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Project Outline Business Case Procedure

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Table of Contents

1.0 PURPOSE

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

- Identify the investment option which optimizes value for money (VFM);
- Prepare the scheme for procurement, and
- Put in place the necessary funding and management arrangements for the successful delivery of the scheme.

The production of the OBC is Stage 2 of the Five Case Method; Stage 1 produced the Strategic Outline Case (SOC). Stage 2 comprises three Steps from Step 4 through Step 7, each consisting of multiple actions. These are detailed in the following section.

Once the OBC is produced it then enters a Gateway Review of the Delivery Strategy. For the project to proceed it must pass this review stage. This procedure applies to works performed under all Government construction projects executed throughout the Kingdom of Saudi Arabia.

2.0 SCOPE

The scope of Steps 4 to 7 is shown below:

- **Step 4 Determining potential VFM**
  - Action 9 Revisit the SOC and confirm the short list;
  - Action 10 Prepare the economic appraisals for short-list options;
  - Action 11 Undertake benefits appraisal;
  - Action 12 Undertake risk appraisal, and
  - Action 13 Select preferred option and undertake sensitivity analysis.
- **Step 5 Preparing for the potential deal**
  - 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, and
  - Action 18 Ascertain contractual issues and accountancy treatment.
- **Step 6 Ascertaining affordability and funding requirement**
  - Action 19 Prepare financial model and the financial appraisals.
- **Step 7 Planning for successful delivery**
  - Action 20 Plan project management – strategy, framework and plans;
  - Action 21 Plan change and contract management – strategy, framework and plans;
  - Action 22 Plan benefits realization – strategy, framework and plans;
  - Action 23 Plan risk management – strategy, framework and plans, and
  - Action 24 Plan project assurance and post project evaluation – strategy, framework and plans.

The remainder of this procedure is structured around each Action. The purpose of each action is described together with what is specifically required and what evidence should be provided. It also contains tips and examples to assist business case developers.

3.0 DEFINITIONS

Definitions	Description
Decision	A conclusion or resolution reached after consideration.
Entity	A Saudi Government organization which is responsible for the delivery of government funded infrastructure construction projects.
Evidence Matrices	A tabulation of evidence to support the project, submitted by the Sponsor, for evaluation by the Gateway Reviewer.
Gateway Review	An independent review of a project to confirm public investment is not at risk of being wasted.
Gateway Reviewer	An individual who reviews the application for a Project, who should be independent of the Sponsor.
Strategic Outline Case (SOC)	The first business case of a Project prepared by an Entity/EPMO in support of a potential investment initiative (project).
Risk Manager	The individual within the Entity responsible for defining the risk management policies and procedures.
Risk Potential Assessment (RPA)	An early-stage assessment of the risk potential of the project.
Sponsor	The individual responsible for the proposal of a project during the 5 Year Project Portfolio Planning Stage.

4.0 REFERENCES

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3. ENT-S00-PR-000001 Entity Strategic Outline Case Procedure
4. HM Treasury (2018). The Green Book, Appraisal and Evaluation in Central Government. Retrieved from https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent
5. EPM-EM0-PR-000001 Project Risk Management Procedure
6. EPM-S00-GL-000002 Project Delivery Strategy
7. EPM-KD0-PR-000012 Award and Contract Execution Procedure

5.0 RESPONSIBILITIES

The first part of the procedure will be undertaken by the Sponsor, who is responsible for creating the Outline Business Case and completing the Evidence Matrices to support the Gateway Review.

Once these documents are ready the Gateway Reviewer will undertake the Gateway Review.

The Gateway Reviewer should be independent of the Sponsor, so an independent view of the Project can be obtained.

6.0 PROCESS

6.1 Step 4. Determining Potential VFM

This step in the development of the economic case appraises the social, environmental and economic costs, benefits and risks for the short listed options and identifies the preferred option: the option most likely to offer the public value for delivery of the project.

Whilst bringing together a variety of information on costs, benefits and risks to aid decision making, option appraisal should not be seen as simply providing one 'right' answer. The goal is 'optimal': we are seeking to identify the option which best balances the expected costs in relation to the benefits and risks.

The main actions in this step are:

Step 4	**Determining potential VFM**
Action 9	Revisit the SOC and confirm the short list
Action 10	Prepare the economic appraisals for short-list options
Action 11	Undertake benefits appraisal
Action 12	Undertake risk appraisal
Action 13	Select preferred option and undertake sensitivity analysis

At least one facilitated workshop is recommended for the completion of Step 4.

6.1.1 Action 9: Revisit the SOC and Determine the Short List

Revisit and review:

- The case for change as set out in the strategic case section of the SOC, and
- The options appraised in the economic case section of the SOC

6.1.1.1 Revisiting the Strategic case in the SOC

The case for change must be reviewed, because:

- Management approval of the SOC may have been conditional on some changes and adjustments to the project;
- The early opportunity for the Entity and its key stakeholders to consider the project may have influenced its direction;
- Some time may have elapsed between SOC approval and commencement of the OBC, and
- Elements of the project may have changed.

The action is to confirm the case for change and record any material changes in the opening section to the strategic case in the OBC.

6.1.1.2 Reviewing the Economic Case in the SOC

It is necessary to revisit and refine the efficacy of the preferred way forward and other options in the short list, because more detailed information of the associated inputs, outputs and activities will be required for preparing the economic appraisals.

Review and test the recommended short list 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 deliver a positive net present value (NPV)?
- Are any options clearly impractical or unfeasible – for example, the technology or land are unavailable?
- 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?

This action will help to avoid wasted effort while preparing the economic appraisals in support of short listed options. It should be undertaken in a structured way with the results recorded

6.1.2 Action 10: Prepare the Economic Appraisals for Short-listed Options

The action is to calculate the discounted costs and benefits for the short listed options and record the discounted values and Benefit Cost Ratios (BCRs) for each option (use national guidance on investment appraisal where this is available and required).

6.1.2.1 Estimating the Costs and Benefits for the Economic Appraisals

This section provides guidance on:

- The principles of economic appraisal;
- The key differences between economic and financial appraisals;
- Relevant costs to include in the economic appraisals;
- Estimating benefits for the economic appraisals, and
- Adjusting estimates of costs and benefits.

6.1.2.2 The Principles of Economic Appraisal

The principles of economic appraisal for the treatment of costs and benefits are that:

- The relevant costs and benefits to 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;
- 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 resource costs 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, and
- The costs and benefits must be base year. The base year is defined as “year 0” and must be at real relative prices the same for all options.

6.1.2.3 Economic and Financial Appraisals

Practitioners sometimes confuse the appraisals of the economic case with those of the financial case; an explanation of the key differences is provided below.

Economic appraisals focus on public value from the perspective of society and take into account all social, economic, environmental costs and all effects on public welfare. Financial appraisals focus on affordability from the perspective of the public purse, often expressed in terms of public funding the project.

The key differences can be summarized as follows:

Economic Appraisals	Financial Appraisals
Focus: Net Present – public value for money	**Focus**: Funding and affordability – cash flow and stock
Coverage: Society as a whole	**Coverage:** Relevant Entity budget
Relevant standards: National guidance Agreed discount rate applied	**Relevant standards:** Public sector accounting rules and standing orders
Analysis: • Real (base year) prices • Use of opportunity costs • Includes all quantifiable welfare costs and benefits to society • Includes environmental costs • Excludes all ‘transfer’ payments • Excludes general inflation • Excludes sunk costs • Excludes depreciation, impairment and capital charges	**Analysis:** • Current (nominal) prices • Benefits – cash releasing only • Includes capital and revenue costs • Includes transfer payments • Includes inflation

6.1.2.4 Relevant Costs for the Economic Appraisals

The costs should be appraised from the standpoint of society, which includes two main categories:

- Public Sector costs – those falling to the spending Entity (Direct Costs) and those falling to other parts of the public sector (Indirect Costs).
- Wider Social costs – those other indirect costs falling to other sectors, including the private sector.

The following provides an overview of the costs which should be included in the economic appraisals. All are expressed in terms of real resource costs excluding transfer payments and any similar tax effects:

- **Capital costs.** These include the opportunity cost of existing assets such as buildings and land and can broadly be broken down into: land and property; construction and refurbishment costs; professional fees; equipment (furniture, fittings, lighting and wiring); technology and maintenance costs
- **Whole-life costs.** Assets may require replacement, refurbishment or upgrading over the lifetime of the appraisal period. These ‘life-cycle’ costs should also be included as part of the whole life costs. The assumed maintenance policy on which costs are based must be explicitly and transparently set out and applied appropriately to all options

- **Revenue costs**. These are the operational, running, management and overhead costs that it should not be assumed will remain unchanged over time. The assessment of revenue costs must:

  - Distinguish and explain clearly the differences between alternative maintenance options;
  - Include all the running costs, e.g. utility bills, and
  - Explain the underlying assumptions, e.g. in service performance, efficiency savings and real cost trends.

- **Fixed, variable, semi-variable and step costs.** These costs must be separately identified within the economic appraisals and their relationships explained:
  - Fixed costs are constant over time; e.g. the overhead costs of fixed capital assets;
  - Variable costs vary according to the volume of activity, e.g. training costs and network usage;
  - Semi-variable costs include both fixed and variable components, e.g. a combination of fixed maintenance contract costs and variable call- out charges; and step costs for a pre-determined level of activity that eventually rise by a given amount – for example, the need for a new call center after a certain volume of calls.

- **Opportunity costs**. These must be explored in full. In relation to land, buildings 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 employment costs in addition to basic pay – for example, pensions 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 a baseline 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 spent in relation to the implementation of the proposal. These costs are likely to be significant in relation to business change and business re- engineering projects.
- **Organizational development**. These costs can form a significant proportion of the overall costs and 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 'status quo' option and not as a benefit in the other options.
- **Inflation**. Some cash flows may be significantly out of line with general inflation. In such cases, the differential should be reflected in the economic appraisals.
- **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 measuring the wider social and economic consequences of these payments.

