



Benefits management and the business case – the neglected objective

Seminar 133 held at the Institution of Engineering and Technology, London
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Summary

Key conclusions

- Have clear objectives before you start and know the context for each stakeholder. Is the project a one-off or is it part of a larger programme?
- Use procedures with rational measures like net present value (NPV) or other business parameters to evaluate alternatives and to track the ups and downs of the benefits during the course of the project using 'live' economic data.
- Do not dismiss non-quantifiable, visionary factors in the business case – to you a rational insight: to others an unjustifiable leap of faith.
- Integrate with all parties that can influence success: end users/operators, suppliers, owners.
- Time is key. More time – more change. Beware of the dangers of losing momentum.
- Expect change. Plan for it. Have contingencies ready, including an exit strategy, a new marketing strategy and so on.
- If you want the right behaviours make sure everyone knows what the business case is and that they are incentivised effectively.
- Put appropriately proportionate effort into estimating revenues and income as well as capex and set-up costs.
- Ensure that effective corporate governance is in place. Recognise the value of independent reviews of business cases, benefits and status assessments.
- Recognise the dangers of straying too far from the approved business case. Do not de-scope to justify the investment unless the sponsor agrees that business value has not been disproportionately destroyed.

Introduction

A business case brings together the strategic information necessary to support governance and decision making from conception through to the final realisation of the intended benefit. It is therefore of crucial importance throughout the life cycle of a major project.

The seminar examined different aspects of benefits management and the business case, such as ways of articulating vision, objectives and value drivers, the essential building blocks of best practice and how to communicate alternative implementation strategies.

Speakers from a range of businesses and market sectors provided examples of how they have used or misused business cases in their own ventures, and looked at the risks and hazards that can affect benefits management and the business case.

London Underground

A history of 'Connect', the 20-year £2 billion PFI contract for the construction of a new state-of-the-art digital radio and transmission system for London Underground (LU) was described by the first speaker.

Started in 1999, the project involved the replacement of existing ageing systems with one integrated digital radio network which would provide LU with a range of operational benefits:

- Improved reliability and resilience
- Improved coverage
- Improved real time information
- Improved personal security
- Improved event management communication
- Faster resolution of incidents
- Radio coverage for emergency services in conjunction with Airwave (an emergency radio system operated by the Home Office)

The way in which the business case was approached in the early days of the programme indicated that there was insufficient knowledge available for the proper assessment of the cost and the risks. Delays and problems developed, which were not helped by the operational owner remaining largely unengaged with the different elements of the project.

After the 7th July 2005 terrorist attacks in London, LU management made a commitment to drivers and other employees that passenger services would not be delivered without an operating radio. This was a major change in the day-to-day operational life at LU and it impacted on both the business case and the imperative for completion of the project.

Now nearing completion, and with various programme management improvements in place, LU has found that the benefits are greater than anticipated. Lessons from the project were summed up as follows:

- A clear view of business benefits at programme inception is critical
- Monitoring business benefits during a programme to take account of both programme and external changes is also critical
- 'Unknown unknowns' can affect the business calculus of a programme
- A formalised system of benefit tracking and realisation is desirable

Property development

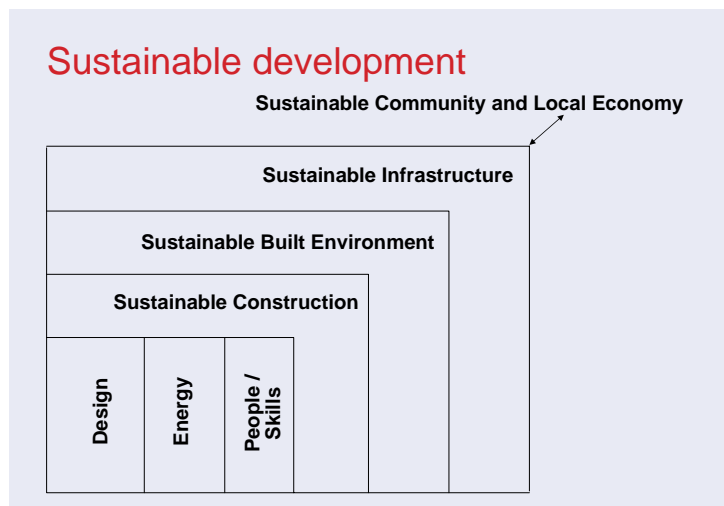
Property development is not just about bricks and mortar and profit; the reality is that economic, social and political change have to be considered, all of which affect what can be achieved and the likely outcome of projects. Land Securities described how they handle that change through the development process, explaining how investment decisions are made and the development equation is balanced in order to realise predictable and sustainable benefits.

