



Local government: How to build a business case

Local Government



Building a sound business case



A sound business case is a foundation to effective investment decisions. Through KPMG's work with over 100 public sector bodies we have produced a practical guide to preparing robust and proportionate business cases to support both routine and strategic investment decisions.

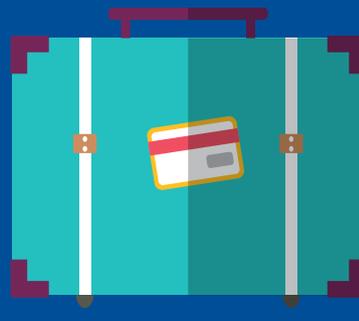
Robust business cases are crucial to making the right investment decisions. Without one, an authority can struggle to communicate the benefit of an investment; how it will measure success; and how it will learn from the process.

While this isn't anything new, the current fiscal environment means business cases are even more important in helping an authority decide where to invest. In these circumstances the business case process needs to be well designed and consistently applied. It should be:



Rigorous

with analysis supported by verifiable data and evidence based assumptions;



Broad

the consideration of a wide range of qualitative and quantitative factors, including the overall project rationale; the economic case for investment; and the risks of action versus inaction; and



Proportionate

so that the process of creating a business case matches the level of project risk. The need for robust analysis should complement the need for agility and responsiveness.

As the pressure on local authority finances continues the role of major investment and transformation decisions will only become more critical to delivering a sustainable future. Robust business cases are vital to ensuring that investment choices have the best chance of delivering success.

Our quick reference guide helps to ensure that your business case

process is fit for purpose in an environment where the balance between proportionality and robust analysis is of paramount importance. It provides a basis for assessing the risk presented by proposed projects, allowing you to scale your business case process accordingly. It sets out the key attributes of a business case for both high and low risk projects. Access the guide [here](#).

What follows is a brief exploration of the critical role that business cases play in local authorities. This includes a look at the importance of achieving consistent quality in business cases, while balancing competing priorities and securing a proportional approach. In doing so we also consider how objectivity is ensured in the analysis which underpins such a key decision-making document.



Role of the case

The business case is at the centre of decision making. Whatever form or structure, its responsibility to articulate purpose and analyse the facts makes it an enabler of effective scrutiny and challenge.

The best business cases clearly set the boundaries for what the project hopes to achieve and how it intends to do so. This up-front clarity focuses and simplifies the decision making process. Over-complication of a business case makes it harder to scrutinise and consequently increases the risk of failure.



“I look for clear objectives in our business cases so that we know what we’re trying to deliver. Projects need clear strategic objectives grounded in the council’s aspiration and vision so there isn’t a risk of us undertaking a project that doesn’t fit.”

Deborah Hindson
Executive Director -
Financial Sustainability,
London Borough of Newham

Once the business case has established the purpose of a project it is important for it to define the basis by which it will be measured and the key criteria that indicate success. This continues the theme of simplicity – you increase the likelihood of success by having tangible success criteria which are measured by indicators that people understand. These indicators should be a mix of qualitative and quantitative, financial and non-financial, but they should all be based on reliable data that have a causal relationship with what the project is hoping to achieve.

One of the most important roles of the business case is to support a decision. Its purpose is to objectively analyse a potential initiative against an authority’s strategy and risk appetite and, crucially, to show due process and approval prior to proceeding. This prevents authorities having to throw good money after bad in order to recover projects which were not properly considered. Effective business cases are a constituent part of a governance mechanism that is both responsible and accountable for making decisions.

In performing all of the above roles the business case process should be value adding. The responsibility of the business case to articulate purpose, define success criteria, and encourage accountability is all conducive to quality decision making.

Achieving consistent quality

To successfully fulfil the crucial role that business cases play in decision making, and to maximise their 'value add' potential, business cases need to be of a consistently high quality.

Underpinning this is the importance of process and protocol. Authorities should have an agreed protocol that covers when business cases are necessary and what their mandatory and optional components are. This gives valuable guidance to those responsible for preparing them and assures officers and members that the cases they receive have the necessary breadth and depth of information first time round. This improves quality by giving the appropriate information to those reviewing and signing off the case, but also speeds up the process by removing costly delays for revisions and reiterations.

Business cases should have a level of granularity commensurate with the key role it plays in informing decision making. In doing so, wherever possible, sensitivities should be applied to options to ensure that a detailed analysis of best, likely and worst outcomes is considered and the most informed decision is made. Authorities should consider using metrics to sense check the level of investment in the business case. For example, by taking a ratio of the cost to prepare the business case compared to the cost of the project and benchmarking this across its different cases.

To assist with the consistent application of an authority's established process it is useful to have a central co-ordinating function, such as a programme management office, which can offer guidance and ensure that business cases are completed where they are required. However, ownership should always rest with the project manager or senior responsible officer. This maintains accountability and keeps those with the right knowledge and skills close to the business case. However, a central function can provide useful insight and commentary on comparability with other cases that project managers may find useful.

This central function can also help with ensuring appropriate expertise has been applied to the business case. Whether this is drawing on internal teams or external support, there should be clear protocols for what analytical input is expected from an economic, financial, legal, and personnel perspective for different scales of project. Where external support is sought, an Authority should have a clear understanding of the scope of the work, and whether it wishes to transfer skills in order for it to provide support internally to future business cases.

The application of diligent process and expertise will help produce a high quality business case. This is all wasted time and effort, however, if the rigour of the approval process is lacking. Business cases need to be reviewed

and challenged by the right people at the right time. Who this is will vary depending on the scale and complexity of the project, but authorities should have an established governance mechanism that is adhered to. Senior officers should routinely review cases given their cross-organisational perspective and their respective skills and experience. At all levels of review and sign-off, what is key is that information is tailored to the audience and commensurate with the complexity of the proposal being considered.



“We make sure we get a lot of people to look at our business cases from across the organisation that have various skills. It depends on the scale or complexity of the issue, but we sometimes use external advice to validate our thinking.”

Richard Simpson
Executive Director of Resources,
London Borough of Croydon

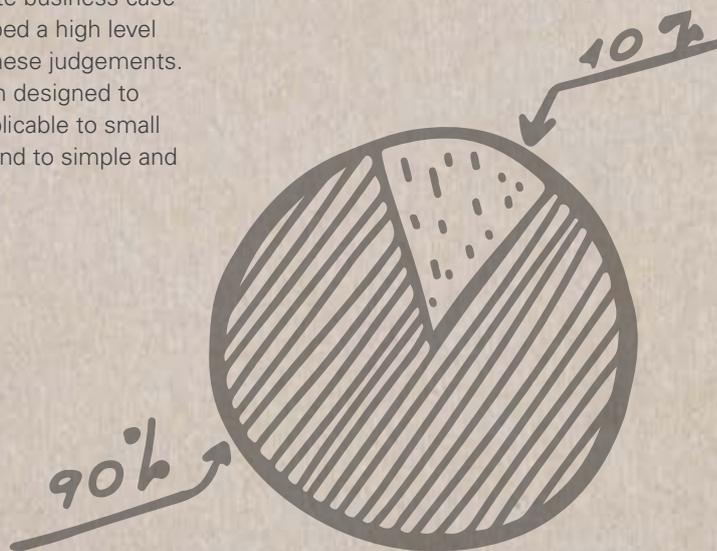
Getting the balance right

The importance of getting the business case right, combined with natural risk aversion and horror stories of failed projects, can all result in the business case process becoming cumbersome and disproportionate. The temptation to apply a one-size-fits-all approach regardless of scale, complexity, or risk is a dangerous one. It is crucial to guard against it, and instead continuously revisit whether the competing priorities of risk and proportionality are in healthy balance. An overbearing process doesn't just waste time, it results in an inability to focus senior officer attention on the areas of greatest risk.

Authorities should have a model which analyses the risk presented by a project and supports a proportionate business case response. We have developed a high level [model](#) which helps make these judgements. It has a two-tiered approach designed to ensure that it is equally applicable to small and large authorities alike and to simple and complex projects.

This tiered approach to preparing business cases applies a lens of proportionality and pragmatism to the business case process. It's important to note that these high risk criteria are rarely just about financial exposure. Rather it is a rounded consideration of factors – including scale, complexity, political and reputational exposure, and the risk of success – that may mean a project needs more consideration and review prior to approval.

The central supporting function, which helps co-ordinate the business case process, can support teams across the authority in making the right judgement as to what level of business case is appropriate.





Keeping it objective

Undoubtedly one of the biggest challenges in preparing a robust business case is achieving objectivity. More often than not there is a preferred option for which it is difficult to guard against optimism bias. However, this difficulty must be overcome if a business case is to achieve its purpose and if those involved in the decision making process are to effectively discharge their duties. This should set the founding principles of the guidance, structure, approach and governance of the process itself. Embedding review and challenge by internal and external stakeholders in the process will be conducive to objective business cases being achieved.



“To give some assurance and reassurance to politicians as well as the public, a level of independent expert review is good practice, particularly on things of particular scale and risk.”

Andrew Burns
Director of Finance and
Resources, Staffordshire
County Council

Business cases should start as an options appraisal, including a “do nothing” option, so that the imperative for action can be easily understood and the relative costs and benefits of multiple options can be considered alongside the preferred approach. Having well considered alternatives strengthens a business case as it aids the thought process of the project team and pre-empts questions from those reviewing the case further down the line. The alternative options identified in the business case can also be utilised as a ‘plan B’ if the preferred option proves unsuccessful.

Using internal and external experts to critique the business case, particularly the economic case and financial model, can mitigate the risk of optimism bias in the figures presented. It can also assure reviewers that calculated benefits have been stress tested by a team not involved in the project. It is important to track the benefits set out in the business case as the project progresses and is completed. As part of the debrief process we recommend that a post-project implementation review occurs to assess whether the benefits identified at the outset have been achieved and lessons are learnt. Understanding that benefits will be tracked and reviewed helps to promote objectivity and rigour from the start of the process.

Business cases are crucial to making informed decisions. Over the page we include a method for ensuring breadth and proportionality in your business case protocol. We can work with you to apply this model to your Authority, to help ensure you’re making informed decisions in these challenging circumstances.

Business case framework

Project classification

The requirements for each element of a good business case vary based on the size and impact of projects. Whilst these factors will fall on a spectrum, our framework considers two broad categories of projects: low risk and high risk.

		Low risk	High risk
Project scope		Project affects activities within one department	Project is interdisciplinary and affects multiple departments
Longevity		Income and cost streams are limited to a period of 5 years or less	Income and cost streams will continue
Project nature		Project is an extension of current activities	Project is a new venture or diverges from historic practice
Reputation impact		Project does not create a risk of reputational damage	Project is high profile and may impact public image
Financial commitment		Capital requirement below £2.5m does not require Executive approval	Capital requirement above £2.5m does require Executive approval
Contingent liability		There are no significant contingent liabilities	Contingent liabilities exist that may required financial commitment to exceed £2.5m

Our guide to local government business cases

The requirements for a good business case are separated into 11 elements:

	Low risk projects	High risk projects
<p>Project description: Should be consistent with the project plan and intended outcome and should be complete with timelines and key dates. Documentation that is clearly structured and designed to be read by decision makers ensures understanding of necessary information.</p>	<ul style="list-style-type: none"> – Project description in line with intended outcome – Key dates and timeline – Clear, understandable documentation 	<ul style="list-style-type: none"> – Project description in line with intended outcome – Key dates and timeline – Clear, understandable documentation
<p>Strategic case: A clear link to the achievement of the Council strategy ensures that resources are being allocated to projects that will further the Council's objectives.</p>	<ul style="list-style-type: none"> – Clear link to department / Council strategy 	<ul style="list-style-type: none"> – Full evaluation of link to the strategy, including consideration of inconsistencies – Consideration of current activity cannibalisation – Link to at least two strategic goals
<p>Financial case: Determining resources required and a funding plan ensures that the Council does not commit to projects for which cash flows are not currently available. Consideration of accounting implications, including covenant impact and tax implications, ensures that the project fits within the financial structure.</p>	<ul style="list-style-type: none"> – Inclusion in department / Council budget 	<ul style="list-style-type: none"> – Inclusion in capital plan / budget – Analysis of value for money achieved – Accounting and covenant impact considered – Tax implications considered
<p>Risk evaluation: Identifying risks and mitigating controls, highlighting significant risks and considering the project within the context of the Council's risk appetite ensures projects that appear profitable are not taken on at the expense of exposing the Council to unmitigated significant risks.</p>	<ul style="list-style-type: none"> – Key risks and mitigating controls are set out – Link to department risk register and department risk appetite 	<ul style="list-style-type: none"> – Key risks and mitigating controls are set out – Significant risks highlighted – Link to risk register and risk appetite – Impact on reputation considered – Project risk register
<p>Alternative evaluation: Project options and alternatives are presented. Benefits and risks of each are explained and supported. A clear choice is evidenced by an analysis of benefits and a plan for mitigation of risks. A balanced view is presented.</p>	<ul style="list-style-type: none"> – Project options considered during project planning are discussed 	<ul style="list-style-type: none"> – Alternatives for completion of the project are presented – Benefits and weaknesses of each option are described – A clear choice is made with reference to alternative evaluation

