Includes transfer payments (for example, VAT); Includes inflation; Includes depreciation and capital charges.

The following financial statements are required for all projects:

- *a budget statement*, which should be based on resource accounting and budgeting (RAB) principles, and show the resource costs over the life time of the proposal. For strategic initiatives, the budget will often comprise the forecast RAB financial statements of the whole organisation over a number of years;
- *a cash flow statement*, which should show the cash which will be spent on the lead option, if it goes ahead. The existing spend (if any) and the additional spend should be shown separately;
- *a funding statement*, which should show which internal departments, partners and external organisations will provide the resources required. Where external funding is required, a written statement of support from the project's stakeholders or commissioners is needed.

The above should include the contingencies (in £s) necessary to ensure that there is sufficient financial cover for risks and uncertainties.

Financial modelling

For larger, more significant and complex schemes, a financial model of the proposed spend needs to be constructed. In its early stages this comprises of a best guess of the likely impact and outcomes of the proposed deal. However, the model should be revised as new and better information becomes available.

Specialist advice should be sought from accountants and other expert advisers. The organisation's director of finance should play a lead role in building and maintaining the model. If external management consultants are appointed to undertake this work, the structure of and inputs to the model still need to be vetted by the senior responsible owner and the director of finance.

The minimum requirements for most projects are as follows:

Minimum requirements for a financial model

- recording a description of the model and the associated methodology;
- agreeing and recording the underlying assumptions (for example, interest rates, inflation, taxation, capital charges, depreciation etc.);
- detailing the proposed funding structure;
- preparing the inputs schedules (financial costs, cash-releasing benefits and risk contingencies);
- preparing the projected 'profit and loss';
- preparing balance sheet projections;
- undertaking cash flow projections;
- preparing funding schedules;
- calculating project returns for the different elements of financing
- preparing supporting schedules – i.e. for loans, fixed assets, taxation, and payments

Capital and revenue requirements

Following on from the modelling exercise, a statement showing the capital and revenue requirements for the recommended deal should be prepared.

This should set out:

- the capital and revenue consequences of the preferred option over the life span of the service and/or contract period;
- how this compares with the original capital ceiling for the scheme (if any);
- any shortfall in capital and revenue requirements (the 'funding gap').

This statement should also indicate the capital sum being requested and ideally, that the organisation has sufficient income to meet the ongoing costs of the project. The minimum requirement is as follows:

Summary of financial appraisal

£ xxx	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	£	£	£	£	£	£	£	£

Preferred option:								
Capital								
Revenue								
Total								
Funded by:								
Existing								
Additional								
Total								

Net effect on prices

It may also be necessary to assess the implementation impact of the proposed deal on any contract prices that the organisation (for example, Government Trading Fund or NHS Trust etc. has to charge for its services. Costs will have to be covered by income year by year and the organisation must be confident that existing customers will continue to contract for services, or that new purchasers will secure additional contracts.

In considering the impact on prices, capital charges must also be considered. Capital charges are significant when considering the affordability of a development and they must be included in year by year financial projections, together with external financing limit (EFL) allocations, running costs and contract income from any purchasers.

The benefits that the proposed deal will deliver and the prices that the organisation will charge as a result will also have an impact on competitiveness. Organisations therefore also need to compare and benchmark the prices and quality levels of comparable services offered by other providers.

The effect on prices should be analysed in enough detail for purchasers to see clearly how the scheme will impact on them. This means considering the impact on:

- the organisation's prices as a whole;
- the prices for individual services;
- the price of specific contracts.

In general, public sector spending is difficult to justify if it leads to an increase in prices for the organisation's services.

Impact on the income and expenditure account

The impact of the project on the organisation's income and expenditure should be assessed. Both the current position and the likely outcome should be fully recorded in the OBC by a qualified accountant who understands the project and the organisation's business.

Impact on the balance sheet

The impact of the project on the organisation's balance sheet should also be assessed. Both the current position and the likely outcome should be fully recorded in the OBC by a qualified accountant who understands the project and the organisation's business.

Where significant assets are an integral part of the spending, their accounting treatment will need to be examined (see commercial case). This will require an independent opinion from the organisation's auditors.

Stakeholder(s)/ commissioner(s) support

Affordability issues are one of the main reasons for delay at the point at which business cases are submitted for approval.

It is unlikely that an OBC will be successful unless consultation has been held along the way between the organisation seeking spending for the improved services and its stakeholders/ commissioners/ purchasers, and other interested parties.

It is crucial to the overall process that agreement, in principle, is obtained from the purchasers for the scheme. This should be in written form and included in the annex to the OBC. An indication of what this should cover using the example of a commissioner is shown below.

Issues to cover in a letter of commissioner(s) support

A commissioner's letter should:

- demonstrate that the main commissioner and other commissioners have been actively involved in developing the scheme through its various stages;
- confirm acceptance of the strategic aims and spending objectives of the scheme, its functional content, size and services;
- confirm that the financial costs of the scheme can be contained within the agreed and available budget and a willingness and ability to pay for the services at the specified price level;
- state the margins of leeway beyond which support must be re-validated
- demonstrate that suitable contingency arrangements are in place to work with the provider to address any current or unforeseen affordability pressures
- be provided by the appropriate individual(s) within the organisation – usually the chief executive officer.

Assessing affordability

Assessing affordability requires sound judgment of the organisation's business and requires that:

1. the balance sheet has been correctly organised and properly accounts; for current assets, current liabilities, long-term liabilities and capital;
2. the balance sheet of the organisation is in a healthy state;

3. the organisation is solvent;
4. the organisation is not over-trading;
5. the cash flow of the organisation is sound;
6. the necessary allowance has been made for risks.

Various techniques can be used by public sector organisations to help judge affordability. These are in extensive use within the private sector and are discussed below:

The balance sheet – items i and ii

This involves an assessment of working capital, which is defined as follows:

$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

An organisation should never run short of working capital or over-capitalise. This is a common reason for business failure. A ratio of current assets to current liabilities of 2:1 is generally agreed to be the minimum working capital ratio. The ratio is calculated as follows:

$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

Solvency – item iii

This means that the organisation can meet any debt obligation in the near future without jeopardising the liquidity of the business.

Over-trading – item iv

This links in with over-capitalisation, where the organisation is running short of working capital as a result of having acquired too many assets, leaving itself short of cash for operational expenses.

In this situation attention must be paid to the organisation's cash flow; but it is first necessary to consider the return on capital employed and the return on capital invested.

The return on capital employed enables us to compare the receipts (or profits) earned with the capital employed to earn them, and may be calculated as follows:

$$\text{Return on capital employed} = \text{net receipts (or profits)} - \text{capital employed}$$

The return on capital invested calculates what the return was overall on the capital used and takes into account the lost opportunity or 'opportunity cost' of the capital employed. As such it is calculated as follows:

$$\text{Return on capital invested} = \text{net profit} - \text{opportunity cost} - \text{capital invested}$$

Cash flow – item v

Assessing cash flow should take into account:

- the pattern of business activities and trading generally;
- budgeting for cash flow – a forecast which looks ahead and envisages the likely income and expenditure;
- an assessment of the cash balance at the end of a particular period.

Risks – item vi

There are a number of risks which could affect the affordability of the project. The OBC should summarise the results of the risk contingencies and sensitivity analysis which underpin the financial case.

The risks and uncertainties will vary from project to project, but some key questions to consider are:

- would the project be affordable if capital costs were to be 10% higher than expected?
- what if the expected savings were to fall by 10%?
- what circumstances might cause saving targets to be breached?
- what if income to the organisation were to be reduced by 5% or more?
- is there a robust strategy in place to guard against these outcomes?

Pay back period

Finally, there is the pay back period. As implied by the term, this method measures the rate at which the financial benefits from the spending 'pays back' the initial spending costs. In general, projects with a short pay back period are preferable to those with long pay back periods.

Closing affordability gaps

Affordability problems are most likely to occur in the early years of the project – i.e. in the construction and development phase. Benefits are unlikely to be realised in large measure during this phase to offset the costs of the spending.

However, during the operational phase benefits can be expected to build up gradually, until they reach the point where the net impact on operating costs and prices to purchasers is negative.

If the affordability analysis reveals the preferred option is unaffordable, there are a number of potential remedies including one or more of the following:

- phasing the implementation of the preferred option differently;
- adopting a different design solution;
- altering the scope of the preferred option – for example, its functional content or the quantity and quality of the services offered;
- finding additional sources of funding – for example, disposal of surplus assets (if available), further revenue support from the commissioners of the organisation's services;

- considering different ways of financing the project – for example, private finance, operating and financial leases;
- negotiating more competitive or flexible prices from the service provider(s);
- finding other ways of reducing the costs and/or increasing cash releasing savings;
- allowing the service provider to create additional revenue streams and new business and sharing in the resultant revenue streams.

Checklist for step 6

There should now be clear understanding of:

- the capital and revenue implications of the preferred option and deal;
- the impact on the income and expenditure account and the organisation's charges for services (if applicable);
- the impact on the budget, other sources of available funding and any shortfalls;
- the impact on the balance sheet.

There should also be written evidence of commissioner and stakeholder support.

Output for step 6

The first draft of the financial case has now been completed.

Step 7: planning for successful delivery

Introduction

The perfect deal, offering optimum VFM, can end up being an unmitigated disaster unless the management arrangements are thought through early on in the scoping and planning process. This step is concerned primarily with putting in place all the arrangements that are required to ensure the successful delivery of the scheme and to guard against these causes of project failure.

The following actions are required to complete this step successfully:

Stages	Development Process	Deliverables
Phase 2 – planning	Preparing the Outline Business Case (OBC)	
Step 4	Determining potential VFM	Economic Case – part 2
Step 5	Preparing for the potential deal	Commercial Case
Step 6	Ascertaining affordability and funding requirement	Financial case
Step 7	Planning for successful delivery	Management case
Action 20	Plan programme management and project management – strategy, framework and outline plans	
Action 21	Plan change management – strategy, framework and outline plans	
Action 22	Plan benefits realisation – strategy, framework and outline plans	
Action 23	Plan risk management – strategy, framework and outline plans	
Action 24	Plan post project evaluation – strategy, framework and outline plans	
Output:	Outline Business Case	
Outcome:	Planned procurement for VFM solution	
Review Point:	Gateway 2: procurement strategy	

Action 20: Plan programme management and project management – strategy, framework and outline plans

This action is concerned with putting in place the strategy, framework and outline plans required for successful delivery using a robust project management methodology to guide the project through a controlled, well managed and visible set of activities to achieve the desired results and benefits.

Programme and Project Methodology (PPM) strategy

The strategy of most organisations for the successful delivery of projects is to embrace the principles of programme management and adopt a project methodology which is based on its perceived standards of best practice and quality management principles.

The Cabinet Office has developed extensive guidance on programme management and project management. This should be used by all public sector organisations, in the absence of their own approved departmental methodologies.

The recommended and approved methodology for programme management is Managing successful programmes (MSP).

Project management: PRINCE 2

The recommended project methodology within the public sector is PRINCE - Projects IN Controlled Environment, which is now the de facto standard in use within the United Kingdom.