6.1.2.5 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 in terms of their net public value. Every effort should be made to value the benefits of different options, building on the project benefits identified earlier.

The approach to benefits measurement should be prudent, proportionate, and appropriate. Prudent, in terms of avoiding claiming for benefits that cannot be measured or assessed in any realistic way, because there is no real evidence base; proportionate, in terms of the resources required to cost justify the project; and appropriate, in terms of the anticipated scope and spend of the project. The benefits for the project must be appraised from the standpoint of society, which comprises of two main categories:

- Public Sector benefits – those falling to the spending Entity, over which it has direct control of their realization (Direct Benefits) and those falling to other parts of the public sector (Indirect Benefits), and
- Wider Social benefits – those other indirect benefits falling to other sectors, including the private sector.

These benefits will fall into the following classes:

- Cash releasing benefits (CRB). These benefits reduce the costs of Entities 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, cash or other assets;
- Non-cash-releasing benefits (non-CRB). This often involves reducing the time that a particular resource takes to do; 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 monetarily wherever possible, and
- Non-quantifiable benefits (non-QB). These are the qualitative benefits, which are of value that cannot be quantified.

All the benefits – cash releasing and non-cash releasing – must be accounted for in the economic appraisals to derive the net present value (NPV) for the project.

Any costs associated with benefits delivery should be taken into account. A cost is a predictable negative effect of the proposal and is the measurable reduction resulting from an outcome perceived as negative by one or more stakeholders, which detracts from one or more organizational objectives. The cost of mitigating significant non quantifiable costs should be identified to see if it is regarded as a price worth paying.

6.1.2.6 Real or Estimated Market Prices

Market prices, real or estimated, are the prime reference for the valuation of benefits. Where valuing at market prices is not possible, value based on forms of preference are the way in which public welfare values are calculated and include:

- Stated preference which has two forms: willingness to pay and willingness to accept (i.e. estimation of a price by means of carefully constructed questionnaires and interviews to indicate how much people are prepared to pay for a thing or how much they would pay to avoid it; for example, improved access to services or to avoid undesirable outcomes), and
- Revealed preference approach (i.e. inferring a price from consumer behavior).

6.1.2.7 Adjustments Required to the Values of Costs and Benefits

While developing the proposal, all adjustments should be shown separately and clearly stated in supporting tables of data, and the rationale for their inclusion clearly set out.

6.1.2.8 Relative Price Changes

The costs and benefits presented in the economic appraisals must be expressed in ‘real relative prices’, as opposed to current prices. The term “real” means that although the effects of general inflation are removed; however, the term relative allows some prices that are expected to change relative to general inflation to be adjusted to allow these relative changes.

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.

6.1.2.9 Other Relevant Values

These include Winners, Loser and Distributional Analysis and Regional and other Sub National issues.

6.1.2.10 Winners, Loser and Distributional Analysis

All interventions may produce winners and losers and on some occasions may have significantly unequal effects on welfare and income distribution.

Where a change in income distribution or some other retributive effect is the intention of a policy project or project, then some form of objective analysis is clearly required to quantify these effects. Similarly, if a proposal involves, as a side effect, significant redistribution of welfare, then decision support analysis needs to show this. The need to abide by ethical and legal standards and frameworks, such as legislation on equalities, also requires consideration of distributional effects where they are significant, and this is transparently supported by this approach.

There is, therefore, a need at both the long list and short list stages of options analysis to consider whether significant gains or losses to any groups within society appear likely.

6.1.2.11 Regional and Other Sub-national Issues

Proposals targeted at producing localized effects within society, whether at a regional, city, town village or rural level, cannot be best assessed by a framework that identifies only total national benefit. This is because local sub national policies are likely to contain a considerable element of resource and benefit and redirection to a specific location, as well as some overall “additionally” in national welfare.

A separate analysis of these local proposals should be carried out alongside the national analysis and the results set out separately alongside the national net present value (NPV) in order for the local benefit of the proposal to be estimated and an appropriate option selection to be made.

6.1.2.12 Presenting the Economic Appraisals

Following the identification and measurement of the costs and benefits for each option, calculate the net present value (NPV) for each option, using the agreed discount rate.
This section is concerned with compiling the economic appraisals for the short listed options – including the ‘status quo’ or ‘do minimum’ in their most basic format. Guidance is given on the following:

- Discounting in the public sector;
- Calculating the NPV;
- Calculating the Benefit Cost Ratio (BCR);
- The treatment of privately financed schemes, if applicable, and
- Tax differentials.

6.1.2.13 Discounting in the Public Sector - The Social Discount Rate and Time Preference.

There is a universal human tendency to discount the future by giving more weight to current values and events than to the future, which also applies to preference for current over future welfare.

The social discount rate is an annual percentage reduction that is applied to values in each year going forward that progressively reduces future values.

By recognizing this human tendency to discount future values it is possible to compare alternative options for projects, projects and policies with different lengths of life and different profiles over time by, in effect, putting them onto a common basis of present values thus allowing their whole life costs and benefits to be added and compared. This is known as their present value.

Over time the discount rate is reduced to allow for increasing uncertainty in its estimation.

6.1.2.14 The Use of Private Finance

The option of Public Private Partnerships (PPP) or any form of private finance for sourcing the project will have been considered at the portfolio planning stage and is not part of the OBC, within Saudi Arabia.

6.1.2.15 Tax Differentials

The adjustment of market prices for taxes in economic appraisals is appropriate different tax treatment of the different options would otherwise bias the appraisal.

This should rarely be required given that identical or very similar tax regimes usually apply to different options. The tax differential may, however, be significant and so needs to be taken into account when comparing a publicly financed option to some privately financed option.

6.1.3 Action 11: Undertake Benefits Appraisal

Undertake an appraisal of the quantifiable and qualitative benefits and explain why these are important enough to affect the decision for the ranking of the options.

The main aim is to identify benefits that are quantifiable and can be expressed in monetary equivalent terms and to avoid defining benefits that cannot be measured, assessed or evaluated in any realistic way because there is no established evidence base.

Every reasonable attempt should be made to quantify benefits, even if they cannot be expressed in monetary equivalent terms. For example, the benefit of an intervention that increases people's propensity to exercise might be quantifiable but not readily expressible in monetary terms. Where quantification is particularly challenging, because the evidence base is spurious or the research costs would be disproportionate to the expenditure, it may be acceptable to express a benefit in qualitative terms; but even then it should be possible to provide evidence on the likely order of magnitude of the benefit.

When a qualitative or non-monetized benefit is considered too important to be ignored in the decision, a separate calculation and judgement needs to be made about whether its cost is "a price worth paying" in terms of its additional value. This calculation provides the basis upon which alternative options without these benefits can be generated and appraised.

In all cases, the appraisal of benefits that cannot be expressed in monetary equivalent terms should be grounded in a review of the best available evidence. The evaluation of similar interventions previously undertaken usually provides a particularly important source of evidence.

The quantifiable (non-monetized) and qualitative benefits must be recorded in the Benefits Register with their sources and assumptions.

6.1.4 Action 12: Undertake Risk Appraisal

Identify and quantify the risks associated with the options contained in the economic appraisals for the project's short listed options.

The project's service risks should be estimated and quantified in monetary terms, as equivalent likelihood values – that is the cost of mitigation multiplied by the likelihood of occurrence.

This is the subject of the Project Risk Management Procedure, cited in the references.

6.1.5 Action 13: Select Preferred Option and Undertake Sensitivity Analysis

Select the preferred option and undertake sensitivity analysis, thereby testing its robustness in relation to switching values and different scenarios for costs and the delivery of benefits.

6.1.5.1 Identifying the Preferred Option

Selecting the preferred option should be reasonably straightforward in the decision making process if the required analyses has been rigorously undertaken.

The business case should present the information succinctly and clearly for each option to support clear decision making. The following format provides a summary of the costs and benefits by key category and class. While not all of the costs and benefits will apply to every proposal, it should be considered as a starting point for the presentation of cost benefit information.

Option	Undiscounted	Discounted
Costs in the Appraisal of Public Value		
1. Total Direct Public Costs (to Originating Entity) 1.1 Capital 1.2 Revenue		
2. Total Indirect Public Costs (to Wider Public Sector) 2.1 Capital 2.2 Revenue		
3. Wider Social Costs 3.1 Capital 3.2 Revenue		
4. Total risk costs 4.1 Optimism bias 4.2 Estimated or Measured risk		
5. **Total of costs** (1,2,3,4 above)		
Benefits in Appraisal of Public Value		
6. Total Direct Public Sector Benefits 6.1 Cash releasing benefits (CRB) 6.2 Non cash releasing benefits (N CRB)		
7. Total Indirect Public Sector benefits 7.1 Cash releasing benefits (CRB) 7.2 Non cash releasing benefits (NCRB)		
8. Total Wider Social Benefits 8.1 Cash releasing benefits (CRB) 8.2 Non cash releasing benefits (NCRB)		
9. **Total value of benefits** (6,7,8 above)		
Net Public Value (9-5 above)		
Benefit Cost Ratio (BCR) (9÷5 above)		

The values of costs, benefits and risks are not always comparable, because some benefits and risks are non-quantifiable.

When an option has higher benefits, the decision needs to be made whether these benefits justify a higher net present cost. If the additional benefits are insufficient to justify the additional costs and risks, a lower cost and risk option should be selected.

Often the choice will remain between high cost/high benefit options and low cost/low benefit options. In these circumstances, a decision is required on the extent the higher benefits are worth paying for. Risk can also play a part in that a high cost/high benefit option may be considered too risky to undertake, and an intermediate option might show a more optimal balance of risk.

