



2016 ICEAA Canada Workshop

Capital Project / Infrastructure Renewal – Making the Business Case

February 22, 2016



Agenda

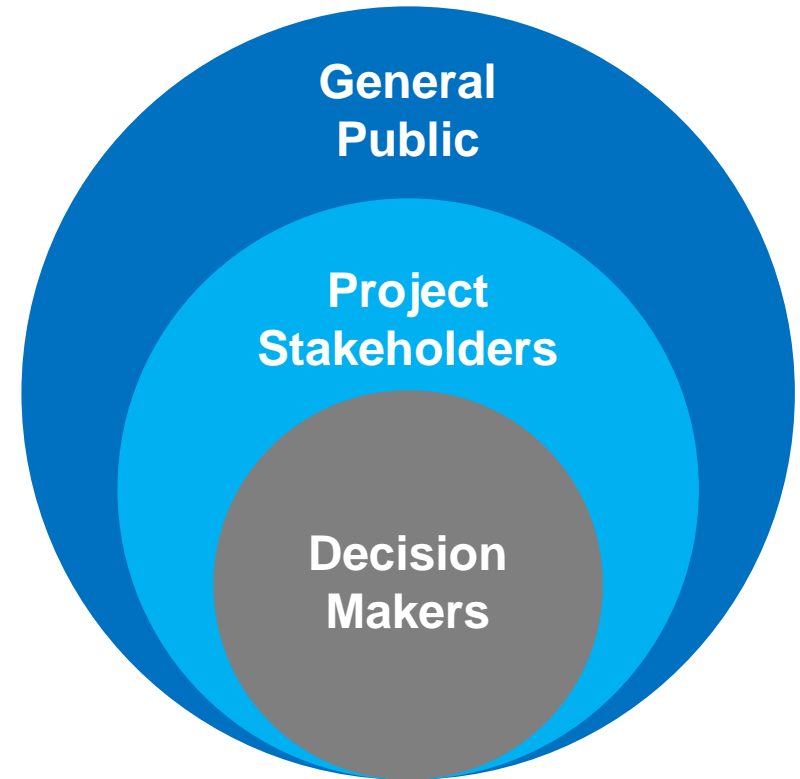
- **What is a business case**
- **Target audience of a business case**
- **Key business case components**
- **Business case development**
- **Potential pitfalls**

What is a Business Case

- **A decision-making tool** used to determine:
 - Whether a project should be initiated
 - Which strategic option is preferred for the project
- **A business case:**
 - Explores all feasible approaches for a strategic project issue
 - Explains the reasoning for selecting a project approach
 - Enables decision makers to make an informed decision
- **Multiple business cases may be developed** to address different project issues at different points in time during the project lifecycle

Target Audience of a Business Case

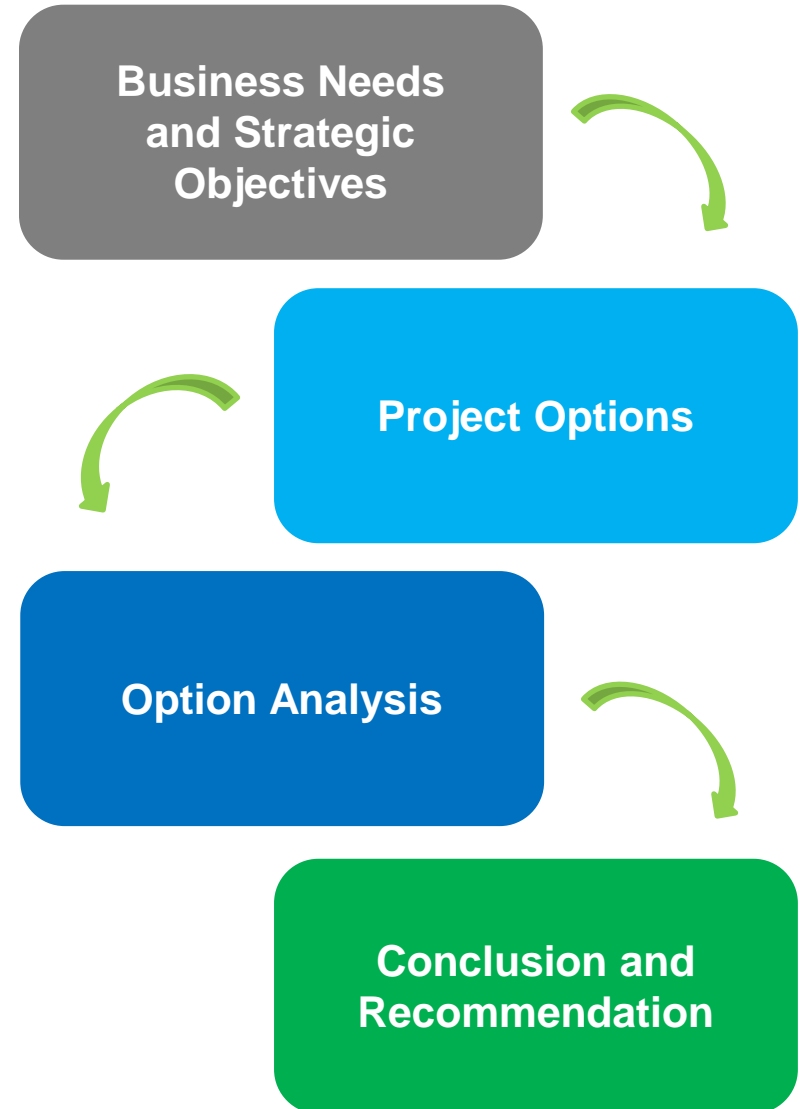
- **Decision makers**
 - Government
 - Senior management of an organization or corporation
 - Funding authorities and/or financing institutions
- **Project stakeholders**
- **General public**