PRINCE 2 covers the project life cycle from start-up to closure. It provides a number of mechanisms and reporting arrangements to ensure project planning and monitoring are carried out rigorously. It is based on the following key principles and should be used on all occasions:

- a project is a finite process with definite start and end dates;
- a project always needs to be managed in order to be successful (by a qualified PRINCE practitioner);
- for genuine commitment to the project, all parties must be clear about why the project is needed, what it is designed to deliver, how the outcomes are to be achieved, and a clear definition of roles and responsibilities.

Project framework

The project framework refers to the organisation of the project.

This section should summarise:

- the project's structure;
- its reporting arrangements in relation to its over-arching programme;
- any other management and governance arrangements;
- its key roles and responsibilities;
- its appointed personnel (together with copies of their curriculum vitae)

- any vacancies (together with a description of how individuals will be recruited to fill them).

Much of the above information should typically be captured in a diagram of the organisation within the OBC.

PRINCE2 mandates that the project board must represent three broad interests. These include:

- a senior business role to represent the organisational interests;
- a senior user role to represent the end users' or customers' interests;
- a senior technician to cover the 'technical' aspects, including supply-side considerations.

In addition, best practice demands that stakeholders' and commissioners' interests are also represented.

Appointment of the senior responsible owner (SRO)

Finally, in compliance with the OGC Gateway Review Process and/or more local arrangements for 'health checks', a 'champion' or senior responsible owner should be appointed. This person should not be the programme director or project manager for the scheme, or indeed any one with day-to-day involvement with the scheme. Rather the SRO should be the business sponsor for the programme or project with the ultimate responsibility, at board level, for the delivery of business benefits.

Project plan

The project plan is the document which describes how, when and by whom a specific milestone or set of targets will be achieved. It is the detailed analysis of how identified targets, milestones, deliverables and products will be delivered to timescales, costs and quality.

The most up-to-date version of the project plan should be summarised within the OBC and address the following:

- the deliverables (or products) to be produced;
- the activities required to deliver them;
- the activities required to validate the quality of the deliverables
- the resources and time needed for all activities and any need for people with specific capabilities and competencies;
- the dependencies between activities and any associated constraints
- when activities will occur;
- the points at which progress will be monitored, controlled and reviewed – this includes delivery and approval of the business case and the undertaking of Gateway reviews/ health checks.

Project plans are typically illustrated by means of Gantt charts.

Use of special advisers

This is to be encouraged where the necessary skills and capabilities are in short supply; especially in the case of large, significant, complex and novel schemes.

Specialist advice will generally be brigaded within four key categories in the project plan: financial, legal, technical and project management. The OBC should indicate how and when this advice will be utilised along with expected costs.

Action 21: plan change management – strategy, framework and outline plans

This action is concerned with putting in place the strategy, framework and outline plans required for successful delivery of change.

Most spending involves some degree of change. This can range from elements of service improvement through to major change predicated on business process re-engineering. Even where change is not ostensibly the primary driver for spending (as in the case of a replacement service) every effort should be taken to seize the opportunity for improvement on the basis of invest to save and deriving a net present value for the project.

The change required (and expected) needs to be managed and embraced by the individuals within the organisation(s); hence the need for a change management strategy (linked to benefits realisation); a change management framework (to manage the change) and an outline plan (to explain what will be delivered and when in terms of underlying activities).

Change management strategy

The main aim here is to assess the potential impact of the proposed change on the culture, systems, processes and people working within the investing organisation.

Various management strategies can be adopted for implementing change, depending on the degree and pace of change required. In terms of degree, the required change may range from the introduction of greater automation through to the re-configuration of services or the complete transformation of a business function in another scenario. In terms of pace, the change may be 'big bang' or incremental depending on the strategic driver for change in the first instance and the ability of the organisation to cope in the second.

The organisation's choice of change management strategy should be set out in full, together with its underpinning communication and development (training) strategies.

Change management framework

In some cases, responsibility for delivery of the service change may be under the control of the project management board and be a key sub-set of its

activities. However, in the case of major organisational and business change this is unlikely to be the case, and the project itself may form part of a larger and longer-term change management programme. In these instances, the organisational structure and personnel required to direct, manage, implement and evaluate the change should be set out together with the main roles and responsibilities of key personnel and their relationship to the project board.

The details required in support of the project management framework (see above) are relevant here.

Change management plans

Where there are significant change management programmes, an outline of the change management plan should be set out together with the communication and developmental deliverables (for example, training products) required for the implementation phase. It is important that this indicates how all relevant personnel within the organisation, including human resources and staff representatives, have contributed or been involved to date.

The details required in support of the project management plan (see above) are relevant here.

Action 22: plan benefits realisation – strategy, framework and outline plans

This action is concerned with putting in place the management arrangements required to ensure that the project delivers its anticipated benefit, or required 'rate of return'. Far too little attention has been paid to this key aspect in the past – as a result, benefits claimed in the economic case have not actually been realised and/or monitored through post project evaluation.

It is important to note that the focus has now changed with the advent of the Gateway Review/ Health Check 5 Review (benefits realisation) and the increasing interest of the National Audit Office.

Benefits realisation strategy

The benefits realisation strategy should set out arrangements for the identification of potential benefits, their planning, modelling and tracking. It should also include a framework that assigns responsibilities for the actual realisation of those benefits throughout the key phases of the project.

Benefits realisation framework

The ultimate responsibility for the delivery of benefits rests with the SRO for the project, who must ensure that the management arrangements for their realisation in the implementation and operational phase of the project are outlined in some detail at the OBC stage.

Benefits register

At OBC stage, projects should capture the benefits already outlined for the project (see economic case) within a benefits register. This register should also indicate how those benefits are to be realised. The following information should be captured for each benefit.

Benefits Register	
Benefits number	(unique within the register)
Benefit type	(benefit category)
Description	
Service feature	(what aspect of the project will give rise to the benefit – to facilitate monitoring)
Potential dis-benefits	
Activities required	(to secure benefit)
Responsible officer	
Performance measure	
Target improvement	(expected level of change)
Full-year value	
Timescale	

Action 23: plan risk management – strategy, framework and outline plans

This action is concerned with putting in place arrangements for the on-going management of risk during the key phases of the project.

Risk management is a structured approach to identifying, assessing and controlling risks that emerge during the course of the policy, programme or project lifecycle. Its purpose is to support better decision making through understanding the risks inherent in a proposal and their likely impact.

Effective risk management helps the achievement of wider aims, such as:

- effective change management;
- the efficient use of resources;
- better project management;
- minimising waste and fraud;
- supporting innovation.

Risk management strategy

Strategies for the active and effective management of risk involve:

- identifying possible risk in advance and putting mechanisms in place to minimise the likelihood of them materialising with adverse effects;
- having processes in place to monitor risks, and access to reliable, up-to-date information about risks;
- the right balance of control to mitigate against the adverse consequences of the risks, if they should materialise;
- decision-making processes supported by a framework for risk analysis and evaluation.

At the level of individual policies, programmes and projects, risk management strategies should be adopted in a way that is appropriate to their scale.

Risk mitigation

Recognised methods for the mitigation of risk throughout the life span of the policy, programme or project include:

- early consultation. Experience suggests that costs tend to increase as more requirements are identified. Early consultation will help to identify what those needs are and how they might be addressed;
- avoidance of irreversible decisions. Where lead options involve irreversibility, a full assessment of the costs should include the possibility of delay, allowing more time for investigating alternative ways to achieve the objectives;
- pilot studies. Acquiring more information about risks affecting a project through pilot studies allows steps to be taken to mitigate either the adverse consequences of bad outcomes, or to increase the benefits of good outcomes;
- design flexibility. Where future demand and relative price are uncertain, it may be worth choosing a flexible design adaptable to future changes, rather than a design suited to only one particular outcome. For example, different types of fuel can be used to fire a dual fired boiler, depending on the future relative price of alternative fuels. Breaking a project into stages, with successive review points at which the project could be stopped or changed can also increase flexibility – hence the importance of adopting and implementing the OGC Gateway process;
- precautionary principle. Precautionary action can be taken to mitigate a perceived risk. The precautionary principle states that because some outcomes are so bad, even though they may be very unlikely, precautionary action is justified. In cases where such risks have been identified, they should be drawn to the attention of senior management and expert advice sought;
- procurement/contractual. Risk can be contractually transferred to other parties and maintained through good contractual relationships, both informal and formal – see commercial case;
- making less use of leading edge technology. If complex technology is involved, alternative, simpler methods should be considered, especially if these reduce risk considerably whilst providing many of the same benefits;
- reinstate, or develop different options. Following the risk analysis, the appraiser may want to re-instate options, or to develop alternative ones that are either less inherently risky or deal with the risks more efficiently;
- abandon the proposal. Finally, the proposal may be so risky that whatever mitigation is considered, it has to be abandoned.

By reducing risks in these ways, the expected costs of a proposal are lowered or the expected benefits increased. As can be seen, benefit and risk are

simply two sides of the same coin and successful management depends on the effective identification, management and mitigation of risk.

Risk management framework

Public sector organisations should foster a pragmatic approach to risk management at all levels. This involves:

- establishing a risk management framework, within which risks are identified and managed;
- senior management support, ownership and leadership of risk management policies;
- clear communication of organisational risk management policies to all staff;
- fully embedding risk management into business processes and ensuring it is applied consistently.

These actions should help establish an organisational culture that supports well thought out risk taking and innovation.

The arrangements for the management of risk should be outlined, together with the respective roles and responsibilities and reporting lines of the posts concerned. These should be made clear in relation to the overall project management arrangements.

Risk register

The plans for the management of associated risks should be encapsulated within the risk register for the project, which lists all the identified risks and the results of their analysis and evaluation. Information on the status of the risk is also included.

The risk register should be continuously updated and reviewed throughout the course of a project and at this stage in its development cover all phases of the project, with particular focus on the related project management and procurement risks for the scheme. The information that a risk register should contain for each risk is set out below:

Risk Register	
Risk number	(unique within the Register)
Risk type	
Author	(who raised it)
Date identified	
Date last updated	
Description	(of risk)
Likelihood	
Interdependencies	(between risks)
Expected impact	
Bearer of risk	
Countermeasures	
Risk status	(action status)

Additional information on risk management may be obtained from the Office of Government Commerce (OGC), the National Audit Office (NAO), HM Treasury and the Cabinet Office.

Action 24: plan post project evaluation – strategy, framework and outline plans

As noted in the context of benefits realisation, this very important stage of the project has been much neglected in the past to the extent that for many projects it was not known whether they had delivered anticipated benefits and expected returns. Neither was it possible to pass lessons learnt on to others.

Post project evaluation strategy

The purpose of post project evaluation (PPE) is twofold:

- first, to improve project appraisal at all stages of a project from preparation of the business case through to the design, management and implementation of the scheme. This is often referred to as the ‘project evaluation review’ (PER);
- second, to appraise whether the project has delivered its anticipated improvements and benefits. This is often referred to as the ‘post implementation review’ (PIR).

This section of the OBC should set out the organisation’s strategy for both aspects of PPE. In particular, it should make clear:

- whether the PER and PIR are to be undertaken jointly or separately;
- the OGC Gateways and Health Checks review process adopted in accordance with accepted, recommended and prevailing best practice.

PPE framework

This section should outline management arrangements for ensuring that PPE will take place, bearing in mind that this is a key responsibility of the SRO.

PPE plans

This section should set out the expected timing(s) for PPE arrangements. These should be incorporated in the project management plans, with a named individual responsible for their execution.