The final choice of the preferred option lies with senior management and their stakeholders, drawing on professional advice.

6.1.5.2 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 analyzed, 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.

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:

- Switching values, and
- Scenario analysis based on the best and worst possible outcomes.

These stages are discussed below.

6.1.5.3 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.

6.1.5.4 Scenario Analysis

Alternative scenarios are a useful in considering how options may be affected by future uncertainty and provide a valuable way of assessing risk, especially where there is a known risk of significant variations in external conditions.

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 investments and extend to creating detailed models of ‘future states of the world’ for major projects 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
Non-monetary benefits	Quantifiable and Qualitative
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, and
- Risk values.

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.

6.1.5.5 Final Selection of the Preferred Option

The preferred option should be that with the highest risk adjusted net present value (NPV), if a full cost benefit analysis (CBA) has been undertaken and the cost estimates are as accurate and reliable as possible.

Alternatively, the preferred option should be that with the lowest net present cost (NPC), if cost effectiveness analysis (CEA) has been undertaken, again assuming that the cost estimates are as accurate and reliable as possible.

A combination of proposals that best optimizes the value of benefits should be selected if there is an affordability constraint. 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, it should not be automatically assumed that additional monies will be unforthcoming for funding a higher cost proposal which demonstrably offers better public value.

Other factors may also affect the selection of the preferred option; in particular, any unvalued costs, risks and non-monetized benefits. In these circumstances it is essential to involve stakeholders in the decision making process about whether any additional cost is a price worth paying.

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

Evaluation results	Option 1 Status Quo	Option 2 Do Minimum	Option 3	Option 4, etc.
Net Present Values or Costs				
Qualitative benefits appraisal				
Qualitative risk appraisal				

6.1.5.6 Other Methods - Pay-back period and Internal Rate of Return

The ‘pay-back period’ is sometimes put forward as a decision criterion. However, the 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.

The ‘internal rate of return’ (IIR) should also be avoided as the decision criterion; because whilst it is very similar to NPV as a criterion, there are circumstances in which it will provide different answers. For example, IRR can rank projects that are mutually exclusive differently from NPV. These techniques may, however, be of interest to some parts of the public sector in terms of assessing commercial and financial considerations.

6.1.5.7 Workshop - Assessing the Short listed Options

At least one workshop is recommended for the completion of this section of the Project Business Case, so that the key stakeholders are engaged earlier on, can challenge and assist to shape the direction of the project. The purpose, objectives, key participants and outputs of this workshop are as follows:

Workshop	Assessing the Short listed Options
Objectives	To validate the findings of cost benefit analysis (CBA)/ cost effectiveness analysis (CEA) to the short listed options To appraise the qualitative benefits and risks. To identify the preferred option for the project that offers best public value.
Key participants	External stakeholders or commissioners Director of finance Economic adviser Customer and/or user representatives Project manager Facilitator
Outputs	Identification of the preferred option for the delivery of the project.

Checklist for step 4

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

- The economic appraisals (NPVs) for the short-listed options – risk adjusted and applying optimism bias (SAR);
- An assessment of both the non-monetized (qualitative) benefits and risks, and
- An assessment of the uncertainties (sensitivity analysis).

Output from Step 4

The economic case section of the outline business case is now complete and must be kept under review.

6.2 Step 5: Preparing for the Potential Deal

The purpose of the commercial case is to set out the procurement arrangements for the project’s key outputs and activities.

These arrangements need to be considered from the outset, in order to secure long term public value during the operational phase of the project.

Completing the commercial case requires undertaking the following actions for the preferred option identified in the economic case.

Step 5	**Preparing for the potential deal**
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

At least one facilitated workshop is recommended at this stage.

6.2.1 Action 14: Determine Procurement Strategy

Procurement must follow the Expro Procurement Procedure, given in the references, and the Government Tender and Procurement Law. The notes below are to assist the reader to determine the procurement strategy and possible procurement routes for the project's key outputs and activities.

This requires considering how the required services, supplies or works can best be procured in accordance with established rules and regulations.

Key considerations are:
- The choice of procurement method and the degree to which early consultation with the supply side is required, and
- The extent to which the Entity should be acting as a single procurement entity or procuring more collaboratively with other public bodies in order to secure economies of scale and improved public value.

6.2.1.1 Collaborative Procurements

These strategic arrangements - at national, departmental, sector and local level - offer significant flexibility and potential Value for Money, through economies of scale; and considerable reductions in procurement costs, through pre- competition.

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. Ensure the procurement strategy is appended to the Outline Business Case.

6.2.2 Action 15: Determine Service Streams and Required Outputs

Identify the project's service streams and required outputs and the scope and content of the potential Deal to be made with public and private sector service providers.
Consider the following approaches:

- Framing the project's requirements in terms of outputs to be produced, so as to enhance innovation;
- Specifying the quality attributes of the services and outputs required, together with the performance measures against which they will be assessed, and
- Scoping the potential deal so as to permit potential service providers to suggest innovative ways of meeting the project's requirements.

6.2.2.1 Services and Required Outputs

Summarize the project's required services and outputs and the potential implementation timescales required. Consideration should be given to capturing the following details for the project:

- 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 required outputs, including: phases, performance measures and quality attributes;
- The stakeholders and customers for the outputs;
- The options for variation in the existing and future scope for services, and
- The potential developments and further phases that may be required.

The services and outputs should be consistent with the Scope of Works produced during the application of the Project Delivery Strategy procedure/

6.2.2.2 Procurement Plan and Proposed Implementation Timescales

The project plan for the procurement of its key outputs and activities should be outlined and/or attached to the Project Business Case.

6.2.3 Action 16: Outline Potential Risk Apportionment

Risk allocation will follow the Risk Management Procedure, cited in the references.

6.2.4 Action 17: Outline Potential Payment Mechanisms

Identify how the project intends to make payment for its key services and outputs over the expected life span of the contract(s), if this is relevant (many contracts will cease upon completion of construction). Consider how best to 'incentivize' the service provider(s) to provide value for money over the life span of the project and its operational phase. This will assist the Entity to deal with the inevitable need for "change" to services and operations in the future and to embed risk transfer and allocation within the charging mechanism for the project.

The charging 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.

Properly constructed payment mechanisms incentivize the service provider to deliver services in accordance with the business imperatives of the public sector in the following key phases of the service:

- The pre-delivery phase, i.e. construction – 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, and
- The extension phase – post primary contract period.

6.2.4.1 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 realized 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.

6.2.4.2 The Operational Phase

A number of mechanisms are relevant here – each is discussed below. Any payment mechanism should be based on the principle of payment being made only when requirements/standards are met.

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 optimize 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 minimize 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 value for money (VFM) improved, if the scope for these potential revenue streams has been recognized and agreed, in principle, at the outset.

6.2.4.3 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, time taken to answer phone, number of abandoned calls, 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.

6.2.5 Action 18: Ascertain Contractual Issues and Accountancy Treatment

The Project Delivery Strategy procedure, given in the references, should be followed. The guide below outlines the contractual arrangements for the project, including the use of a particular contract, the key contractual issues for the deal and its accountancy treatment and personnel implications (if any).

6.2.5.1 Use of Contract

State the form of contract to be used.
In the case of a standard contract, state the title of the model contract to be used.
In the case of a bespoke contract, state why this is more advantageous than using a standard contract.

6.2.5.2 Key Contractual Issues

Contract management arrangements and key contractual issues should be considered and recorded in the OBC.

The main areas of the contract to be categorized are as follows:

- The duration of the contract(s) and any break clauses;
- The service provider's and procuring authority's respective roles and responsibilities in relation to the proposed deal;
- The payment/charging mechanism, including prices, tariffs, incentive payments etc.;
- Change control (for new requirements and updated services);
- The organization'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;
- 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, and
- Any options at the end of the contract.

The Award and Contract Execution Procedure should be followed where appropriate.

6.2.5.3 Accountancy Treatment

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).

6.2.5.4 Personnel Implications

Identify any personnel implications for the project.
Public sector organizations are 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.

6.2.5.5 Workshop - Developing the Deals

At least one workshop is recommended for the completion of this section of the OBC, so that the key stakeholders are engaged earlier on, can challenge and assist to shape the direction of the project.
The purpose, objectives, key participants and outputs of this workshop are as follows:

Workshop	**Developing the Commercial Strategy and Deals for the Project**
Objectives	• To develop the service specification for the project • To apportionment of the service risks and explore the underpinning payment mechanisms • To develop the contractual arrangements
Key participants	• External stakeholders or commissioners • Director of finance • Economic adviser • Customer and/or user representatives • Project manager • Facilitator
Outputs	• Procurement and commercial strategies for the project • Preliminary risk allocation matrix (RAM) for the project • Potential deal for the project

Checklist for step 5
There should now be a clear understanding of the Project's:

- Procurement strategy and routes;
- Potential deals and required services;
- Implementation timescales for potential projects;
- Supporting charging/payment mechanisms, and
- The contract(s) to be used and the key contractual issues.

6.3 Step 6: Ascertaining Affordability and Funding Requirement

The purpose of the financial case is to ascertain the affordability and funding requirements of the preferred option and to demonstrate that the recommended project is affordable.
This involves determining the funding and affordability of the proposed project on the Entity's income and expenditure account, balance sheet and prices for its services (if applicable).
Completing the financial case requires undertaking the following action.

Step 6 Ascertaining affordability and funding requirement
Action 19 Prepare financial model and the financial appraisals

6.3.1 Action 19 Prepare Financial Model and the Financial Appraisals

6.3.1.1 Focus of the Financial Appraisals

The focuses of the financial and economic appraisals are different. The economic appraisals focus on the value for money of the overall project. The financial appraisals focus on the affordability and fundability of the project.