The business case needs to be developed in a manner which addresses the specific concerns of different target audiences

Key Business Case Components

- **Business needs and strategic objectives**
 - Business needs
 - Strategic alignment
 - Project objectives
- **Project options**
 - Identification of potential project options
 - Screening and short-listing of options
- **Option analysis**
 - Qualitative analysis
 - Quantitative analysis
 - Risk assessment
 - Market sounding / consultation
- **Conclusion and recommendation**
 - Consolidated analysis outcome
 - Recommendation on preferred project option



Business Case Development

- **Business needs and strategic objectives**

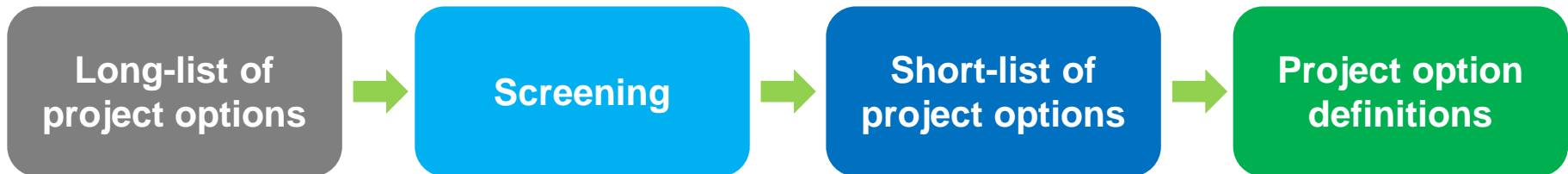
- Identify the current business environment
- Identify the business objective
- Describe the rationale behind the need for an initiative (e.g. a new project or a strategic change to an existing project)
- Describe the desired outcomes of the initiative
- Assess the alignment between the proposed initiative and the overall strategic priorities



Business Case Development (Cont'd)

- **Project options**

- Identify all potential options for the project
- Develop a preliminary screening criteria to assess the identified project options
- Conduct the screening process to develop a short-list of the project options for further analyses
- Clearly define the short-listed project options (e.g. business model, approach, scope, etc.)



Business Case Development (Cont'd)

- **Option analysis – development of analysis approach**

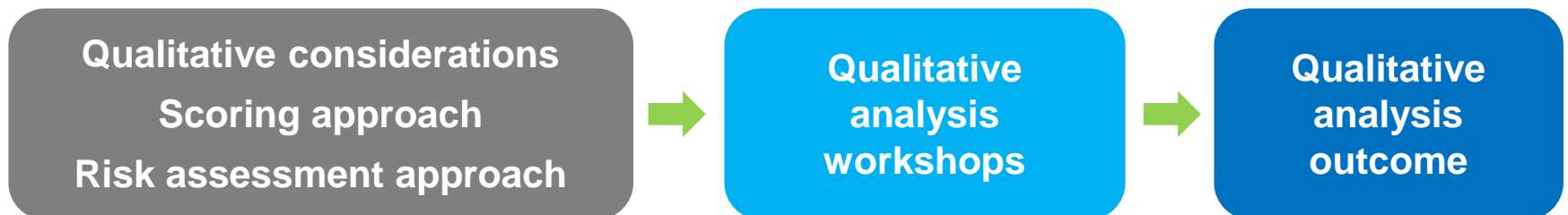
- Will the analysis take into account both qualitative and quantitative parameters or will it focus mainly on quantitative analysis?
- If both qualitative and quantitative analyses are considered, what is the relationship between the two analyses (e.g. use qualitative analysis as a screening tool then conduct quantitative analysis or assign different weightings to the two analyses for the purpose of consolidating the outcomes and making recommendations)?
- Will risk assessment be reflected in the qualitative analysis, quantitative analysis or both?
- Are there any critical criteria that could eliminate a project option regardless of other criteria (e.g. timeline, affordability, etc.)?



