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Guidelines for Capital Business Cases

OFFICE OF FINANCIAL MANAGEMENT

Policy & Guidelines Paper

Preface

The NSW Government is committed to the ongoing improvement of public services by ensuring resource allocation decisions are directed to services that provide the greatest benefits to New South Wales. Preparing a rigorous business case is vital to inform Government decision makers that the proposal is necessary, consistent with government priorities, offers value for money and the nominating agency has the capacity to deliver the service delivery benefits outlined.

NSW Treasury Circular *Revised Project Size /Risk Thresholds for the Submission of Business Cases and Gateway Reports* (NSW TC 08/07) defines the thresholds for submitting capital business cases to Treasury. A single set of thresholds applies to all asset classes including information and communication technology (ICT).

The Guidelines for Capital Business Cases promotes a consistent approach across all public sector agencies in preparing both a preliminary and final business case for all categories of proposed resource allocations decisions for:

- construction
- goods and services
- information technology and communications
- property and accommodation.

The business case process is separated into two stages:

- The preliminary business case constitutes the planning framework for the business case and is used to demonstrate and justify the service rationale, consider service delivery alternatives and also inform internal agency priority setting
- The final business case documents a defined project that contains an updated justification of the service rationale, determines value for money, and demonstrates that the agency has the capability to implement the service.

The business case process aims to help agencies choose the best means to satisfy a specified objective and rank competing proposals and enable Government to prioritise its resource allocation decisions. The business case should clearly demonstrate the agency's capacity to implement the proposal and realise the intended service delivery benefits.

Using these Guidelines ensures robust analysis for decision making is consistently applied when considering new proposals. Quantitative evidence is preferable to support all areas of the business case for more informed decision making and will lead to better performance in the implementation of new services for NSW.

This policy and guidelines paper aims to help agencies prepare preliminary and final business cases for proposed capital investments. Feedback is invited on the guidelines and templates.

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Note

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This publication can be accessed from the Office of Financial Management Internet site [<http://www.treasury.nsw.gov.au/>].

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Executive summary

The NSW public sector's efficient use of resources affects the delivery of services to and the welfare of its residents. Increasing service delivery needs must be balanced against limited resources. The NSW Government must ensure capital related resource allocation decisions are well timed, offer value for money, provide sound management of risks and are consistent with Government priorities and objectives.

A business case provides a base for change by examining total lifecycle costs, benefits, risks and implementation requirements. It is also a reference for the procurement and implementation of a project or program. Critical parameters such as cost, schedule, quality, social and environmental issues are documented demonstrating agency capability for timely delivery of the project or program.

The purpose of these Guidelines for Capital Business Cases is to strengthen the framework and identify the requirements for all public sector agencies to undertake business cases on a consistent basis to support the:

- Contribution to the strategic priorities of Government as contained in the NSW State Plan and the NSW State Infrastructure Strategy.
- Prioritisation of resources to meet Government service delivery objectives or priorities.
- Efficient, effective delivery of planned services by agencies.

The systematic application of these Guidelines will improve resource allocation decisions and the capacity of agencies developing and delivering new capital related services.

These Guidelines provide:

- 1 Guidance on preparing a capital business case and the standard of evidence required
- 2 References to existing NSW Government policy papers, guidelines and circulars
- 3 Key principles for preparing a business case
- 4 Advice on how to:
 - develop the case for change (section 3)
 - analyse the proposal (section 4)
 - implementation of the proposal (section 5)
- 5 Templates for preparing:
 - Preliminary business cases which demonstrate the rationale for a service need before project planning proceeds too far (Appendix 1)
 - Final business cases which demonstrate the case for change, value for money and capacity of the agency to implement the project (Appendix 2).

Applying these Guidelines will allow agencies submitting business cases to demonstrate that their proposal is the best option to:

- achieve the strategic objectives or priorities of Government
- use the proposed resources
- procure, implement and maintain the planned services.