The costs and benefits appraised in the financial case reflect an accountancy based perspective. Consequently, both resource and non-resource costs and benefits are factored into the analysis; so, for example, whereas transfer payments and depreciation are excluded from the economic appraisals, these costs are included in the financial appraisals, because they have a direct bearing on the affordability of the project.

The key differences can be summarized as follows:

Economic Appraisals	Financial Appraisals
Focus: • Net Present – public value for money	Focus: • Funding and affordability – cash flow and stock
Coverage: • Society as a whole	Coverage: • Relevant public organization(s) budget
• Relevant standards: • National guidance • Agreed discount rate applied	Relevant standards: • Public sector accounting rules and standing orders
Analysis: • Real (base year) prices • Use of opportunity costs • Includes all quantifiable welfare costs and benefits to society • Includes environmental costs • Excludes all transfer • Excludes general inflation • Excludes sunk costs • Excludes depreciation, impairment and capital charges.	**Analysis:** • Current (nominal) prices • Benefits – cash releasing only • Includes capital and revenue costs • Includes transfer payments • Includes inflation

The following financial statements are required for the project's spend:

- **A budget statement** - which should be based on resource accounting and budgeting (RAB) principles and show the resource costs over the life span of the project. For strategic initiatives, the budget will often comprise the forecast RAB financial statements of the whole organization 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 Entities 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 necessary to ensure that there is sufficient financial cover for risks and uncertainties.

6.3.1.2 Financial Modelling

For large, significant and complex projects, a financial model of the proposed expenditure needs to be constructed.

The model will provide an informed best guess of the likely impact and outcomes of the proposed project in its early stage of development. However, the reliability and robustness of the model will increase as it is kept under continuous review and updated to reflect the latest information.

Building the model may require specialist advice from accountants and financial advisers from outside of the Entity. In these circumstances, the Entity's Director of Finance and the Project's Senior Responsible Owner must play a lead role in vetting and maintaining the integrity of the model, since responsibility for its use as a decision making tool ultimately falls to the organization.

The minimum requirements for most projects are as follows:

- 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, and
- Preparing supporting schedules – i.e. for loans, fixed assets, taxation, and payments.

6.3.1.3 Capital and Revenue Requirements

Following on from the modelling exercise, a statement showing the capital and revenue requirements for the recommended project should be prepared. This should set out:

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

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

Summary of financial appraisal

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6, etc.	Total
Preferred Option:								
Capital								
Revenue								
Total								
Funded by:								
Existing								
Additional								
Total								

6.3.1.4 Net Effect on Prices

It may also be necessary to assess the implementation impact of the proposed deal on any contract prices that the Entity charges for its services. Costs should be covered by income, year by year, and the Entity must be confident that existing customers will continue to contract for services, or that new purchasers will secure additional contracts.

The impact on prices of capital charges must also be considered, if applicable. Capital charges are significant when considering the affordability of a development and they must be included in year by year financial projections, together with running costs and contract income from any purchasers.

The benefits that the proposed deal will deliver and the prices that the Entity will charge as a result will have an impact on competitiveness. Entities should, therefore, compare and benchmark the prices and quality levels of similar services offered by other providers.

The effect on prices should be analyzed in sufficient detail for purchasers to ascertain how the scheme will impact them. This means considering the impact on:

- The Entity's prices as a whole;
- The prices for individual services, and
- The prices of specific contracts.

Public sector investments are difficult to justify if they lead to an increase in prices for the Entity's services.

6.3.1.5 Impact on the Income and Expenditure Account

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

6.3.1.6 Impact on the Balance Sheet

The impact of the project on the Entity's balance sheet must 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 Entity's business.

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

6.3.1.7 Confirmation of Financial Support

Affordability issues are one of the main reasons for delay at the point at which OBCs are submitted for approval. The key principle here is that the source of funding, and the amount over time, must be confirmed and the project shown to be affordable throughout its life.

An OBC will only be successful and approved if consultation has been held between the Entity seeking spend for service improvement and its stakeholders/ commissioners/ purchasers, and other interested parties. Agreement, in principle, must be obtained for the project from the purchasers for the scheme. This should be in written form and included in the annex to the OBC.

The following provides an overview of the issues that should be addressed:

A confirmation of support should:
• Demonstrate that the main project sponsor has been involved in developing the project throughout the key stages • Confirm acceptance of the strategic aims and spending objectives of the project, including 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 organization – usually the chief executive officer

6.3.1.7.1 *Assessing Affordability*

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

1. The balance sheet has been correctly organized and properly accounts for current assets, current liabilities, long-term liabilities and capital
2. The balance sheet of the organization is in a healthy state
3. The Entity is solvent
4. The Entity is not over-trading
5. The cash flow of the Entity is sound
6. The necessary allowance has been made for risks.

The Balance Sheet – Items and 2

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

Working capital = current assets – current liabilities

An Entity should never run short of working capital or over-capitalize. 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:

Working capital (ratio) = current assets/current liabilities

Solvency – Item 3

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

Over-trading – Item 4

This links in with over-capitalization, where the Entity 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 Entity'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:

Return on capital employed = net receipts (or profits) – 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:

Return on capital invested = net profit – opportunity cost – capital invested

Cash Flow – Item 5

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, and

- An assessment of the cash balance at the end of a particular period.

Risks – Item 6
There are a number of risks which could affect the affordability of the project. The OBC should summarize 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 x% higher than expected?
- What if the expected savings were to fall by y%?
- What circumstances might cause saving targets to be breached?
- What if income to the organization were to be reduced by z% or more?
- Is there a robust strategy in place to guard against these outcomes?

Pay-Back Period
Finally, there is the pay-back period, which measures the rate at which the financial benefits from the investment 'pays back' the initial investment 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 in the construction and development phase – when benefits are unlikely to be sufficient to offset the costs of the investment.

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.

There are a number of remedies if the affordability analysis reveals the preferred option for the project is unaffordable. These include the following:

- Phasing the implementation of the project's outputs differently;
- Adopting a different design solution for some of the project's outputs;
- Altering the scope of the preferred option – for example, its functional content and/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 Entity'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, and
- Permitting service provider(s) to create additional revenue streams and new business and sharing in the resultant revenue streams.

Checklist for step 6
There should now be a clear understanding of:
- The capital and revenue implications of the project
- The impact on the income and expenditure account and the organization's charges for services (if applicable)
- The impact on the budget, other sources of available funding and any shortfalls
- The impact of the project on the organization's balance sheet.

There should also be written evidence of stakeholder support, if required.

Output from step 6
The financial case section of the Outline Business Case is now complete and must be kept under review.

6.4 Step 7: Planning for Successful Delivery

The purpose of the management case is to put in place the arrangements for the successful delivery of the project.

Completing the management case requires undertaking the following actions:

Step 7	**Planning for successful delivery**
Action 20	Plan project management – strategy, framework and plans
Action 21	Plan change and contract management – strategy, framework and plans
Action 22	Plan benefits realization – strategy, framework and plans
Action 23	Plan risk management – strategy, framework and plans
Action 24	Plan project assurance and post project evaluation – strategy, framework and plans

6.4.1 Action 20: Plan Project Management - Strategy, Framework and Plans

Put in place the strategy, framework and plans for successful project delivery using a proven methodology for guiding investments through a controlled, well managed and visible set of activities to achieve the desired results and benefits.
There must be evidence that these arrangements are in place.

6.4.1.1 Program and Project Methodology (PPM) Strategy

The implementation strategy of most Entities for the successful delivery of schemes is to embrace the principles of program and project management and to adopt a methodology for both which is based on proven standards and quality management.

Apply any national standards and the Project Delivery Procedure.

6.4.1.2 Project Framework

Summarize the following aspects and capture key points in a diagram:

- Structure;
- Reporting arrangements;
- Governance arrangements;
- Key roles and responsibilities, and
- Appointed personnel and any vacancies

6.4.1.3 Project Plan

The project plan is used to control and track the progress and delivery of the project and resulting outcomes. It describes how, when and by whom a specific project, milestone or set of targets will be achieved. It is the detailed analysis of how identified project 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 summarized and attached to the OBC.

This project plan should typically include:

- 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 associated constraints;
- When activities will occur, and
- The points at which progress will be monitored, controlled and reviewed, including delivery and approval of the business case and undertaking Gateway Reviews/Health Checks etc.

Consistency should be maintained with the Project Delivery Strategy.

6.4.1.4 Use of Special Advisers

The use of specialist advisers is encouraged where the necessary capabilities and competencies are in short supply for large, significant, complex and novel projects.

The requirement for special advisers usually falls into four key categories in the project plan: financial, legal, technical and project/project management. The OBC should indicate how and when this advice will be used along with expected costs.

Special advisers should be used where an independent and impartial role is required to achieve the best results. This includes facilitating workshops.

Care must be taken to ensure that ownership of the Business Case and responsibility for its development is retained by the Entity initiating the project (not the advisers).

6.4.2 Action 21: Plan Change Management - Strategy, Framework and Outline Plans

Put in place the strategy, framework and plans required for managing change.

Projects are about delivering change. This can range from service improvement, business process re-engineering (BPR) to a transformation in what and the way in which services are delivered.

Even where change is not seen as the primary driver for investment, as in the case of a replacement project, every effort should be taken to seize the opportunities for improving the efficiency of the service and public value.

Change needs to be managed and embraced by individuals within the Entity, hence the need for a change management strategy (linked to benefits realization); a change management framework (to manage anticipated and unexpected change) and a plan (to explain what will be delivered, by whom and when in terms of underlying activities).

6.4.2.1 Change Management Strategy

The main purpose of the change management strategy is to assess the potential impact of the proposed change on the culture, systems, processes and people working within the Entity.

There are various management strategies for implementing change. The choice of strategy will depend upon the degree and pace of change required. The degree of service change can range from increased automation, re- configuration to the complete transformation of a business function. The pace of change can range from 'big bang' to phased or incremental introduction depending on the strategic driver and the ability of the Entity to cope with service change.

