BETTER BUSINESS CASE - EFFICIENT DECISION MAKING

Chris Purchas, Tonkin + Taylor Limited

Introduction

If you are involved in any type of public infrastructure development in New Zealand you have probably come across the Better Business Case framework advocated by the NZ Treasury. One of the leading proponents of this approach is the NZ Transport Agency with all programmes of work and individual projects working through the business case process. Put simply, the business case approach starts with identification of the 'problem' to be addressed before identifying desired benefits and then, only then, considering potential solutions. This avoids the common trap of solutions seeking a problem to solve or options being considered without a clear understanding of the benefits that will be achieved. Public infrastructure managers are using Better Business Case concepts and language for many of their investment decisions - to secure government funding and to ensure they are making the right decisions for infrastructure investments and renewal.

Much of the work I am involved with involves considering options for infrastructure - waste collection, processing and/or disposal or other public infrastructure development/upgrade. The business case approach provides a useful framework for determining the best way forward and proactively planning for success. Importantly business case practitioners apply the framework in a fit for purpose way - targeting data collection and analysis on material issues to a level of detail appropriate for issue being examined.

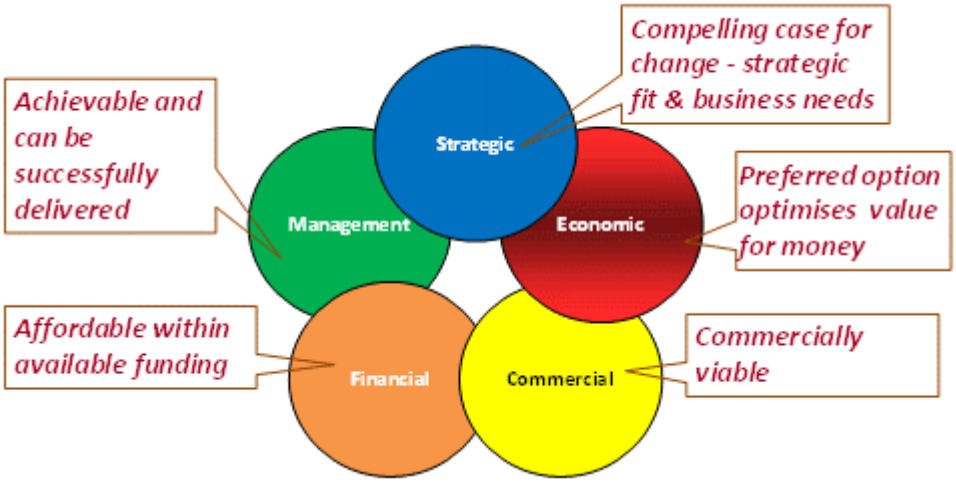
This is important in the context of the waste management sector because many of the funders of waste infrastructure are looking for Better Business Case assessments of potential projects. It makes sense to talk the right language. The framework also encourages a robust, fit for purpose assessment of a proposed project - ensuring the early assessment sets the project up for long term success. The remainder of this paper outlines the business case framework and comments on how this applies to our waste world - I hope you find it useful.

Better Business Case (BBC) Approach

The Treasury[1] describes the approach as 'a systematic way to prepare business cases for programmes or projects. BBC is structured around the proven Five Case Model. The Five Case Model provides a disciplined, step by step approach that helps to ensure that each of the key aspects of a robust investment proposal is explicitly and systematically addressed as part of the business case development process. The five cases are addressed within the business case development process.'

Consideration of the five cases proceeds at increasing levels of detail as the business case is developed. The initial focus is on the Strategic Case - confirming the opportunity or need for change. The next stage is to consider the economic case and start to consider the funding, commercial and management aspects of project implementation before proceeding to procurement. The funding, commercial and management aspects should be re-visited immediately prior to implementing the project. To close the loop once the project is completed the strategic case should re-visited again - to confirm that the benefits have been achieved and the problem solved.

Figure 1: 5 Case Model (NZ Treasury):



[1] http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc

Strategic Assessment

The strategic assessment, or Strategic Outline Case considers the current situation and determines whether there is a case for change. The focus of this stage is understanding the 'problem' and determining the anticipated benefits from change. To quote NZ Transport Agency Guidance[2] the focus is on '*demonstrating that there is a well understood problem (or opportunity) that has a substantial enough consequence to justify investment'.*
Importantly the strategic case should be updated as new information becomes available - either baseline data or updated analysis. The strategic assessment is often completed in the absence of all of the required data - subsequent phases add evidence to improve the robustness of the strategic case and more detailed assessments.

A typical strategic assessment will include

- Problem, consequences and benefits definition
- Summary of current evidence base including gap analysis
- Strategic context - policy, community outcomes

The Strategic assessment is the opportunity for stakeholders - decision makers and the community - to set the direction of the project or activity. This is an important point in the waste management sector where it is useful to separate desired benefits (or outcomes) from technical solutions to deliver those benefits. The community and those in a governance role (Councillors) are well placed to help define benefits or outcomes. Technical specialists - council staff, advisers and suppliers - are best placed to identify and evaluate technical options such as technology, commercial models and risks associated with various options.

In the waste sector a strategic assessment links to Part 1 (where are we now?) and Part 2 (where do we want to get to?) of a Waste Assessment. Where a Waste Assessment is completed sequentially (Part 1 = collect data followed by Part 2 = determining strategic direction and then Part 3 = considering options) there is a risk that the wrong information is collected or required information is not collected. The iterative nature of the business case

[2] https://hip.nzta.govt.nz/processes/project-development

approach avoids collecting data that is not required and allows plugging of information gaps as the programme or project business case is developed. This means the early data collection may focus on collating information at hand rather than collecting comprehensive data. Data gaps can be addressed in response to options being considered or to improve understanding of specific investment drivers or benefits. The data presented in the Waste Assessment for public engagement is likely to be more detailed than the initial cut but focused on the key issues.

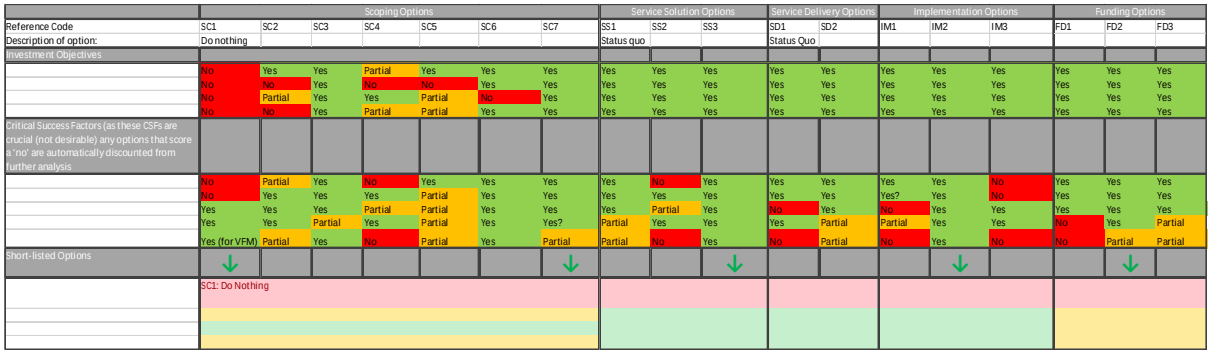
Programme Business Case

For a series of activities intended to address the same problem a programme business case is intended to ensure that the components work together to deliver the desired benefits. Interpreting this in the waste management sector the Options Assessment (Part 3) component of a Waste Assessment, Waste Minimisation and Management Plan and associated Action Plan have many of the characteristics of a Programme Business Case - linking a range of activities to deliver on the defined Vision and Objectives.

As noted above, the business case approach recognises that data collection will continue through the examination of options. A typical Programme Business Case will add to the evidence base with additional data collection, consider a range of options to deliver the benefits anticipated in the Strategic Assessment and develop a programme of activities accordingly. The individual components of the programme are unlikely to be defined in detailed - the focus is on collective impact and avoiding conflicts or wasted effort.

Applying this to waste, developing a programme business case is similar to finalising the Waste Assessment and draft Waste Minimisation and Management Plan. As noted above this might include adding information to Part 1 of the Waste Assessment focused on data required for the options assessment or improving understanding of specific investment drivers or benefits. Specific activities or projects identified in the programme may be subjected to a full or single stage business case as part of the WMMP implementation. Examples might include new physical infrastructure, new or renewed collection contracts, advisory services or partnerships with the public or private sector.

Figure 2: Example Long List Identification Tool (Tertiary Education Comission)



	Scoping Options							Service Solution Options			Service Delivery Options		Implementation Options			Funding Options		
Reference Code	SC1	SC2	SC3	SC4	SC5	SC6	SC7	SS1	SS2	SS3	SD1	SD2	IM1	IM2	IM3	FD1	FD2	FD3
Description of option:	Do nothing							Status quo			Status Quo							
Investment Objectives																		
	No	Yes	Yes	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	No	No	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	No	Partial	Yes	Yes	Partial	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	No	No	Yes	Partial	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Critical Success Factors (as these CSFs are crucial (not desirable) any options that score a 'no' are automatically discounted from further analysis																		
	No	Partial	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
	No	Yes	Yes	Yes	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes?	Yes	No	Yes	Yes	Yes
	Yes	Yes	Yes	Partial	Partial	Yes	Yes	Yes	Partial	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes
	Yes	Yes	Partial	Yes	Partial	Yes	Yes?	Partial	Yes	Yes	Yes	Partial	Partial	Yes	Yes	No	Yes	Partial
	Yes (for VFM)	Partial	Yes	No	Partial	Yes	Partial	Partial	No	Yes	No	Partial	No	Yes	No	No	Partial	Partial
Short-listed Options	↓						↓			↓				↓			↓	
	SC1: Do Nothing																	

Project Business Cases

For specific projects further assessment will be completed. The Outline Business Case plans for implementation (often procurement of a service or piece of infrastructure). The Full Business Case revisits the outline case immediately prior to implementation for example to gain approval to sign a contract. The Transport Agency process splits the Outline Business Case into Indicative and Detailed Business Cases to inform seeking funding and approval to commence the procurement process.

Indicative Business Case

For specific projects where the level of investment or risk is high an Indicative Business Case may be prepared. The indicative Business Case focuses on the economic aspects of the project with high level consideration of financial, management and commercial considerations. For smaller, simpler or low risk projects the Indicative Business Case can be combined with the Detailed Business Case to produce a single stage business case. The Indicative Business Case distils a long list of options (all of the realistic possibilities) down to a short list including a preferred option. The assessment is likely to consider a range of factors including:

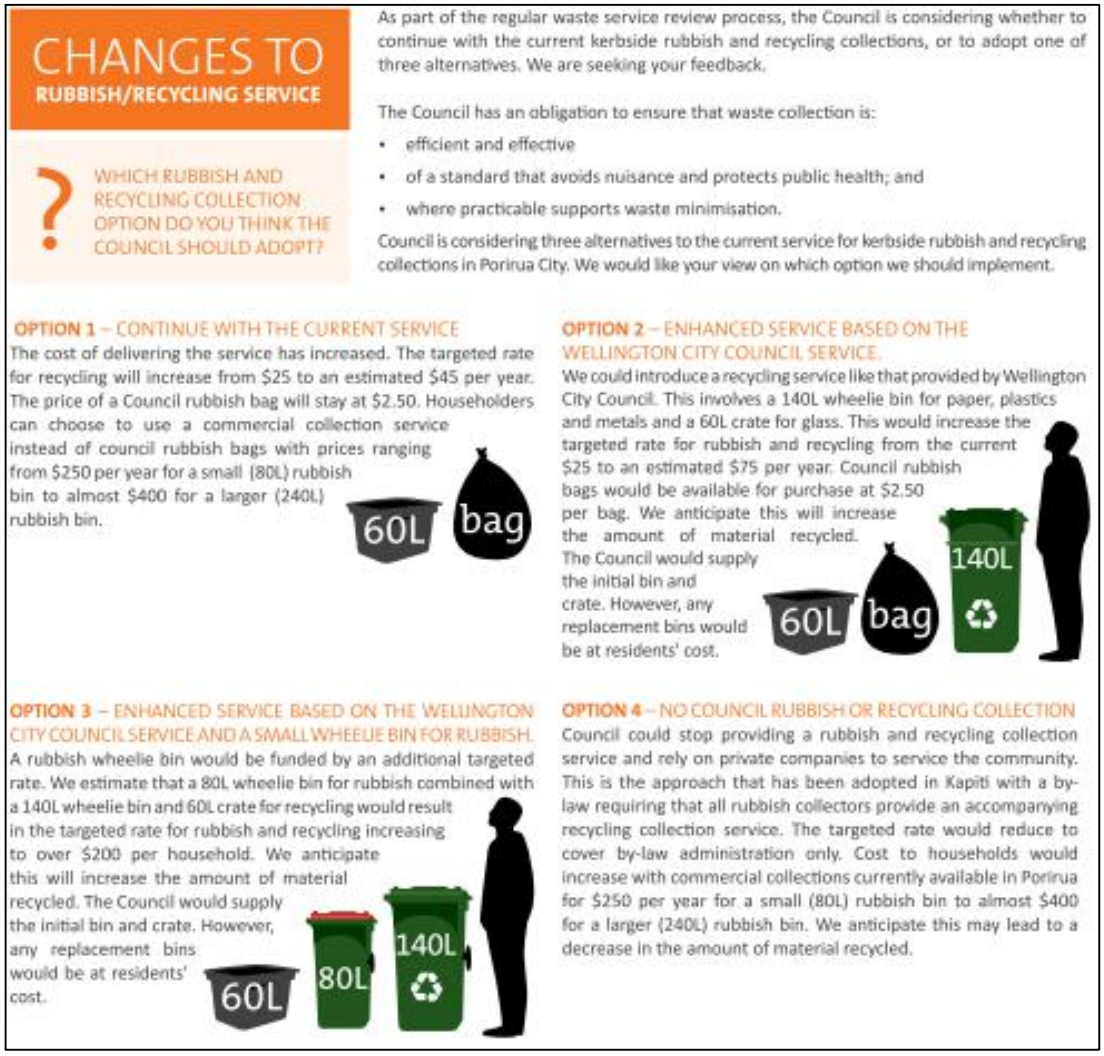
- Is the option going to alleviate the problems and/or maximise potential opportunities identified in the programme business case or strategic assessment?
- Is the option consistent with policy?
- Is the option likely to be acceptable to the public, affordable and feasible to construct and operate?

- Is there a clear rationale for the rejection of options not shortlisted on completion of the indicative business case?

At this point it is also important to check the strategic assessment - does the problem still exist, are the benefits still desirable, has new information/analysis changed the conclusions at a strategic level. It is better to re-visit the strategic assessment or change your view on preferred options at this point rather than go down a blind alley. As for the Programme Business Case a component of the Indicative Business Case process is adding additional evidence to inform the more detailed assessment being completed.

For the waste sector the Waste Minimisation and Management Plan (and supporting Waste Assessment) provides the strategic assessment. Examples of projects that may require an Indicative Business Case are generally major infrastructure (Transfer Station, Landfill, Materials Recovery Facility, Organics Processing Facility and Alternative Waste Treatment) or major procurement processes e.g. large or long term collection contracts. Depending on the issue being considered the short-list may be used for community engagement, for example seeking feedback on options for household collections.

Figure 3: Collection Options - Porirua City Council Annual Plan Consultation 2016



Detailed Business Case

The Detailed Business Case builds on the programme and indicative (for complex projects) business case assessment. Specifically this stage involves more detailed analysis of Economic, Financial Management and Commercial aspects of the project, effectively determining whether the project represents good value for money, is achievable, is affordable and is commercially viable. The level of assessment will depend on the scale, complexity and risk of the project under consideration.

On completion of the Detailed Business Case the project should be in a position to seek formal approval to move into implementation. This might involve securing funding approval, commencing procurement planning, consenting and/or starting detailed design. A robust Detailed Business Case should:

- Confirm the ability of the selected option to deliver the benefits identified in the Strategic Assessment
- Assess impacts - waste reduction, environmental, cost and economic impact
- Consider risk and uncertainty for project delivery and for cost estimates.

Again at this point the strategic assessment should be examined - does the problem still exist, are the benefits still desirable, has new information/analysis changed the conclusions at a strategic level.

For the waste infrastructure or procurement processes noted above this provides an opportunity to examine the preferred option in more detail and understand key risks and uncertainty. The more detailed analysis enables proactive management of project risks and opportunities i.e. increases the chances of project success. The final stage of the Detailed Business Case may also involve preliminary implementation planning, for example developing a procurement strategy or project management plan for the design and construct phase of the project.

One of the challenges with the business case process is working with incomplete information. For example a major infrastructure project, waste or otherwise, can be designed and costed but the true cost will not be known until the project is completed. This is normally managed by have a contingency amount in the cost estimates to recognise the inherent uncertainty prior to construction. Another way to manage this uncertainty is to seek input from those supplying goods or services as well as independent advisors. This could take the form of early engagement with suppliers or provision for non-conforming or alternative tenders during procurement.

Full Business Case

The Full Business Case revisits the outcome of the Outline Business Case /Detailed Business Case with the benefit of real world pricing and detailed project planning. Details such as risk allocation, scope of services, contractual arrangements, timeline and price are available and reflected in the assessment of the preferred option.

It is important to note that at this point in the project the Full Business Case is not simply a closing out of previous analysis. There may be situations where the preferred option changes as a result of additional information becoming available during procurement and negotiations. Examples might include unexpectedly high or low costs, changed risk profile or viable alternatives being offer by suppliers. This underlines the key philosophy of the business case process - ongoing assessment of the preferred solution using the best available information and critically assessing risk and benefits before progressing.

Closing comments

As noted above, at the simplest level the Better Business Case process involves:

1. Defining a problem or opportunity and potential benefits.
2. Identifying options for achieving the desired benefits
3. Evaluation of the identified options to increasing levels of detail.
4. Planning for successful implementation including proactive risk management

As for any approach there is a real risk that Better Business Case is treated as a recipe rather than a way of thinking. For the waste sector projects vary in size and complexity, from multifaceted education programmes to major processing facilities or a long term waste collection contract. This means there is no recipe, instead we need to focus on defining problems or opportunities, setting out desired benefits and then completing robust analysis of options to position each project or programme for success.

Further Reading

NZTA Guidance (http://hip.nzta.govt.nz/processes/project-development)

NZ Treasury Guidance (http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc)