



A MODEL OUTLINE BUSINESS CASE(OBC) STRUCTURE

The Outline Business Case Report should provide all the relevant information for the Ministry Department or Agency (MDA) to make a well-informed decision on whether or not to proceed with the suggested PPP option for each project. It should incorporate all of the issues described in the Scope of Work, above.

A model outline of the Outline Business Case is provided below:

1. Introduction
 - Executive summary
 - Introduction
 - Project background
 - Approach and methodology to the OBC study
2. Strategic and Local Context of Project
 - Policy context and strategic objectives
 - Needs analysis (including future demand and sensitivity to economic/social factors)
 - Service objectives and performance measures
3. Value for Money Assessment
 - Base Public Sector Comparator (PSC)
 - Risk Adjusted PSC
 - Affordability
 - Procurement choice
 - Information verification
4. Project Appraisal (Cost/Benefit Analysis)
 - Technical cost estimation (capital, maintenance, operating)
 - Social and environmental impact costs and benefits
 - Traffic and revenue projections

5. Risk Analysis
 - Identification and categorization of risks
 - Risk register with risk analysis and quantification
 - Proposed risk allocation
6. Financial and Economic Appraisal
 - Financial model and sensitivity analysis
 - Assessment of economic and financial viability
7. Options Analysis
 - Assessment of alternative forms of both conventional procurement and PPP
 - Evaluation of PPP options considered
 - Recommendations on preferred option
 - Key contractual terms
8. Implementation Recommendations
 - Recommendations for further project preparation (feasibility studies, technical studies, due diligence, etc.)
 - Proposed project timetable
 - Recommendations on procurement strategy and procedures

The Outline Business Case: Explanatory Notes

The purpose of the Outline Business Case (OBC) is to seek approval from the government for the preferred project and procurement options and to obtain funding if the project is not financially free standing. It also contains justifications for the preferred project and procurement options. It provides information regarding the expected value for money of the preferred project and procurement options. A typical outline business case consists of the following sections:

(1) Executive Summary

The executive summary should provide a summary of the development process of the outline business case, and the key conclusions arising. It should be strategically focused and succinct, and should effectively convey the key messages arising from the appraisal process such that decision makers gain a good appreciation of the need for change, the appropriateness of the recommended option, and the implications of the decision to proceed. The following should be included in the executive summary of the outline business case:

- A summary of the key conclusions and recommendations arising from developing the appraisal process, and an analysis of the next steps required for taking forward the project;

- A statement of the support and commitment of the public sector client (and other key stakeholders);
- An analysis of the strategic context in which the service is provided, the business need for the service (including details of the contribution that the service should make to the department's corporate strategy) and the synergies that exist between the service and the public sector client's corporate objectives;
- An overview of the existing services provided, including analysis of existing service strengths and weaknesses, key service standards, outputs, the condition of the current assets or infrastructure, and trends in public opinion about the service;
- A summary of the public sector client's objectives for the service, as used in conducting the appraisal of project and procurement options (and subsequently to be used throughout the procurement process);
- A brief description of the options appraisal process that was followed in order to identify the preferred project and procurement option (including a summary of the financial and non-financial outcomes).
- An assessment of the economic benefits, value for money, affordability and bankability of the preferred service delivery option. This should include confirmation that the private organizations expressed their in the preferred service delivery option.
- An overview of the public sector client's approach to developing and delivering the project, including consideration of contractual terms, the balance sheet treatment and project management arrangements.

(2) Strategic Context and Business Need

The OBC should include a review of the public sector client's vision and objectives for the service, the key strategies and objectives of the public sector client. It should also provide the conditions of the existing services and projections of need or demand and highlight the insufficiencies of existing services, if any.

It is also be useful to summarize any evidence of public perceptions of the existing service. For example:

- How the public perceptions have developed over time;
- How they reflect demand for better quality or more efficient services, any public and community opinion surveys on trends in relation to the performance of the service;
- The results of any consultation process in relation to the service;
- Analysis of the numbers and frequency of requests for service and/or complaints;
- Analysis of the requests for improvements to the service; and
- The results of other surveys/initiatives where improvements to the service have been cited as a means of improving the efficiencies of other department's activities.

The OBC should demonstrate that there is a business need for the proposed project by showing that:

- the current service fails to maximize its contribution to the public sector client's strategies;
- the services delivered by the project can contribute to the broader strategies of the public sector client;
- the project forms a logical and coherent part of the public sector client's strategies and plans; and
- there is a fit of the project within the wider strategic and policy context.

(3) Service or Project Objectives

The OBC should list the objectives of the proposed project. The provides the basis against which the government can assess on the suitability of the proposed project option recommended by the public sector department and to propose alternative options based on the objectives of the proposed project, if necessary.

(4) Preferred Project Option and Procurement Option

The OBC should give recommendations on the preferred project option and procurement option.

The Preferred Project Option

The list of options that have been considered in the options appraisal stage should be described. The benefits, costs and consequences of each option and those options which are being progressed for further analysis should be included in the OBC. In general details of two or three options are included in the OBC. The two options which are most likely to deliver the desired outcomes and the 'do nothing' or 'do minimum' option are included.

The impact on related services and assets and opportunities for integration with other government services demonstrating consideration of joined-up government can also be included.

The Procurement Options

The OBC should identify the procurement options that have been considered in the delivery of the preferred project option, give recommendations on the procurement option that create the best value for money to the department with justifications. It should also describe the evaluation framework upon which different procurement options are to be evaluated. These should include:

- Comparison between the cost of delivering the preferred project option through traditional procurement method, the PSC, compared to that delivered through private delivery option, the PFP;
- To demonstrate that the private parties have the capability to deliver the required services, within any constraints set by the public sector client, the service delivery would be sufficiently reliable, and that such delivery would provide value for money;
- To justify that the risks and rewards inherent in providing the required outputs represent a genuine commercial opportunity;
- To confirm that the finance market at the time will support the proposal; and
- To illustrate that there are opportunities for cost effective risk transfer.

(5) Project Delivery Arrangements

This section of the OBC should document the public sector client's intended approach to the procurement of the project and set out the key issues that are to be addressed in the subsequent development, procurement and delivery of the project. The key elements to be included are:

- **Output Specification:** The OBC should include a summary of the key elements of the draft output specification and commentary on how the output specification will be developed further.
- **Proposed Performance Measurement and Payment Mechanism:** The OBC should identify the key performance indicators which will measure performance and the key components of the payment mechanism. Discussions should cover the relationship between payments from the public sector client and the related necessary level of performance.
- **Indexation, Benchmarking and Market Testing:** The OBC should set out the public sector client's initial views on indexation, benchmarking and market testing, which will be included as part of the payment mechanism and contract for the services.
- **Contractual Terms:** The OBC should set out how the public sector client will develop the contract for the project. It should indicate how the public sector client expects to deal with the key contractual issues associated with the particular type of project.
- **Risk:** The OBC should identify all material risks associated with the project, specifying the external and project development risks for the public sector client, the project risks to be allocated to a private party, and those to be retained by the public sector client. It should also include any project transition risk, such as interest rate or planning risks that may be carried by the public sector client until allocated to the private party when contracts are operating. This is a key area of the business case, as optimal risk allocation is fundamental driver of value for money. For risks that are proposed to be retained by the public sector client, the business case needs to explain why the public sector client is considered better able to manage or mitigate these risks. The business case should include

at least a preliminary view on the cost to the public sector client of the risks which are to be built into the PSC.

- **Implementation and Project Management Plan:** The outline business case should document the public sector client's approach to the development of the project management arrangements if the project secures approval to go into procurement, and describe the arrangements that are in place, or to be put in place, to ensure an efficient procurement. It should identify the members of the project team, the delegations and reporting arrangements that have been agreed for the procurement stage, and the arrangements for involving stakeholders in the procurement process. The OBC should also set out the approval process required for the OBC, details of the commitment of members to funding the project, and evidence of the support of key stakeholders.
- **Project Timetable and Resourcing:** An indicative project timetable should show each of the key stages such as procurement stage, construction stage, and delivery of service in the whole process and the estimated time for service delivery to begin. Regarding the procurement timetable, indicative periods for each sub-stage, such as invitation to expression of interests, in the procurement process should be given. The procurement timetable will need to be updated as the procurement proceeds, and should serve as both project management tool, and as a means of communication. Discussion should also deal with the resources required to deliver the project, how they will be secured, internally or externally, and the expected costs of the procurement team.