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

6.4.2.2 Change Management Framework

The responsibility for the delivery of service change belongs to the Project Board and must remain under its control.

In the case of major societal change, the project may form only one part of a longer-term strategy involving other projects and programs, both current and future, within the strategic portfolio. The associated and anticipated governance and reporting arrangements should be clearly explained in these circumstances.

6.4.2.3 Change Management Plans

The change management plan should be set out the communication and developmental deliverables (for example, training products) required for the implementation phase. These plans should indicate how relevant personnel within the Entity, including human resources and staff representatives have been involved and contributed to date.

6.4.3 Action 22: Plan Benefits Realization - Strategy, Framework and Outline plans

Put in place the management arrangements required to ensure that the project delivers its anticipated benefit.

6.4.3.1 Benefits Realization Strategy

The benefits realization 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 realization of those benefits throughout the key phases of the project.

6.4.3.2 Benefits Realization Framework

The responsibility for benefits realization lies with senior management, who must ensure that delivery arrangements are outlined within the OBC.

6.4.3.3 Benefits Register

All projects must capture benefits within a benefits register. This register should also indicate how those benefits are to be realized.

The benefits register should be updated and reviewed continuously throughout the course of the project and capture the following information for each benefit:

Benefits Register	
Benefits number	(unique within the register)
Benefit category & class	
Description	(including enabling project or activity)
Service feature	(what aspect of the project will give rise to the benefit – to facilitate monitoring)
Potential costs	(incurred during delivery)

All the benefits identified in the strategic case and economic case sections of the OBC must be accounted for within the benefits register. This includes the economic appraisal for the preferred option.

6.4.4 Action 23: Plan Risk Management - Strategy, Framework and Outline Plans

This aspect will be governed by the Risk Management Procedure, already cited.

6.4.5 Action 24: Plan Project Assurance and Post Project Evaluation

Put in place the necessary arrangements for project assurance and post evaluation, using the appropriate Expro procedures, e.g. the White Book. The advice provided below should be considered supplementary to those procedures, not a substitute.

6.4.5.1 Project Assurance

Project assurance provides independent and impartial assessment that the project's spending objectives can be delivered successfully and improves the prospects of achieving intended outcomes and benefits.

Specify the project assurance arrangements for the scheme, which may include: quality assurance; technical assurance; security assurance.

Any national standards should be applied.

Review points are recommended in the guidance for the consideration of the project team.

6.4.5.2 Post Project Evaluation Strategy

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

- To improve project delivery through lessons learnt during the project delivery phase. This is often referred to as the "project implementation review" (PIR), and
- To appraise whether the project has delivered its anticipated outcomes and benefits. This is often referred to as the "post evaluation review" (PER).

This section of the OBC should set out the Entity's strategy for both aspects of post project evaluation (PPE) and explain whether the project implementation review (PIR) and post evaluation review (PER are to be undertaken jointly or separately.

6.4.5.3 Post Project Evaluation Framework

This section should outline management arrangements for ensuring that post project evaluation (PPE) takes place.

6.4.5.4 Post Project Evaluation Plans

This section should set out the expected timing(s) for post project evaluation (PPE). These arrangements should be included in the project plan with named individuals responsible for their delivery.

6.4.5.5 Workshop - Successful Delivery Arrangements

At least one workshop is recommended for the completion of the management case section of the OBC, so that the key stakeholders are engaged early on, can challenge and assist to shape the direction of the project.

The purpose, objectives, key participants and outputs of this workshop are as follows:

Workshop	**Putting in place arrangements for successful delivery**

Objectives	• To develop strategies, frameworks and plans for:
	  o project management
	  o change and contact management
	  o benefits realization and risk management
	  o project assurance and evaluation
	• To agree the project delivery plan.

Key participants	• External stakeholders or commissioners • Director of finance • Economic adviser • Customer and/or user representatives • Project manager • Facilitator

Workshop	Putting in place arrangements for successful delivery
Outputs	• Management and delivery arrangements • Project assurance arrangements • Post project evaluation arrangements

Checklist for step 7

There should now be clear understanding of the:

- Project management and governance arrangements
- Project plan
- Change management arrangements
- Benefits realization arrangements, including an attached benefits register
- Risk management arrangements, including an attached risk register
- Project assurance arrangements
- Post project evaluation arrangements.

Output from step 7

The management case section of the Outline Business Case is now complete and must be kept under review.

Outcome of stage 2 and the preparation of the OBC

The OBC has now been completed for the approval of senior management and the approving authority.

Management considerations include:

- Undertaking project assurance to confirm the delivery strategy for the project
- Approving the OBC and agreeing to the next stage: the development of the FBC, prior to procurement
- Modifying the scope of the project and including further options
- Undertaking a full study to test further key assumptions
- Postponing or abandoning the project, because it is considered either too expensive, too ambitious or too high risk.

6.5 Gateway Review

6.5.1 Purpose of the Review

Once the OBC is complete, the final stage is to conduct a gateway Review, to confirm that the project has adopted the most appropriate Delivery Strategy. The Gateway Reviewer will rely not only on the business case itself but on the evidence, which was collected and tabulated in the Evidence Matrices. As with the business case being reviewed, the level of detail in the Gateway Review needs to be proportionate to the importance of the project, and needs to be agreed between Sponsor and Gateway Reviewer.

The purpose of the Gateway Review - Delivery Strategy is to assess the project's viability, its potential for success, the value for money to be achieved, and the proposed approach for achieving delivery of the project's objectives. If appropriate, the Review will assess whether the project is ready to invite proposals or tenders from the market. This Review assures the Project Board that the selected delivery approach is appropriate for the proposed business change, whether involving the acquisition of goods or services, effecting organizational change, policy implementation, rollout of services to citizens, or other development.

Where a strategic partnering arrangement is in place, procurement regulations may still apply along with market benchmarking, value for money assessments and potential contract changes therefore the review appraisal must still be undertaken. The Project Team and Review Team must be satisfied that due consideration has been given to all the factors, including choices about proposed commercial arrangements with the existing supplier that offer value for money.

A project will normally have to go through a Gateway Review to validate the proposed delivery strategy before any commitments are made to prospective suppliers or delivery partners about the acquisition process.

6.5.2 Finding and Recommendations

Covering all of the areas listed above, and referring back to the documentation provided, the Gateway Reviewer will state their Findings and make Recommendations on how the early project preparation could be improved.

6.5.3 Decision

The Gateway Reviewer will also express a Decision on whether to accept the project, Reject it, or Refer Back the project back for more development.

7.0 ATTACHMENTS

1. EPM-S00-TP-000007 - Evidence Matrices Template - Project Outline Business Case
2. EPM-S00-TP-000008 - Project Outline Business Case Template

Attachment 1 - EPM-S00-TP-000007 - Evidence Matrices Template - Project Outline Business Case

1.0 ASSESSMENT OF DELIVERY APPROACH

Areas to probe	Evidence expected	Evidence Supplied
1.1 Have all the relevant options for delivery been investigated and do these consider both the business needs of the organization and address relevant government priorities?	• Examination and assessment of options, including the use of internal resources.	
1.2 Are the business needs clearly understood by the client organization and likely to be understood by those involved in delivery?	• Detailed output/outcome-based definition of requirements • Specification to include key success factors to show how achievement of outputs/outcomes will be assessed • Appropriate quality criteria applied to information for the delivery organization (internal or external).	
1.3 Are the project outputs/outcomes accurately reflected in the requirement specification?	• Depending on the nature of the delivery, an appropriate form of requirement specification reviewed and endorsed by stakeholders • Appropriate mechanism to articulate the requirement to potential suppliers, internal or external, quality assured to ensure that suppliers will understand what is wanted.	
1.4 Where appropriate, have options for the procurement route been evaluated, including sources of supply?	• All appropriate sourcing options examined (e.g. use of internal resources, single or multiple suppliers; opportunities for collaboration, Shared Services, use of existing frameworks, etc.). For construction projects, evidence that integrated procurement routes have been fully evaluated. • Where PPP is the proposed option, confirmation that it is appropriate • Comparison with similar projects and analysis, supported by commercial intelligence on market capability • Reasons for selecting sourcing options documented and justified.	

Areas to probe	Evidence expected	Evidence Supplied
1.5 Will the project be attractive to the market?	• Detailed market soundings taken, including an examination of recent similar procurements by others or a commentary on the capacity of the market and the nature of the project's likely suppliers • Initial assessment of likely suppliers • An assessment of market capacity to deliver • An assessment of the competitive interest in the requirement • If appropriate, assurance that the organization has adequate expertise and capacity to undertake internal delivery of the requirement • Analysis of potential variations or innovations.	
1.6 Has the proposed procurement procedure been evaluated?	• Reasons for following this procedure understood, related risks evaluated (such as impact on timescales and bid costs for suppliers), decision justified and documented • If appropriate, an electronic reverse auction or a Dynamic Purchasing System has been considered and the risks and benefits evaluated • Legal advice has been sought on any procurement approach	
1.7 Is the selected delivery strategy defined and endorsed?	• Delivery strategy clearly defined, showing reasons for selection and agreed with stakeholders • Evidence that government initiatives aimed at achieving excellence in Construction and Transformational Government have been considered • Evidence that business continuity and future exit, handover and transition strategies have been considered at high level • Confirmation of development, involvement and endorsement of the delivery strategy by the appropriate individuals • Strategy to include, as appropriate: description of the key objectives, constraints (e.g. timescale), funding mechanism and risk allocation; the delivery route (how the strategy will be achieved) including sourcing option and contract strategy; procurement procedure time plan to include timetable laid down by procurement rules and time needed for pre-procurement activities, implementation and contingency in the event of unavoidable slippage, with milestones; assessment of marketplace/potential suppliers; the roles, resources and skills needed to manage the delivery strategy; alignment with plans for implementation • Procurement innovation and sustainability issues have been considered.	