The benefits to agencies and the Government include:

- Standardising the content requirements and information base to improve resource allocation decisions, assessing relative priorities, competing demands and confirming affordability.
- Reinforcing longer term State capital expenditure forecasting and strategic fiscal planning, and considering future demand pressures and longer term prevention and early intervention strategies.
- Demonstrating links to the State Plan and the State Infrastructure Strategy, Asset Strategy Plans, Results and Services Plans, Statements of Business Intent, Statements of Corporate Intent and ICT Frameworks.
- Broadening the range of options by considering alternatives to new capital including better asset utilisation, early intervention and demand management.

1 NSW Treasury guidelines for capital business cases

1.1 Purpose

The efficiency with which the New South Wales public sector uses resources affects the delivery of services to and the welfare of its residents. Balancing increasing service delivery needs with limited resources means that the NSW Government needs to ensure capital related resource allocation decisions are well timed, offer value for money, provide sound management of risks and are consistent with Government priorities and objectives.

The purpose of the Guidelines for Capital Business Cases is to strengthen the framework and identify the requirements for all public sector agencies to undertake business cases on a consistent basis to support the:

- contribution to the strategic priorities of Government as contained in the NSW State Plan and the NSW State Infrastructure Strategy
- prioritisation of resources to meet Government service delivery objectives or priorities
- efficient, effective delivery of planned services by agencies.

A business case provides a case for change by examining total lifecycle costs, benefits, risks and implementation requirements. It is also a reference for the procurement and implementation of a project or program. Critical parameters such as cost, schedule, quality, social and environmental issues are documented in a manner that demonstrates agency capability for timely delivery of the project or program.

Applying these guidelines will mean that agencies submitting business cases they will be better equipped to demonstrate that the proposal is the best:

- way to achieve the strategic objectives or priorities of Government
- use for the proposed resources
- way to procure, implement and maintain the planned services.

Systematically applying these guideline will improve resource allocation decisions and the capacity of agencies developing and delivering new capital related services.

Benefits to agencies and the Government include:

- Standardising the content requirements and information base to improve resource allocation decisions, helping assess relative priorities, competing demands and confirming affordability.
- Reinforcing longer term State capital expenditure forecasting and strategic fiscal planning, and demonstrating consideration of future demand pressures and longer term prevention and early intervention strategies.
- Demonstrating links to the State Plan and the State Infrastructure Strategy, Asset Strategy Plans, Results and Services Plans, Statements of Business Intent, Statements of Corporate Intent and ICT Frameworks.
- Broadening the range of options being considered by considering alternatives to new capital including better asset utilisation, early intervention and demand management.

1.2 What is in the guidelines?

The *NSW Treasury Guidelines for Capital Business Cases* provides:

1. Four central elements:
 - the case for change (section 3).
 - analysis of the proposal (section 4).
 - implementation of the proposal (section 5).
 - templates for preparing:
 - Preliminary business cases – which are to demonstrate the rationale for a service need before project planning proceeds too far (Appendix 1) and
 - Final business cases – which are to demonstrate the case for change, value for money and capacity of the agency to implement the project (Appendix 2).
2. Guidance on when to prepare a business case and the standard of evidence required
3. Key principles for preparing a business case and
4. Guidance on what to address when preparing a business case, which is drawn from existing NSW Government policy papers, guidelines and circulars.

These Guidelines integrate the following documents which are the foundation for preparing a business case:

- NSW Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007 (mandatory application).
- NSW Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007(mandatory application).
- NSW Treasury Circular TC 06/02 Treasury Review of Financial Impact Statements (mandatory application).
- NSW Treasury Policy Paper TPP07-4 Commercial Policy Framework: Guidelines for Financial Appraisal (mandatory if applicable).
- NSW Treasury Policy Paper TPP 04-1 NSW Government Procurement Policy (mandatory application).
- NSW Treasury Policy Paper TPP08-2 Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS).
- NSW Treasury Circular NSW TC 08/07 Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports.
- NSW Treasury Policy Paper TPP06-10 Information and Communication Technology (ICT) Capital Investment Process.
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention.

To complete a business case these documents must be referred to and a check made for any updates which may impact on preparing or what is required to support a business case. Agencies should refer to these Guidelines at the earliest stages of project planning to appreciate the full requirements to complete business cases.

Where proposals require the introduction or amendment of a regulatory framework, agencies must comply with the requirements of the Guide to Better Regulation, including the identification of options and of the costs and benefits of each option. The Guide can be found at www.betterregulation.nsw.gov.au or by contacting the Department of Premier and Cabinet.

