BETTER BUSINESS CASES NI

PLAIN ENGLISH GUIDE

Department of Finance | An Roinn Airgeadais
www.finance-ni.gov.uk

This is a short guide in non-technical language to help reviewers and approvers gain an understanding of what business cases are and what information they should contain. It is not intended to be a detailed guide for those who need to write and develop a business case. **It should be used in conjunction with existing guidance, proformas, e-learning guides and checklists as required.** Guidance, proformas and checklists are contained on the Department of Finance (DoF) website[1].

1. INTRODUCTION

Every year, billions of pounds are spent on public expenditure programmes in Northern Ireland. It is vital that this money is put to use in a way that delivers the maximum value. It is also important that all spending is accountable to the Northern Ireland Executive, the Assembly and, importantly, the taxpayer.

There is a limit to the amount of public expenditure available. Spending money on one thing inevitably means not spending it on another; therefore, all public expenditure decisions involve choices. The business case process provides a way of thinking decisions through and arriving at a choice that represents best value for money for the public purse.

Anyone involved in spending money does not want that spend wasted. They want it to achieve the impact intended. It is in everyone's interest, therefore, to make sure that the project is delivered as successfully as possible. The business case is also a useful tool to helping to make sure you get the outcomes hoped for from your project.

All those seeking to make use of Northern Ireland Government department spending, including that within Arm's Length Bodies (ALBs), must prepare and submit a business case to support the approval of any level of expenditure.

It is important to view the business case process as a tool for achieving value for money, which plays a supportive role in the expenditure approval decision making process rather than a hurdle to be overcome in the desire to spend money.

[1] https://www.finance-ni.gov.uk/articles/better-business-cases-ni

2. WHAT IS A BUSINESS CASE AND WHEN IS IT REQUIRED?

The principles of appraisal must be applied to **all** proposals that involve spending or saving money. These proposals should be supported by evidence of suitable appraisal, approval, management and evaluation.

A business case is:

- A living document that is developed over time as the proposal develops.
- A document that keeps together and summarises the results of all the necessary research and analysis needed to support decision making in a transparent way. In its final form, it becomes the key document of record for the proposal.
- A useful tool for thinking through some of those things that are important in delivering a successful project – Is it affordable? What are the financial implications over the life of the project? How will I procure it? How will I plan the project to make sure the implementation is done well? What outcomes will the project help achieve and how can I measure these?

How much detail should I include in a business case?

Business cases can cover a wide range of types and levels of spending and each case should be developed to reflect the type of proposal being considered. When developing a business case, individuals often question what the right amount of detail to include in it should be. There is no set answer to this. However, the principle of **proportionate effort** should be applied.

What does 'proportionate effort' mean in practice? How much detail a business case should go into (such as the evidence required to demonstrate need, the number of options considered, the extent to which risks are considered, and so on) will all be a matter of judgement. This judgement should take into account a range of factors - not just the expected cost of the proposal but also its complexity, how novel or routine it is, and so on.

For smaller spends, it is often useful to use a pro forma to produce your business case. DoF pro formas and other business case templates can be found on the Better Business Cases NI website, however it is worth checking if your department or spending area has its own pro formas.

3. BUSINESS CASE STRUCTURE – THE FIVE CASE MODEL

A Review into the process for approving expenditure in Northern Ireland Departments and the role of the business case within that was carried out in 2019. As a result of that Review, it was decided that Northern Ireland Departments should use the HM Treasury model for developing business cases. This approach is known as the '**Five Case Model'**. This Model is used by the administrations in England, Scotland and Wales and extensively internationally. The Five Case Model came into operation in Northern Ireland from 02 November 2020.

The **Five Case Model** does not mean producing five different business cases. It is still a single business case, broken down into five different aspects, which are interconnected but distinct (the **strategic, economic, financial, commercial and management** aspects of the case). The business case should enable departments and other stakeholders to ascertain that proposals:

- are supported by a robust Case for Change – **the Strategic Case**;
- optimise Value for Money – **the Economic Case**;
- are commercially viable – **the Commercial Case**;
- are financially affordable – **the Financial Case**; and,
- can be delivered successfully – **the Management Case**

The primary source of guidance on how to produce a business case using the Five Case Model is the '**Guide to Developing the Project Business Case'.** This is discussed in more detail in **Section 4**, which follows.

Each of the 5 cases are important. However, the detail needed around each case will vary from proposal to proposal depending upon its nature and complexity. For example, some less complex business cases particularly those not involving significant new procurement, new systems or construction may need little explanation of a commercial case and require a less complex management case.