Areas to probe	Evidence expected	Evidence Supplied
1.8 Have the factors that influence the delivery strategy been addressed?	• Documented evidence that key factors influencing the delivery strategy have been considered • Evidence that efficiency and predictability of delivery process have been considered, with a process in place for addressing the impact of any deviation from the plan and timetable, and plans for two-way communications with stakeholders and suppliers.	
1.9 Will the delivery strategy facilitate communication and co-operation between all parties involved?	• Communication strategy and support mechanisms in place • Evidence that the delivery strategy will include: ○ early involvement of suppliers to ensure the design is fully informed by the delivery process ○ clearly defined performance criteria with key performance indicators and a system for measuring performance	
1.10 Is there adequate knowledge of existing and potential suppliers? Who are the suppliers most likely to succeed?	• Evidence showing that adequate knowledge of existing and potential suppliers has been considered • Evidence of commercial market intelligence, market sources and potential suppliers • Evidence of track records from public and private sector considered (public sector's ability as a customer to work in this way; private sector track record in meeting similar or equivalent business need) • Indications of the types of suppliers most likely to succeed in delivering the required outcomes.	

Areas to probe	Evidence expected	Evidence Supplied
1.11 Is the contract management strategy robust?	• Contract management strategy takes account of key factors such as the required 'intelligent customer' skills, proposed relationship, management of single or multiple suppliers • Evidence of continuity of key project personnel.	
1.12 Has the project team complied with procurement laws?	• The Tender Notice is reviewed, shown to be complete and containing an accurate description. For construction projects, includes requirement for suppliers to provide relevant health and safety information; specification includes government sustainability commitments • Implications of the requirement thoroughly considered (e.g. ensuring take-up of new services by the citizen), with contingency plans for phasing out current ways of providing the service • Pre-tender Qualification produced in accordance with national laws, and reviewed/accepted by the project	
1.13 Is the evaluation strategy (including how to demonstrate value for money) accepted by stakeholders and compliant with procurement rules?	• Evaluation criteria and model(s) approved by stakeholders • Key evaluation criteria linked to business objectives and given appropriate weighting • Financial and non-financial aspects of the evaluation separated out • Evaluation criteria included in information to potential tenderers and priorities in meeting that need, where applicable (e.g. quality of service, innovation) • For construction projects, appropriate weight given to health and safety, sustainability, design quality • Where appropriate, the evaluation includes benchmarking the value for money offered by partnering, internal supplier or framework/call-off arrangement • Consideration of contract duration, in relation to value for money and whole life costs • Consideration of whether to act on behalf of other public sector organizations in the role of a Central Purchasing Body.	

2.0 BUSINESS CASE AND STAKEHOLDERS

Areas to probe	Evidence expected	Evidence Supplied
2.1 Does the Business Case continue to demonstrate business need and contribution to the organization's business strategy?	• Continued confirmation that the project will meet business need (including confirmation that priorities remain unchanged where any external factors might have an effect) • Confirmation that the objectives and desired outputs of the project are still aligned with the programme to which it contributes, if appropriate.	
2.2 Is the preferred way forward still appropriate?	• Continued confirmation of the way forward, supported by assessment based on indicative assumptions about factors such as interdependencies with other programmes and projects, reliance on partners to deliver, availability of internal resources, etc.	
2.3 Is the proposed arrangement likely to achieve whole-life value for money?	• Bases for calculating costs (value of requirements) and comparison of delivery approaches (e.g. tenders) agreed with key stakeholders • Updated Business Case based on the full project definition, market assessment and initial benefits plan • Delivery strategy reflected in Business Case • Examination of sensitivities and financial implications of handling major risks; assessment of their effect on project return • Projects that are not designed to achieve a financial return should include comparisons with similar successful projects to assess the potential to achieve value for money and to set targets.	
2.4 Are the costs within current budgets? Is the project's whole-life funding affordable and supported by the key stakeholders?	• Reconciliation of projected whole-life costs with available budget, reviewed and accepted or approved by key stakeholders • Project costs within organization's forecasted spending plans.	

Areas to probe	Evidence expected	Evidence Supplied
2.5 Is the organization still realistic about its ability to achieve a successful outcome?	• Comparison with similar projects (and similar organizations); assessment of past track record in achieving successful change; plans to manage known weaknesses; where applicable, plans for incremental/modular approaches; contingency plans in place • If the project crosses organizational boundaries: there are clear governance arrangements to ensure sustainable alignment with the business objectives of all organizations involved.	
2.6 Is there a clear definition of the total project scope?	• Updated document showing total project scope including business change, where applicable.	
2.7 Are the risks and issues relating to business change understood? Is there an initial plan to address these issues?	• Risks and issues relating to business change logged, according to the Risk Management Procedure. • Account has been taken of relevant impact assessment and appraisal issues such as Regulatory Impact, Sustainable Development and Environmental Appraisal.	
2.8 Do stakeholders support the project? Is the organization still fully committed?	• Documented involvement of and endorsement by stakeholders.	
2.9 Are the benefits to be delivered by the project understood and agreed with stakeholders? Is there an initial plan for realising and evaluating benefits?	• Benefits are clearly stated • Initial plan for realising and evaluating delivery of benefits, showing costs offset by (e.g. improved quality of service and/or savings over the project's expected life) • Critical success factors for the project are still valid, and agreed with stakeholders.	

3.0 REVIEW OF CURRENT PHASE (IF APPLICABLE)

Areas to probe	Evidence expected	Evidence Supplied
3.1 Is the project under control?	• Project running to schedule and costs within budget, as shown in project budget and timetable reports.	
3.2 What caused any deviations such as over or under-runs?	• Reconciliations set against budget and time plan, and in accordance with risk allowances.	
3.3 What actions are necessary to prevent deviations recurring in other phases?	• Analysis and plans documented in project management documentation that is continually reviewed and updated.	
3.4 Are there any assumptions documented at the previous Gateway Review that have not been verified?	• Log of outstanding assumptions and plans to verify them; where applicable, classed and managed as issues.	

4.0 READINESS FOR NEXT PHASE: INVESTMENT DECISION

Areas to probe	Evidence expected	Evidence Supplied
4.1 Is the project plan for the remaining stages realistic?	• Clear objectives, deliverables and milestones for the next stage defined and signed off by stakeholders • Recommendations from last Gateway Review actioned.	
4.2 Are the project's timescales reasonable, and compliant with procurement rules?	• Timescales are likely to meet business and legislative needs and have been verified with internal stakeholders and suppliers • Comparisons with similar projects • Where appropriate, written record available of compliance with procurement rules in relation to all procurement project decisions taken • Analysis of the effects of any slippage that will affect the project (e.g. procurement costs) and suppliers (e.g. bid costs), with supporting sensitivity analysis.	

Areas to probe	Evidence expected	Evidence Supplied
4.3 What are the arrangements for the next stage of the project? Have its activities been defined and resourced?	• Plan showing roles, responsibilities, training requirements, internal and external resources, skills requirements and any project management mentoring resources available • Involvement from a business, user and technical perspective • A suitable/appropriate plan for the selected delivery approach that identifies all key review and decision points, including any preliminary reviews • Appropriate standard form of contract identified, as the baseline for later adaptions as required	
4.4 Does the project have resources with, where required, the appropriate skills and experience?	• Requisite skills available in the Project Team, and access to external expertise as appropriate • Requirements for 'intelligent customer' capabilities, where appropriate, identified and plans for putting them in place • Project relationships such as team-working and partnering considered, with a plan to implement them where appropriate • Internal and external commitment to provide the resources required • Job descriptions for key project staff • Skills audit undertaken and plans for addressing any shortfall • Contract management staff identified to join the procurement team at an early stage, to familiarize themselves with the procurement's intent and processes • Appropriate allocation of key project roles between internal staff and consultants or contractors.	

Attachment 2 - EPM-S00-TP-000008 - Project Outline Business Case Template

1.0 EXECUTIVE SUMMARY

Italic text indicates instructions in the guidance below.

1.1 Introduction

This Outline Business Case (OBC) seeks approval to invest Saudi Arabian Riyals (SAR) [capital cost] in [Add Comments]

The OBC build on and supersedes the earlier Strategic Outline Case (SOC).

Describe and define the project in sufficient detail so that the rest of the Executive Summary is understandable.

1.2 Strategic Case

1.2.1 The strategic Context

Summarize the strategic drivers for this investment, with particular reference to supporting strategies, programs and plans.

1.2.2 The Case for Change

Summarize the business needs for this investment, with particular reference to existing difficulties and the need for service improvement.

1.3 Economic Case

1.3.1 The Long List

Summarize the long list of options explored within the economic case.

1.3.2 The Short List

The following short list of options emerged:

- **Option 1 –** Status quo, do nothing or do minimum;
- **Option 2 –** The reference project or outline Public Sector Comparator (PSC);
- **Option 3 –** The PSC – more ambitious, and
- **Option 4 –** The PSC – less ambitious.

1.3.3 Key Findings

Set out the key findings from the economic appraisals here and complete the table below.

	Undiscounted (SAR)	Net Present Cost (Value) (SAR)
Option 1 – Do Nothing/Do Minimum/Status Quo		
Capital Revenue/ current Risk retained Optimism bias		
Total costs		
Less cash releasing benefits		
Costs net cash savings		
Non-cash releasing benefits		
Total		
	Undiscounted (SAR)	Net Present Cost (Value) (SAR)

Option 2 – Reference Project/ Outline Public Sector Comparator		
Capital Revenue/ current Risk retained Optimism bias		
Total costs		
Less cash releasing benefits		
Costs net cash savings		
Non-cash releasing benefits		
Total		
	Undiscounted (SAR)	Net Present Cost (Value) (SAR)
Option 3 – More ambitious version of Reference Project		
Capital Revenue/ current Risk retained Optimism bias		
Total costs		
Less cash releasing benefits		
Costs net cash savings		
Non-cash releasing benefits		
Total		
	Undiscounted (SAR)	Net Present Cost (Value) SAR
Option 4 – Less ambitious version of Reference Project		
Capital Revenue/ current Risk retained Optimism bias		
Total costs		
Less cash releasing benefits		
Costs net cash savings		
Non-cash releasing benefits		
Total		

1.3.4 Overall Findings: the Preferred Option

The overall conclusions of the analysis are [Add Comments]

Complete the table below.