2 When to use business case guidelines

Key Principles:

- Public sector agencies must prepare business cases to support capital-related proposals (irrespective of funding source) and resource allocation decisions of Government.
- The extent and detail of evidence required for business cases will depend on the value and/or the risk of the project or program.
- The standard of evidence required when analysing the service need, the options and the implementation of the proposal is referenced quantitative (preferred) or qualitative data and established methodologies (as referenced in these Guidelines). The evidence and the methodologies should clearly link resources, services and results.

2.1 When is a business case required?

As a matter of course, public sector agencies:

- are encouraged to prepare business cases to support agency internally funded decisions (to support projects arising from approved funded programs) and
- must prepare business cases to support the mandatory requirements for capital related resource allocation decisions of Government (identified in Table 1).

Table 1: Mandatory requirements

Type of activity	Requirement
Construction projects	<i>NSW Procurement Policy TPP 04-1</i>
Goods and services	<i>NSW Procurement Policy TPP 04-1</i>
Information, communication and technology projects	<i>NSW Procurement Policy TPP 04-1</i> <i>People First – A New Direction for ICT in NSW</i> <i>ICT Capital Investment Process TPP 06-10</i>
Property and accommodation projects	<i>NSW Procurement Policy TPP 04-1</i>
Determining the requirements for business cases seeking capital funds	<i>Treasury Circular TC 08/07</i>
Total Asset Management (TAM) submission requirements	<i>TAM requirements for updating the SIS TPP 08-2</i>

NSW procurement policy

The objective of the NSW procurement policy is to ensure Government procurement activities achieve the best value for money in supporting the delivery of services.

TC 08/07 sets out the requirements for when preliminary and final business cases are required for proposals seeking capital funding. Agencies must refer to this Treasury Circular early in the planning process to check relevant thresholds for preparing a business case, as well as for any updates.

As part of this Policy framework, the Treasury Circular NSW TC 08/07 Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports requires that all General Government agencies and Government businesses, including nominated State owned corporations (SOCs) are required to provide NSW Treasury with:

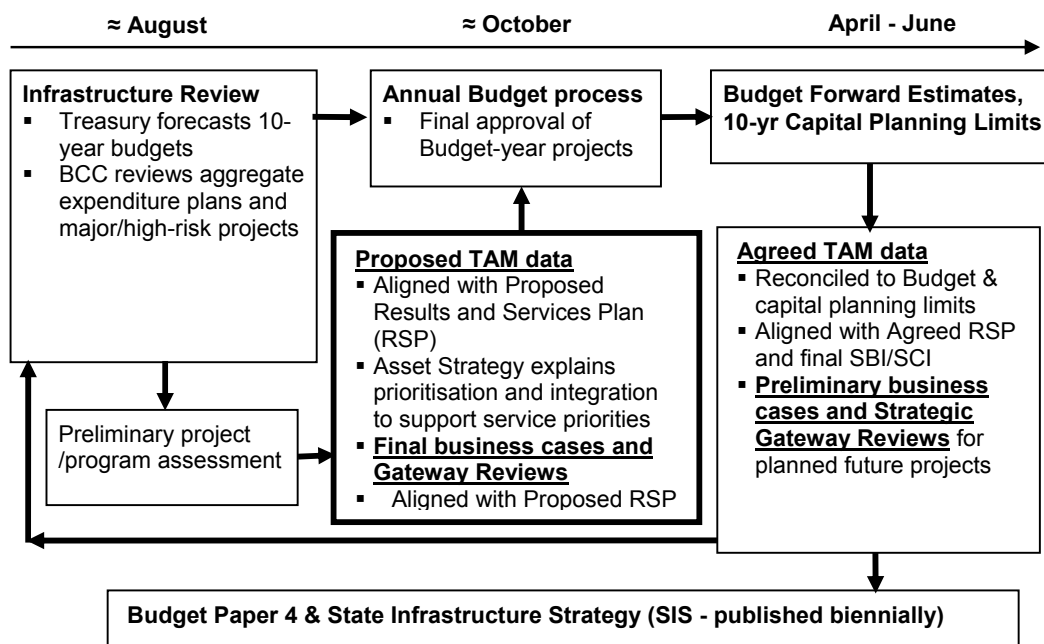
- A preliminary business case, which summarises the proposal at an early stage of development. The preliminary business case describes the high-level objectives, identifies alternatives and outlines the relevant risks, sustainability issues and costs and benefits relevant to these alternatives. Specific requirements to be provided in the preliminary business case are set out in Appendix 1.
- A final business case, which documents in detail the proposal. This includes an updated justification of the service rationale, costs, workplan and demonstration of value for money and the agency's capability to implement the service. Specific requirements to be provided in the final business case are set out in Appendix 2.