In terms of property development, the business case refers principally to returns on money. One of the main difficulties in putting together the business case is that you are in the hands of the market; if property values suddenly drop, the best laid plans go out of the window. A thorough appraisal of a project is essential, with risk management an important factor: identifying the risk, understanding the root cause and minimising the potential impact.

The basic assumption made in a business case is that rents will rise, but when figures are produced to show potential rental income and property values in the future, it is crystal-ball gazing. In hindsight, assumptions made on factors such as values, rental income and void periods may well be wrong, but hopefully in a positive rather than a negative direction.

However, a company's success is not just dependant on monetary returns; it also depends on how it fosters development within society. In the illustration below, the value of the elements in the bottom left hand corner box, 'design, energy and people/skills' are considered the most important in a project, but costs and potential returns spread way beyond this box into the other areas of the diagram.

Part of the challenge of being a developer is that you have to pick up much of the costs from which others will derive benefit. The success of that first box is directly proportional to the ability to develop a sustainable community and local economy.



The investment decision is often based on long term latent value, thus in areas where property values are low, the developer must consider the potential for economic growth, increased residential numbers and improvements in transportation. Correct forecasting over a period of 10-20 years can lead not only to good returns in terms of social regeneration, but also value for the company and its shareholders. Examples where Land Securities have been successful in this respect include the Birmingham Bull Ring redevelopment and developments in Livingstone in West Lothian. And sometimes it is good judgement rather than hard figures which support the decision.

In making the business case, timing is everything – you can work hard, but in the end it is market movement that determines success or failure.

Dealing with risks in the PPP/PFI market

Fundamental uncertainties exist in the business case for the construction and service industry, and different projects may require specialist evaluation. Only accept the risks that can be managed, if necessary working with partners to do so.

Within PPP/PFI the three main risks inherent within a business case are:

1. Availability risk – penalties for loss of utilities such as power, or medical gases
2. Service performance risk – penalties for poor service performance
3. Volume risk – where the authority transfers volume risk such as freight, patients or road traffic to the consortium.

Volume risk is particularly difficult for contractors to manage. Carillion described examples of risk in various projects in which they had been involved. In each case the business case was flexible enough to be adapted to meet the needs of a changing market.

- Railways: the Alice to Darwin railway experienced difficulties because Port Darwin failed to expand and market their facilities properly. Volumes suffered and the business case was adapted to maximise other opportunities.
- Clinical services: experience of the Bournemouth private patients' unit, where clinical operations did not achieve the volumes envisaged, leading to operating losses. The business case was altered to take advantage of the opportunity to sell off the unit. A guaranteed level of activity is being sought for new independent treatment centres planned throughout London.
- Roads: despite predictable traffic volumes on the A55 in Anglesey, a change of mix, with higher than expected numbers of heavy vehicles and less cars, led to higher maintenance costs, thus reducing profits. The business case was changed to accommodate higher maintenance costs and reduced returns.

Major projects at the BBC

In 2000 the BBC embarked on a raft of major projects to transform its property portfolio, changing building and facilities to enable the organisation to develop its aim of moving from a traditional linear broadcaster to an on-demand provider of digital content. The projects play a major part in the BBC's change programme 'The Creative Future'.