Evaluation Results	**Option 1**	**Option 2**	**Option 3**	**Option 4**
Economic appraisals				
Benefits appraisal				
Risk appraisal				
Overall ranking				

1.4 Commercial Case

1.4.1 Procurement Strategy

Summarize the procurement strategy and intended contractual arrangements.

1.4.2 Required Services

Summarize the products and services intended for use and procurement with regard to the recommended option.

1.4.3 Potential for Risk Transfer and Potential Payment Mechanisms

Summarize the main risks associated with the scheme and supporting arrangements for payment for the required products and services.

1.5 Financial Case

1.5.1 Financial Expenditure

The expenditures and sources of funding are given in the table below.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	SAR	SAR	SAR	SAR	SAR	SAR	SAR	SAR
Preferred option:								
Capital								
Revenue								
Total								
Funded by:								
Existing								
Additional								
Total								

Provide a brief commentary on the main points.

1.5.2 Overall Affordability and Balance Sheet Treatment

Summarize the overall affordability of the scheme – both in terms of its capital and revenue consequences – over the lifespan of the investment.

Where the scheme requires the support and approval of external parties, indicate that this is forthcoming. A letter of support should be attached as an appendix.

1.6 Management case

1.6.1 Project Management Arrangements

Summarize the project management arrangements for the scheme.

1.6.2 Benefits Realization and Risk Management

Summarize these arrangements.

1.6.3 Gateway Review Arrangements

Summarize these arrangements.

2.0 THE STRATEGIC CASE

2.1 Part A: The strategic Context

2.1.1 Organizational Overview

Please provide an updated overview of the organization(s) making the case for investment in the scheme.

2.1.2 Business Strategies

Please reference the business strategy for the organization(s) and any related national or regional strategies, noting any changes since agreement to the SOC for the scheme.
In the main, this will include consideration of national policy documents, regional plans and supporting SOPs and other relevant initiatives.

2.1.3 Other Organizational Strategies

Please provide an update on any other related organizational strategies, as appropriate.

2.2 Part B: The Case for Change

2.2.1 Investment Objectives

The investment objectives for this project are as follows:

- Investment objective 1: [Add Comments]
- Investment objective 2: [Add Comments]

Please revisit since SOC and note how these were derived with the stakeholders and customers for the proposed scheme. They **must** be SMART – specific, measurable, achievable, relevant, and time constrained. In particular, consideration should be given to investment objectives which will reduce cost (economy); improve throughput (efficiency) and improve quality (effectiveness); and the need for replacement services.

2.2.2 Existing Arrangements

This section describes the existing situation with regard to the investment. In the case of a replacement service – details of existing costs can be included here.

The existing arrangements are [Add Comments] The table below summarizes existing costs.

Existing costs SAR	Service stream	Service stream	Service stream	Service stream	Total
Current					
Capital					
Duration of contract					

2.2.3 Business Needs

This section provides a detailed account of the problems, difficulties and service gaps associated with the existing arrangements in relation to future needs and changes since submission of the SOC.

2.2.4 Potential Business Scope and Key Service Requirements

This section describes the potential scope for the project in relation to the above business needs and the changes (if any) since submission of the SOC. It may be helpful to consider the potential scope assessed against a continuum of need ranging from:

- *A minimum scope – essential or core requirements/outcomes;*
- *An intermediate scope – essential and desirable requirements/outcomes, and*
- *A maximum scope – essential, desirable and optional requirements/*outcomes.

The options within these ranges are considered within the economic case.

The business scope and key service requirements are summarized in the table below.

	Minimum	**Intermediate**	**Maximum**
Potential business scope			
Key service requirements			

2.2.5 Main Benefits Criteria

This section describes the main outcomes and benefits associated with the implementation of the potential scope in relation to business needs.

Satisfying the potential scope for this investment will deliver the following high-level strategic and operational benefits. These are shown in the able, summarized by investment objective.

Investment objectives	**Main benefits criteria by stakeholder group**
Investment objective 1	**Patients** Cash releasing (SARs) *For example, avoided costs* Non cash releasing (SARs) *For example, Staff time saved (x hours)* Qualitative *For example, staff morale* **Clinicians** Ditto **Administrators** Ditto
Investment objective 2	
[Add Comments]	

The main dis-benefits are:

2.2.6 Main Risks

The main business and service risks associated with the potential scope for this project are shown in the table below, together with their counter measures. *Alternatively, or in addition, there should be reference to the project risk register, compiled according to the Mashroat risk management procedure.*

Main Risk	Counter Measures
Design and Development • Supplier • Specification • Timescale • Change management and project management	
Implementation risks • Supplier • Timescale • Specification and data transfer • Cost risks • Change management and project management • Training and user	
Operational risks • Supplier • Availability • Performance • Operating cost • Project management	
Termination risks	

Note: this section should update and expand on the key risks identified within the SOC.
The above table shows the main risk categories typically associated with the provision of the service – business and external environmental risks also need to be considered.

2.2.7 Constraints

The project is subject to the following constraints: [Add Comments]
These are the internal parameters which have been established at outset of the project. Any changes since the SOC should be noted.

2.2.8 Dependencies

The project is subject to the following dependencies that will be carefully monitored and managed throughout the lifespan of the scheme.

These are the external influences on the project – namely things which have to be in place in order to make a success of this investment. Any changes since the SOC should be noted.

3.0 THE ECONOMIC CASE

3.1 Confirm the Earlier Economic Case

This section of the OBC documents the wide range of options that have been considered in response to the potential scope identified within the strategic case.

3.1.1 Critical Success Factors

The critical success factors (CSFs) shown within the earlier SOC were as follows: [Add Comments]
These have been re-visited in the context of the OBC and remain valid/ have changed as *follows (amend as required)*

3.1.2 The Long-Listed Options

The long list shown evaluated within the within the SOC are shown in the table below:

Options	Finding
1.0 Scoping	
1.1 Do nothing	
1.2 Minimum scope	
1.3 Intermediate scope	
1.4 Maximum scope	
2.0 Service solution	
2.1 Solution #1	
2.2 Solution #2	
3.0 Service delivery	
3.1 In house	
3.2 Outsource	
3.3 Strategic partnership	
4.0 Implementation	
4.2 Big Bang	
4.3 Phased	
5.0 Funding	
5.1 Private funding	
5.2 Public funding	

These have been re-visited in the context of the OBC and remain valid/ have changed as follows:
Add as appropriate

3.2 Short-listed Options

The short list shown within the SOC was as follows:

- Option 1 – The do nothing/minimum;
- Option 2 – The reference project based on totality of the preferred choices, i.e. the Preferred Way Forward;
- Option 3 – A more ambitious version of the reference project, and
- Option 4 – A less ambitious option of the reference project.

The short-listed options are described in more detail below.

Option 1 – the do nothing/minimum
Describe the option.
This option provides the baseline for comparison with other options and is based upon the following parameters:

- Scope: [Add Comments]
- Solution: [Add Comments]
- Service delivery: [Add Comments]
- Implementation: [Add Comments]
- Funding: [Add Comments]

Add similar information for Options 2, 3 & 4.

3.3 Economic Appraisal

3.3.1 Introduction

This section provides a detailed overview of the main costs and benefits associated with each of the selected options, while indicating how they were identified and the main sources and assumptions.

More detailed information is shown for each cost and benefit line within the economic appraisals in the Appendices.

3.3.2 Estimating Benefits

3.3.2.1 Methodology

The benefits associated with each option were identified during a workshop held on [Add Comments] with the stakeholders and customers for the scheme. A list of participants is attached in the Appendices.

3.3.2.2 Description, Sources and Assumptions

The benefits are classified into the categories shown in the table:

Type	Direct to Organization(s)	Indirect to Organization(s)
Quantitative (or quantifiable)	Measurable – for example, SARs or numbers of transactions etc.	As shown
Cash releasing	These are financial benefits – for example, avoided spend, reduced cost etc.	As shown
	The above are accounted for in the financial case appraisals	***The above are NOT accounted for in the financial case appraisals***
Non-cash releasing	These are economic benefits – for example, opportunity cost of staff time etc.	As shown
	All of the above are accounted for in the economic case appraisals	***All of the above are accounted for in the economic case appraisals***
Qualitative (or non-quantifiable)	Non-measurable – for example, quality improvements such as patient well-being, improved morale etc.	As shown
	Subject to weighting and scoring – see below	***Subject to weighting and scoring – see below***

For each benefit within the classification above, the sources and assumptions should be explained. A more detailed explanation for each benefit line should be given in the Appendices.

3.3.3 Estimating Costs

3.3.3.1 Methodology

The following cost estimating methods were used [Add Comments]

3.3.3.2 Description, Sources and Assumptions

The costs identified fell into the following **main** categories [Add Comments] *list categories with explanation.*

In each case, the sources and assumptions underlying their use are explained. *A more detailed explanation for each cost line is attached to the economic appraisals in the Appendices [Add Comments]*

*Note: special consideration should be given to the use of 'optimism bias at OBC stage. Costs falling to other public sector organizations **should** be included.*

3.3.4 Net Present Cost Findings

The detailed economic appraisals for each option are attached in Appendices together with detailed descriptions for costs and benefits, and their sources and assumptions. Options may be risk-adjusted to account for the 'risk retained' (in SARs) by the organization under each option.

