

Executive summary

Background

Within the Ministry of Transport, Public Works and Water Management (VenW), 'business cases' are frequently requested. Private financing and private operation of transport infrastructure is increasingly considered. A business case provides insight into the costs and benefits for the (private) operator of a project and it can also specify other contributions to projects which generate operating revenue, such as terminals or public transport facilities.

Aim

The aim of a business case produced for VenW is to analyse whether a VenW contribution to the project concerned is desirable, and to estimate the size of this contribution. This provides policymakers with an understanding of the arguments for contributing to a project. However, currently, there are no specific instructions regarding the components which should be included in a business case. This lack of instructions to follow means that policymakers are too often left searching for the required content and the correct assessment of business cases and that the desired consistency between business cases is lacking. This guideline is intended to provide policymakers with an understanding of the questions to answer in a business case, how to assess a business case and when a business case should be drawn up for infrastructure projects involving VenW. These instructions also explain how policymakers can use the results of a business case.

What is a business case?

A business case is an analysis of all the business economic aspects of a project about which agreements need to be made by the financial or operational stakeholders. These projects involve annual costs and revenues and are potential projects for a contribution from VenW.

The main aspects of a business case can be summarised as follows:

- The commercial/financial justification for a project for the operator and any other stakeholders;
- An aid in the decision-making process for a project;
- An overview of cash flows for the concession period or the full lifetime of a project;
- An overview of the opportunities and threats (risks) for the project.

Value of business cases for policymakers

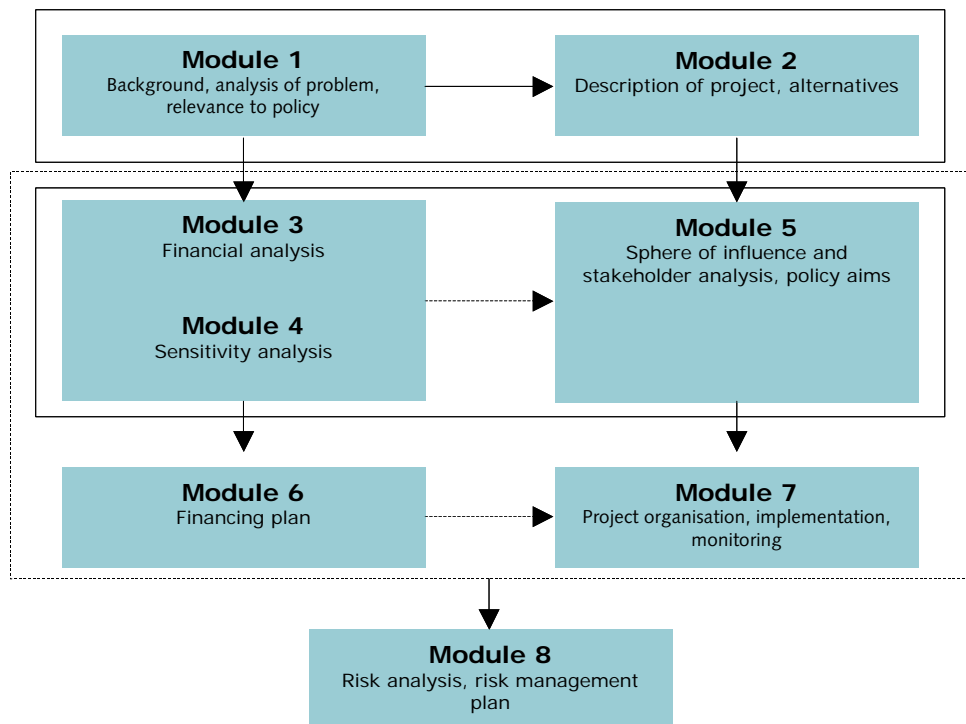
If a business case is requested for a project involving the government, the request is often based on the idea that 'the market' itself can partially or fully finance and operate the project in question. A business case helps to identify the financial costs and benefits for the various parties in a specific project. It also demonstrates whether or not private parties are in fact able to partially or fully finance the project. Finally, combined with information from a social cost-benefit analysis, a business case demonstrates whether or not a project involves public interests and therefore, whether a governmental role is necessary. This information means policymakers can enter into negotiations regarding the governmental contribution to a project equipped with strong qualitative and quantitative arguments.

A business case can consist of various modules

The agreements that should be included in a business case largely depend on the type of project. All business cases begin with an explanation of the background, the analysis of the problem and the contribution to VenW policy aims (module 1), which should lead logically to a description of the project and any alternatives (module 2). These modules may have already been detailed in the Environmental Impact Statement (MER) or the Overview of Effects on Infrastructure (OEI). On the basis of modules 1 and 2, a financial analysis and a sensitivity analysis are drawn up in modules 3 and 4. These four modules should always be included in a business case.

Where relevant, a number of additional modules may also be included in the form of a sphere of influence and stakeholder analysis (module 5), a financial coverage plan where more than one financier is involved (module 6), a description of the project organisation arrangements (module 7) and an analysis of the project risks and a risk management plan (module 8).

Figure S.1
Business Case Modules



Assessing business cases

Once a business case has been produced, it should obviously be assessed. Assessment differs to some extent from project to project. However, in general a business case can be assessed from two perspectives – firstly, based on compliance with the instructions for submitting a business case and on the quality of the content, and secondly, based on the results.

Compliance with the instructions for submission of a business case and the quality of the content are assessed based on a check of completeness (does the business case include all the agreed elements?), the plausibility of the results (are the results

credible?), the transparency of the calculations (is it clear how the figures have been reached?), and the quality of the data and hypotheses used (what are the figures based on?).

If the substance of the business case satisfies these criteria, the results should then be assessed. The results can be analysed in various ways, for example on the basis of the net present value and the operating deficit. The robustness of the analysis as shown by the sensitivity analysis and the risk analysis is an important indication of the bandwidths in the results. The next important issue is the contribution to the ministry's policy aims. VenW contributions can sometimes be intended to generate contributions or investments from third parties. In these cases, the ratio between the contribution requested from VenW and the agreed financing from third parties is an important consideration. In cases where several parties contribute to the project financing, it is necessary to assess whether the contribution requested from VenW is reasonable compared to contributions made by third parties.