The Strategic Case

The Strategic Case sets out the **rationale** for the proposal; it makes the case for change at a strategic level. It should set out the background to the proposal and explain the objective that is to be achieved.

It should therefore say what the **strategic policy context** is for the proposal in mind. For example, how does it fit with wider public policy objectives and the Department's corporate plan? How does the proposal link to existing policies and strategies (internal and external), and how does it contribute to meeting Programme for Government (PfG) priorities?

The Strategic Case is also where you set the spending **objectives** for the proposal. These should be SMART. For example, are the objectives:

- **S**pecific;
- **M**easurable (delivery / achievement can be objectively monitored);
- **A**chievable;
- **R**elevant;
- **T**ime constrained.

If not, then how is the objective clearly set out so that its achievement can be monitored? If it cannot be monitored the proposal cannot be judged as good value for money.

Finally, the **constraints and dependencies** of the proposal should also be considered at a high level and how they are to be managed should be outlined. Lessons learned from previous experience should be briefly set out.

The Economic Case

The Economic Case is the core of the business case and should be prepared according to HM Treasury's Green Book and Better Business Cases NI guidance. This section of the business case assesses the economic costs and benefits of the proposal to society as a whole, and spans the entire period covered by the proposal.

Options Analysis

In all business cases, the economic case must include a sufficiently wide consideration of alternative options for achieving the desired objective. This options analysis starts from a long list of all reasonable alternatives including a Business As Usual option (the baseline from which improvement will be measured) or if this is not possible, a Do Minimum option.

It is important to question how the initial long list of options has been reduced to a short list of options to be considered in more detail. Although the shortlisting process is normally carried out at a fairly high level, the investigation and reasoning for exclusion of options should be transparent. For Example: Reasons for exclusion might be obviously apparent poor Value for Money (VfM) or unacceptable or unmanageable risks. It is important to check that the potentially viable best VfM solutions are not eliminated at this stage. The shortlist should include the Business As Usual and / or a Do Minimum option.

Costs and Benefits

The business case should quantify all relevant costs and benefits where possible. Sometimes there are genuinely unquantifiable costs and benefits associated with a proposal. Where this is the case, they should be clearly explained along with the reasons why quantification cannot reasonably be made. Where they are relevant to the choice of option, alternative methods may be used to support option selection.

An 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. It is important however that such analysis is transparent and that it is not structured in such a way as to produce a biased or predetermined result.

A cost benefit analysis in which the economic costs (-) and benefits (+) should be calculated for each year covered by the proposal and then summed to produce a net figure for each year (net annual value) must be performed. Each of these annual net values are then discounted (as per guidance) and the results are summed to give a Net Present Social Value (NPSV). This NPSV is the basis on which value for money is assessed. The analysis is carried out prior to the decision on which option to adopt.

Optimism Bias and Risk

Developing a business case inevitably means making estimates and assumptions around future events. Costs, benefits and outcomes cannot be guaranteed with absolutely certainty. This affects not only the choice between options but also whether the proposal as a whole represents value for money.

It's important therefore to document all important sources of uncertainty or risk in the proposal. Risks should be identified and the impact on options considered. The business case should include a risk register showing risk allocation and the steps, which are being taken to mitigate each risk.

In terms of the costs and benefits, the use of sensitivity analysis, under which 'switching values' is utilised should be determined and explained. These are the values at which key variables would cause the net cost benefit values to change enough to affect the choice of preferred option. For example, how much would the cost of procuring a new IT system have to rise to outweigh the expected cost-savings it will provide?

An allowance for Optimism Bias (OB) must also be included and provision for risk as per the guidance. In the early versions of the business case when risk management proposals are relatively undeveloped, OB allowances will be higher than in latter versions when well-defined risk management provisions (and their associated costs) are included. Therefore, as more risk management is included and costs are more robust, then optimism bias decreases.

The estimated level of OB properly should be considered and the arrangements for risk management built into the plan. All appropriate risks should be considered.

Distributional & Other Wider Impacts

Where options have a different impact on different sections of society then an analysis of distributional impacts should be included and its effects explained (for example Equality Impact Assessment, Regulatory Impact Assessment, Rural Needs Assessment, Privacy Impacts).

It is important to ensure that the business case has considered any relevant wider issues, which may include environmental and sustainability issues; health and safety issues; consumer welfare and competition issues; rural, regional and international issues; and questions of business impact and administrative burden (Regulatory Impact Assessments).