Business Case Development (Cont'd)

- **Option analysis – qualitative analysis**

- Develop the qualitative considerations (e.g. analysis criteria)
- Develop the assessment approach (e.g. scoring approach)
- Decide how the risk assessment will be reflected in the qualitative scoring
- Conduct qualitative analysis workshops with key stakeholders
- Document the qualitative scores and rationale
- Generate the qualitative analysis outcome



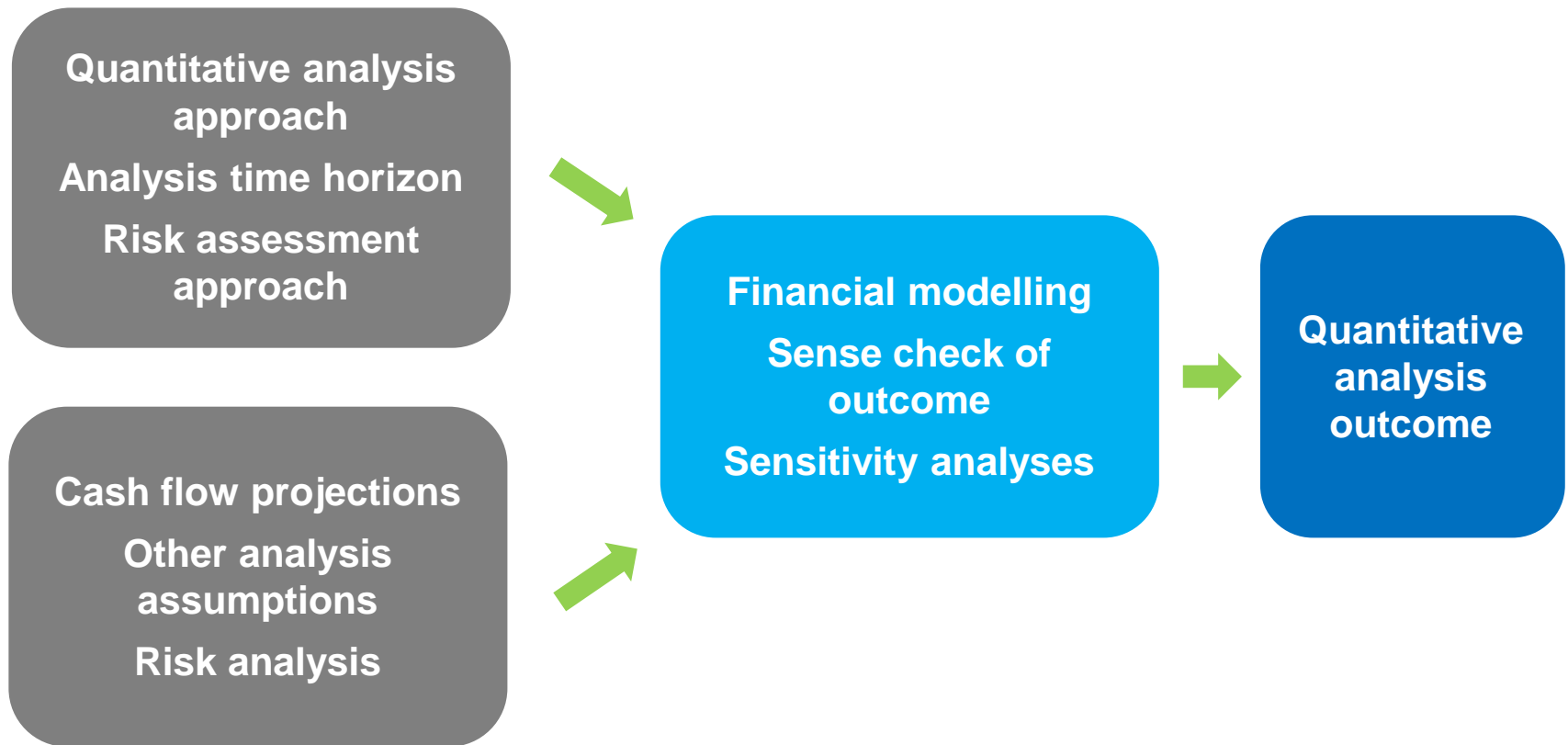
Business Case Development (Cont'd)