The amount of detail provided in either the preliminary or final business case should be appropriate to the proposed projects' scale, cost and risk.

Both the preliminary and the final business case templates must be followed for proposals submitted to Government for approval.

Preparation and submission of business cases should align with the timing of the NSW Budget process, as advised to agencies annually by Treasury. Business cases are submitted as part of the Total Asset Management (TAM) process as part of the yearly budget cycle. The timing of business case submissions in the Budget process is generally illustrated in Figure 1.

Figure 1: State Infrastructure Strategy / Total Asset Management process for each financial year



Reference material for preparing business cases

- NSW Treasury Circular TC08/07 - Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports
- NSW Treasury Policy & Guidelines Paper TPP 08-2 - Total Asset Management (TAM) Policy Requirements for Updating the State Infrastructure Strategy (SIS)
- NSW Treasury Policy & Guidelines Paper TPP 07-4 - Commercial Policy Framework: Guidelines for Financial Appraisal
- NSW Treasury Policy Paper TPP04-1 - NSW Government Procurement Policy
- Gateway Project Profile Assessment Tool
- Gateway Review Toolkit 2006
- *People First*. The NSW Government ICT Strategic Plan (if ICT-related)
- Agency ICT Strategic Plan (if ICT-related)
- Australian and New Zealand Standard AS/NZS 4360:2004: Risk Management
- NSW Treasury Policy Paper TPP 06-10 – Information and Communication Technology (ICT) Capital Investment Process

2.2 Difference between a preliminary and a final business case

NSW Treasury Circular NSW TC 08/07 *Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports* specifies when preliminary and final business cases are required to be submitted.

Preliminary business cases play a critical role in agency and Government decision making. They support the strategic assessment of the service need, timing, high-level costs and benefits of the proposed service and a range of realistic alternative service delivery options. Information about the early planning for a project or program enables Government to determine the rationale of the service need and if it is consistent with Government objectives or priorities before it progresses. This is a crucial stage in the planning of a project or program. The service rationale must be adequately demonstrated for the purposes of a strategic gateway review and progression to the final business case stage.

A preliminary business case is used for a Strategic Gateway Review.

Final business cases support resource allocation decisions of Government or internal funding decisions of agencies. It requires the case for change to be revisited and updated, a greater level of analysis and detail to demonstrate value for money and if the agency has the capability and capacity to implement all the components of the project or program. There are more comprehensive documents with full and complete descriptions of all elements contained in these Guidelines.

The final business case is used for the full Business Case Gateway Review.

Table 2 summarises the differences between preliminary and final business cases.

Table 2: Differences between preliminary and final business cases:

Guideline & template requirement	Preliminary business case (strategic analysis)	Final business case (defined project)
When is it required	Specified in NSW Treasury Circular TC08/07.	Specified in NSW Treasury Circular TC08/07.
Level of accuracy	Cost estimates preferably to be within 25%	Cost estimates preferably to be within 10%
The case for change Section 3	Thoroughly document the Case for the Service Need	Revisit, update and complete the rationale of the Case for the Service Need.
Analysis of the proposal Section 4	<p>Provide a range of alternative service delivery options, comparing the:</p> <ul style="list-style-type: none"> ▪ costs and benefits ▪ risks ▪ sustainability issues ▪ technical standards and ▪ legislative requirements <p>of each option.</p> <p>Determine whether Part 3A of <i>the Environmental Planning and Assessment Act 1979</i> will be triggered.</p> <p>Consider prevention and early intervention options and demand management strategies.</p>	<p>Full examination and evaluation of short-listed options:</p> <ul style="list-style-type: none"> ▪ costs and benefits ▪ risks ▪ sustainability issues ▪ technical standards and ▪ legislative requirements.
Implementation of the proposal Section 5	Outline the governance model planned to have the proposal successfully taken through to the final business case.	<p>Full examination of the requirements to implement the project or program including documentation of:</p> <ul style="list-style-type: none"> ▪ project plan ▪ governance model ▪ procurement strategy ▪ change management strategy ▪ benefits realisation strategy ▪ stakeholder consultation strategy and ▪ resourcing issues <p>This material is to be detailed and should explain how implementation will be managed and delivered.</p>
	<p>Business case development plan</p> <p>Summary of the key elements, milestones and risks to achieve the final business case.</p>	

2.3 Evidence required for business cases

A business case is an evidence-based methodology that demonstrates to Government decision makers' three key elements:

- the case for change – demonstration, justification and priority of the service need (section 3)
- analysis of the proposal offers value for money relative to alternatives (section 4)
- the agency responsible for delivering the proposal has the capacity to procure, implement and realise the benefits (section 5).

Examining these elements is the minimum level of analysis and evaluation to be undertaken for the development of a business case. This approach is not intended to supersede or duplicate existing agency processes. This reinforces the critical areas to be addressed, and enable the flexibility to include unique analysis established in agency specific business case guidelines or policies.

The extent of evidence required for a preliminary or a final business case will be proportionate to the value and/or the risk of the project or program. A high-value project will generally always require extensive evidence. A low value project may also require extensive evidence if it presents risks which require agencies to demonstrate their consequence and treatment measures. Agencies should carefully consider these issues and consult with Treasury before drafting business cases to ensure the level, extent and accuracy of evidence fits the purpose.

The standard of evidence for describing, analysing and evaluating the service need, options and implementation of the proposal is through the use of referenced quantitative (preferred standard) and qualitative data and established methodologies that assess costs and benefits and link resources to services to results via an evidence-based results logic.

The basis for and accuracy of the cost estimates in business cases should be stated. A lower level of accuracy is reasonable for cost estimates in preliminary business cases e.g. 25 per cent. Cost estimates are expected to be more accurate in final business cases – ideally within 10 percent of actual costs.

Agencies should undertake a structured internal review of business cases and with complex analysis, an independent review of the expected returns of the project or program is encouraged.

If after submitting a business case, a resource allocation has not been provided, agencies must consider the validity and accuracy of the business case before submission in following years. Business cases are likely to be out of date after one year and agencies must consider either preparing a new business case or updating a business case consistent with these guidelines.

3 The case for change

Key principles:

- The case to maintain or achieve a new service should be clear to any reader.
- Maintaining a service or providing a new service should be to meet an unmet service need or an unmet service demand and its contribution to agency service delivery and to strategic Government objectives and/or priorities.
- Cost effectiveness and the priority of the proposed service should be unambiguous.
- The scope of the service should be informed by consultation with key stakeholders.

Application:

- Preliminary business cases will complete the following requirements in full (based on current strategic planning).
- Final business cases will revisit, update and/or complete the following requirements in full.

3.1 The service need

The rationale for the service need must be identified by unmet need or demand which cannot be addressed through existing service delivery arrangements.

Another way of viewing the rationale for the service need is through a market failure or where there are clear Government distributional objectives that need to be met. Market failure refers to where the market has not and cannot of itself be expected to deliver an efficient result; the intervention that is contemplated will seek to redress this.

The rationale for the service need must contribute to:

- the services the agency provides and
- the strategic objectives and/or priorities of the Government.

The rationale for moving from the current state of Government action to a new state of action must contribute to:

- the State Plan
- a mandated priority including a service delivery related plan or policy, Intergovernmental agreement; legislative or contractual requirement(s) and/or
- agency business plans, Total Asset Management Plans, Results and Services Plans, Statements of Business or Corporate Intent, and in ICT-business cases with *People First* – the NSW Government ICT Strategic Plan and with the agency ICT strategic plan.

Agencies must clearly identify any cross-agency strategic objectives, priorities or initiatives as well as the implications for other agencies, as these factors will contribute to the case for the service need and for Government action.