Where it is clear that the proposal has effects in these areas, the business case should set out what these effects would be and their associated costs and benefits. Where there are administrative cost impacts on the private of third sector (or on the public sector subject to certain thresholds) an impact assessment must be carried out.

Rationale for Choosing the Preferred Option

The option with the highest NPSV is generally taken to be the preferred option. In very many cases, however, there may however be decisive but unquantifiable costs / benefits, which although impossible to quantify, that are sufficient to override a simple highest NPSV result. Further, the risk of the option with the highest NPSV may be insurmountable. Where either of these are the case, there must be a clear statement of these decisive factors and why they are considered sufficient to influence the decision, together with the reason for the failure to quantify them in the analysis.

The Commercial Case

The Commercial Case is concerned with issues of commercial feasibility and sets out to answer the question "can the proposed solution be effectively delivered through a workable commercial deal or deals?"

The procurement strategy should be clearly set out in the commercial case and the ownership of any assets should be clearly defined. The key contractual issues should also be identified and explained, together with the proposed solution.

The allocation of any procurement risks should be clearly explained along with the steps that are being taken to mitigate or reduce procurement risk through the contract.

Any personnel implications also need to be fully explained and if TUPE (Transfer of Undertakings (Protection of Employment) Regulations 2006) is involved this has to be properly included in the delivery plans.

The commercial case should show key contractual milestones and delivery dates and should clearly set out the agreed accounting treatment.

The Financial Case

The Financial Case is concerned with issues of affordability, and sources of budget funding. It covers the lifespan of the scheme and all attributable costs and assumptions around revenue generation (where applicable). The financial case needs to demonstrate:

- Funding has been secured and that it falls within appropriate spending and settlement limits;
- Capital and operating requirements (near-cash or non-cash) and the inclusion of inflation and VAT etc. are detailed;
- The impact upon budgetary totals and departmental balance sheets (where applicable);
- That all funding gaps have been identified and filled;
- Provisions for financing of any time or cost overruns; and
- Explanation and estimation of any contingent liabilities that may result from the proposal.

The Management Case

The Management Case is concerned with the deliverability of the proposal and is sometimes referred to as programme management or project management case. The management case must clearly set out management responsibilities, governance and reporting arrangements. The Senior Responsible Owner (SRO) should be identified.

The management case should include a delivery plan with clear milestones. The use of PRINCE2 methodology is mandatory for programme and project management where so-called controlled environments, such as information and communications technology, are involved or there are complex business systems. Where significant change management is involved, a change management and stakeholder management plan should be included.

The management plan should set out clearly:

- The business assurance arrangements including OGC (Office of Government Commerce) Gateway Reviews (where appropriate);
- A benefit realisation plan and benefit register;
- A contract management plan and arrangements where contracts are required;
- A contingency plan with arrangements and plans for risk management including a risk register;
- Who is responsible for monitoring pre and post implementation; and
- Who is responsible for post project evaluation (PPE), including when and how it will occur.

You should also consider whether relevant business owners and professionals (Economists, Finance, Procurement, HR, ICT, delivery professionals etc.) have inputted and quality assured the proposal?

Evaluation of the effects of the intervention after it has been implemented is a key element which is sometimes overlooked in preparation of a business case but it is vital to the evolution of evidence-based

policy and must be included in all proposals. Provision for this work must form part of the management plan, and must include identification of who will conduct monitoring during and after implementation, who will be responsible for post implementation evaluation and when and how it will occur.

There must be full inclusion of monitoring an evaluation costs within both the economic and financial cases. Without planning and provision for monitoring and post-implementation evaluation of the proposal, the business case is not complete.

4. BUSINESS CASE DEVELOPMENT OVER TIME

For larger and more complex procurement projects, DoF generally advocates the development of business cases iteratively over time, through three distinct stages, with more detail being provided at each stage:

- **Stage 1 – Strategic Outline Case (SOC) - the scoping stage**
- **Stage 2 – Outline Business Case (OBC) - the detailed planning phase**
- **Stage 3 – Full Business Case (FBC) - detailed final phase**

In this instance, the use of an SOC, OBC, FBC approach should be utilised for large procurement projects (defined as over £50m in FD (DoF) 11/20) or those likely to be contentious, novel, complex or repercussive. Note that FBCs are unlikely to be required for those projects, which are procured using an existing, previously approved, procurement framework.