Checklist for step 7

There should now be clear understanding of:

- the project management arrangements;
- the change management arrangements;
- the benefits realisation arrangements, including an attached benefits register;
- the risk management arrangements, including an attached risk register;

- the post project evaluation arrangements.

Output of step 7

The first draft of the management case has now been completed, bearing in mind that proposals for contract management have been addressed within the commercial case at this point in time.

Output of phase 2 and Gateway Review Process

The OBC has now been completed and the bulk of the business case preparation work undertaken.

A Gateway 2 or Health Check 2 for the procurement strategy stage should now be considered for the project, prior to the formal submission of the OBC to the approving authority for agreement.

Outcomes from the OBC

The management board and, subject to the organisation's delegated limit, the approving authority, will now decide whether the project should move on to the next stage – procurement phase.

Chapter 7

Procuring the solution and preparing the Full Business Case (FBC)

Overview

The preparation of the Full Business Case (FBC) is a mandatory part of the business case development process, which is completed following procurement of the scheme – but prior to contract signature – in most public sector organisations.

The purpose of the FBC is to:

- identify the ‘market place opportunity’ which offers optimum VFM;
- set out the negotiated commercial and contractual arrangements for the deal;
- demonstrate that it is ‘unequivocally’ affordable;
- put in place the detailed management arrangements for the successful delivery of the scheme.

Two points should be noted:

- first, if the OBC has been prepared in accordance with the guidance set out earlier and the procurement run in accordance with accepted and established best practice, much of the work involved in developing the FBC will simply focus on updating the OBC and documenting the outcomes of the procurement rather than starting from scratch;
- second, in some instances the FBC is still completed prior to the commencement of the procurement and is, in effect, a second (updated) version of the OBC. In such situations, the business case still requires updating post procurement, as discussed. In these situations, it is often referred to as the final (rather than full) business case.

Step 8: procuring the VFM solution

Introduction

This step involves revisiting the case for change made in the OBC; making any necessary adjustments to the Public Sector Comparator (PSC); and presenting the outcomes of the formal procurement process.

The main actions are set out below:

Stages	Development Process	Deliverables
Phase 3 – procurement	Preparing the Full Business Case (FBC)	
Step 8	Procuring the VFM solution	Economic

Action 25	Revisit the case for change
Action 26	Revisit the OBC options, including the PSC
Action 27	Detail procurement process and evaluation of best and final offers (BAFOs) (in £s)

Action 25: revisit the case for change

This action revisits the rationale for the spending made in strategic case, since some aspects of the case for change may have altered since the OBC was approved, due to evolving business needs, service changes and the passage of time.

Updating the strategic case

The same structure should be used as for the OBC.

The minimum requirement at this stage is to note within the FBC that the case for spending remains as set out in the OBC; and that the resultant scope and underlying assumptions have not altered.

However, some changes are likely. These should be recorded in full – particularly with reference to:

- the strategic context for the scheme;
- the agreed spending objectives;
- business needs;
- the earlier scope and service requirements;
- the benefits;
- the risks;
- the dependencies;
- the constraints.

If the changes are major, the effects may require following-up throughout the entire case. Otherwise, this part of the case should confirm the views expressed at the OBC stage.

Clear support from the organisation's commissioners and other key stakeholders must be forthcoming at this stage – see OBC guidance for details of what this should cover.

Action 26: revisit the OBC options, including the public sector comparator

This action is concerned with revisiting the OBC economic case and updating the outline PSC (or the 'reference project').

Revisiting the OBC options

Even if the strategic drivers for the project have not changed sufficiently to make alterations to the preferred option necessary, the FBC must demonstrate that the conclusions of the economic appraisal in the OBC remain valid. The analysis from the OBC stage should be updated and presented in the FBC.

Since approval of the OBC, new information affecting the ranking of the options may have become available. For example:

- the relative rankings may have changed as a result of supplier side prices and other costs;
- the expected benefits of the OBC preferred option may be lower, or the anticipated benefits of another option higher, which may change the previous ranking of the options;
- the level of uncertainty in a high risk option may have reduced making it more attractive;
- changes within the strategic context, and consequently to the deal, may have led to significant changes in the preferred option.

If any of the key assumptions have altered, the FBC must demonstrate that the recommended option following procurement continues to:

- offer better VFM than the 'do nothing' or 'do minimum' options, so that the case for change and procurement remains robust;
- offer better VFM than the other available options, including the original preferred option, on the basis of service providers' offerings.

Revisiting the procurement method

The FBC must also demonstrate that the project is still being procured by the most appropriate method.

At the OBC stage different methods of funding and procurement were examined. If the OBC considered that a form of private finance was deliverable and potentially offered better VFM than conventional funding, a privately financed option will have been pursued. At the FBC stage, private finance offers from service providers must be compared to the outline PSC taken forward as the preferred option at the OBC stage and to the 'do minimum'.

The principles of the economic appraisal are the same as those used to identify the preferred option at the OBC stage.

The Public Sector Comparator

The PSC will need refining in the light of knowledge gained from the procurement, so as to enable 'a like for like' comparison of the cost of providing services in-house with the service providers' solutions on an outsourced, or privately financed basis. Henceforth, it is no longer referred to as the outline PSC or reference project, but as the PSC.

The revisions to the PSC should not mimic any design, engineering or operational attributes offered by service providers during the procurement phase; but rather be adjusted to ensure that the scope of the outputs required remains consistent.

It should not be necessary to adjust the 'do minimum' option at this stage.

Risk adjustment

The minimum requirement at this stage is to revisit the 'cost of risk' retained under the outline PSC in the economic case of the OBC. This should also be done for the risk values for the 'do nothing', status quo or 'do minimum' options, depending on which was carried forward as the benchmark for VFM in the short-listed options appraisal (see step 4).

If these options were not risk quantified at OBC stage, but simply adjusted to reflect optimism bias, the associated risks should now be identified and quantified in full, as shown at step 4.

The aim at FBC is to reduce the level of optimism bias to the absolute minimum. This is generally advised to be in the order of 2% for a standard capital scheme at FBC stage – see the earlier section on optimism bias (step 4, action 13).

Action 27: detail the procurement process and the evaluation of best and final offers (BAFOs)

This action is concerned with updating the economic case to record a full summary of the procurement process. This will include the resultant selection of service providers (including the preferred bidder – if appointed); and the formal appraisal of their proposals, leading to the selection of the preferred and recommended choice.

The procurement process

The content of this section should reflect the procurement strategy, route and evaluation criteria set out in the OBC. Any changes should be explained. It should list the service providers who expressed interest at the pre-qualification stage and the reasons for their rejection, where applicable. It should also record the reasons for carrying forward and rejecting potential service providers from the long list to the short list stage.

The evaluation of best and final offers (BAFOs)

The basis on which the potential service providers (the short list) were selected and discarded at BAFO stage should be recorded.

The selection of the preferred service provider

The basis on which the preferred bidder (if applicable) was selected should be recorded, together with any arrangements for the ongoing attainment of VFM.

FBC economic appraisals

The economic appraisals must be prepared in accordance with the principles outlined at the OBC stage for:

- each of the potential service providers' offers at BAFO stage
- the PSC (if applicable);
- any in-house options;
- the 'do nothing' or 'do minimum' – whichever has been adopted as the benchmark for VFM.

Importantly, in addition to service providers' costs, any 'attributable' costs falling to the organisation or any other public sector organisation must be accounted for and the 'full cost' shown for each option over the contract period and life span of the spending.

Taking into account any adjustments made as a result of the earlier action 26, the non-financial benefits and the non-financial risks should be assessed for each of the above options, and subject to sensitivity analysis, as prescribed at the OBC stage. The resultant preferred choice should be recommended for the approval of management in the FBC.

Post FBC approval prior to contract signature

Finally, the FBC must be re-submitted for re-approval if the costs or benefits vary by more than 10% post FBC approval, or if the contract terms, for whatever reason, vary significantly from those agreed.

Checklist for step 8

There should now be clear understanding of:

- any alterations to the strategic context and the case for change;
- the entire procurement process and service providers' offers;
- how the selection of the preferred service provider was made on the basis of an updated PSC (if applicable) and the spending appraisals, including the benchmark for VFM, using HM Treasury Green Book rules.

Output of step 8

The strategic and economic cases have now been revisited, updated and completed in respect of the FBC.

Step 9: contracting for the deal**Introduction**

The purpose of this step is to explain the negotiated deal and the financial consequences to the organisation post contract. The main actions are set out below:

Stages	Development Process	Deliverables
Phase 3 – procurement	Preparing the Full Business Case (FBC)	
Step 8	Procuring the VFM Solution	Economic case
Step 9	Contracting for the deal	Commercial case
Action 28	Set out the negotiated deal and contractual arrangements	
Action 29	Set out the financial implications of the deal	Financial case

Action 28: set out the negotiated deal and contractual arrangements

This action provides a detailed overview of the deal that has been negotiated between the public sector organisation and the preferred choice of service provider arising as a consequence of the procurement and FBC economic appraisal. In essence, this is the commercial transaction that management and the approving authority are being requested to sign-up to.

Content

The standard headings for the commercial case should be used to explain:

- the service streams and outputs which are being contracted for;
- the implementation timescales which have been agreed for their delivery;
- the allocation of risk negotiated between the public sector organisation and preferred service provider;
- the underpinning method of payment for these services and outputs, including the premiums for risk transfer;
- the type of contract used and the key contractual issues. A copy of the proposed contract should be attached to the FBC, together with a copy of the published OJEU notice. In the case of PPP (PFI) procurements, the contract form should be compliant with HM Treasury standards
- the accountancy treatment of the negotiated deal, with confirmation from the organisation's external auditors, as appropriate;
- a detailed explanation of any personnel implications (for example, TUPE) and how they are being managed.

Action 29: set out the financial implications of the deal

The purpose of this action is to explain in detail the financial implications to the organisation of the negotiated deal.

Content

The standard headings for the financial case should be used to explain:

- how the charges for the preferred service provider's offer have been modelled, including the resultant benefits;
- the capital and revenue implications of the resultant deal, including any financial costs falling to the organisation;
- the net effect on the organisation's charges (prices) – if any;
- the impact on the organisation's income and expenditure account and balance sheet – duly confirmed by the external auditor;
- the overall affordability and funding arrangements for the deal, including (written) confirmation from the organisation's commissioners and other key stakeholders and any contingency arrangements for over spends.

Checklist for step 9

There should now be a clear understanding of the financial implications of the proposed deal, both in terms of the organisation's contractual obligations and associated spend in support of the required services.

Output of step 9

The commercial and financial cases have now been revisited, updated and completed in respect of the FBC.

Step 10: ensuring successful delivery

Introduction

The main actions within this step are as follows:

Stages	Development Process	Deliverables
Phase 3 – procurement	Preparing the Full Business Case (FBC)	
Step 8	Procuring the VFM solution	Economic case
Step 9	Contracting for the Deal	Commercial case
Step 10	Ensuring successful delivery	Management case
Action 30	Finalise project management arrangements and plans	
Action 31	Finalise change management arrangements and plans	
Action 32	Finalise benefits realisation arrangements and	

	plans
Action 33	Finalise risk management arrangements and plans
Action 34	Finalise contract management arrangements and plans
Action 35	Finalise post project evaluation arrangements and plans
Output:	Full Business Case
Outcome:	Recommended service provider and solution
Review Point:	Gateway 3 (spending decision)

Action 30: finalise project management arrangements and plans

This action revisits and updates the project management arrangements shown in the OBC. The focus now shifts from the procurement phase to the detailed arrangements in support of the design, build and implementation phases. Importantly, any necessary arrangements for the operational phase of the project (post implementation) should not be overlooked, including post project evaluation (PPE).

