

Project Management Fact Sheet:

Developing a Business Case

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When considering the expenditure of public funds, government agencies need to ensure that projects and programs relate to government and agency priorities and that there is value for money. One way for agencies to make decisions about new projects or programs is to consider a Business Case.

The Business Case is the mechanism used to outline a business issue and seek approval for a project to resolve the issue and/or seek agreement on a project's outcomes. The Business Case is an essential core document. It is the foundation upon which other project documentation and the resulting projects are built.

What is a Business Case?

The Business Case is a one-off, start-up document considered by senior management to assess the pros and cons of proposed projects (initiatives), or to assess the options for a project that has already had resources allocated. The Business Case presents the business issue, identifies project options, benefits, costs, risks and defines the scope. Overall the Business Case's function is to help gain approval from senior management for a project to proceed to address the stated issue or need and/or to obtain common agreement on exactly what the project will deliver.

If approved, the Business Case confirms support and/or resourcing for the recommended option (project).

In the case of small, less complex projects, a Project Proposal might be used instead.

Why would you develop a Business Case?

A Business Case should be developed to:

- define the scope of the business issue
- present options and make recommendations

- seek approval for the preferred option to be pursued as a project
- obtain human, physical and financial resourcing for a project
- seek additional funding external to the agency, i.e. Budget Committee
- seek funding for a cross agency project
- where resourcing has already been allocated and the decision to proceed has already been made by senior management, to document what the project will accomplish and what the benefits will be

Where an Agency, Division or Business Unit has a number of proposed initiatives (projects), the Business Case is used as a tool to assist in prioritising the various initiatives. This prioritisation may be achieved by comparing the projects competing for funding based upon their benefits, costs and risks. This is where the option of a Portfolio Management approach is useful.

When would a Business Case be developed?

Approval to develop a Business Case is usually obtained from the Senior Manager/Sponsor. This approval may be a result of acceptance or approval of a preceding stage such as a Corporate Plan for a Department, Business Plan for a Business Unit, Project Proposal, Business Process Analysis Report or Feasibility Study.

The *Business Case* expands the proposals developed in these documents in order to:

- clarify the business issues
- explore options or possible solutions
- recommend the preferred option
- seek approval for resourcing for the preferred option
- reach agreement on the scope of the project

- seek authorisation to proceed to the next step of the project (usually the *Project Business Plan*)

In the case of large complex projects this development might occur in stages, such as having the scope approved first with the allocation of some funding, before the Business Case is developed. **Business Process Analysis** activities should be undertaken, to obtain clear information about what the real nature of the business issue is, to inform proposed costings, as well as provide information about existing business processes that may be changed as a result of undertaking the project.

Who is responsible for developing the Business Case?

The Senior Manager/ Sponsor will appoint a project officer to develop the Business Case. Often this person will be the Project Manager for the project when it is approved. It is their role to obtain the information required and to develop the document. In the case of a large project a project proposal or project business plan, to produce a Business Case may be developed for sign off depending upon project complexity.

Who has ultimate accountability?

The Senior Manager/Sponsor has ultimate accountability for the development of the *Business Case* and has the responsibility for ensuring its implementation as a project once approved.

Who approves the Business Case?

Approval is dependent on the size of the project and the internal procedures of the Agency. For smaller projects, approval will usually be obtained from within the Agency at a divisional or Agency level. Large projects may require higher-level approval, for example the Business Case may need to be submitted to Treasury as part of the Budget cycle, and/or to the Tasmanian Government Inter-Agency Steering Committee.

It is up to the Senior Manager/Sponsor to determine the size of the project and the approval processes required.

Seeking approval for the Business Case Development

Developing the Business Case itself requires significant staffing resources and may have a number of other costs, especially if it is a large project. It is essential that Senior Managers accept the costs and the time that will be required, and are prepared to commit to them.

It may be convenient to treat the development of the Business Case as a project in itself so the resources used to develop it are managed in an optimal way. The project proposal for the business case development project then can be the document that seeks approval for the resources needed for the Business Case. (The *Project Proposal* may be used in place of a Business Case when a small project is being considered.)

Planning the development of the Business Case

In planning the development of your Business Case, there are a number of additional activities that you should consider adding to your work plan, including:

- Approval process steps - what approval processes are required for the Business Case, including all internal, whole-of-government and Budget Committee approvals. For example, where a Business Case requires Budget Committee approval, there is a pre-set time frame that is immovable. Each financial year, the Department of Treasury and Finance details the current Budget Management and Financial Reporting Cycle, including deadlines for the submission of information. This is available from www.treasury.tas.gov.au.

- Supporting documentation – what supporting/covering documentation such as Briefing Notes, etc need to be prepared, particularly if the Business Case requires Budget Committee approval.
- Interim activities - what action or activity will be done while the Business Case progresses through the relevant approval stages. You may need to confirm with the Sponsor/Senior Manager, what action (if any) can be undertaken during this time.

You may wish to document these activities in a project brief if it is a larger more complex project. By doing this you are treating the development of the Business Case as a project in its own right.