The last seven years have seen the development of more than 20 projects, requiring investment of over £1 billion. These include work at Broadcasting House, the creation of Media Village (the new corporate centre at White City) and a new development in Glasgow. Final approval is imminent for a major new complex in Salford, involving the relocation of 2,500 staff; the ramifications of this in terms of people, procedure and technical facilities are radical.

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Old and new ways of working were compared – for example the need to distinguish between operational risk, project/programme risk and strategic risk, and put more emphasis on the role of human resources (HR) in finding the right people to implement change management.

In 2005 the National Audit Office (NAO) carried out an audit on the White City development, giving it a clean bill of health, but also offering guidance on areas in which improvements could be made. For example, instead of just looking at the capital cost of a project the whole life and running costs should be considered in more detail, and best practice guidelines followed.

The main lessons learned to date include the following:

- It is not true that everyone can manage a project
- Projects and programmes are not the same thing
- Stakeholder management is an art form
- It is essential to understand your supply chain
- It is essential to understand the marketplace
- Knowledge/skills transfer needs good management
- Complexity and ambiguity require respect
- Interface management is vastly underestimated
- Leadership requires courage

Managing benefits to maximise value

Rolls-Royce has a well-defined process for developing, manufacturing, marketing, selling and eventually handling the aftermarket services of a product, with ongoing business case reviews.

A typical life cycle for a product such as an engine may run for 45 years, and take 10–15 years to start making a profit, with investment of millions of research and development funds in the early years. A long-term strategy is essential: it is not a business which can be entered or left quickly, and regular scrutiny of the business case must be carried out in order to maximise the benefit of the monies and resources invested in a project.

The benefits review procedure used within the Rolls-Royce Product Introduction and Life Cycle Management process, and how it is applied within the defence sector, was explained.

Evaluation of the business plan involves three 'datum salients':

- Forecasting maximum cash outflow in three years and the cash flow break every year
- The number of platforms that different product versions will occupy, their share of the market, the number of units sold and the investment spread for the following year
- What the return is on the risk and revenue sharing partnerships, the unit cost in the following year and the total spend

The real life example of working as a contractor on the \$250 billion US Department of Defense (DOD) funded Joint Strike Fighter (JSF) programme was outlined, and the importance of the benefits review procedure emphasised.

The working concept for the JSF was begun in the early 1990s. In 1995 the US Government funded technology programmes and Lockheed Martin was given \$2 billion to build the demonstrator. The demonstration period stretches from 2001 to around 2013, manufacture will commence around 2009 and the product will come into service by around 2011. Key challenges of the programme to date and an action plan for the coming year were outlined, with details of how various factors impacted on the business case and led to the need for a new profit plan.

Conclusion

The Chairman noted that the business case performs a very important function within major projects, one that needs the application of intellect and commonsense and which should not be simply a question of ticking boxes. It can help to capture the obligations and consequences arising from projects, as well as the hopes and aspirations behind the decisions, and can provide a basis for accountability. The importance of maintaining the logic behind the business case is vital, so that it can stand up to the involvement of the many different stakeholders in a project.

Participating organisations

Arup	KPMG LLP
BAA plc	Land Securities
BBC Projects	London 2012 Programme
Bovis Lend Lease	London Development Agency
British Energy	London Underground
British Telecommunications plc	Major Projects Association
Carillion Private Finance	Metronet Rail
Centre for Research in the Management of Projects (UCL/UoM)	Ministry of Defence (DPA)
CH2M Hill	National Air Traffic Services Ltd
CJ Associates	NUKEM Ltd
Cross London Rail Links Ltd	Office of Government Commerce
Costain Ltd	PA Consulting Group
CSE International Ltd	PricewaterhouseCoopers
Department for Transport	QinetiQ
EC Harris LLP	Risk Solutions
Electronic Data Systems Ltd	Rolls-Royce plc
Ernst & Young LLP	Said Business School
Henley Management College	Sir Robert McAlpine
Immigration & Nationality Directorate	The Nichols Group
KBR	Transport for London