- **Option analysis – quantitative analysis**

- Determine the quantitative analysis approach (e.g. discounted cash flow, payback period, average annual net cash flow, etc.)
- Determine the analysis time horizon
- Develop the cash flow projections (e.g. revenues, capital costs, operating costs, lifecycle costs, ancillary costs, terminal value, etc.)
- Determine other analysis assumptions (e.g. discount rate, financing structure, inflation assumptions, tax implications, etc.)
- Determine how the risk assessment will be reflected in the quantitative analysis (e.g. adjustments to the projected cash flows, contingencies, discount rate)
- Build the financial model
- Conduct sense check on the analysis outcomes
- Conduct sensitivity analyses
- Generate the quantitative analysis outcome

Business Case Development (Cont'd)

- Option analysis – quantitative analysis (Cont'd)



Business Case Development (Cont'd)

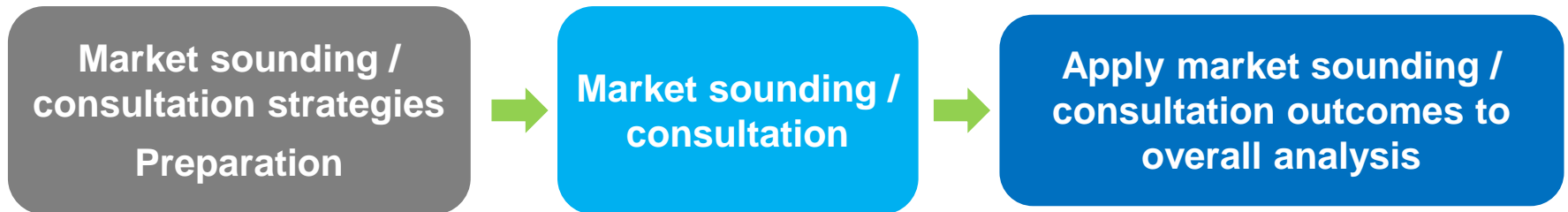
- **Option analysis – risk assessment**

- Determine the risk assessment approach
 - As part of the qualitative analysis (e.g. adjustments to the score of each qualitative parameter); and/or
 - As part of the quantitative analysis (e.g. adjustments to the projected cash flows, contingencies, discount rate)
- Quantitative risk analysis
 - Identify project related risks
 - Determine the probability and cost impact of each identified risk
 - Risk quantification (e.g. Monte Carlo simulation)
- Apply the risk assessment outcomes to the overall analysis



Business Case Development (Cont'd)

- **Option analysis – market sounding / consultation**
 - Determine the market sounding / consultation strategies
 - Develop market sounding / consultation materials
 - Determine market sounding / consultation participants
 - Conduct market sounding / consultation sessions
 - Analyze the feedback, suggestions received during the market sounding / consultation processes
 - Apply the market sounding / consultation findings to the overall analysis



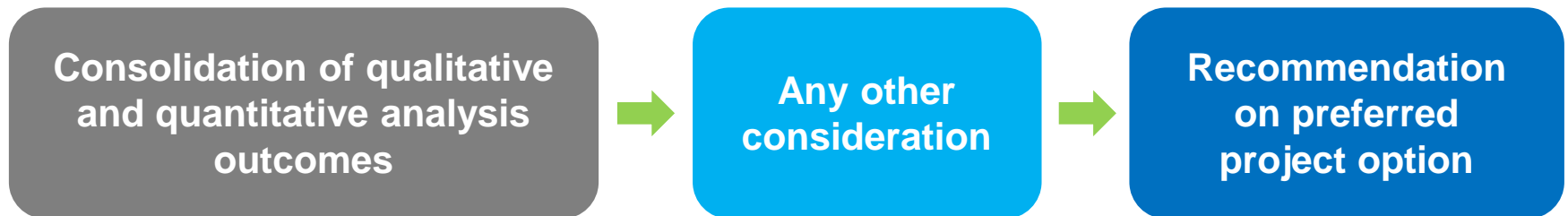
Business Case Development (Cont'd)

- **Conclusion**

- Consolidate the qualitative and quantitative analysis outcomes
- Develop the overall analysis outcome

- **Recommendation**

- Describe the approach and methodology used for the business case analyses
- Describe the analysis outcomes
- Incorporate any other considerations
- Provide recommendation on preferred option for the project



Potential Pitfalls

- Lack of planning
- Lack of a clear definition of the project and project options considered
- Inadequate inputs or unreliable input data
- Absence of an “apples to apples” comparison between options
- Ambiguous or unacceptable option analysis methodology
- Lack of coordination and cooperation among stakeholders
- Lack of consultation with the industry and relevant communities



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