Content

The project management strategy should be revisited and updated, as required.

The existing framework (project structure, reporting lines, roles and responsibilities) should be shown, together with named individuals, any vacancies and plans for any future changes.

The latest version of the project plan should be attached to the FBC. This must reflect the implementation timescales agreed with the service provider for the delivery of the negotiated services and be signed off by the stakeholders and customers (end users) for the services.

Action 31: finalise change management arrangements and plans

This action revisits and updates the change management arrangements shown in the OBC.

Content

The change management strategy should be revisited and updated, as required.

The existing framework (project structure, reporting lines, roles and responsibilities) should be shown, together with named individuals, any vacancies and any plans for future changes.

The latest version of the change management plan should be attached to the FBC. This must reflect the specific training and developmental needs of key groups of personnel and any required communication arrangements. It should be signed off by the stakeholders for the services and indicate customer (end-user) involvement.

Action 32: finalise benefits realisation arrangements and plans

This action revisits and updates the benefits realisation arrangements shown in the OBC.

Content

The strategy for the realisation of benefits during the key phases of the project should be revisited and re-affirmed within the FBC.

The existing framework (project structure, reporting lines, roles and responsibilities) should be shown, together with named individuals, any vacancies and any plans for future changes.

The benefits register

The organisation's plan for the ongoing management and delivery of benefits should be encapsulated within the benefits register, which must be completed in full and attached to the FBC. It should cover all the benefits – financial, non-financial and qualitative – identified during the implementation and operational phases of the project.

The 'owner' of the benefits register should be named and his/ her reporting line(s) identified to the senior responsible owner (SRO) – who is ultimately responsible for their delivery. It should also be confirmed that the benefits register will be reviewed regularly and form part of the standing agenda at all future project management board meetings.

Action 33: finalise risk management arrangements and plans

This action revisits and updates the risk management arrangements shown in the OBC.

Content

The strategy for the management of risks during the key phases of the project should be revisited and re-affirmed within the FBC.

The existing framework (project structure, reporting lines, roles and responsibilities) should be shown, together with named individuals, any vacancies and any plans for future changes.

The risk register

The organisation's plan for the ongoing mitigation and management of risk should be encapsulated within the risk register, which must be completed in full and attached to the FBC. The register should cover all the business and service risks identified during the design, build, implementation, operational and re-procurement phase (if applicable) of the project.

The 'owner' of the risk register should be named and his/ her reporting line(s) identified. It should also be confirmed that the risk register will be reviewed regularly and form part of the standing agenda at all future project management board and/or risk management board meetings.

Contingency plan

Finally, the organisation should provide details of its contingency plan(s) in the event of the non-delivery of the contracted services to the required level of performance and availability at some unspecified future point in time.

Action 34: finalise contract management arrangements and plans

This action considers both the formal and informal arrangements which need to be in place to successfully manage the contract change.

Contract change

The more mundane contract management arrangements will have been covered in the contract and indicated in the commercial case (see contractual arrangements). These largely take care of the day-to-day management of the service – performance; availability; minor changes; the escalation procedure for difficulties etc.

However, over the life span of the service contract it is likely that there will be some significant changes given that it is in the nature of an organisation to change, particularly if the organisation is a successful one. (In fact the most successful organisations are those which adapt to changing circumstances; or in anticipation of changing circumstances).

In accordance, with the 'partnering' principle, the organisation should consider its strategy for managing future, as yet unknown, contractual change. Prevailing best practice suggests regular one-to-one meetings between senior managers in both the customer and supplier organisation and dealing with change within the context of a 'shared vision'. This should help to manage uncertainty on both counts and to reduce eventual cost.

The organisation should consider who will adopt this role over the life span of the contract and plan accordingly. Any arrangements should be noted in the FBC.

Action 35: finalise post project evaluation arrangements and plans

This action revisits and updates the post project evaluation arrangements shown in the OBC.

Content

The FBC should record:

- the arrangements for future OGC Gateway Reviews and organisational Health Checks (if applicable) at Gate 3 (investment decision); Gate 4 ('go live'/ readiness for service) and Gate 5 (benefits realisation). Ideally, Gate 3 should take place prior to the formal submission of the FBC to the approving authority;
- the arrangements for PPE. First, the project evaluation, which should be undertaken as soon as possible after the implementation of the service to capture lessons learnt. Second the arrangements for reviewing how well the service is running and delivering its anticipated benefits, typically within 6 to 12 months after the commencement of live running, and periodically thereafter depending upon benefits delivery.

The arrangements for Gateway Reviews / Health Checks and PPE should be included in the project management plan.

Checklist for step 10

There should now be a precise understanding of:

- how the project will be managed;
- how change within the organisation will be implemented;
- how the benefits will be realised;
- how the business and service risks will be mitigated and managed;
- how major contract change will be handled over the longer term;
- how the project will be reviewed periodically;
- what the contingency plans are in the event of service failure.

Output of step 10

The management case has now been revisited, updated and completed in respect of the FBC.

Output of Stage 3 and Gateway Review Process

The FBC has now been completed. A Gateway 3 or Health Check 3 for the spending decision point should now be considered for the project, prior to the formal submission of the FBC to the approving authority for agreement.

Outcome from the FBC

All parties should now be content for the project to proceed to contract signature, providing the above work has been completed satisfactorily and the resultant scheme is affordable.

Finally, the FBC must be re-submitted for re-approval if the costs or benefits vary by more than 5% (capital value) or 10% (revenue value) post FBC approval, or the contract terms, for whatever reason, vary significantly from those agreed.

Chapter 8

Reviewing the Business Case: SOC, OBC and FBC

Overview

This chapter provides some basic criteria for the review of the business case at its key stages of development: SOC, OBC and FBC.

The Strategic Outline Case

The key purpose of the SOC is to:

- establish the strategic context for the spending proposal;
- evidence the case for change;
- establish the preferred way forward

Key Review Criteria	Main evidence Required
Strategic case <ul style="list-style-type: none"> Is the proposed scheme an integral part of the organisation's business strategy? 	<ul style="list-style-type: none"> Extracts from business and other relevant strategies; Reference to relevant government and organisational policies
<ul style="list-style-type: none"> Is the proposed scheme sufficiently large and stand alone to form a project or could it be more sensibly be undertaken as part of another programme or project? 	<ul style="list-style-type: none"> Relevant extracts from business and other strategies; Reference to scoping documentation; Relevant extracts from strategy board minutes.
<ul style="list-style-type: none"> Are the spending objectives and underpinning business needs defined clearly and supported by the key stakeholders and customers? 	<ul style="list-style-type: none"> SMART spending objectives; Evidence of stakeholder and customer involvement and support.
<ul style="list-style-type: none"> Is the scope for potential change to current services and business processes clearly defined? 	<ul style="list-style-type: none"> Clear statement of business outcomes and service outputs; Statement of any security and confidentiality issues.
<ul style="list-style-type: none"> Have the main benefits been clearly defined by key stakeholders and customers, alongside arrangements for their realisation? 	<ul style="list-style-type: none"> Outline of benefits realisation plan; Direct and indirect to the organisation and wider public sector; Cash (£) and non-cash-releasing; Ranking of benefits by key stakeholder.
<ul style="list-style-type: none"> Have the main risks been identified, alongside arrangements for their management and control? 	<ul style="list-style-type: none"> Outline of risk management strategy; Business risks; Service risks; Likely probabilities and impact (high, medium or low).
<ul style="list-style-type: none"> Have the key organisational constraints 	<ul style="list-style-type: none"> Evidence of critical path; Related programmes and projects;

and business dependencies been identified?	<ul style="list-style-type: none"> Assessment of internal and external constraints.
Economic case <ul style="list-style-type: none"> Have the CSFs for options appraisal been identified? 	<ul style="list-style-type: none"> Prioritised CSFs (high, medium or low); Relevant performance measures.
<ul style="list-style-type: none"> Has a sufficiently wide range of options been identified and assessed within the long list? 	<ul style="list-style-type: none"> Use of any feasibility study; 10 to 12 main options – full description; Use of the options framework <ul style="list-style-type: none"> for business scope for potential solutions for service delivery for implementation for funding.
<ul style="list-style-type: none"> Has a preferred way forward been identified following robust analysis of the available options? 	<ul style="list-style-type: none"> SWOT analysis of options against: <ul style="list-style-type: none"> spending objectives critical success factors benefits criteria evidence of likely support from key stakeholders
<ul style="list-style-type: none"> Has the preferred way forward been unpacked within a short list for further examination and appraisal? 	<ul style="list-style-type: none"> Minimum of four options, including: <ul style="list-style-type: none"> do nothing or do minimum PSC
Commercial case <ul style="list-style-type: none"> Has a high-level assessment of the potential deal and its likely acceptability to the supply side been undertaken? 	<ul style="list-style-type: none"> Description of potential deal; Market soundings; Existing service providers.
Financial case <ul style="list-style-type: none"> Has a high-level assessment of affordability and source(s) of required funding been undertaken? 	<ul style="list-style-type: none"> Indicative costs (£); Likely sources or organisational funding.
Management case <ul style="list-style-type: none"> Has a high-level assessment of the achievability and deliverability of the project been undertaken? 	<ul style="list-style-type: none"> Indicative time-scales; Use of special advisers; Feasibility study; Peer review.
<ul style="list-style-type: none"> Are all the necessary arrangements in place for the successful completion of the next phase? 	<ul style="list-style-type: none"> Outline Programme and Project board and reporting arrangements; Project manager and team; Project plan and agree deliverables; Budget allocation and resources.