	Low risk projects	High risk projects
<p>Project plan: Preparation of a project plan, including setting of milestones, technical specifications, plans for project piloting/testing and the timing of resources, ensures that the project is feasible and has been broken up into manageable steps. Accountability is achieved through identification of the responsible project lead and strategic board.</p>	<ul style="list-style-type: none"> – Project timeline – Project specifications – Consistent with project description – Individuals responsible for project development 	<ul style="list-style-type: none"> – Project timeline, milestones – Project specifications – Consistent with project description – Timing of resource requirement – Facilities requirement – Pilot / testing stage – Project board responsible for project development
<p>Economic case: Assessing the current and future economic impact of the project ensures projects are approved that contribute to the Council's economic performance. Financial models should be based on supportable assumptions which have been tested through sensitivity analysis.</p>	<ul style="list-style-type: none"> – Economic analysis performed (net present value or net contribution) where project is ongoing – Model consistent with department standard practice – Assumptions supportable – Operational and maintenance costs considered – Consistent with project plan 	<ul style="list-style-type: none"> – Economic analysis performed (net present value or net contribution) – Model consistent with Council standard practice – Assumptions supportable – Operational and maintenance costs considered – Sensitivity analysis – Contingent liabilities considered – Consistent with plan
<p>Stakeholder analysis: Identification and involvement of key stakeholders (staff, partners, suppliers, community) ensures all angles are considered and secures stakeholder buyin. Market research for demand ensures business case assumptions are reasonable.</p>	<ul style="list-style-type: none"> – Stakeholder identification – Staff involvement – Market research conducted 	<ul style="list-style-type: none"> – Stakeholder identification – Staff involvement – User group / committee – Market research conducted

	Low risk projects	High risk projects
<p>Accountability: Identification of accountable officers / groups at the appropriate level ensures accountability and oversight by individuals with appropriate experience and skill. Clear lines of reporting ensures visibility at all levels within the Council.</p>	<ul style="list-style-type: none"> – Accountable officer (senior management at department level) – Accountable body within department 	<ul style="list-style-type: none"> – Accountable officer (senior management at department level) – Project committee or group with clear terms of reference and appropriate skills mix – Clear reporting lines from project group to Executive
<p>Monitoring performance: Key performance indicators and a responsible group for monitoring ensures that the elements of the business case which led to project approval are effectively carried out. Financial metrics ensures economic success and nonfinancial metrics ensure fulfilment of strategic links.</p>	<ul style="list-style-type: none"> – Individual / forum responsible for monitoring – Key performance indicators and critical success factors 	<ul style="list-style-type: none"> – Group/committee responsible for monitoring – Key performance indicators and critical success factors – Financial and nonfinancial metrics
<p>Approval and challenge: Approval and challenge at the appropriate level by individuals with a range of skills and experience ensures that sufficient scrutiny of all elements and consideration of various angles.</p>	<ul style="list-style-type: none"> – Approval at senior management level within department in line with the Council's financial regulations – Internal challenge 	<ul style="list-style-type: none"> – Approval at Cabinet or subcommittee level in line with Council's financial regulations – Capital plan – Internal challenge – Due diligence – External review

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