Strategic Outline Case – the scoping stage

The purpose of the SOC is to confirm the strategic context of the proposal; to make a robust case for change; and to provide stakeholders and customers with an early indication of the **proposed way forward** (**but not yet the preferred option**), having identified and undertaken SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis on a wide range of potential options, together with indicative costs.
This phase maps onto the OGC Gateway 1 (Business Justification)

Outline Business Case – the detailed planning phase

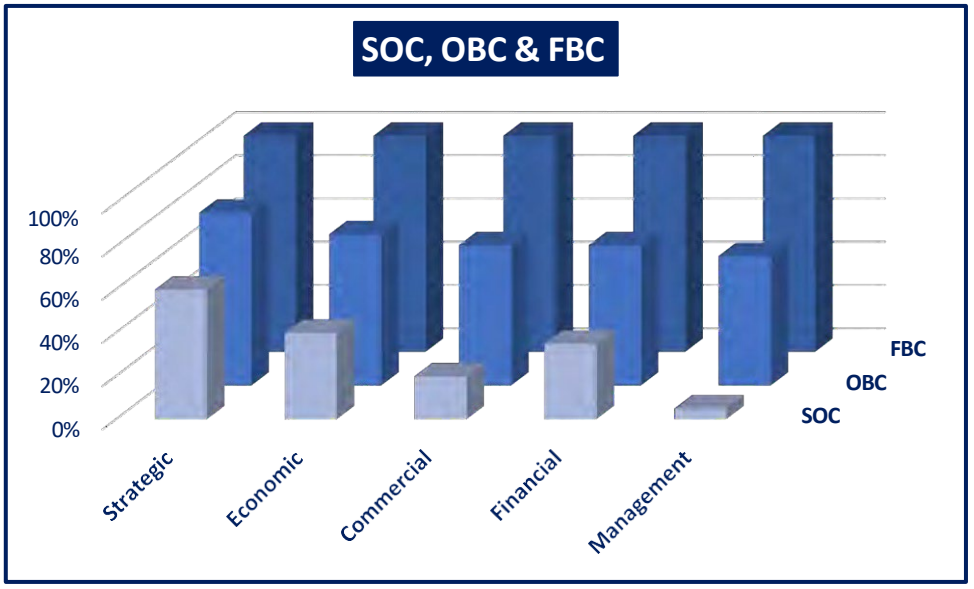
The purpose of the OBC is to revisit the SOC in more detail and to identify a preferred option which demonstrably optimises value for money. It also sets out the likely Deal; demonstrates its affordability, and details the supporting procurement strategy; together with management arrangements for the successful rollout of the proposal.
This phase maps onto the OGC Gateway 2 (Delivery Strategy)

Full Business Case – the detailed final phase

The purpose of the FBC is to revisit the OBC and record the findings of the subsequent procurement activities; together with the recommendation for an affordable solution which continues to optimise value for money; and detailed arrangements for the successful delivery of required goods and implementation of services from the recommended supplier/s.

This takes place within the procurement phase of the project, following detailed negotiations with potential service providers/suppliers, prior to the formal signing of contracts and any expenditure on goods and services.
This phase maps onto the OGC Gateway 3 (Investment Decision)

The 5 cases within the business case will develop over time and provide more detail on their respective elements based on proportionate effort.



For proposals involving assistance to the private or voluntary sectors, this three-stage approach is not usually required, and the terms SOC, OBC and FBC are not generally used. In such cases, the business case should be developed through as many iterations as are judged necessary to cover all the relevant information.

5. THE ROLE OF THE DEPARTMENT OF FINANCE

Where the expenditure breaches the delegated limits on expenditure permitted by DoF, the expenditure should be approved by the Accounting Officer in the first instance, with the Accounting Officer subsequently seeking approval from DoF Supply. Proposals that are novel, contentious, or potentially lead to repercussive implications for other Departments generally require DoF approval no matter their value.

The ultimate objective of a business case is provide the evidence base to aid decision making on whether the project is affordable, in line with other objectives and value for money. In forming this judgement, the appraiser will need to consider the balance of risks associated with the project. Where appropriate, appraisers should highlight to Accounting Officers / departments where a business case is believed to represent a poor strategic option, is unaffordable or represents poor value for money.

In addition to deciding whether or not to approve expenditure, Accounting Officers / approvers should also determine their strategy for staying in touch with project and programme managers for the purposes of monitoring progress, including whether there are key actions during implementation that need reported on and whether they will require sight of a Post Implementation Review and / or a Post Project Review / Post Project Evaluation.

A **Checklist** of questions both reviewers and approvers may need to ask can also be found on the DoF Better Business Cases NI website.