The Outline Business Case

The key purpose of the OBC is to:

- revisit the SOC assumptions and main findings
- establish the preferred option
- put in place the arrangements for the procurement of the scheme

Key review criteria	Main evidence required
Strategic Case <ul style="list-style-type: none"> Are the SOC spending objectives and planning assumptions still valid? 	<ul style="list-style-type: none"> Are they set at an appropriate level and SMART: <ul style="list-style-type: none"> specific measurable achievable relevant timely Still supported by stakeholders and customers?
<ul style="list-style-type: none"> Do the services to be procured in the SOC still provide best fit in relation to organisational needs? 	<ul style="list-style-type: none"> Organisational context; Existing and future changes in needs; Expected changes in volumes and mix of services; Other existing, planned or possible services; Security and confidentiality issues.
<ul style="list-style-type: none"> Have any outstanding differences at SOC stage between stakeholders and customers been satisfactorily resolved? 	<ul style="list-style-type: none"> Continued stakeholder commitment and involvement; Communication strategy.
<ul style="list-style-type: none"> Has the assessment of likely benefits, risks, constraints and dependencies in the SOC been revisited and examined in further detail? 	<ul style="list-style-type: none"> Updated benefits criteria – benefits study; Updated risk assessment – risk study; Ongoing assessment – business strategies and plans.
Economic case <ul style="list-style-type: none"> Were the long-listed options in the SOC revisited and subjected to further scrutiny? 	<ul style="list-style-type: none"> New options; CSFs revisited; Options ranked, weighted and scored.
<ul style="list-style-type: none"> Were the sort-listed options in the SOC revisited and subjected to robust analysis? 	<ul style="list-style-type: none"> Economic appraisals for shortlisted options, including: <ul style="list-style-type: none"> do nothing or do minimum PSC PFI (PPP) solution(s) Use of appropriate tools: <ul style="list-style-type: none"> sensitivity analysis risk (£) quantification evaluation of qualitative benefits (rank, weight and scoring) Treatment of costs and benefits in accordance with Treasury 'Green Book' rules.
<ul style="list-style-type: none"> Has the PSC been 	<ul style="list-style-type: none"> Realistic solution capable of

constructed and assessed in accordance with HM Treasury guidance?	<ul style="list-style-type: none"> implementation; Risks identified, apportioned and measured for all project stages: <ul style="list-style-type: none"> design build finance operate PFI (PPP) costs, where available
<ul style="list-style-type: none"> Does the preferred option represent best VFM or the most economically advantageous offer? 	<ul style="list-style-type: none"> Rigorous use of spending appraisal tools and techniques; All assumptions recorded; Achievable benefits streams; Stakeholders and customers support.
Commercial Case <ul style="list-style-type: none"> Has the procurement strategy for the successful delivery of the required services been considered and prepared in sufficient detail? 	<ul style="list-style-type: none"> Consideration of procurement options including: <ul style="list-style-type: none"> use of EC directives use of preferred bidder OJEC notice evaluation criteria and strategy negotiations strategy ITT procurement plan and timetable draft OJEC
<ul style="list-style-type: none"> Is there sufficient scope for a potential deal, which will meet organisational needs whilst offering best VFM? 	<ul style="list-style-type: none"> Potential for innovation within the provision of services and solutions; Potential for risk transfer in Design, Build, Finance, Operate stages; Potential for new business and alternative revenue streams Likely contract length
<ul style="list-style-type: none"> Has the potential deal been considered in sufficient detail? The how rather than what. 	<ul style="list-style-type: none"> Preparation of OBS: <ul style="list-style-type: none"> core, desirable and optional services delivery time-scales (phased improvements etc.) potential payment mechanisms ownership of residual assets service levels and performance measures
<ul style="list-style-type: none"> Is there a clear understanding of the business change agenda? 	<ul style="list-style-type: none"> Change management plans; Proposed mechanisms and milestones; Assessment of personnel implications.
<ul style="list-style-type: none"> Is the potential deal still likely to be acceptable and bankable within the private sector? 	<ul style="list-style-type: none"> Market research and surveys; Use of HM Treasury standard contractual terms and conditions; Benchmarks – similar projects.
Financial case <ul style="list-style-type: none"> Is the solution still likely to be affordable? 	<ul style="list-style-type: none"> Financial appraisals for preferred option, including full assessment of: <ul style="list-style-type: none"> capital and current requirements net effective on prices balance sheet impact income and expenditure account stakeholder and customers agreement
Management case <ul style="list-style-type: none"> Are all the necessary arrangements in place for the successful completion of the next phase? 	<ul style="list-style-type: none"> Programme Methodology (MSP) Project methodology (PRINCE2) <ul style="list-style-type: none"> project board and structure project manager and team project plan project resources and budget

	<ul style="list-style-type: none">- reporting mechanisms• Use of external advisers- legal- financial- other• Outline arrangements for:<ul style="list-style-type: none">- benefits study and realisation plan- risk management strategy and plan- change management strategy and plan- contract management• Arrangements for evaluation:<ul style="list-style-type: none">- peer reviews- OGC gateway reviews (if required)- project implementation reviews- post-evaluation reviews• Contingency plans
--	--

The Full Business Case

The key purpose of the FBC is to:

- revisit OBC assumptions and main finding;
- evidence that the most economically advantageous tender (MEAT) for the scheme has been accepted;
- establish that the management arrangements for successful delivery are in place.

Key review criteria	Main evidence required
Strategic Case <ul style="list-style-type: none"> • Does the recommended deal still provide synergy and best fit with other parts of the organisation's business strategy? 	<ul style="list-style-type: none"> • Notification of any changes during negotiations; • Ongoing evaluation of business strategies and plans.
Strategic fit <ul style="list-style-type: none"> • Does the recommended deal still satisfy OBC spending objectives and business needs? 	<ul style="list-style-type: none"> • Notification of any changes during negotiations; • Written confirmation of agreement on part of stakeholders and customers.
Spending objectives and business outcomes <ul style="list-style-type: none"> • Does the recommended deal still provide all of the required services – both current and future? Related service requirements and outputs	<ul style="list-style-type: none"> • Change control arrangements • Notification of any changes during negotiations: <ul style="list-style-type: none"> - additional services - agreement of stakeholders and users - business justification and CBA
Economic case <ul style="list-style-type: none"> • Was a wide range of bids received from service providers in response to OJEC? 	<ul style="list-style-type: none"> • Assessment of earlier assumptions; • Use of evaluation criteria: <ul style="list-style-type: none"> - long list of suppliers - short list of suppliers • Description of each bid received at BAFO • Method of treatment for varying bids • Basis for selection of preferred bidder (if applicable)
<ul style="list-style-type: none"> • Was the most economically advantageous offer selected? 	<ul style="list-style-type: none"> • Preparation and assessment of economic appraisals for: <ul style="list-style-type: none"> - do nothing/do minimum - revised PSC - best and final offers and/or preferred bidder (if selected) • Use of appropriate tools: <ul style="list-style-type: none"> - sensitivity analysis - risk (£) quantification - evaluation of qualitative benefits (rank, weight and scoring) - Treatment of costs and benefits in accordance with Treasury 'Green Book' rules.
Commercial Case <ul style="list-style-type: none"> • Was the procurement 	<ul style="list-style-type: none"> • Overview of procurement process: <ul style="list-style-type: none"> - Deviations from procurement strategy

undertaken in accordance with EC/GATT regulations and accepted best?	<ul style="list-style-type: none"> - Use of legal and procurement advice (internal and external advisers)
<ul style="list-style-type: none"> • Can the selected service provider deliver the required deliverables and services? 	<ul style="list-style-type: none"> • Outline of the agreed deal: <ul style="list-style-type: none"> - services – current and future - delivery time-scales - design - build - operate - payment mechanisms - performance and availability - volume and usage - incentives - future change - new business and alternative revenue streams - ownership of residual assets - service levels and performance measures • Business, technical and cultural fit – track record
<ul style="list-style-type: none"> • Have negotiations resulted in a robust and legally enforceable contract? 	<ul style="list-style-type: none"> • Use of specialist adviser(s); • Use of standard terms and conditions; • Key contractual terms agreed.
<ul style="list-style-type: none"> • How will business and service change be delivered and implemented successfully over the lifespan of the contract period? 	<ul style="list-style-type: none"> • Assessment of known and expected change; • Formula for handling unexpected change: <ul style="list-style-type: none"> - benchmarking - market testing arrangements
Financial case <ul style="list-style-type: none"> • Is the proposed spending still affordable? 	<ul style="list-style-type: none"> • Financial appraisals for recommended deal, including full assessment of: <ul style="list-style-type: none"> - capital and current requirements - net effect on prices - impact on balance sheet (FRS5 etc.) - income and expenditure account • Stakeholder and customers agreement; • Confirmation of finance directorate.
Management case <ul style="list-style-type: none"> • Have the business and cultural implications of the intended service been fully understood and taken into account? 	<ul style="list-style-type: none"> • Agreed programmes for: <ul style="list-style-type: none"> - change management - business process re-engineering • Staff-side representation; • Personnel implications.
<ul style="list-style-type: none"> • Are all the arrangements in place for the successful implementation and delivery of the required services? 	<ul style="list-style-type: none"> • Contract management strategy, including disputes resolution procedures; • Skilled contract management team; • Agreed schedules for service streams and outputs.
<ul style="list-style-type: none"> • How will the benefits be delivered and associated business and service risks managed throughout the lifespan of the service? 	<ul style="list-style-type: none"> • Detailed benefits realisation plan • Robust risk management strategy; • Monitoring and reporting arrangements- registers and regular audits
<ul style="list-style-type: none"> • Are all the necessary arrangements in place for post-project evaluation? 	<ul style="list-style-type: none"> • Agreed arrangements for evaluation: <ul style="list-style-type: none"> - peer reviews - OGC gateway reviews (if required) - project implementation reviews

UNCLASSIFIED

	- post-evaluation reviews
<ul style="list-style-type: none"> Are contingency plans in place should the recommended deal fail at any stage? 	<ul style="list-style-type: none"> Contingency plans; Arrangements for regular review

Annex 1

The use of workshops for the development of the business case

Introduction

Experience demonstrates that the business case is best developed through a number of workshops involving key stakeholders, customers and users, at the critical phases of its development. This adds immeasurably to the robustness of the case and, consequently, to the approval and successful delivery of the scheme.

The number of workshops required will depend on the complexity of the project. In most instances they are required to 'close-off' the following aspects:

- 1. Developing the case for change**
- 2. Assessing the options**
- 3. Developing the reference project/ outline Public Sector Comparator (PSC)**
- 4. Developing the deal**
- 5. Determining the delivery arrangements**
- 6. Assessing the potential service providers and solutions.**

Workshop 6 is generally undertaken as part of the procurement process, in conjunction with the organisation's procurement department and so is not included in the detail that follows.

Workshop	Objectives	Key participants	Outputs
<p>Workshop 1:</p> <p>Determining the case for change and options for service delivery</p> <p>(SOC Stage)</p>	<ul style="list-style-type: none"> • To define and agree business needs, potential scope and spending objectives; • To define and agree desired outcomes and service outputs; • To define and agree the CSFs and benefit criteria for assessing the options; • To identify the potential options for service delivery. 	<ul style="list-style-type: none"> • Senior Responsible Owner; • Board members; • Programme director; • Project manager; • External stakeholders or commissioners; • Customer and/or user representatives; • Technical adviser; • Financial adviser; • Facilitator. 	<ul style="list-style-type: none"> • SMART spending objectives; • Business needs and potential scope; • CSFs and benefits criteria; • Long list of options; • Fundamentals of the SOC.
<p>Workshop 2:</p> <p>Assessing the options</p> <p>(SOC/OBC stage)</p>	<ul style="list-style-type: none"> • To sift the long list and generate the short list; • To identify and assess the potential costs, benefits and risks associated with the short-listed options. 	<ul style="list-style-type: none"> • External stakeholders or commissioners; • Director of finance; • Economic adviser; • Customer and/or user representatives; • Project manager; • Facilitator. 	<ul style="list-style-type: none"> • Short-listed options with preliminary assessment; • Outline benefits realisation plan; • Inputs for economic appraisal.