The following table summarizes the key results of the economic appraisals for each option:

	Undiscounted (SAR)	Net Present Cost (Value) (SAR)
Option 1 – Do Nothing/Do Minimum/Status Quo		
Capital Revenue/ current Risk retained Optimism bias		
Total costs		
Less cash releasing benefits		
Costs net cash savings		
Non-cash releasing benefits		
Total		
Repeat for Option 2, Option 3 and Option 4		

3.3.5 Option Ranking and Conclusions

The results are summarized and shown in the following table:

Option	**Description**	**Ranking**				
		Net Present Cost (SAR) (SARs)	Cash benefit	Non cash benefit	Cost net cash savings	Costs net all savings
1						
2						
3						
4						

The key findings are as follows

3.4 Qualitative Benefits Appraisal

3.4.1 Methodology

A workshop was held at [Add Comments] on [Add Comments] to evaluate the qualitative benefits associated with each option.

The appraisal of the qualitative benefits associated with each option was undertaken by:

- Identifying the benefits criteria relating to each of the investment objectives;
- Weighting the relative importance (in %s) of each benefit criterion in relation to each investment objective;

- Scoring each of the short-listed options against the benefit criteria on a scale of 0 to 9, and
- Deriving a weighted benefits score for each option.

3.4.2 Qualitative Benefits Criteria

The benefits criteria were weighted as follows for each investment objective:

Investment Objectives	Qualitative Benefits	Weight
Investment objective 1	For example, business continuity through the provision of [Add Comments] For example, business flexibility through the provision of [Add Comments]	30%
Investment objective 2		25%
Investment objective 3		25%
Investment objective 4		10%
Investment objective 5		10%

3.4.3 Qualitative Benefits Scoring

Benefits scores were allocated on a range of 0-9 for each option and agreed by discussion by the workshop participants to confirm that the scores were fair and reasonable.

The results of the benefits appraisal are shown in the following table:

Benefit Criteria and Weight	Option 1		Option 2		Option 3		Option 4	
Raw (R) and weighted (W)scores	R	W	R	W	R	W	R	W
Investment objective 1								
Investment objective 2								
Investment objective 3								
Investment objective 4								
Investment objective 5								
Total								
Rank								

The key considerations that influenced the scores achieved by the various options were as follows:

- Option 1 – do nothing/do minimum/status quo:

  This option ranks [Add Comments]
  It provides [Add Comments]
  Key considerations influencing its score are [Add Comments]

Repeat for Options 2, 3, 4.

3.5 Risk Appraisal – Unquantifiable

A workshop was held at [Add Comments] on [Add Comments] to evaluate the risks associated with each option.

*List the risks using the guidance below, in the appropriate section. The risks associated with the scheme **must** be identified, prioritized and appraised in all instances. The primary risk management tool is the Mashroat risk management procedure.*

In the case of significant, new and/or high value investments, the risks should be quantified in SARs and included in the economic appraisals ('cost of risk retained'). In the absence of risk measurement (in SARs), a sum should be included for optimism bias – see the guidance that supports these templates. All other risks – those that are unquantifiable in SARs – should be appraised as shown below.

*In the case of medium and small sized schemes, it may suffice at this stage to weight and score the risks for each option and to rank accordingly – see below. Whatever the approach, a sum **must** be included for optimism bias in the economic appraisals.*

Ideally, the risks should be quantified (in SARs) in all cases and the non-quantifiable risks assessed as outlined below. In most instances, you will find the service risks associated with the design, build and operation features of the scheme fall in the former category, while associated business risks fall into the latter. External environmental risks – for example, inflation – may be ignored for the purposes of this appraisal, given that they are common to all options.

3.5.1 Methodology

Risk appraisal has been undertaken and involved the following distinct elements:

- Identifying all the possible business and service risks associated with each option;
- Assessing the impact and probability for each option, and
- Calculating a risk score.

3.5.2 Risk Scores

The workshop assigned the risk scores shown in the following table on the basis of participants' judgment and assessment of previous procurements. A more detailed assessment of the individual risks is shown in the risk register.

The range of scales used to quantify risk was as follows:

- Low equals 1
- Medium equals 3
- High equals 5.

The table summarizes the results.

Summary of Risk Appraisal Results: OBC (PR = probability)	**Risk category no.**	**Impact**	**Option 1 – do minimum**		**Option 2 – Reference**		**Option 3 – more ambitious than reference**		**Option 4 – less ambitious than reference**	
			Pr.	Tot.	Pr.	Tot.	Pr.	Tot.	Pr.	Tot.
Risk description										
Risk description										
Risk description										
Risk description										
Total										
Rank										

The key considerations that influenced the scores achieved by the various options were as follows:

- Option 1 – do nothing/ do minimum/ status quo

  This option ranks [Add Comments]
  It provides [Add Comments]
  Key considerations influencing its score are [Add Comments]

Add similar text for Options, 2, 3 & 4.

3.6 Sensitivity Analysis

3.6.1 Methodology

The methods used were:

a) 'switching values'

b) Scenario planning / analysis ('what if ') by altering the values of the 'uncertain' costs and benefits to observe the effect on the overall ranking of options.

3.6.2 Results of Switching Values

The table below shows the values (in %s) at which the preferred option would change in the overall ranking of options.

Change in Costs (%)	Option 1	Option 2 Preferred Option	Option 3	Option 4
Capital costs		0		
Current costs		0		
Total costs		0		
Cash releasing benefits		0		
Non releasing cash benefits		0		
NPV/C		0		

Add commentary.

3.6.3 Results of Scenario Planning

The table below summarizes the results associated with increasing uncertain costs by [Add Comments]% and reducing uncertain benefits by [Add Comments].%.

	Option 1 – benchmark	Option x – the preferred option
Sensitivity analysis on benefits		
Sensitivity analysis on costs		
New order in ranking		

Add commentary.

3.7 The preferred Option

The results of investment appraisal are shown in the table below.

Evaluation Results	Option 1	Option 2	Option 3	Option 4
Economic appraisals				
Benefits appraisal				
Risk appraisal				
Overall Ranking				

The preferred option is [Add Comments] because [Add Comments]

4.0 THE COMMERCIAL CASE

4.1 Introduction

This section of the OBC outlines the proposed deal in relation to the preferred option outlined in the economic case.

This is for the provision of [Add Comments] under a [Add Comments] contract. *Add description of contract.*

4.2 Required Services

These are as follows: [Add Comments]

4.3 Potential for Risk Transfer

The general principle is that risks should be passed to 'the party best able to manage them', subject to value for money.

This section provides an assessment of how the associated risks might be apportioned between [Add Comments]

A risk transfer matrix is shown in the table below:

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			

4.4 Proposed Charging Mechanisms

The organization intends to make payments in relation to the proposed products and services as follows: [Add Comments]

4.5 Proposed Contract Lengths

The following contract lengths will be considered [Add Comments]

4.6 Proposed key Contractual Clauses

These are as follows: [Add Comments]

4.7 Procurement Strategy and Implementation Timescales

It is anticipated that the procurement strategy will follow: [Add Comments]

It is anticipated that the implementation milestones to be agreed for the scheme with the service provider will be as follows: [Add Comments]

5.0 THE FINANCIAL CASE

5.1 Introduction

The purpose of this section is to set out the forecast financial implications of the preferred option (as set out in the economic case section) and the proposed deal (as described in the commercial case).

5.2 Impact on the organization's income and expenditure account

The anticipated payment stream for the project over its intended life span is set out in the following table:

SAR xxx	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	SAR	SAR	SAR	SAR	SAR	SAR	SAR	SAR
Preferred way forward:								
Capital								
Revenue								
Total								
Funded by:								
Existing								
Additional								
Total								

5.3 Impact on the Balance sheet

The proposed expenditure will have the following impact [Add Comments]

5.4 Overall Affordability

The proposed cost of the project is [Add Comments] over the [Add Comments] years of the expected lifespan of the contract.

Our commissioners have signified their agreement to the required level of funding as follows: [Add Comments]

Note: costs should be broken down, as appropriate, within the categories shown for the design, build and operational phases of the scheme. In all cases, capital charges, VAT, and the cost of risk (any contingency or allowance for risk adjustment and optimism bias) should be shown separately.

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6.0 THE MANAGEMENT CASE

6.1 Introduction

This section of the OBC addresses the 'achievability' of the scheme. Its purpose, therefore, is to build on the SOC by setting out in more detail the actions that will be required to ensure the successful delivery of the scheme in accordance with best practice.

6.2 Project Management Arrangements

The project will be managed in accordance with the Mashroat method. Key project roles and responsibilities are as follows [Add Comments]

If applicable. The project is part of a wider program, namely the [Add Comments]

The reporting organization and the reporting structure for the project are part of her Mashroat's Monitoring & Evaluation structure but the diagram below provides a summary view.

Note: a diagram with named individuals and organizations is required.

A top-level project plan is shown below.
Add Gantt chart

Major milestones are summarized in the following table:

Milestone Activity	Week No.

Special advisers have been engaged in the following roles, as listed in the table below:

Specialist Area	Adviser
Financial	
Technical	
Procurement and legal	
Business assurance	
Other	

The strategy, framework and plan for dealing with change and associated contract management is as follows [Add Comments]

The strategy, framework and plan for dealing with the management and delivery of benefits are as follows [Add Comments]. A copy of the project benefits register is attached in the Appendices.

The strategy, framework and plan for dealing with the management of risk follow the Mashroat guidelines and are summarized below.
Add commentary

A copy of the project risk register is attached in the Appendices.

6.3 Gateway Review Arrangements

A Gateway 2 has been undertaken on the project, in conjunction with the draft OBC. The consequent actions have been addressed as follows [Add Comments]. Further reviews are planned as follows: