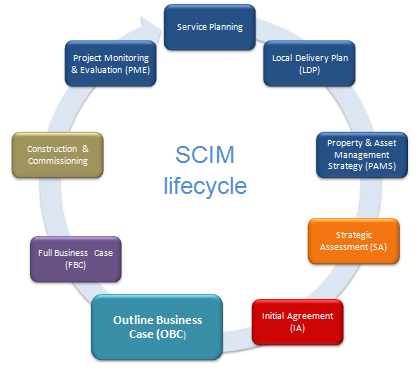
SCOTTISH CAPITAL

INVESTMENT MANUAL

Outline Business Case



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Introduction

The Scottish Capital Investment Manual (SCIM) provides guidance in a NHS context on the sector-specific processes and techniques to be applied in the development of service, infrastructure and investment programmes and projects within NHSScotland.

The guidance adopts the ‘five case model’ methodology for developing a robust and comprehensive business case, which is centred on the need to address the following issues:

* Does the proposal support a compelling **case for change;** providing national and local strategic synergy? – the Strategic Case.
* Will the proposal optimise **value for money**?– the Economic Case.
* Is the proposal **commercially viable?** – the Commercial Case.
* Is it **financially affordable** – the Financial Case.
* Is it **achievable and deliverable**? - the Management Case.

While each business case stage will need to address each of the above questions, the main focus of attention on these issues is likely to change as a project develops. For example, at Initial Agreement stage attention should be on developing a robust Strategic Case, at OBC stage attention may shift to the Economic Case, and the FBC should confirm proposals initially set out in the OBC for the Commercial, Financial and Management Cases.

The purpose of the **Outline Business Case** is thus to identify the preferred option for implementing the strategic / service solution confirmed at Initial Agreement stage. It will demonstrate that the preferred option optimises value for money and is affordable. It will also set out the supporting commercial and management arrangements to be put in place to successfully implement that option.

STRATEGIC CASE

# Strategic Case: Overview

The main purpose of the Strategic Case at OBC stage is to confirm that the background for selecting the preferred strategic / service solution(s) at Initial Agreement stage has not changed. It will do this by revisiting the Strategic Case set out in the Initial Agreement whilst responding, as appropriate, to the following questions:

**Strategic Case (OBC)**

**Strategic Case**

**Response**

**Question**

Have the current arrangements changed?

Confirm details on (for example):

* Proposed changes to service model.
* Service activity changes.
* Service provider & workforce changes.
* Impact on Board’s assets.

Is the case for change still valid?

Summary confirmation of the:

* Need for change.
* Investment objectives.

Is the choice of preferred strategic / service solution(s) still valid?

Confirmation of the preferred strategic / service solution(s).

## Introduction to the Outline Business Case (OBC)

The preceding Initial Agreement (IA) for this proposal will have identified and/or confirmed the proposal’s strategic / service solution(s), from which this OBC will develop and test the value for money of the implementation options for that solution(s). Typically, this may include options that retain and reuse existing assets, the purchase or construction of new facilities, and/or different phasing of works. It will not involve testing of different procurement methods as these are predetermined within NHSScotland based on the value and type of project being considered (further details of this are included in the Commercial Case section).

## Revisiting the Strategic Case

The case for change will need to be reviewed and revised to reflect any changes due to:

* Any conditions made as part of the earlier approval of the Initial Agreement.
* Stakeholders influencing the scope, content, or assumptions behind the proposal following earlier engagement on the Initial Agreement.
* The impact of the time taken between approval of the IA and subsequent commencement of this OBC.
* Further details becoming available to confirm or change some of the early stage assumptions made when describing the case for change.

The intention of the Strategic Case at OBC stage is therefore to provide an update on that described within the Initial Agreement. If no material changes have occurred then this can be stated. The following sections provide further guidance on how to update the Strategic Case for the OBC.

# Have the current arrangements changed?

**Strategic Context**

**Response**

**Question**

Have the current arrangements changed?

Confirm details on (for example):

* Proposed changes to service model.
* Service activity changes.
* Service provider & workforce changes.
* Impact on Board’s assets.

The current arrangements appropriately express details of the ‘Do Nothing’ solution, which can be used as a benchmark to demonstrate the benefits and value of other solutions. It is therefore important that the description of the current arrangements is kept up to date throughout the business case process.

Completion of this section will be dependent upon the size, complexity, and overall risk associated with the programme or project.

For a relatively straightforward project, the current arrangements may have already been fully explained at IA stage, therefore, only a brief summary of those details and how they are likely to change is required at OBC stage, alongside confirmation that nothing of material importance has changed since the IA.

An update on the design quality objectives still needs to be provided to take account of progress with the design development.

For a more complex project, details of the current arrangements may not have been fully developed at IA stage and therefore needs to be presented at this stage of the business case process. Typically, this may include more details of the existing and proposed service model, service activity levels, and the expected impact on the NHS Board’s assets, (this may include an update on the design quality objectives - see the NDAP and AEDET guidance for further details).

# Is the case for change still valid?

**Strategic Context**

**Response**

**Question**

Is the case for change still valid?

Summary confirmation of the:

* Need for change.
* Investment objectives.

The case for change and reasons why this proposal is a good thing to do should have been fully developed and described at Initial Agreement stage; therefore, this section is aimed at confirming the current status of these details.

A short summary, taken from the IA, is to be provided of the problems needing to be addressed, the opportunities for improvement, and any other factor influencing this proposal and driving the need for change. The proposal’s Investment Objectives describing what needs to be achieved to deliver the necessary changes should also be described

Commentary is then needed on whether or not any material change has occurred which change these drivers for change or subsequent investment objectives (including details of how).

The benefits and risks to success previously described in this section of the Initial Agreement will need to be further developed as part of the Management Case for the OBC.

# Is the choice of preferred strategic solution still valid?

**Strategic Context**

**Response**

**Question**

Is the choice of preferred strategic solution(s) still valid?

Confirmation of the preferred strategic / service solution(s).

The purpose of this section is to identify whether any changes to the Strategic Case have the potential to change the recommendation of the preferred strategic / service solution(s).

For example:

* Has the solution become impractical or unfeasible to achieve?
* Is the solution now unlikely to deliver sufficient benefits to justify the investment, noting the aim to improve value for money?
* Is it possible that the preferred solution may have become inferior to another proposed solution, particularly due to significantly greater costs or lower benefits?
* Has the proposal become clearly unaffordable or too risky to proceed?

Such changes may not necessarily need a resubmission of the Initial Agreement if they can be fully described and addressed in this section of the OBC to reconfirm the suitability of the preferred strategic / service solution.

A statement is therefore needed which either confirms that any changes since the IA do not materially change its outcome, or, that the selection process is to be repeated to confirm the outcome; with updated details provided of the process followed and conclusions made.

ECONOMIC CASE

# Economic Case: Overview

The purpose of the Economic Case is to undertake a detailed analysis of the costs, benefits and risks of a short list of options, including a do nothing and/or do minimum option, for implementing the preferred strategic / service solution(s) identified within the Initial Agreement.

The objective is to demonstrate the relative value for money of the chosen option in delivering the required outcomes and services. This analysis includes the following steps:

**Economic Appraisal**

* Section 7 of this OBC guide.
* Section 3 of Option Appraisal Guidance

Identify and quantify monetary costs and benefits of options

**Guidance and Resources**

**Key Steps**

Estimate non-monetary costs and benefits

* Section 8 of this OBC guide
* Section 4 of Option Appraisal Guidance
* Appendix 2 of Option Appraisal Guidance

Calculate Net Present Value of options

* Section 9 of this OBC guide
* Section 5 of Option Appraisal Guidance
* Generic Economic Model (see SCIM website)

Present appraisal results

* Sections 10 & 11 of this OBC guide
* Section 6 of Option Appraisal Guidance

Identify a short-list of implementation options

* Section 6 of this OBC guide

The following pages provide a high-level introduction to the above steps, with the SCIM Option Appraisal Guide providing a more detailed primary guide on Appraisal for NHSScotland. Further reading can also be found in the *HM Treasury* *Green Book*.

As an Economic Appraisal uses up resources, the effort that should go into it and the detail to be considered should be in proportion to the scale or importance of the objectives and resource consequences. Particular weight should be given to the TOTAL PUBLIC FUNDS involved since it is for these that public bodies are primarily accountable to the taxpayer.

It is also important that the appraisal is *appropriate* i.e. that the correct methodology is used and tailored to suit the case in hand as there are variations in how appraisal should apply in different spending areas. Small scale decisions may not require as detailed an appraisal or evaluation as larger scale decisions. Judging this can be a matter of experience and SGHSCD economists should be consulted where there is any doubt.

Also, at the early stages of appraisal there is a potential for confusion to arise between what should be included in the Economic Case with what is included in the Financial Case. Economic appraisals focus on value for money analysis whereas Financial appraisals should focus on affordability – this is outlined in the Financial Case section and further explained in Appendix 1 of the Option Appraisal Guide ‘Comparison of Economic and Commercial Appraisal’.

# Identify a short-list of implementation options

The Economic Case at OBC stage will seek to confirm the value for money of the option for implementing the preferred strategic / service option(s) identified at Initial Agreement stage.

## Develop a short-list of implementation options

A full range of practical implementation options will need to be identified and tested as part of the Economic Appraisal, which will be based on variations to the way in which each preferred strategic / service solution(s) can be implemented. This will include a Do Nothing (and/or Do Minimum) option associated with the existing arrangements considered at IA stage.

For construction related projects, implementation options may include variations on some or all of the following:

* The ability to use the retained estate, and in different ways e.g. different refurbishment and reconfiguration options.
* Different design solutions for new build solutions (where the differences are significant).
* The availability of different sites.
* The potential to phase the works in different ways to overcome site or service constraints.

A summary will be required of how a short-list of practical implementation options has been selected from a potential long list of possibilities. It is possible, particularly for more complex projects, that a more robust decision making process towards short-listing will need to be followed and explained. For example, a site feasibility option appraisal exercise may need to be carried out to confirm the preferred site prior to including this outcome within the scope of other implementation options.

# Identify and quantify monetary costs and benefits of options

Section 3 of the SCIM Option Appraisal Guidance provides more information on the principles behind the application of monetary costs and benefits within the Economic Appraisal, including details on:

* The relevant costs and benefits.
* Principles of cost measurement.
* Total versus incremental costs.
* Treatment of taxes and subsidies.
* Treatment of transfer payments.
* Estimating the value of benefits.
* Cost savings, efficiency improvements and redundancies.
* Adjusting for displacement.
* Multiplier effects.
* Appraisal of land, buildings and other assets.
* The acquisition and disposal of assets.

The following list provides a checklist of typical capital and revenue costs to be considered as part of the Economic Appraisal, which follows the cost headings found in the Generic Economic Model (GEM model):

1. **Opportunity costs** reflect the value of an asset when used in its best alternative activity and is based on up-to-date market valuations of capital assets which are already in ownership, such as land, buildings, equipment and vehicles.
2. **Initial capital costs** are those incurred in order to implement the development, such as:
   * purchases of land and buildings, including accommodation for staff, computers, equipment, communications, furniture and vehicles;
   * purchases of equipment, vehicles, hardware and software;
   * installation and implementation costs;
   * development costs including staff costs and consultancy fees;
   * testing;
   * training;
   * infrastructure and works services; and
   * initial security and contingency costs.

For building projects, the total construction cost should be supported with a full elemental breakdown in the form of a Construction Cost Plan (see the Project Monitoring & Service Benefits Evaluation guide for further details). Also, comparative costs are available from the Value for Money Scorecard and the Community Infrastructure Benchmark Database hosted by Scottish Futures Trust.

1. **Lifecycle replacement costs** are those required to replace individual elements of an asset during the appraisal period which have reached the end of their intended life and will no longer maintain the asset in good / reasonable condition. This may be needed in respect of any of the capital assets employed on the project.
2. **Transition period capital costs** are those which are incurred in order to maintain an existing asset in an appropriate condition until the new asset is available.
3. **Costs of ‘embedded accommodation’**, refers to the accommodation impact of changes in NHS facilities on an external organisation. It would include, for example, when a NHS Board plans significant change to its accommodation which contains embedded, or enclosed, accommodation of another organisation. The accommodation impact of the NHS Board’s proposal on the other organisation will need to be included in the Economic Appraisal. Such public sector organisations may include the Local Authority, University, or voluntary / charity sectors.
4. **Clinical and non-clinical service costs (and savings)** describe the operating costs of a service or scheme. These shall consider the cost implications of anticipated levels and mix of future activity, the different way in which the service will be delivered in the future, and the revenue implications of the key differences across the shortlisted options. Staff costs will not only include salary costs but also the costs of accommodation, superannuation, employers’ national insurance contributions, allowances and other overheads. Double counting with other cost categories should, however, be avoided. Relevant staff may include those involved in management, operation, support and ongoing training.
5. **Buildings related running costs** include the costs of running the facility, inclusive of ongoing buildings (revenue) maintenance, heat, light and power and business rates. Buildings related running costs will take account of the proposed facility design and other buildings characteristics, as well as other factors that will affect the different elements of these costs. Building maintenance costs will need to be consistent with life-cycle costs which will not necessarily reflect historic maintenance costs. These costs will be **included** within the total revenue costs of the options (rather than as part of capital).
6. **Net income contribution** shall include income generated from non-public sector organisations as a consequence of the investment (for example, as a consequence of private patients’ facilities or other income generation activities). A negative (that is, beneficial) sum, equivalent to the net contribution generated by the activity, will be included within the revenue cost estimate and a positive sum should the net contribution be detrimental to the NHS.
7. **Transition period revenue costs** will include any double running costs and decanting costs associated with project implementation, and/or any change management costs required to deliver the new service (i.e. training costs).
8. **Revenue costs of embedded accommodation** should only be provided at OBC stage if the impact of this investment generates a slightly different (higher or lower) revenue cost for the organisation that is embedded in NHS buildings.
9. **Displacement costs** are those likely to be incurred by any external organisation as a consequence of proposed changes in a NHS Board’s service provision (location or modality).

In addition to the above, all financial benefits - cash releasing and non-cash releasing – must be accounted for in the discounted cash flow to derive the Net Present Value / Cost in the Economic Appraisal. Their identification should be incorporated into the investment project’s Benefits Register, which will typically fall into the following four categories:

1. **Cash Releasing Benefits (CRB)** reduce the costs to an organisations in such a way that the resources can be re-allocated elsewhere. This typically means that the entire resource is no longer needed for the task for which it was previously used. This can be either staff or materials.
2. **Financial but non-cash releasing benefits (non- CRB)** usually involves reducing the time that a particular resource takes to do a particular task, but not sufficiently to re-allocate that resource to a totally different area of work.
3. **Quantifiable benefits (QB)** can be quantified, but not easily in financial terms – for example ‘reduced travelling time for patients’. The extent to which QBs are measured will depend on their significance but every effort should be made to quantify them financially whenever possible.
4. **Non-quantifiable (non-QB)** are qualitative benefits which are of value to the public sector but cannot be quantified e.g. increased staff morale, protecting biodiversity or enhancing access to green spaces. Whilst the direct benefits of these can be difficult to quantify their associated impacts often can be e.g. evidence that patient recovery times can be faster when views/ access to green space is available.

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

All benefits should, where possible, be quantified in monetary terms. The Economic Appraisal will then take these into account from the perspective of society and the public and private sectors, as well as the organisation. If the perceived benefits are difficult to quantify then weighting and scoring techniques should be used to evaluate the non-financial benefits. More information is given in the next section. Note however that any benefit demonstrated as cash releasing savings should be accounted for in the financial appraisal.

# Estimate non-monetary costs and benefits

As noted in the previous section, wherever possible costs and benefits should be valued in money terms, however, it may not always be practical or cost effective to do so. Environmental, social or health effects on a project must be taken into account in this category and it should not be assumed that these are any less important than those that can be monetised.

Section 4 of the SCIM Option Appraisal guidance provides information on suitable ways to carry out assessment of these non-monetary costs and benefits for a given project, which are often referred to as ‘non-financial benefits’ i.e. benefits which cannot be monetised. Of the methods described in section 4 of the Option Appraisal guidance, the weighted scoring method approach is the preferred methodology for SGHSCD. It involves identification of (all) the non-monetary factors (‘attributes’ or ‘criteria’) that are **related to the project’s stated investment objectives** and should be defined as far as possible in service or output oriented terms; **they should also be consistent with the benefits identified in the benefits register.**These criteria then have weights allocated to each of them to reflect their relative importance; and the allocation of scores to each option to reflect how it performs in relation to each criterion.  The result is a single weighted score for each option, which may be used to indicate and compare the overall performance of the options in non-monetary terms.

More information regarding this approach is described in Appendix 2 of the Option Appraisal Guidance which covers the following six stages:

1. Identify the relevant non-monetary criteria;
2. Weight the criteria to reflect their relative importance;
3. Score the options to reflect how each option performs against each criterion;
4. Calculate the weighted scores;
5. Test the results for robustness; and
6. Interpret the results.

# Calculate Net Present Value (or Cost) and assess uncertainties

## Net Present Value

Following the identification and measurement of the costs and benefits for each short listed option, a calculation of their Net Present Value (NPV) should be included using the appropriate discount rate. The NPV is the key summary indicator of the comparative value of an option.  It is the name given to the sum of the discounted benefits of an option less the sum of its discounted costs, all discounted to the same base date.  Where the sum of the discounted costs exceeds the discounted benefits, the net figure may be referred to as Net Present Cost (NPC). The decision rule is to select the option that maximises NPV or minimises NPC.

Discount rates are currently 3.5% for up to 30 years. Values for long term discount rates can be found in Annex 6 of the Green Book.

Discount calculations can be facilitated by the use of software packages. The Generic Economic Model (GEM) is an Excel spreadsheet suitable for the needs of NHSScotland bodies. SGHSCD expects the GEM to be utilised for option appraisal and for GEM outputs to be contained within business cases prepared by NHSScotland bodies.

A copy of the GEM model is available on the SCIM website.

Section 5 of the SCIM Option Appraisal document provides further guidance on the calculation of NPV in relation to the following:

* Discounting rate and net present values / costs
* Treatment of Inflation
* Adjustment for Optimism Bias
* Calculation of NPV and NPC
* Required Rates of Return and Pricing Rules

## Assessing Uncertainty

The future is inherently uncertain therefore no matter how thoroughly costs, benefits, risks and timing are identified and analysed there will remain uncertainty over the accuracy of the assumptions made. It is essential to test how these uncertainties may affect the choice between options. Assessment of uncertainty is chiefly about testing the rigour of the appraisal conclusions.

The basic procedure is to alter an assumption, recalculate the NPC for each option, and then consider the impact on both the total net benefits and costs on the balance of advantage between the options.

Sensitivity analysis is the key technique for this purpose and it is fundamental to appraisal. It is the process of examining how options are affected relative to each other by reasonable variations in key assumptions. Its purpose is to influence the option selection decision; it is not something to be applied merely to a preferred option after it has been selected.

The areas of uncertainty which might be considered in the Economic Appraisal include variations in assumptions in respect of:

* Activity forecasts (and hence potentially provision levels and costs)
* Performance targets (and hence potentially provision levels and costs)
* Timing and value of property purchase, sale and transactions
* Capital cost estimates (initial and life-cycle)
* Revenue costs and savings (in total and/or key categories)
* Net income effects
* Displacement costs/externalities
* The scheme implementation programme (and hence transition costs and the timing of investment costs)
* Any potential differential impact of inflation on the cost components of the economic analysis not reflected in the baseline analysis
* Discounting assumptions such as appraisal period.

Further guidance on Sensitivity Analysis is provided in Section 5.6 of the SCIM Option Appraisal Guide, with the GEM model providing the facility to carry out this testing.

# Present Appraisal Results

The ultimate outcome of any appraisal is a decision on whether or not to proceed with a proposal or a particular option. Such decisions can have far reaching consequences therefore the presentation of the results and conclusions of an appraisal to decision makers and stakeholders can be as important as the analysis itself.

In all cases transparency is vital. The presentation of the option appraisal in the business case should be comprehensive and include all of the steps of appraisal listed and make the analysis accessible to personnel who do not have an intimate knowledge of the project but need to make judgements based upon the information given. Presentation should be clear, logical, well founded and geared towards helping the decision at hand. Business Cases in particular should be drafted in non-technical language wherever possible, but if it is necessary to use technical terms, they should be explained.

It is important to include a section which draws together the main findings and conclusions of the appraisal. The next section provides an example of how the results of the Economic Appraisal can be presented.

Section 6 of the SCIM Option Appraisal guidance provides further information on this important topic.

# Economic Appraisal Template

The following sections provide an example of how the results of the Economic Appraisal can be presented and an indication of the principles to follow. This may, however, be adapted to suit local circumstances.

## Introduction

This section should start by explaining the approach taken in developing the economic appraisal, the level of engagement with stakeholders, the date of any workshops held, and reference to those who attended.

## Monetary Costs and Benefits

The following two tables can be used to set out the initial capital and revenue cost inputs to the GEM model related to each option. They should be expressed as an undiscounted annual recurring cost for each category. Where this changes over the appraisal period (e.g. life cycle costs) then an indicative average annual cost over that period can be given, but with supporting information explaining that variance. The cost categories in the following table align with the GEM model cost headings, which may be indicated as n/a where not applicable to any options.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Initial Cost Implications:** | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| Opportunity Costs |  |  |  |  |
| Initial Capital Costs |  |  |  |  |
| Transitional Period Costs |  |  |  |  |
| Costs of Embedded Accommodation |  |  |  |  |
| Total of initial cost implications |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue Cost Implications:** | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| Life Cycle Costs |  |  |  |  |
| Clinical Service Costs |  |  |  |  |
| Non-clinical Support Service Costs |  |  |  |  |
| Building Related Running Costs |  |  |  |  |
| Net Income Contribution |  |  |  |  |
| Revenue Costs of Embedded Accommodation |  |  |  |  |
| Displacement Costs |  |  |  |  |
| **Total recurring revenue cost implications** |  |  |  |  |

Assumptions and details will need to be explained for the costs and timings of a Do Nothing / Do Minimum option, plus the first main implementation option. Variations of costs in the other options will then need to be further explained.

The extent of this supporting information shall be commensurate with the complexity and value of the project options.

## Non-Monetary Costs and Benefits

The results of the non-financial benefits appraisal exercise can be presented in a similar table to the exemplar below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Benefit Criteria** | **Weighting**  **(%)** | **Weighted Score** | | | |
| **Option 1** | **Option 2** | **Option 3** | **Option 4** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
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|  |  |  |  |  |  |
| Total Weighted Score: | |  |  |  |  |
| Rank: | |  |  |  |  |

Definitions of the benefit criteria and how they were developed needs to be explained; along with key considerations that influenced the weighted scores.

## Non-financial Risk Appraisal

In relation to non-financial risks only, (financial risks being included in the economic appraisal costs), a risk appraisal of each option shall be undertaken as follows:

* Identify all main organisational, service, project and external risks associated with each option.
* Assess the impact and probability for each option.
* Calculate a risk score.

The results can then be presented in a similar fashion to the exemplar table below:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Risk** | **Impact Score** | **Risk Score (Impact x Probability)** | | | | | | | |
| **Option 1** | | **Option 2** | | **Option 3** | | **Option 4** | |
| **Prob** | **Score** | **Prob** | **Score** | **Prob** | **Score** | **Prob** | **Score** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |
| Total Risk Score: | |  | |  | |  | |  | |
| Rank: | |  | |  | |  | |  | |

## Net Present Value

In line with the Optional Appraisal Guide, the NPV or NPC for each option can be calculated using discounted cash flow techniques on the capital and revenue costs associated with each option as entered into the GEM model. The outcomes of these calculations can be summarised in the exemplar table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| Net Present Value / Cost (£) |  |  |  |  |

## Assessing Uncertainty

Sensitivity analysis of both the Net Present Value / Cost and non-financial benefits of each option can then be carried out to understand how reactive these results are to changes in underlying assumptions.

Section 5.2 of the Option Appraisal Guide provides a list of potential uncertainties that could be analysed. Those with greatest potential to change the ranking of options should be selected and tested.

The GEM model can be used to carry out the sensitivity analysis, with the results presented in a similar manner to the exemplar table below:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Sensitivity Scenario** | **Option 1** | | **Option 2** | | **Option 3** | | **Option 4** | |
| **NPV (£m)** | **Rank** | **NPV (£m)** | **Rank** | **NPV (£m)** | **Rank** | **NPV (£m)** | **Rank** |
| Scenario 1: no changes |  |  |  |  |  |  |  |  |
| Scenario 2: |  |  |  |  |  |  |  |  |
| Scenario 3: |  |  |  |  |  |  |  |  |
| Scenario 4: |  |  |  |  |  |  |  |  |
| Scenario 5: |  |  |  |  |  |  |  |  |

The first assumed scenario should represent no changes to assumptions, which can then be used for comparative purposes with the other scenarios. Commentary on the details behind each scenario must be provided, along with the switching value of each variable necessary to make each Option have the highest NPV or lowest NPC.

It is also important to examine how reactive the ranking of options in the non-financial benefits appraisal are to changes in weights and scores used. The following are examples of possible sensitivity analysis testing that could be carried out:

* Equal weighting applied to all criteria e.g. all criteria were weighted at maximum.
* Excluding benefit scores for the highest weighted benefit criterion.
* Altering the scores of the benefit criteria with the greatest scoring range, so that all options score the same mid-range value for that benefit criterion.

The results can then be presented in a similar manner to the exemplar table below:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Non-financial benefits**  **Sensitivity Scenario** | **Option 1** | | **Option 2** | | **Option 3** | | **Option 4** | |
| **Weighted Score** | **Rank** | **Weighted Score** | **Rank** | **Weighted Score** | **Rank** | **Weighted Score** | **Rank** |
| Scenario 1: no changes |  |  |  |  |  |  |  |  |
| Scenario 2: Equal weight |  |  |  |  |  |  |  |  |
| Scenario 3: Exclude top rank score |  |  |  |  |  |  |  |  |
| Scenario 4: Mid-range |  |  |  |  |  |  |  |  |

The first scenario should represent no changes to assumptions, which can then be used for comparative purposes with the other scenarios. Commentary on the findings from this sensitivity testing should be provided.

## Identifying the Preferred Option

The purpose of this section will be to present the case for the selection of a preferred option. It will begin by merging the results of NPV / NPC and non-financial benefits to identify the cost per benefit point of each option. This can be set out in the following table:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| Net Present Cost (£’000’s) per weighted benefit score |  |  |  |  |

The differential between these results will need to be explained.

A summary of the results of all the evaluation criteria of the economic and risk appraisals should be presented together.  The following table can be included to demonstrate the results:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Evaluation Results**  **(out of 100)** | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| **Rank** | **Rank** | **Rank** | **Rank** |
| Economic Appraisal |  |  |  |  |
| Risk Appraisal |  |  |  |  |

The overall ranking will be based on a judgement of the comparative difference between the cost per benefit point of each option and risk. This should be supported by summary information on the previous sensitivity analysis exercise carried out to demonstrate how non-reactive these results are to changes in underlying assumptions.

Boards should consider the use of the SFT Whole Life Appraisal Tool dashboard to more clearly present the outputs of the economic appraisal for the project.

 A statement should then be made on the reasons behind the recommendation of a preferred option including a summary of the benefits that this option will provide when compared against the existing arrangements.

Note: the above is intended as an indicative approach to presenting the outcome of the Economic Appraisal and is not meant to be so prescriptive as to hinder a more appropriate presentation for a specific project.

COMMERCIAL CASE

# Commercial Case: Overview

The main purpose of the Commercial Case at OBC is to outline the proposed commercial arrangements and implications for the project. It will do this by responding, as appropriate, to the following questions:

Outline:

* Procurement route selected
* Compliance with EU Rules and Regulations
* Procurement plan & timescales

What is the appropriate procurement route for the project?

**Procurement Strategy**

**Response**

**Question**

**Scope of Works & Services**

What is the scope and content of the proposed commercial arrangement?

Outline:

* Scope & content of included services
* Scope of building works
* Scope of other works

**Risk Allocation**

How will the risks be apportioned between public and private sector?

Outline:

* Risk allocation table

**Payment Structure**

How is payment to be made over the life span of the contract?

Outline:

* Proposed payment structure
* Other payment principles
* Any non-standard arrangements

**Contractual Arrangements**

What are the main contractual arrangements?

Outline:

* Type of contract proposed
* Key contractual issues
* Personnel implications

The availability of the requested information for this section of the OBC may be affected by the selected procurement route, therefore, in such instances the response provided should cover the key principles as outlined, whilst explaining when more detailed information will be confirmed at FBC stage.

# Determine the Procurement Strategy

Outline:

* Procurement route selected
* Compliance with EU Rules and Regulations
* Procurement Plan & timescales

What is the appropriate procurement route for the project?

**Procurement Strategy**

**Response**

**Question**

## Procurement Route

NHSScotland has established national procurement routes for major asset investment which have been fully developed within the EU public sector procurement regulation framework. The reason for selecting one of these, or an appropriate alternative, must be explained within the OBC.

**Where a project is expected to apply a series of procurement routes for different aspects of the project then each one should be stated and explained.** For example, there may be different procurement routes necessary for the main project, early preparation works, equipment arrangements, and appointment of external consultants.

The following are example statements which can be used within the OBC to explain why a particular procurement route has been selected. If one is used, it may need to be added to or amended to suit a project’s particular circumstances.

* This project is a health (or other Public body) project with an investment cost in excess of £1m. It is to be publically funded under the NHSScotland Frameworks Scotland2 arrangement, (further reasons and benefits of choosing this procurement route need to be added).
* This is a community project utilising the hub procurement initiative, (further reasons and benefits of choosing this procurement route need to be added). This is (either):
  + A revenue funded project with a Design Build, Finance Manage (DBFM) contract arrangement.
  + A public capital funded project with a Design and Build option.
* This project’s investment cost is less than £1m and utilises local tendering as a preference, (incorporating local framework arrangements).
* The project relates to an energy efficiency initiative and will utilise (either):
  + An energy performance contract.
  + Local tendering arrangements, as the project investment cost is less than £1m,
  + A capital works project, as the investment costs and scope of works is sufficient to meet the requirements of hub, Frameworks Scotland2, or other arrangements (specify).

All investment projects, including any individual arrangements not covered by the above, must comply with relevant Scottish Government procurement regulations.

## EU Rules and Regulations

Under hub and Frameworks Scotland2 there is no need to advertise in the OJEU, however, their particular procurement process recommendations must be followed.

For any other procurements that sit above EU thresholds, it is obligatory to advertise in the Official Journal of the European Journal (OJEU). If the sum is below the threshold, advertisements may be placed in trade periodicals and national/ local newspapers as deemed suitable. When applicable, the draft OJEU notice should be attached to the OBC, which must have been reviewed and approved by legal and procurement experts.

## Procurement Plan

An outline of the project’s procurement plan is required which highlights the project’s current procurement status, making clear what has already been achieved and what still needs to be done. It will cover the appointment of the Preferred Partner / Contractor, as well as any external advisors, and will detail either of:

* The planned procurement process, setting out the general approach to be taken and the procurement timetable to be followed.
* The selection process followed, including the evaluation criteria used and a summary of the scoring and general approach taken.

There is a legal requirement to have agreed the evaluation criteria prior to the formal commencement of procurement, which needs to have been reviewed and approved by legal and procurement experts. The evaluation criteria used should be attached to the OBC.

The general approach (to be) taken will need to comply with one of the following:

### Frameworks Scotland2 Procurement

Under Frameworks Scotland2 there are two guidance documents for the appointment of PSCPs and PSCs for all projects detailed in: ‘Selection Processes for NHS Clients’.

It should be noted that a two stage process can be applied for both PSCPs and PSCs, with the first stage being a qualitative submission and the second stage a pricing proposal.

Further advice and guidance on Frameworks Scotland2 is available from the Frameworks team at NHS National Services Scotland.

### hub Procurement

Under the hub initiative there are five designated hub territories in Scotland: North, South East, West, East Central and South West. These are joint venture type arrangements between the local public sector organisations (the Participants) and the private sector (the hub company – hubCo).

The long term partnership between the Participants and a hubCo offers a flexible procurement route for the delivery of community infrastructure. The appointed private sector development partner will be able to source the required expertise to provide a wide range of construction solutions.

There is an agreed staged process for project development and delivery. Further advice and guidance is available from Scottish Futures Trust.

### External Advisor Procurement

There are separate national Technical, Legal, and Financial Advisor Frameworks for hub that allows NHSScotland and other public bodies to select advisors through a mini competition process. These are administered by Scottish Futures Trust.

There are also separate Technical / Design Advisor frameworks administered through Frameworks Scotland2.

The OBC shall outline the status, process applied, and planning for any procurement of external advisors.

# Scope and Content of Proposed Commercial Arrangements

**Response**

**Question**

**Scope of Works and Services**

What is the scope and content of the proposed commercial arrangements?

Outline:

* Scope & content of included services
* Scope of building works
* Scope of other works

The purpose of this section is to specify the scope and content of the proposed works / services included within the proposed commercial arrangements. Note that this may be different from the scope and content of the overall project which may include works or services that are not part of any commercial arrangements e.g. internal service arrangements.

## Scope of Services

This section should describe (or reference other documents where this information is contained) the scope and content of any services included within the proposed commercial arrangements. The following information will be needed to fully outline this scope:

* A description of the services to be included in the commercial arrangements.
* A summary of existing and proposed service activities and/or arrangements.
* The service standards to be set within the commercial arrangements; including essential outputs, important performance measures, and any other quality standards expected.
* The specification of these required outputs.
* A summary of stakeholders and customers associated with these services.
* The possibility for changing any assumptions in the solution offered.
* Any potential future changes external to this project that might affect any of the above.
* The timescales for procuring and delivering these services.

## Scope of building works

For building related projects reference should be made to the NHSScotland Design Assessment Process (NDAP) and related information requirements. A summary is needed within the OBC of the assessment observations, the Board’s compliance / response to the advisory & essential recommendations, and details of any site identification & assessment process carried out. The NDAP guidance document and SCIM process diagrams provide further information on required building and engineering design standards and the information expectations to accompany any OBC submission. All information should comply, where appropriate, with the Building Information Modelling requirements for this stage of project development.

## Scope of other works

For non-building related assets (e.g. medical equipment); or other types of investment projects, a similar overview is required within the Outline Business Case with accompanying reference to further information which fully outlines the scope and content of the commercial arrangements to be procured.

# Risk Allocation

**Response**

**Question**

**Risk Allocation**

How will the risks be apportioned between public and private sector?

Outline:

* Risk allocation table

## Key Principles

This section explains the principles of how project risks are generally to be allocated between the NHS body and the private sector partner. This is especially important when the successful delivery of the project is subject to significant risk, regardless of the procurement route adopted.

The key principle is that risk should be allocated to the party best able to manage it. The objective is to optimally allocate risk, rather than maximising risk transfer.

Other principles that need to be considered include:

* The degree to which risk may be transferred depends on the specific proposal under consideration.
* Successful negotiation of risk transfer requires a clear understanding by the Board of the risks presented by a proposal, the broad impact that these risks may have on the private sector partner incentives and financing costs (cost drivers) and the degree to which risk transfer optimises value for money.
* Where the market has clear ownership, responsibility and control, it should be encouraged to take all of those risks it can manage more effectively than the Board. If the Board seeks to reserve control, yet still seeks to transfer significant risk, then this could attract an added cost premium.
* Appropriate transfer of risk generates incentives for the market to supply timely, cost effective and more innovative solutions.
* Consider transferring risk to the private sector partner whenever they are better able to influence the outcome than the Board.

## Risk Allocation Table

A risk allocation table is needed that clearly shows the potential allocation of risk between the parties. This should be shown as percentage allocation wherever possible.

The allocation of risks is influenced by the different procurement approaches taken and the following table outlines the typical allocation of risks for a capital funded design and build project. These should be reviewed for each individual project against the key principles described above and adjusted accordingly before incorporating into this section of the OBC.

|  |  |  |  |
| --- | --- | --- | --- |
| Risk Category | Potential allocation of risk | | |
| Public | Private | Shared |
| Client / Business risks | 100% | 0% |  |
| Design | 0% | 100% |  |
| Development and Construction | 25% | 75% |  |
| Transition and Implementation | 60% | 40% | √ |
| Availability and Performance | 0% | 100% |  |
| Operating | 100% |  |  |
| Revenue | 100% |  |  |
| Termination | 100% |  |  |
| Technology and Obsolescence | 50% | 50% | √ |
| Control | 100% |  |  |
| Financing | 100% |  |  |
| Legislative | 100% |  |  |
| Other Project risks | 100% |  |  |

When risk allocation has been defined within the project, the Board should seek to reflect this within the proposed contract but minimise contract amendments where possible.

# Payment Structure

**Response**

**Question**

**Charging Mechanism**

How is payment to be made over the life span of the contract?

Outline:

* Proposed payment structure
* Non-standard arrangements
* Other payment principles

The chosen NHSScotland national procurement route will dictate the payment structure to be adopted, with their main principles described below. Where appropriate, one of the following statements can be adapted to describe the project’s planned payment structure, which should be edited to suit the particular project procurement option and any non-standard arrangements chosen. Note that the Financial Case should be used to outline the project’s financial arrangements and costs, and therefore does not need to be repeated here.

* Under NHSScotland Frameworks Scotland 2 (FS2) PSCs and PSCPs are appointed under the Frameworks Scotland 2 NEC form of contract under Options A, C, E. Under option A a fixed price is submitted and payment made on completion of each activity in the activity schedule. Option C is a target price paid monthly up to the target cap (unless compensation events are added) Option E allows payment for time and materials applied. The selected option will need to be stated.
* The Hub initiative can be revenue funded as a Design, Build, Finance Manage (DBFM), or public capital funded as a Design and Build (D&B) option. Under the D&B option traditional monthly payments are made to the private sector hubCo partners. Under DBFM some payments are made to the private sector hubCo partners on Stage 1 and 2 completion, or otherwise, ongoing payments are made during the operational phase. Enhanced payment terms are also possible within the Hub model, which considers fair and reasonable payment terms to designers and consultants and ensures compliance with maximum 30 day payment terms (see hub guidance for more details).

The confirmed payment structure should be accompanied with a further statement addressing each of the following subjects (where appropriate), along with any other non-standard arrangements:

* Risk contingency management.
* Contract variations.
* Disputed payments.
* Payment indexation.
* Utilities and service connection charges.
* Performance incentives.

# Contractual Arrangements

**Response**

**Question**

**Contractual Arrangements**

What are the main contractual arrangements?

Outline:

* Type of contract
* Key contractual issues
* Personnel implications

This section will outline the contractual arrangements for the procurement, including the use of a particular contract, the key contractual issues for the commercial deal, and any personnel implications:

## Type of Contract

This section will describe the standard form of contract to be used, as linked to the chosen procurement route. Under FS2 this would include the Contract Option (if known) and under hub whether it will be D&B or DBFM.

## Key Contractual Issues

Contract management arrangements and key contractual issues should be considered and their current status recorded in the OBC. These will vary with project and procurement route, but there is commonality across the exemplar headings below that allows identification and discussion within this section of the OBC for the specified project and procurement route:

* Contract duration and any key milestones within the term of the contract.
* Roles, responsibilities and governance arrangements of client and contracting partners in relation to the proposed arrangements.
* Asset ownership arrangements (including land) and maintenance responsibilities.
* Remedies in event of failure of the Preferred Partner / Contractor and Service Provider(s).
* Compliance with appropriate regulations and standards etc.
* Dispute resolution procedures.
* Operational and contract administration arrangements.

## Personnel Implications

As public sector organisations are legally and morally obliged to involve their staff and representatives in a process of continuous dialogue during projects involving considerable internal change, the OBC will need to state explicitly whether there are any contractually based personnel implications to the scheme e.g.

* Confirmation that codes of practice are in place for the well being and management of staff (within the public sector).
* Whether the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) will apply, directly or indirectly;
* Details of any terms regarding subsequent transfers at market testing intervals (if these apply)
* Descriptions of terms regarding Trade Union recognition (if these apply)
* Details of requirements for broadly comparable pensions for staff upon transfer (if these apply)

All other non-commercial personnel matters associated with this project should be described within the Management Case.

FINANCIAL CASE

# Financial Case: Introduction

## Overview

The purpose of the Financial Case is to demonstrate the affordability of the preferred option, both in the context of the Board’s overall financial plans and in comparison with the other short-listed options. In practice, this involves determining:

* The financial profile and funding consequences (both capital and revenue) of the preferred option, as well as sufficient information on the consequences of other short-listed options to set the preferred option in context; and
* The impact of the proposed project on the Board’s accounts, primarily the Statement of Comprehensive Net Expenditure (SOCNE), cash flow and Balance Sheet.

**Financial Case**

**2.**

Detailed narrative & summary information on key inputs to financial model.

Prepare the financial model

**1.**

**Outcomes for OBC**

**Key Steps**

Review capital & revenue financed impact

Completed cost template & supporting information for capital or revenue financed project.

Assess affordability

Statement of affordability and explanation of any funding gaps.

Confirm stakeholder support

**3.**

Duly signed letter(s) of stakeholder support.

**4.**

These can be achieved by taking the following steps:

## Focus of the financial case

Many practitioners confuse the Financial Case with the Economic Case. The Economic Case focuses mainly on value for money in the identification of a preferred option, taking into account costs and quantifiable / non-quantifiable benefits. In contrast, the Financial Case focuses on ‘affordability’, with a particular emphasis on the preferred option.

The Financial Case must reflect an estimate of total expenditure for the preferred option, including the impact of all government related taxes and non-cash costs e.g. VAT & depreciation, which are normally excluded from the economic appraisal.

The key differences between an economic and a financial appraisal can be summarised as follows:

|  |  |
| --- | --- |
| **Economic Appraisal** | **Financial Appraisal** |
| **Focus:**  VFM – net present value/cost (NPV/NPC). | **Focus:**  Affordability – impact on statutory financial targets i.e. Revenue Resource Limit and Capital Resource Limit. |
| **Coverage:**  Wide coverage – Government and society (‘UK Ltd’). | **Coverage:**  Relevant organisation(s). |
| **Relevant standards:**  HM Treasury Green Book rules.  Discount rate applied. | **Relevant standards:**  Scottish Public Finance Manual (SPFM) and Government financial reporting manual (FREM) |
| **Analysis:**   * Cash flow basis * Constant (real) prices (excludes inflation) * Includes opportunity cost * Includes indirect and attributable costs – costs of others * Includes all quantifiable and non quantifiable benefits and risks * Includes environmental costs * Excludes sunk costs * Excludes non-cash items e.g. depreciation and government taxes. | **Analysis:**   * Income and Expenditure basis * Current (nominal) prices (includes impact of inflation) * Gross costs including sunk costs and non cash items e.g. depreciation and government taxes e.g. VAT. |

# Preparing the Financial Model

Full details are required of the Board’s financial model for the preferred option, along with summary information on differences in the other short-listed options. The goal should be to provide clear information and explanation of the key financial differences between each option.

The approach used to develop a financial model will typically involve agreeing a series of key assumptions on factors which are influencing the project and quantifying the impact of these on the Statement of Consolidated Comprehensive Net Expenditure and the Balance Sheet, including any likely impact on cash flows.

The following table provides an example of how the financial model can be appropriately summarised in the business case:

|  |  |  |
| --- | --- | --- |
| **Key Information / Assumption** | **Associated Costs** | **Comments** |
| Impact on operating costs (differentiating between direct clinical costs associated with redesign and property running costs) |  |  |
| Depreciation |  |  |
| Property Lifecycle Costs |  |  |
| Inflation |  |  |
| Taxation |  |  |
| Proposed method of capital financing and any associated charges |  |  |
| Proposed funding sources and potential for income generation (including any likely contribution from partners) |  |  |

The above information and costs will need to be accompanied with detailed narrative explaining how these costs have been calculated, any key assumptions behind them, and an explanation of any significant differences between options.

The Financial Model should comply with the Board’s accounting policies and with applicable accounting standards. Guidance on the interpretation of accounting standards in the NHSScotland context can be found in the NHSScotland Annual Accounts Manual and the Capital Accounting Manual, which are updated annually by the Technical Accounting Group and distributed to Directors of Finance.

# Capital and Revenue Financed Impact

A table and supporting narrative showing the capital and revenue impact of the preferred option also needs to be prepared, which sets out:

* The capital and revenue consequences of the preferred option over the life span of the service and/or contract period (where the life span of the service is not predetermined, Boards should identify the recurring annual impact)
* How this compares with the original capital ceiling for the scheme (if any)
* Any shortfall in capital and revenue requirements (the ‘funding gap’)
* The different sources of funding expected to cover these costs
* The status of any project risk contingency and optimism bias, including how funds are to be controlled and managed
* A list of any costs not included in the main project costs, an explanation of the reasons why, and any actions needed to determine their expenditure.
* A summary of any changes in costs since previously reported, with an indication of the reasons why.

This information should further indicate the capital sum being requested and detail how the Board will meet the ongoing costs of the project.

Note: recurring and non-recurring revenue / operating costs should have been set out in the Financial Model, and thus do not need to be repeated here.

## Summary of conventional capital costs and funding requirements

The following tables form a standard template for presenting in a clear, consistent and concise manner the capital financials for a typical public capital funded building project. This will need to be accompanied with detailed narrative and Construction Cost Plan explaining how these costs have been calculated, any key assumptions behind them, and an explanation of any significant differences between options.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Capital Costs:** | **Total £000s** | **Funding** | | | **Change to OBC (*FBC only*)** | |
| Existing Resources £000s | Partner contri-butions £000s | SG Additional Funding Requirmnt £000s | Total at OBC £000s | Movement from OBC £000s |
| Building & Engineering works |  |  |  |  |  |  |
| Location adjustment |  |  |  |  |  |  |
| Quantified Construction Risk |  |  |  |  |  |  |
| *Additional itemised costs* |  |  |  |  |  |  |
| **Total Construction costs** |  |  |  |  |  |  |
| Site acquisition |  |  |  |  |  |  |
| Other enabling works |  |  |  |  |  |  |
| *Additional itemised costs* |  |  |  |  |  |  |
| **Total other construction related costs** |  |  |  |  |  |  |
| Furniture |  |  |  |  |  |  |
| IT |  |  |  |  |  |  |
| Medical Equipment |  |  |  |  |  |  |
| *Additional itemised costs* |  |  |  |  |  |  |
| **Total furniture and equipment** |  |  |  |  |  |  |
| Additional Quantified Risk |  |  |  |  |  |  |
| **Total estimated cost before VAT and fees** |  |  |  |  |  |  |
| VAT |  |  |  |  |  |  |
| Professional Fees |  |  |  |  |  |  |
| **Total estimated cost including VAT and fees but before optimism bias** |  |  |  |  |  |  |
| Allowance for optimism bias |  |  |  |  |  |  |
| **Total estimated cost** |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Profile of Capital Expenditure** | | | | | | |
| **Year** | Total Capital Spend £000s | Existing Resources £000s | Partner contributions £000s | SG Additional Funding Requirement £000s | Total at OBC £000s | Movement from OBC £000s |
| **Year 1** |  |  |  |  |  |  |
| **Year 2** |  |  |  |  |  |  |
| **Year 3** |  |  |  |  |  |  |
| **Year 4** |  |  |  |  |  |  |
| *etc* |  |  |  |  |  |  |
| **Total** |  |  |  |  |  |  |

## Summary of revenue financed capital costs and funding requirements

The following table is a standard template for presenting in a clear, consistent and concise manner, the capital financials for a revenue financed building project. This will need to be accompanied with detailed narrative and Construction Cost Plan explaining how these costs have been calculated, any key assumptions behind them, and an explanation of any significant differences between options.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Capital Cost** | **Total £000s** | **Funding** | | | **Change to OBC (*FBC only*)** | |
| Existing Resources £000s | Partner contributions £000s | SG Additional Funding Requiremnt £000s | Total at OBC £000s | Movement from OBC £000s |
| Building & Engineering works |  |  |  |  |  |  |
| Location adjustment |  |  |  |  |  |  |
| Quantified Construction Risk |  |  |  |  |  |  |
| *Additional itemised costs* |  |  |  |  |  |  |
| **Total Construction costs** |  |  |  |  |  |  |
| Site acquisition |  |  |  |  |  |  |
| Other enabling works |  |  |  |  |  |  |
| *Additional itemised costs* |  |  |  |  |  |  |
| **Total other construction related costs** |  |  |  |  |  |  |
| Furniture |  |  |  |  |  |  |
| IT |  |  |  |  |  |  |
| Medical Equipment |  |  |  |  |  |  |
| *Additional itemised costs* |  |  |  |  |  |  |
| **Total furniture and equipment** |  |  |  |  |  |  |
| Additional Quantified Risk |  |  |  |  |  |  |
| **Total estimated cost before VAT and fees** |  |  |  |  |  |  |
| VAT |  |  |  |  |  |  |
| Professional Fees |  |  |  |  |  |  |
| **Total estimated cost including VAT and fees but before optimism bias** |  |  |  |  |  |  |
| Allowance for optimism bias |  |  |  |  |  |  |
| **Total Estimated Cost** |  |  |  |  |  |  |

|  |  |
| --- | --- |
| **Estimated Unitary Charge** |  |
|  | £000s |
| Financing, repayment and SPV costs (100% SG funded) |  |
| Lifecycle costs (50% SG funded) |  |
| Hard FM costs (100% locally funded) |  |
| Other costs |  |
| **Total estimated Unitary Charge** |  |
| Scottish Government funding |  |
| Local funding |  |
| Contributions by partners |  |
| **Total estimated Unitary Charge** |  |

For revenue financed projects (e.g. hub DBFM), it is important to be clear on the implications of the project on the Board’s revenue and capital finances, as this will underpin the assessment of affordability. The capital costs of the revenue-financed assets will be reflected as part of the on-going service payment. However, it is important to also set out the total capital equivalent value of the project, including both the capital funded and revenue financed investment, as this will support an assessment of affordability in the context of the overall revenue financed programme. In addition, this presentation will assist with control of capital costs and give a transparent picture of the value of public investment in the project. The templates for revenue financed projects have been designed to ensure that this full picture is captured.

# Assessing Affordability

## A Statement of Affordability

The Financial Case should contain a clear statement on the affordability of the project, in revenue and capital terms, as well as detail to demonstrate how this assessment has been reached.

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

* The balance sheet has been correctly organised and properly accounts for current and non-current assets and liabilities; and that the necessary allowance has been made for risks including optimism bias.
* The financial consequences of the project can be met within the Board’s agreed Financial Plans.

Various techniques can be used by public sector organisations to help judge affordability. The risks and uncertainties will vary from project to project, but some key questions to consider are:

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

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

Each of these considerations, plus any other appropriate issues, should be described within the accompanying narrative for this section.

## Closing the affordability gaps

Where affordability problems have emerged during the development of the project, these should be clearly described in the business case, along with the action taken to close the gap, and any residual gap following those actions.

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

* Phasing the implementation of the preferred option differently.
* Adopting a different design solution.
* Altering the scope of the preferred option – for example, its functional content or the quantity and quality of the services offered.
* Finding additional sources of funding – for example, disposal of surplus assets (if available), further revenue support from the commissioners of the organisation’s services.
* Considering different ways of financing the project – for example, private finance, operating and financial leases.
* Negotiating more competitive or flexible prices from the service provider(s).
* Finding other ways of reducing the costs and/or increasing cash releasing savings.
* Allowing the service provider to create additional revenue streams and new business and sharing in the resultant revenue streams.

# Confirming Stakeholder(s) Support

It is unlikely that a business case will be successful unless consultation has been held along the way between the Board seeking investment for the improved services and its stakeholders and other NHSScotland/ public sector organisations commissioning services. NHSScotland policy on consultation and engagement is clear. Business cases must contain specific and explicit statements confirming that such requirements have been fully satisfied.

It is crucial to the overall process that agreement, in principle, is obtained from the NHSScotland bodies involved in the programme/ project. This should be in written form and included in the annex to the OBC. Issues to cover in a letter of stakeholder support include:

* Demonstration that all participant bodies have been actively involved in developing the scheme through its various stages.
* Confirmed acceptance of the strategic aims and investment objectives of the scheme, its functional content, size and services.
* Confirmation 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 contribution level (capital and/ or revenue)
* Statement of the margins of leeway beyond which support must be re-validated
* Demonstration that suitable contingency arrangements are in place to address any current or unforeseen affordability pressures

The letter should be provided by the appropriate individual(s) within the organisation – usually the chief executive officer.

MANAGEMENT CASE

# Management Case: Overview

The main purpose of the Management Case is to demonstrate that the organisation is ready and capable of delivering a successful project. The effort required will be dependent upon the size and complexity of the project and therefore the response to the following questions should be proportionate to the level of risk of not delivering the project successfully:

Outline:

* Reporting structure & governance arrangements
* Key roles & responsibilities
* Project recruitment needs
* Project plan

What are the project management arrangements are in place?

**Project Management**

**Response**

**Question**

**Change Management**

What change management arrangements are being planned?

Outline, where appropriate:

* Operational & service change plans
* Facilities change plan
* Stakeholder engagement & communication plan

**Benefits Realisation**

How will the project’s benefits be realised?

Outline:

* Updated benefits register
* Full benefits realisation plan

**Risk Management**

How are the project risks being managed?

Outline:

* Updated risk register
* Risk control measures
* Governance arrangements

**Commissioning**

What commissioning arrangements are being planned?

Outline:

* Reporting structure aligned to main project structure
* Person dedicated to leading this process
* Key stages
* Resource requirements

**Project Evaluation**

How will the success of the project be assessed?

Outline:

* Person dedicated to leading this process
* Key stages
* Resource requirements

# Project Management Proposals

Outline:

* Reporting structure & governance arrangements
* Key roles & responsibilities
* Project recruitment needs
* Project plan

What project management arrangements are in place?

**Project Management**

**Response**

**Question**

## Reporting structure and governance arrangements

A diagram of the project organisation structure is required, with named individuals included where already appointed. The project structure should be kept as lean and straightforward as possible whilst retaining an assurance that the project will be well organised.

The following is an example of a typical project structure which outlines the appropriate reporting and governance arrangements for a project. Such an example should be supplemented with an explanation of roles, responsibilities and suitability for each position, as explained in the following section:



## Key roles and responsibilities

The Board needs to demonstrate that suitable resources and skills are in place to deliver the project. This should focus primarily in relation to the Senior Responsible Officer, Project Director and Lead Project Manager. A skills assessment which provides a gap analysis and action plan should be included in this section of the OBC. Boards should use the baseline skill set guidance to assist in this requirement (see SFT website for further details).

The **Senior Responsible Officer (SRO)** for the project needs to be a senior person within the organisation with the status and authority to provide the necessary leadership and clear accountability for the project’s success. They will have ultimate responsibility at Board / Executive level for delivery of the project’s benefits and the appropriate allocation of resources to ensure its success.

The **Project Director** needs to be someone who has adequate knowledge and information about the organisation and business operations to make informed decisions on behalf of the SRO. They will be responsible for the ongoing day to day management and decision making on behalf of the SRO to ensure that the desired project objectives are delivered. They are also responsible for the development, maintenance, progress, and reporting of the business case to the SRO.

The **Lead Project Manager** will lead, manage and co-ordinate the project team on a day to day basis. The person assigned to this role needs to be identified, along with confirmation of their experience and suitability for the role. They will be responsible for leading, managing and coordinating the integrated project team on a day-to-day basis.

For projects where a **Project or Programme Board** is required to oversee the project (not always necessary for smaller and relatively straightforward projects) then members who are in addition to the above roles should be recorded in a similar table to the following:

|  |  |  |
| --- | --- | --- |
| **Project / Programme Board Members:** | | |
| **Project role & main responsibilities:** | **Named person:** | **Experience of similar project roles:** |
| **Organisation’s senior business / finance representative -** Representing the organisation’s business & financial interests. |  |  |
| **Senior service representative -** Representing the end user interests. |  |  |
| **Senior Technical / Estates / Facilities representative -** Representing the technical aspects of the project |  |  |
| **Stakeholder representative(s) -** Representing stakeholders’ interests: |  |  |

All Independent Client Advisors assigned to the project should be named in the following table, along with their employer organisation. NHS Boards should consider the suitability and availability of knowledge and resources from within the NHS and other public sector organisations before considering the use of external consultants, particularly when another NHS Board may have recently delivered a similar project to the one being considered here.

|  |  |
| --- | --- |
| **Independent Client Advisors:** | |
| **Project role:** | **Organisation & Named lead:** |
| Clinical / service lead: |  |
| Project Manager: |  |
| Business Case author: |  |
| Technical advisor: |  |
| Financial advisor |  |
| Legal advisor |  |
| IM&T advisor |  |
| Medical equipment advisor |  |
| Commissioning advisor |  |
| Other advisors: |  |

Note: not all advisors listed above will be required for every project and some roles may be combined for delivery by a single individual.

Note that the **Supply / Construction Team Details** should be included within the Commercial Case.

## Project recruitment needs

This section is to be used to identify any resource gaps in the project structure which includes the intended plan to fill those roles. This may identify, where appropriate, the planned use of shared support from other NHS Boards, or other parts of the public sector that have similar relevant experience.

External advisers may be considered where the necessary skills and capabilities are limited or in short supply; especially in the case of large, significant, complex and novel schemes. In such cases, this aspect of recruitment should make reference to the external advisors’ procurement plans in the Commercial Case.

## Project plan and key milestones

A summary of the project plan needs to be included in the Management Case which addresses the following areas:

* Details of the main outcomes required to deliver the preferred implementation option for the project e.g. the new build facility.
* Details of any site investigation, purchase and/or assembly plans.
* The activities for delivering these outcomes throughout the planning, procurement and implementation journey e.g. resource recruitment, design, site purchasing, construction phases, equipment purchasing, commissioning, hand-over, operational change arrangements, etc.
* The resource plan for completing these activities, including any concerns / risk related to a lack of suitable resources and the plan for resolving this.
* Any notable constraints towards completing these activities and an indication of what is being planned to overcome those constraints.
* A tabular schedule of when these activities will occur (the inclusion of a supporting Gantt chart may be useful).
* The stages when progress against this plan will be reviewed, including key points during the business case development, such as Gateway Reviews, Key Stage Reviews, and any health checks.

# Change Management Arrangements

**Response**

**Question**

**Change Management**

What change management arrangements have been put in place?

Outline:

* Operational & service change plan
* Facilities change plan
* Stakeholder engagement & communication plan

## Operational and service change plan

The potential impact of the project on the NHS Board’s operational and service activities, processes and people should be assessed and, where this identifies a need for further planning to take place, then an operational and service change management plan should be prepared. This will cover the following elements:

* Details of reporting structure and governance arrangements for the operational change which aligns with the overarching project structure.
* Identification of the person dedicated to leading on this aspect of the project; including an outline of their role and responsibilities, an indication of their competency for carrying out this role, and continuity plans in place for this important role.
* An outline of the resources needed to implement this plan, including any recruitment plans to fill any vacant roles.
* An operational change plan, similar in content to the main project plan.

## Facilities change plan

Facilities services may also be impacted by a proposed investment project. If so, then a facilities change management plan will be required which is similar in content and structure as the operational change strategy, and which also confirms adoption of the ‘Government Soft Landings’ principles. It will also need to align with the overarching project plan and any operational & service change plans.

## Stakeholder engagement and communication plan

In most instances, a stakeholder engagement and/or communication plan is required which should include the following elements:

* Identification of stakeholders.
* Communications and engagement carried out to date.
* Information and/ or engagement events still to be carried out
* Frequency of communications and engagement.
* Method of communication (letter, e-mail, newsletter, etc) and/ or details of engagement events.
* Workforce training and development plans.

# Benefits Realisation

**Response**

**Question**

**Benefits Realisation**

How will the project’s benefits be realised?

Outline:

* Updated benefits register
* Full benefits realisation plan
* Community benefits objective

The rationale for an investment needs to be reflected in the realisation of demonstrable benefits, as this will provide the evidence base that a proposal is worthwhile and that a successful outcome is achievable.

A separate Benefits Realisation guide is available as part of the SCIM manuals which describes the process to follow and details of what information to include at this stage of the business case process. The following is a summary from this guide on the expectations at OBC stage:

* Review and update the Benefits Register developed for the Initial Agreement.
* Remove any benefits that are no longer considered to have a reasonable expectation of achievement, indicating the reasons why.
* Indicate the ‘Target Value’ for each benefit, confirming the level of improvement expected once the benefit is realised. The comparable ‘Baseline Value’ should have been provided for the Initial Agreement.
* Develop a Benefits Realisation Plan which identifies individual responsibilities, actions necessary to realise each benefit, and how this will be monitored throughout the project.
* Prepare a Community Benefit project objective, which defines the approach to achieving social, economic and environmental benefits for this project. It should be location specific and align with the Board’s community benefit policy within their organisational procurement strategy. For further details and examples refer to the ‘Community Benefit Toolkit for Construction’.

# Risk Management

**Response**

**Question**

**Risk Management**

How are the project risks being managed?

Outline:

* Updated risk register
* Risk control measures
* Governance arrangements

Risk management is a structured approach to identifying, assessing and controlling risks that emerge during the course of the policy, programme or project lifecycle. It is a critical and continuous process throughout the planning, procurement and implementation journey of a project.

A Risk Management guide is available as part of the SCIM manuals which describes four defined stages as identification, assessment, control, and monitoring. It also includes details of how to quantify financial risks to form the risk contingency within a project’s cost estimate, and details of what information to include at each stage of the business case process.

The following items are taken from this guide and provide a guide to the development of a risk management and quantification process appropriate at Outline Business Case stage:

* Review the existing risk register developed at Initial Agreement stage focussed on strategic and client risks), update it for any change in assumptions, and record the impact of any control measures.
* Add any further project / construction related risks to the risk register – the Risk Management guide provides a list of typical risks that might be expected at this stage of a project.
* Update the assessment of each risk as a financial or non-financial risk, or confirm that it remains unquantifiable at this stage. These risks should then be treated as follows:
  + All financial risks shall be used as the basis of the bottom-up quantification of risks for the project risk contingency.
  + The main non-financial risks should be used as part of the non-financial risk appraisal of project options in the Economic Case.
  + Reliance on unquantifiable risks shall be kept as low as reasonably possible, and replaced with financially quantifiable risks where appropriate to do so.
* Provide more detailed information of control measures introduced, their effectiveness, and further measures to take.
* Indentify and record the individual owner to be responsible for the control of each risk.
* Review the outturn project cost (inclusive of risk contingency) against suitable benchmark costs to confirm that they are reasonably reported.
* Follow confirmed governance arrangements for independent review (and reporting) of the project risk register and risk quantification by the project’s Senior Responsible Owner (SRO) or Project / Programme Board.

The outcome from these steps should be presented within this section of the OBC.

# Commissioning

**Response**

**Question**

**Commissioning**

What commissioning arrangements are being planned?

Outline:

* Reporting structure aligned to main project structure.
* Person dedicated to leading this process
* Key stages
* Resource requirements

A separate Commissioning guide is available as part of the SCIM manuals which describes the main activities expected throughout the planning and delivery of the commissioning process, and how it overlaps with the business case and ‘BIM soft landing’ processes.

At OBC stage, an outline is required of the commissioning arrangements being planned for the project, which will set out the following information:

* Details of the reporting structure and governance arrangements for commissioning which align with the overarching project structure.
* Identification of the person dedicated to leading on this aspect of the project; including an outline of their role and responsibilities, an indication of their competency for carrying out this role, and continuity plans in place for this important role.
* An outline of the key stages expected within the commissioning process and an indication of appropriate time scales.
* An outline of the resources needed to implement this plan; including any recruitment plans to fill any vacant roles.

A full Commissioning Master Plan will need to be developed and presented in the Full Business Case.

# Project Evaluation

**Response**

**Question**

**Project Evaluation**

How will the success of the project be assessed?

Outline:

* Person dedicated to leading this process
* Key stages
* Resource requirements

A separate Project Monitoring and Service Benefits Evaluation guide is available as part of the SCIM manuals which describes how to monitor project progress and evaluate the realisation of the expected benefits from the project as an indication of a successful outcome to the project.

At OBC stage, an outline is required of the project evaluation arrangements being planned for the project. This will set out the following information:

* Identification of the person dedicated to leading on this aspect of the project; including an outline of their role and responsibilities, an indication of their competency for carrying out this role, and continuity plans in place for this important role.
* An outline of the key stages expected for monitoring and evaluating the success of the project.
* An outline of the team who will be responsible for undertaking Project Monitoring and Evaluation, and their respective roles. It should include any recruitment plans needed to fill vacant roles.

A full Project Evaluation Plan will need to be presented in the Full Business Case.