Workshop	Objectives	Key participants	Outputs
Workshop 3: Developing the reference project/ outline PSC (OBC stage)	<ul style="list-style-type: none"> • To develop the PSC; • To address all relevant issues, including risks, affordability and implementation. 	<ul style="list-style-type: none"> • External stakeholders or commissioners; • Director of finance; • Economic adviser; • Customer and/or user representatives; • Project manager; • Facilitator. 	<ul style="list-style-type: none"> • Preliminary PSC with indicative costs; • Fundamentals of the economic and financial cases.
Workshop 4: Developing the deal (OBC stage)	<ul style="list-style-type: none"> • To develop the service specification; • To develop the apportionment of risk and underpinning payment mechanisms; • To develop the proposed contract. 	<ul style="list-style-type: none"> • External stakeholders or commissioners; • Director of finance; • Economic adviser; • Customer and/or user representatives; • Project manager; • Facilitator. 	<ul style="list-style-type: none"> • Preliminary risk allocation matrix (RAM); • Potential deal; • Fundamentals of the commercial case.
Workshop 5: Successful delivery arrangements (OBC stage)	<ul style="list-style-type: none"> • To develop the procurement strategy; • To develop the project plan; • To develop supporting strategies (for change management and contract management etc). 	<ul style="list-style-type: none"> • External stakeholders or commissioners; • Director of finance; • Economic adviser; • Customer and/or user 	<ul style="list-style-type: none"> • Procurement strategy; • Management and delivery arrangements; • Post project evaluation arrangements.

UNCLASSIFIED

		<p>representatives;</p> <ul style="list-style-type: none">• Project manager;• Facilitator.	
--	--	---	--

UNCLASSIFIED

Annex 2 – Use of the Options Framework – Case Study

The Minister for Health wishes to improve the quality of catering within the NHS following a number of previous patient surveys which have consistently marked this aspect of care as being “poor”.

The Minister has appointed a well known Chef as the Catering Czar for the NHS, who following a wide range of consultations has determined the following:

The primary Spending Objective (1) is to improve Patients customer satisfaction rating of hospital catering to Excellent by 20% within 1 year from the agreed commencement date for the scheme.

The Critical Success Factors agreed for the project were that the scheme should:

- CSF1 - provide strategic fit and meet business needs**
- CSF2 - optimise benefits to patients and staff**
- CSF3 - be revenue neutral and achievable within the agreed timescale**

Identification of the potential Long list

The Chief Executive Officer (CEO) of an NHS hospital has formed a project to implement the Minister’s wishes.

A working group - comprising of clinicians, senior managers, patient representatives and volunteer staff - has been convened to scope and plan the options for consideration within the business case.

The working party decided to use the options framework, in order to identify and appraise the main options (long list) within the Strategic Outline Case (SOC) and to identify the preferred way forward and short list for further evaluation within the Outline Business Case (OBC).

The Options Framework systematically analyses five categories of choice which are:

- scoping options;
- service solution options;
- service delivery options;
- implementation options;
- funding options.

Scoping Options

The Working Party identified the following wide range of main options for the potential scope of the scheme:

Option S1 Status quo	Option S2 Do minimum	Option S3 Intermediate	Option S4 Maximum
-------------------------	-------------------------	---------------------------	----------------------

Continue with current arrangements	Wards – inpatients only, during core hours	Wards + canteens – inpatients, outpatients, staff and visitors, during core hours	“Out of hours” – all personnel, “24/7”
------------------------------------	--	---	--

SWOT analysis

The working party carried out SWOT analysis on how well each option met the spending objective and critical success factors for the scheme and considered:

- the Status Quo (option S1 – existing arrangements) was not a realistic option. It was agreed, however, that the associated costs provided the baseline for the scheme and should be identified and *carried forward* into the short list;
- the “do minimum” scope (option S2) represented a realistic and achievable option, because it supports catering improvements for inpatients during core hours; and on this basis should be *carried forward* into the short list as a possible option and potential benchmark for VfM;
- the “intermediate” scope (option S3) – which covers all of the above groups but only during core working hours – meets business needs and is likely to optimise VfM, and should thus represent *the preferred way forward*; and
- the “maximum” scope (option S4) – which, in addition to supporting inpatients, provides “24/7” coverage to outpatients, their companions, NHS staff and inpatients’ visitors – was not a feasible option on affordability and operational grounds and consequently should be *discounted*.

The results are summarised below:

Table 1 - Scoping options SWOT analysis

Option	S1 Status quo	S2 Do minimum	S3 Intermediate	S4 Maximum
Description	Continue with current arrangements	Wards	Wards + canteens	‘out of hours’
Spending objective				
1	X	✓	✓	✓✓
Critical success factors				
1	X	✓	✓	✓✓
2	X	✓	✓✓	✓✓
3	✓	✓✓	✓	X
Conclusion	c/f	c/f	PWF	discount

Service Solution Options

The Working Party identified the following main options for potential service solutions, in support of improving catering arrangements within hospital wards and canteens (option S3 above):

Option Sol 1 Do minimum	Option Sol 2 Intermediate	Option Sol 3 Maximum
Refurbish kitchens Discount	Centralised kitchen Preferred	Buy-in services: green field site Discount

SWOT analysis

The Working Party carried out SWOT analysis on how well each option met the spending objective and critical success factors for the scheme and considered:

- simply refurbishing existing kitchens within the hospital site (option **Sol 1**) would not provide the most economic, efficient and effective use of resources in the future and should be *discounted*;
- a newly refurbished and centralised kitchen on the hospital site (option **Sol 2**) was likely to be the lowest cost option and to deliver considerable efficiency savings, and should thus be carried forward as *the preferred way forward*; and
- replacement of existing kitchens with a new catering facility to be located outside the hospital on a green field site (option **Sol 3**) was not feasible due to the high cost of land and the timescales involved and should consequently be *discounted*

The results are summarised below:

Table 2 – Service Solution options SWOT analysis

Option	Sol 1 Do minimum	Sol 2 Intermediate	Sol 3 Maximum
Description	Refurbish kitchens	Centralised kitchen	Buy in services: green field site
Spending objective	-	-	-
1	?	✓	X
Critical success factors	-	-	-
1	X	✓	✓
2	X	✓	✓
3	X	✓	X
Conclusion	Discount	PWF	Discount

Service Delivery Options

The Working Party identified the following main options for potential service delivery, in support of improving catering arrangements within hospital wards and canteens (option S3) and a newly refurbished, centralised kitchen (option Sol 2):

Option SD 1 Minimum	Option SD 2 Intermediate	Option SD 3 Maximum
In house staff Preferred	Mixed Economy May be C/F	Outsource Discount

SWOT analysis

The Working Party carried out SWOT analysis on how well each option met the spending objective and critical success factors for the scheme and considered:

- continuing to deliver the required catering services using existing in house staff (option SD 1) minimising the attendant service risks in the immediate future, allow the hospital to accrue the resultants savings and provide *the preferred way forward* at the present time;
- partial outsource (option SD 2) was possible, on VfM grounds, with respect to the canteen and kitchen cleaning services currently being undertaken by kitchen, by means of “piggy backing” the existing contract for cleaning other hospital areas and should be *carried forward*;
- fully outsourcing the existing catering service (option SD 3) was not a realistic option, because of the lack of critical mass and the procurement timescales and staffing issues involved and should be *discounted*.

The results are summarised below:

Table 3 – Service Delivery options SWOT analysis

Option	SD 1	SD 2	SD 3
Description	In house staff	Mixed economy	Outsource
Spending objective	-	-	-
1	✓	✓	✓
Critical success factors	-	-	-
1	✓✓	✓	✓
2	✓	✓	?
3	✓✓	✓	X
Conclusion	PWF	C/F	Discount

Implementation Options

The Working Party identified the following main options for potential implementation, in support of improving catering arrangements within hospital wards and canteens (option S3), and a newly refurbished, centralised kitchen (option Sol 2) using in house staff (option SD 1):

Option Im 1 Minimum	Option Im 2 Intermediate	Option Im 3 Maximum
12 months C/F	6 months Preferred	Big bang C/F

SWOT analysis

The Working Party carried out SWOT analysis on how well each option met the spending objective and critical success factors for the scheme and considered:

- all of the implementation options were realistic possibilities and should be *carried forward* into the short list for further consideration;
- implementing the revised arrangements over 12 months (option Im 1) would significantly mitigate the attendant risks;
- implementing the revised arrangements over 6 months (option Im 2) would enable the early delivery of benefits whilst balancing the attendant service risks and was thus *the preferred way forward*;
- the immediate, “big bang” implementation of the new arrangements (option Im 3) would meet Ministerial wishes and deliver early benefit; however, the attendant risks would be significant

The results are summarised below:

Table 4 – Implementation options SWOT analysis

Option	Im 1	Im 2	Im 3
Description	Phased Implementation - 12 months	Phased implementation – 6 months	Big bang
Spending objective	-	-	-
1	✓	✓✓	✓✓
Critical success factors	-	-	-
1	✓	✓	✓
2	✓	✓✓	✓✓
3	✓	✓✓	✓
Conclusion	C/F	Preferred	C/F

Funding Options

The Working Party identified the following main options for potential funding, in support of improving catering arrangements within hospital wards and canteens (option S3), a newly refurbished, centralised kitchen (option Sol 2) using in house staff (option SD 1) within a 6 month timescale (option Im 2):

Option F 1 Public funding	Option F 2 Private Finance (PPP/PFI)
Preferred	Discount

SWOT analysis

The Working Party carried out SWOT analysis on how well each option met the spending objective and critical success factors for the scheme and considered:

- public funding (option F 1) was the *preferred way forward*, given the availability of the required capital and the relatively small scale of the scheme;
- use of PPP funding (option F 2) should be *discounted*, because there was insufficient scope and service risk within the revised arrangements for a viable PPP deal that would provide the basis for improved VfM.

The results are summarised below:

Table 5 – Funding options SWOT analysis

Option	F 1	F 2
Description	Public funding	Private finance (PPP/PFI)
Spending objective	-	-
1	✓	X
Critical success factors	-	-
1	✓	X
2	✓	✓
3	✓	?
Conclusion	PWF	Discount

Summary of the Long list

The examination of the long list considered the following dozen or so main options are summarised in table 6 below:

Table 6 – long list summary

Potential Categories	Minimum	Intermediate	Maximum
Scope	Wards Do Minimum C/F	Wards + Canteens Preferred	"Out of hours" Discount
Service Solution	Refurbish kitchens Discount	Centralised kitchen Preferred	Buy-in services: green field site

			Discount
Service Delivery	In house staff Preferred	Mixed Economy May be C/F	Outsource Discount
Implementation	12 months May be C/F	6 months Preferred	Big bang May be C/F
Funding	Public Preferred		Private Discount

Identification of the Short list

On the basis of the above work, the Working Party recommended that the short list of options for further examination within the Outline Business Case (OBC) should be made up as follows:

1. Status quo

This option represents the current situation and should provide a baseline against which the other short listed options should be compared.

2. Do Minimum

This option represents the minimum amount of service change and related spend (£) in relation to the scheme, as follows:

Scope	Wards – core hours
Service solution	Central Kitchen - refurbishment
Service delivery	In house staff
Implementation	6 months
Funding	Public Capital

3. Reference Project

This option represents the desired level of service change and spend (£) and is predicated upon the *preferred way forward* identified at each stage of the long list exercise.

It is often referred to as the Outline Reference Project for the scheme at SOC stage and the Reference Project at OBC and is made up as follows:

Scope	Wards and Canteen – core hours
Service solution	Central Kitchen - refurbishment
Service delivery	In house staff
Implementation	6 months
Funding	Public Capital

Other options

The Working Party identified two further options using the results of the Options Framework, in order to meet the recommended number of short listed options (3 to 4) advised by HM Treasury Green Book.