How do you develop a Business Case?

Business Case templates for projects of varying size are available on this website. In using these, discard those sections that are not relevant to your particular project and add any sections that may be specific to your project.

In the case of larger projects, refer also to *Checklist for Major Business Initiatives* available from this website. This Fact Sheet provides the whole of government context for planning for business improvement during the project initiation phase.

If the project involves the development of infrastructure where private as well as public resources are involved, it is advantageous to be familiar with the *Guiding Principles For Private Sector Participation In Public Infrastructure Provision*, available on the Purchasing website <http://www.purchasing.tas.gov.au/buyingfor-government>. This document also contains an outline of a Business Case for this type of project.

The following is one way to develop your Business Case. It is recommended that, where possible, you work through the following steps with others before completing the template.

Step 1: Collect relevant information

The Business Case should have enough information to demonstrate that all options and issues have been explored fairly and that the recommendations have been logically developed to enable the proposal to be accepted.

You will need to find answers to questions such as:

- What is the issue? What is the intention? What issue is this project addressing? What is the scope of the issue? What are the key business drivers?
- What has happened before to address this problem/issue and what can be learnt from either within your own agency or from other agencies?
- Why is this project a good idea?
- How does this project support Government's priorities?
- How does this project support the agency's priorities?
- How does this project support Tasmania *Together* goals or benchmarks (if applicable)?
- Who are the stakeholders?
- What resources have been allocated, if this has already occurred?
- What other projects are currently underway or planned that may be interlinked in some way, either within your own agency or across government?

Much of this investigation should involve extensive consultation with all key stakeholders.

Step 2: Identify any Assumptions or Constraints

You will normally have some uncertainty associated with the proposed project. To address this issue it is often necessary to make some assumptions. For example, in electronic service delivery it is usually assumed that some customers wish to, and find it convenient to interact electronically. Support for assumptions may be found by researching experiences in equivalent industries or geographical areas.

Constraints are externally imposed restrictions. These may be in the nature of legal requirements, resource availability, deadlines, industry standards or organisational procedures and requirements.

The assumptions and constraints should be listed to ensure the audience is aware of the framework in which the proposed project is required to operate.

Step 3: Identify analyse and compare the options

For any proposed project there are a number of different options to meet the objective. Each option has differing benefits, costs and risks associated. Identify the various business options and then analyse to the degree necessary to be able to effectively compare the options and arrive at a recommendation.

There should be a minimum of three options analysed, 'status quo' and at least two other options that will achieve the same objective, but to different degrees. The 'status quo' option can often be dismissed as the preferred option by describing the scenario that may occur if a current problem or future problem is not addressed. For example, it may be a significant loss in revenue or political embarrassment if a current business process fails due to an equipment or technology failure.

On the other hand 'status quo' at this stage may be the recommended option in light of the analysis. Status quo does not mean do nothing, it means continuing on the current path. Beware of simplistic arguments that dismiss the status quo option because it will not cater for the sorts of change in the future that it has coped with in the past, e.g. the status quo for a software application should include some ongoing enhancements. Either way it is important that those considering the Business Case know the implications of maintaining the 'status quo'.

In situations where the project has been agreed and the resources allocated prior to the Business Case, this identification, analysis and comparison of options should still be completed, as it will reveal possible issues such as a resource shortfall or insufficient time available. In these cases various ways may be explored to resolve these issues, for example requesting additional funds or adjusting the project scope.

This analysis is a comparison between **options** on the basis of the benefits delivered, their costs and associated risks. It is not intended that this be used to compare one project with another. The recommended option becomes the project if approved.

Key areas to analyse and compare are:

- **Benefits:** This is a high level estimate of the value the particular option will provide to the key stakeholders. The benefits may be positive or negative, i.e. benefits or disbenefits, and you can estimate them as High/Medium/Low. The key stakeholders need to be considered, as they are critical to the success of the project

- **Costs:** These include direct, indirect and recurrent costs to provide a full picture of the costs associated with each option. Depending on the size of the proposed project, these costs should be included for the Business Unit/Agency concerned and other Business Units/Agencies if affected. Refer to the Department of Treasury and Finance's guidelines for more information at <http://www.treasury.tas.gov.au>
- **Risks:** Identify and grade the major risks for each option. (Refer to the *Risk Management Section* in the *Tasmanian Government Project Management Guidelines*) For those risks with a grading of A or B determine what risk minimisation/mitigation strategy is appropriate and the associated cost. Estimate the resultant grading for the risk once the strategies have been implemented and assign a numerical rating to each risk. These ratings are totalled to provide you with a relative risk rating for each option and the estimated cost of the risk management strategies.
- **Stakeholder impact:** Identify the key stakeholders that are impacted by each option. For each of these, describe the area of impact and provide an indicative rating of the impact
- **Issues:** Identify any key issues and describe how they would be addressed

Comparing the options can be made easier by using a table to compare one against another.

Step 4: Identify the recommended or preferred option

Based on the previous steps, identify the recommended or preferred option.

Step 5: Work out how to implement the recommended option

Based on the information outlined in **Step 3** for the recommended option, come up with a title for the project. Begin to broadly scope the project that will implement the recommended option and describe how the project will be managed. Although the implementation strategy is at a high level, it should define exactly what the project should achieve, the impact on the organisation, an outline work plan, what resources are required and how the project will be governed. This information will be the basis for the development of the **Project Business Plan** for the project once it has been approved. (For additional help, refer to the *Project Management Fact Sheet: Developing a Project Business Plan*.)

This information is just as important for those considering whether or not to approve the Business Case, as it is for the analysis and comparison of the options. Those with responsibility for the project are very interested in ensuring that if the project is approved and resources are provided, that the resources will be well spent, the project well managed and will produce the desired results at the end of the project.

Step 6: Document your findings.

Now document your findings in the Business Case. For a large, complex project the identification, analysis and comparison of the options may be documented in a stand-alone document, such as a **Preferred Option Paper**. Once the options paper has been considered and agreed to by the Sponsor, a full Business Case can then be developed.

What happens next?

Once the Business Case is complete, it progresses through the relevant approval stages, depending upon the size of the proposed project. This approval process can often take time. The Sponsor/Senior Manager should be in a position to advise you of the progress of the decision on the Business Case by the decision making body.

Tips from Project Managers

Comments have been collected from a number of Tasmanian Government Project Managers who have prepared Business Cases in the past. Some of their suggestions were:

- Where possible, it is advantageous to stage the development of an initiative from the concept stage to the completion of a comprehensive and rigorously developed Business Case. For example, use one budget cycle to prepare and gain approval of the Preferred Option Paper, and in the following budget cycle complete the Business Case based on the approved preferred option.
- In an environment where there is competition within and between agencies for funding, the Project Manager needs to ensure that the person sponsoring the development of the Business Case is 'selling' the project to the appropriate groups and/or individuals.
- For complex projects with a major IS/IT component, the development approach should include:
 1. mapping the current business processes
 2. completing a baseline costing study
 3. the adoption of the emerging whole-of-government **Interoperability Framework**
- 4. alignment between a proposed initiative and the agency's IT Strategic Plan
 - Prior to the official commencement of the development of the Business Case a number of weeks were utilised for undertaking preparatory work. For example, the preparation of the consultants' briefs and establishing the quantum of the cost for the consultancies.
 - Benefits identification needs to be undertaken at an early stage. This assists in the process of firstly identifying those that are quantifiable and then in completing the work necessary to obtain a dollar value.
 - Where the Business Case involves business options that involve other agencies (major external stakeholders) it is invaluable to have one of their representatives as a team member.
 - There are often a number of options that are originally identified and analysed at a high level. This may identify one or more options that would not be acceptable for cost, risk or political reasons. These options can be excluded from being analysed in detail in the Business Case, providing the Steering Committee and/or Business Case Sponsor have approved their exclusion. This can save wasting time analysing options that, in reality, are not valid options.
 - Consultants are often used to provide input into the development of the Business Case, where the Project Team lacks the required skills or where an independent analysis is beneficial. It is beneficial for these consultants to use the same issues reporting format and weekly status reporting format as the team. This enables the consultant's issues to be fed into the project Issues Register thus avoiding double handling and ensuring all issues are addressed. It also makes it easier for the Project Team to monitor the consultants' performance.

- Ideally the Project Team should be physically located together.
- Ensure that at the beginning of the project, a **Communication Plan** is developed and approved by the Project Steering Committee that contains a number of key messages that can be used throughout the project to 'drive the message(s) home'.
- A number of Business Cases have encountered problems when a previous Business Case or earlier report has recommended or alluded to a particular option that was relevant at the time. Often the environment and circumstances change and a Business Case written at a later time can be required to argue against a pre-existing (but outdated) view of an organisational business problem.
- There are dangers in attempting to put too much precision into costs and ratings as at the Business Case stage these are only estimates e.g. for risk and stakeholder analysis. Costs down to the dollar imply a level of precision that is not usually present.

This is often why figures in Business Cases often appear 'rubbery' when you look back at them later. However, they are based on the best available information at the time the Business Case was prepared. **This can be partially addressed by including costs as ranges, rather than specific amounts.**

- Many risks change or only become apparent after the project begins. That is why it is important to undertake another risk workshop when developing the **Project Business Plan** for an approved project.
- The impact on stakeholders and their degree of support for a project often cannot be gauged until they are aware of a more detail than may have been available at the time the Business Case was developed. That is why it is important to undertake another stakeholder analysis when developing the **Project Business Plan** for an approved project.

Where to get additional help

- Refer to the *Tasmanian Government Project Management Guidelines*
- The Inter Agency Policy and Projects Unit offers further advice and assistance, including a formal Advisory and Review Service
- Contact Project Services at project.management@dpac.tas.gov.au
- Further information and resources are available from www.egovernment.tas.gov.au

Acknowledgements

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