In this instance, two alternative options to the preferred way forward (PWF), or reference project, were identified through a further examination of the choices which had not been *discounted* at each stage of the long list, but carried forward as potential solutions, to construct more ambitious and less ambitious variants of the Reference Project.

4. Reference Project – Less Ambitious

In this instance, this option represents the desired level of service change over a longer implementation period, so as to reduce the attendant project risks, as follows:

Scope	Wards and Canteens
Service solution	Refurbished Centralised Kitchen
Service delivery	In house staff
Implementation	12 months
Funding	Public Capital

5. Reference Project – More Ambitious

And, in this instance, the desired level of service change with some degree of outsourcing over a shorter implementation period, so as to bring forward the benefits stream, as follows:

Scope	Wards and Canteens
Service solution	Refurbished Centralised Kitchen
Service delivery	Mixed Economy
Implementation	Big bang
Funding	Public Capital

Annex 3 – The common causes of project failure and their remedies

Introduction

The following common causes of project failure together with questions to be answered in terms of their mitigation have been identified by the National Audit Office and the Office of Government Commerce.

If any of the answers are unsatisfactory, the scheme should not be permitted to proceed to the next stage until the necessary assurances have been obtained.

It is recommended that these issues should be addressed as early as possible.

Common cause of project failure	Stage	Questions to be answered in full at each stage and revisited thereafter
1. Lack of clear links between the project and the organisation's key strategic priorities, including agreed measures of success	SOC	<ul style="list-style-type: none"> Do we know how the priority of this project compares and aligns with our other delivery and operational activities? Have we defined the critical success factors (CSFs) for the project? Have the CSFs been agreed with the key stakeholders? Is the project founded on realistic timescales taking into account any statutory lead times, and showing critical dependencies such that any delays can be handled?
	OBC	<ul style="list-style-type: none"> Are the lessons learnt from relevant projects being applied? Has an analysis been undertaken of the effects of any slippage in time, cost, scope or quality? In the event of a problem/conflict at least one must be sacrificed.
	FBC	<ul style="list-style-type: none"> Have the CSFs been agreed with the service provider(s)? Do we have a clear project plan that covers the full period of the planned delivery and all business change required, and indicates the means of benefits realisation?
2. Lack of clear senior management and ministerial ownership and leadership	SOC	<ul style="list-style-type: none"> Does the project management team have a clear view of the inter-dependencies between projects, the benefits, and the criteria against which success will be judged? If the project traverses organisational boundaries are there clear governance arrangements to ensure sustainable

		<p>alignment with the business objectives of all organisations involved?</p> <ul style="list-style-type: none"> • Are all proposed commitments and announcements first checked for delivery implications? • Does the Senior Responsible Owner (SRO) have a suitable track record of delivery? Where necessary, is it being optimised through development and training?
	OBC	<ul style="list-style-type: none"> • Are decisions taken early on, decisively and adhered to, in order to facilitate successful delivery? • Does the project have the necessary approval to proceed from its nominated Minister either directly or through delegated authority to a designated SRO?
	FBC	<ul style="list-style-type: none"> • Does the SRO have the ability, responsibility and authority to ensure that the business change and business benefits are delivered?
3. Lack of effective engagement with stakeholders	SOC	<ul style="list-style-type: none"> • Have we identified the right stakeholders? • Have we, as intelligent customers, identified the rationale for doing so (for example, the why, the what, the who, the where, the when and the how)? • Have we secured a common understanding and agreement of stakeholders' requirements? • Does the business case take account of the views of stakeholders, including customers/users?
	OBC	<ul style="list-style-type: none"> • Do we understand how we will manage stakeholders (for example, ensure buy-in, overcome resistance to change, allocate risk to the party best able to manage it)? • Has sufficient account been taken of the subsisting organisational culture?
	FBC	<ul style="list-style-type: none"> • Whilst ensuring that there is clear accountability, how can we resolve any conflicting priorities?
4. Lack of skills and proven approach to project management and risk management	SOC	<ul style="list-style-type: none"> • Is there a skilled and experienced project team with clearly defined roles and responsibilities? If not, is there access to expertise, which can benefit those fulfilling the requisite roles?
	OBC	<ul style="list-style-type: none"> • Are the major risks identified, weighted and treated by the SRO, the director, and project manager and/or the project team? • Has sufficient resource, financial and otherwise, been allocated to the project, including an allowance for risk? • Do we have adequate approaches for

		<p>estimating, monitoring and controlling the total amount of expenditure on projects?</p> <ul style="list-style-type: none"> • Are the governance arrangements robust enough to ensure that 'bad news' is not filtered out of progress reports to senior managers? • If external consultants are used, are they accountable and committed to help ensure the successful and timely delivery?
	FBC	<ul style="list-style-type: none"> • Do we have effective systems for measuring and tracking the realisation of benefits in the business case?
5. Too little attention to breaking development and implementation into manageable steps	OBC	<ul style="list-style-type: none"> • Has the approach been tested to ensure that it is not 'big bang' (for example, IT enabled projects)? • Has sufficient time been built in to allow for planning applications in property and construction projects etc? • Have we done our best to keep delivery timescales short so that change during development is avoided? • Have enough review points been built in so that the project can be stopped if changing circumstances mean that the business benefits are no longer achievable or no longer represent value for money (VFM)?
	FBC	<ul style="list-style-type: none"> • Is there a business continuity plan in the event of the project delivering late or failing to deliver at all?
6. Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits)	OBC	<ul style="list-style-type: none"> • Is the evaluation based on whole-life VFM, taking account of capital, maintenance and service costs? • Do we have a proposed evaluation approach that allows us to balance financial factors against quality and security of delivery? • Does the evaluation approach take account of business criticality and affordability? • Is the evaluation approach business driven?
7. Lack of understanding of, and contact with the supply industry at senior levels in the organisation	OBC	<ul style="list-style-type: none"> • Have we tested that the supply industry understands our approach and agrees that it is achievable? • Have we checked that the project will attract sufficient competitive interest? • Are senior management sufficiently engaged with the industry to be able to assess supply side risks? • Do we have a clear strategy for engaging with the industry or are we making sourcing decisions on a piecemeal basis? • Are the processes in place to ensure that all parties have a clear understanding of their roles and responsibilities, and a

		<p>shared understanding of desired outcomes, key terms and deadlines?</p> <ul style="list-style-type: none"> Do we understand the dynamics of the industry to determine whether our acquisition requirements can be met, given potentially competing pressures in other sectors of the economy?
	FBC	<ul style="list-style-type: none"> Have we asked suppliers to state any assumptions that they are making against their proposals?
8. Lack of effective project team integration between clients, the supplier team and the supply chain	OBC	<ul style="list-style-type: none"> Has a market evaluation been undertaken to test market responsiveness to the requirements being sought? Are the procurement routes that allow integration of the project team being used? Is there early supplier involvement to help determine and validate what outputs and outcomes are being sought for the project?
	FBC	<ul style="list-style-type: none"> Has a shared risk register been established? Have arrangements for sharing efficiency gains throughout the supply team been established?

Annex 4 – Overview of the SOC, OBC and FBC Structure and Content

A business case is developed over time, in conjunction with the scoping, planning and procurement stages of the scheme.

These three key stages in the development of the business case constitute milestones when approval may be required to proceed further. During its infancy, the key deliverable is the SOC; in its adolescence, the OBC; and finally, when the solution has reached maturity, the FBC.

This document provides a template from which to develop your case in each phase.

Strategic Outline Case (SOC)

Stage 1: scoping

Primary purpose:

1. to establish the case for change and strategic fit with other programmes
2. to indicate the way forward in terms of a preferred way forward.

Structure and content

Executive summary

Document structure

The Strategic Case

Strategic context

Organisational overview

Snapshot of the organisation: purpose, structure and environment etc.

Business strategy and aims

Existing and future business plans, including any relevant national initiatives and stakeholders/ customers for services

Outline Business Case (OBC)

Phase 2: planning

Prior to OJEC (pre-procurement)

Primary purpose:

3. to identify a preferred option
4. to assess potential VFM, affordability and achievability.

Structure and content

Executive summary

Document structure

The Strategic Case

Strategic context

Organisational overview

Update as required

Business strategy and aims

Update as required

Full Business Case (FBC)

Phase 3: procurement

Following competition (pre-contract)

Primary purpose:

5. to select the service solution
6. to finalise post procurement arrangements.

Structure and content

Executive summary

Document structure

The Strategic Case

Strategic context

Organisational overview

Update as required

Business strategy and aims

Update as required

Other organisational strategies – for example, IS/IT; HR
Existing and future plans

Strategic needs

Spending objectives
Key objectives for proposed spending

Existing arrangements (if any)
Snapshot of current service arrangements

Business needs – current and future
Service gaps to be filled

Potential scope and service requirements
Business scope and high level service outputs

Benefits criteria
Main benefits by key stakeholder groups

Strategic risks
Key business, service and external risks, together with
outline mitigation and management arrangements

Constraints and dependencies
Internal and external

The Economic Case

Critical success factors (CSFs)
Weighted and ranked in order of importance

Main business options
Long list for SWOT analysis including 'do nothing' or 'do
minimum' options.

Preferred way forward
Conclusion from initial assessment using options framework

Short-listed options
Recommended options for OBC analysis; including 'do

Other organisational strategies
Update as required

Strategic needs

Spending objectives
Spending objectives ranked in order of priority and made
SMART

Existing arrangements (if any)
Update as required

Business needs – current and future
Update as required

Desired scope and service requirements
Detailed description of business scope and high level
service outputs/requirements

Benefits criteria
Main benefits by key stakeholder groups – ranked in
order of importance and/or weight

Strategic risks
Update as required, including specific proposals for
mitigation and management

Constraints and dependencies
Update as required

The Economic Case

Critical success factors (CSFs)
Update as required

Main business options
Revisit and update, as required, including options not
identified earlier

Preferred way forward
Revisit and update, as required

Short-listed options
Detailed description of short-listed options including 'do

Other organisational strategies
Update as required

Strategic needs

Spending objectives
Update as required

Existing arrangements (if any)
Update as required

Business needs – current and future
Update as required

Scope and service requirements
Update as required

Benefits criteria
Update as required

Strategic risks
Update as required

Constraints and dependencies
Update as required

The Economic Case

Critical success factors (CSFs)
Update as required

Main business options
Summary of OBC options

Preferred way forward
Summary of OBC conclusion

Short-listed options
Detailed description of short-listed options including 'do

nothing' or 'do minimum' and reference project (if applicable)	nothing' or 'do minimum' and outline Public Sector Comparator (PSC)	nothing' or 'do minimum', the PSC, the procurement process and service providers' BAFOs
Outline commercial case High level assessment of possible deal and supply-side interest	NPC/NPV findings Results of economic appraisals for each option, including cost of risk retained	NPC/NPV findings Results of economic appraisals for each option, including cost of risk retained
Outline financial case High level assessment of affordability	Benefits appraisal Results of ranking, weighting and scoring the qualitative benefits for each short-listed option	Benefits appraisal Results of ranking, weighting and scoring the qualitative benefits for each short-listed option, including service providers' solutions
Outline management case High level assessment of achievability	Risk assessment Full assessment of risks retained under each short-listed option, including costing of DBFO risks	Risk assessment Full assessment of risks retained under each short-listed option, including costing of DBFO risks
Recommended way forward	Sensitivity analysis Results of sensitivity analysis undertaken for short-listed options	Sensitivity analysis Results of sensitivity analysis undertaken for short-listed options
	Preferred option Recommended option following above analysis	Preferred option Recommended solution following procurement
	<i>The Commercial Case</i> For possible deal: Potential scope and services Potential risk allocation Potential charging mechanisms Potential key contractual arrangements Potential personnel implications Potential implementation timescales Potential accountancy treatment	<i>The Commercial Case</i> For recommended deal: Agreed scope and services Agreed risk allocation Agreed charging mechanisms Agreed key contractual arrangements Agreed personnel implications Agreed implementation timescales Agreed accountancy treatment
	<i>The Financial Case</i> For possible deal: Potential capital requirement Potential net effect on prices Potential impact on balance sheet Potential impact on income and expenditure account Overall affordability	<i>The Financial Case</i> For recommended deal: Capital requirement Net effect on prices Impact on balance sheet Impact on income and expenditure account Overall affordability
	<i>The Management Case</i>	<i>The Management Case</i>

	<p>Procurement strategy Intended method of procurement, including use of:</p> <ul style="list-style-type: none"> - EC/GATT regulations - evaluation criteria - selection of preferred bidder 	<p>The results of the procurement process ("best and final offers") are treated as options and assessed within the economic case at this stage</p>
	<p>Outline arrangements for:</p> <p>Programme and project management Change management Benefits realisation Risk management Post project evaluation</p>	<p>Agreed Arrangements for:</p> <p>Programme and project management Change management Benefits realisation Risk management Contract management Post project evaluation Contingency plans</p>
<p>Appendices 1. Strategic plans/ organisational/ business strategies (as appropriate) 2. Strategic business plans/ SOP 3. Risk potential assessment</p>	<p>Appendices 1. Economic appraisals 2. Financial appraisals 3. Non-financials – risks and benefits registers 4. Risk potential assessment 5. Letter of commissioner/ stakeholder support 6. Draft OJEU notice (where applicable) 7. SOP/ strategic business plans</p>	<p>Appendices 1. Economic appraisals 2. Financial appraisals 3. Non-financials – risks and benefits registers 4. Risk potential assessment 5. Letter of commissioner/ stakeholder support 6. Proposed contract and OJEU notice (where applicable) 7. SOP/ strategic business plans 8. Agreed project/ change management plans</p>

Annex 5 – Overview of the systematic approach to the preparation of the business case: steps and actions for SOP, SOC, OBC and FBC phases

Stages	Development Process	Deliverables
Stage 0 –	Determining the strategic context	
Step 1 / action 1	Ascertain strategic fit	Strategic context
<i>Output</i>	<i>Strategic Outline Programme (SOP)</i>	
<i>Outcome</i>	<i>Strategic fit</i>	
<i>Review point</i>	<i>Gateway 0 – strategic fit</i>	
Stage 1 – scoping	Preparing the Strategic Outline Case (SOC)	Strategic case
Step 2	Making the case for change	
Action 2	Agree strategic context	
Action 3	Determine spending objectives, existing arrangements and business needs	
Action 4	Determine potential business scope and service requirements	
Action 5	Determine benefits, risks, constraints and dependencies	
Step 3	Exploring the preferred way forward	Economic case – part 1
Action 6	Agree critical success factors (CSFs)	
Action 7	Determine long list options and SWOT analysis	
Action 8	Recommended preferred way forward	Outline commercial, financial and management cases
<i>Output</i>	<i>Strategic Outline Case (SOC)</i>	
<i>Outcome</i>	<i>Robust case for change</i>	
<i>Review point</i>	<i>Gateway 1: business justification</i>	
Phase 2 - Planning	Preparing the Outline Business Case (OBC)	

Step 4	Determining value for money (VFM)	Economic case – part 2
Action 9	Revisit SOC and determine short-list including reference project (outline PSC)	
Action 10	Prepare the economic appraisals for short-listed options	
Action 11	Undertake benefits appraisal	
Action 12	Undertake risk assessment/appraisal	
Action 13	Select preferred option and undertake sensitivity analysis	
Step 5	Preparing for the potential deal	Commercial case
Action 14	Determine procurement strategy	
Action 15	Determine service streams and required outputs	
Action 16	Outline potential risk apportionment	
Action 17	Outline potential payment mechanisms	
Action 18	Ascertain contractual issues and accountancy treatment	
Step 6	Ascertaining affordability and funding requirement	Financial case
Action 19	Prepare financial model and financial appraisals.	
Step 7	Planning for successful delivery	Management case
Action 20	Plan project management – strategy, framework and outline plans	
Action 21	Plan change management – strategy, framework and outline plans	
Action 22	Plan benefits realisation – strategy, framework and outline plans	
Action 23	Plan risk management – strategy, framework and outline plans	
Action 24	Plan post project evaluation – strategy, framework and outline plans	
<i>Output</i>	<i>Outline Business Case</i>	
<i>Outcome</i>	<i>Planned procurement for VFM solution</i>	
<i>Review point</i>	<i>Gateway 2: procurement strategy</i>	

**Phase 3 –
procurement****Preparing the Full Business Case (FBC)**

Step 8	Procuring the VFM solution	Economic case
Action 25	Revisit the case for change	
Action 26	Revisit the OBC options, including the PSC	
Action 27	Detail procurement process and evaluation of best and final offers (BAFOs) (in £s)	
Step 9	Contracting for the deal	Commercial case
Action 28	Set out the negotiated deal and contractual arrangements	
Action 29	Set out the financial implications of the deal	Financial case
Step 10	Ensuring successful delivery	Management case
Action 30	Finalise project management arrangements and plans	
Action 31	Finalise change management arrangements and plans	
Action 32	Finalise benefits realisation arrangements and plans	
Action 33	Finalise risk management arrangements and plans	
Action 34	Finalise contract management arrangements and plans	
Action 35	Finalise post project evaluation arrangements and plans	
<i>Output</i>	<i>Full Business Case</i>	
<i>Outcome</i>	<i>Recommended service provider and solution</i>	
<i>Review point</i>	<i>Gateway 3 (investment decision)</i>	

Annex 6 – Glossary

Additionality	An impact arising from an intervention is additional if it would not have occurred in the absence of the intervention.
Affordability	An assessment of whether the proposals can be paid for in terms of cash flows and resource costs – see financial case
Appraisal	The process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made.
Assessments	Either an appraisal or an evaluation (or both).
Base case	The best estimate of how much a proposal will cost in economic terms, including an allowance for risk and optimism.
Business case	A management vehicle for scoping and planning the proposal and documenting the outcome. Often a requirement of the approval process.
Capital expenditure	Expenditure on durable assets such as land, buildings and equipment.
Contingency	An allowance of cash or resources to cover unforeseen circumstances.
Cost benefit analysis (CBA)	Analysis which quantifies in monetary terms as many of the costs of a proposal as feasible (financials), including items for which the market does not provide a satisfactory measure of economic value (non-financials).
Cost effectiveness analysis (CEA)	Analysis that compares the cost of alternative ways of producing the same or similar outputs.
Discounting	A method used to convert future costs or benefits to present values using a discount rate.
Discounted cash flow (DCF)	A technique for appraising investments. It reflects the principle that the value to an investor of a sum of money depends on when it is received.
Discount rate	The annual percentage rate at which the present value of a £, or other unit of account, is assumed to

	fall away through time.
Do minimum option	An option where the public sector takes the minimum amount of action necessary.
Do nothing option	The cost of the status quo, often used as a benchmark for VFM.
Economic appraisal	See appraisal. This specifically takes into account the economic costs. Also used as a general term to cover cost benefit analysis (CBA).
Economy	A measure of the extent to which the costs associated with a project, programme or policy are reduced.
Effectiveness	A measure of the extent to which a project, programme or policy achieves its desired outcomes/outputs.
Efficiency	A measure of the extent to which a project, programme or policy's associated throughputs are increased.
Equivalent annual cost (EAC)	The constant annual costs which are equivalent (same present value) to a project's actual costs.
Evaluation	Retrospective analysis of a project, programme or policy to assess how successful (or otherwise) it has been, and to learn lessons for future improvement.
Expected value	The weighted average of all possible values of a variable, where the weights are the probabilities (in %s).
Five case model	A systematic framework for the development and the presentation of the business case over time (SOC, OBC and FBC).
Internal rate of return	The discount rate that would give a project a present value of zero.
Market value	The price at which a commodity can be brought or sold, determined by the interaction of buyers and sellers in a market.
Monte Carlo analysis	A technique that allows assessment of the consequences of simultaneous uncertainty about key inputs, taking account of correlation between

	these inputs.
Net present cost (NPC)	The discounted value of a stream of future costs.
Net present value (NPV)	The discounted value of a stream of either future costs or benefits. The NPV is used to describe the difference between the present value of a stream of costs (NPC) and a stream of benefits.
Opportunity cost	The value of the most valuable alternative uses or the cost of something in terms of an opportunity forgone.
Optimism bias	The demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, works duration and benefits realisation.
Option appraisal	The process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made.
Options framework	A systematic framework for the development of options.
PPP	Public private partnerships
Public Sector Comparator (PSC)	A hypothetical risk-adjusted costing by the public sector as a supplier to an output specification, generally used in connection with a PPP procurement exercise.
Required rate of return	A target average rate of return for a public sector trading body, usually expressed as a return on the current cost value of total capital employed.
Risk	The likelihood (measured by its probability) that a particular event will occur.
Sensitivity analysis	Analysis of the effects on an appraisal of varying the projected values of important variables.
Switching values	The point at which the choice of the preferred option would switch to another option due to any uncertain costs and/ or benefits.
Transfer payment	A payment for which no goods or services are received in return.

Uncertainty	A scenario within which it is impossible to attach probabilities to the range of possible outcomes.
Weighting and scoring	An appraisal technique for the assessment of qualitative costs, risks and benefits.
Willingness to pay	The amount that someone is willing to receive or accept to give up a good or service.

Bibliography

Making Sense of Public Sector Investments: the 'five case model' in decision making by Courtney Smith and Joe Flanagan (ISBN 1 85775 432 8)

HM Treasury Green Book: Appraisal and Evaluation in Central Government, Treasury Guidance (London: TSO). See www.greenbook.treasury.gov.uk

Supplementary Green Book Guidance: Optimism Bias (2003).

IM&T Business Case Guidance – the Five Case Model – OBC and FBC, the Department of Health Consultation Draft (October 2001). Author: Susan Peak.

Common Causes of Project Failure, Office of Government Commerce (OGC) (Ref: CP0015/01/05)

The Department of Health Capital Investment Manual: Business Case Guide (ISBN 07 480 3011 5) www.dh.gov.uk

The Information Systems Guides: Management and Planning Set. Central Computer & Telecommunication Agency (CCTA). Strategic Planning for Information Systems (A1). Authors: Gareth Bunn, Callum Bartlett, David McLean. ISBN: 0 471 925551

HM Treasury's Quantitative Assessment User Guide, August 2004: www.hm-treasury.gov.uk

Introduction to the EU procurement rules: OGC Guidance March 2008