These above points will help agencies demonstrate the tangible change that would be expected from the proposal (the results) both within the agency (change to business processes) and externally (change to beneficiaries). This information will inform the development of the scope of the service need in support of demonstrating and justifying the case for the service need.

Describe the scope and timing of the service succinctly and coherently so readers can easily understand the proposed service and expected service levels.

When prepared for a funded election commitment, the business case needs to demonstrate how the objectives and goals of the commitment will be achieved in a cost effective manner and the impact of the commitment on the operating costs of the agency.

Business cases should be written with the level of detail appropriate to the scale, complexity and risk of the proposal. Technical terminology/jargon should be kept to a minimum.

Consult your Treasury analyst, and other central agencies, about the business case development process and the evidence base at the beginning of the process.

3.2 Priority of the service need

A critical feature of the case for Government action is for agencies to document the priority of the service need. This underpins the need for Government action and the timing for the action. The priority of the service need should be based on:

- the State Plan
- a mandated priority including a service delivery related plan or policy, Intergovernmental agreement; legislative or contractual requirement(s)
- agency Business Plans, Total Asset Management Plans, in particular the Asset Strategy, Results and Services Plans, Statements of Business or Corporate Intent, and in ICT-related cases with *People First* - the NSW Government ICT Strategic Plan and the agency ICT strategic plan
- an election commitment
- an emerging risk or demand
- impact on results relative to the cost involved (i.e. benefit to cost ratio) and/or
- comparison with alternative options and uses of resources.

Agencies must also state whether reprioritisation of priorities has occurred to permit the proposal to come forward.

3.3 Benefits of the service need

Agencies must document the key benefits of the service and the impact upon identified beneficiaries. The beneficiaries may include the Government, the agency, other agencies, the recipient or user of the service, the profession or the workforce delivering the service, and may also include wider benefits to an industry sector or to the state or national economy.

The key benefits should contribute to the agency services as well as the strategic objectives or priorities of Government. These benefits should be described in quantitative (preferred) and qualitative terms (see section 4.3).

If applicable, the benefits of the proposal to the State economy should also be documented in the business case. For example, how the project or program will improve the productive capacity of the economy, enhance workforce participation, and/or deliver higher quality government services.

Consideration of benefits should also include preventive outcomes that are expected to generate longer term savings by reducing future demand.

3.4 Stakeholder engagement

A proposal may involve or impact a range of stakeholders including those within the agency, other agencies or external to the agency such as users or recipients of the service. If such stakeholders are relevant to the development of the service scope, agencies must identify the key stakeholders at the start of the planning process and document:

- the business or user issues and/or impacts and
- how these issues and/or impacts will influence or are integrated into the scope of the service.

For some proposals identifying stakeholders and appreciating the issues and impacts are likely to be well understood. Agencies should consult with stakeholders early in the process so necessary issues are integrated into the scope of the service. Agencies must document this consultation and clearly identify the issues that have been included or excluded from the service scope.

If the proposal involves multiple agencies then the stakeholder plan should identify major stakeholder issues and address how these will be managed.

Reference material for preparing business cases

- State Plan
- State Infrastructure Strategy
- Agency Results and Services Plan
- Statement of Business Intent.
- Statement of Corporate Intent
- Agency Total Asset Management Plans, data tables and Asset Strategy
- Related Legislative Requirements
- People First - A New Direction for ICT in NSW (if ICT-related)
- Agency ICT Strategic Plan (if ICT-related)
- Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention

4 Analysis of the proposal

Key principles:

- Evaluating options should be based on the objectives of the proposal. The objectives must be specified in terms of the result sought and not specified in terms of the services to be delivered.
- Consider the widest possible range of realistic options and resist the tendency to concentrate on past solutions.
- The base case may prove to be the preferred option adopted by Government because of investment priorities in other areas of service delivery.
- The technical requirements, risks and sustainability of the options should be understood and evaluated. Prevention and early intervention strategies should be considered. Critical assumptions or constraints should be documented.
- All business cases must include an economic appraisal (supported by a financial analysis) to determine the preferred options and a financial impact statement to evaluate the budget implications.
- Ensure the reason why the preferred option offers value for money is clear to any reader.

Application:

Preliminary business cases document:

- high-level objectives, identify alternatives and outline the relevant risks, sustainability issues and costs and benefits relevant to these alternatives and
- whether Part 3A – Major Infrastructure and Other Projects of the Environmental Planning and Assessment Act 1979 will be triggered.

Final business cases are to address the following requirements in full.

4.1 Objectives

Agencies must document the objectives of the project or program.

A project's objectives are what will be specifically achieved, or delivered, by the project, and should be expressed wherever possible, in measurable terms. These can be regarded as the project outputs. A project's results are the changes brought from what the project has delivered – how the project has affected the environment in which it operates. For example, a project's objectives may be to deliver a new system to achieve a result of improved productivity.

Objectives should be:

- Related to the performance of a particular function.
- Clearly and unambiguously stated.
- Compatible with the broader Department, group or corporate objectives outlined for example in agency Results and Services Plans or Statements of Business or Corporate Intent.

Sometimes the achievement of an objective is essential (for example, meeting the statutory requirement to provide education services). Expenditures to achieve essential objectives involves choice, as various alternative methods of meeting the objectives are usually available. It may also be possible to vary the level or quality of service provided.

Agencies may describe some or all of the objectives in terms of results logic. Results logic describes the link between the services the agency provides and the desirable impact they will have on society (results), through a series of logical steps (intermediate results).

Objectives may be expressed in the following way to also facilitate the evaluation and measurement of options:

- **Specific** – objectives should be focused and well defined and should emphasise action and the required results
- **Measurable** – objectives should be measurable so an agency can track the actions as they progress towards the objective
- **Achievable** – objectives should be attainable and commensurate with the capacity of the agency to deliver the objectives
- **Relevant** – objectives need to be relevant to the intended results and agency service priorities and practical such that the agency has the time and available resources to deliver the objectives and
- **Timely** – a time frame for achieving the objectives must be defined and will need to align with the timing required to realise the proposed benefits.

When setting objectives ensure they are not too narrow, and that they do not drive a particular proposal.

Options must be fully costed. Business cases should state the basis for estimating the set up and ongoing operating costs. State the degree of accuracy of the estimates.

Reference material for preparing business cases

- State Plan
- State Infrastructure Strategy
- Agency Results and Services Plan
- Statement of Business Intent
- Statement of Corporate Intent
- Agency Total Asset Management Plans
- Agency ICT strategic plans (where relevant)
- Related legislative requirements
- Environmental Assessment and Planning Act 1979 and Department of Planning website
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention

4.2 Options

Agencies must present and fully describe realistic options and their impacts (positive and negative).

Identify the widest possible range of realistic options at the earliest stage of the planning process. This is usually done as part of a value management study for capital projects. An iterative analysis process is appropriate for major projects or programs, which may refine option development and evaluation as the detail and accuracy of data improves through the process.

A trial or a pilot may be considered for the proposal to enhance the data available for analysis by the agency and Treasury, and as a risk mitigation measure. For a trial or a pilot the resulting data must be included in the business case. Options can be represented as scalable in the business case, so a range of incremental costs of reform can be considered. For example, showing how much funding is required to provide 50, 75 or 100 per cent of the desired result.

The first option to be considered is the Base Case. That is, what happens if the status quo is maintained? The Base Case does not necessarily mean "spending nothing", e.g. on upgrading fire safety, where the Base Case in effect becomes the "minimum essential expenditure option". The Base Case must be realistic and may involve cost penalties, or confer positive benefits. One of the benefits of "doing something" may be the avoidance of high maintenance costs.

The description of the base case is important as it may be the preferred option adopted by Government because of investment priorities in other areas of service delivery. Agencies should provide a full and accurate description of the base case.

In developing options, agencies should consider if the issue is amenable to prevention and early intervention strategies that prevent a problem from occurring or tackle the problem early in its lifecycle. Agencies should also consider demand management strategies to reduce reliance on acute (intensive high cost) service delivery.

Other practical options for meeting project or program objectives may include:

- reprioritising agency priorities or deferring development of project
- early intervention or prevention strategies
- demand management
- different service levels, scale or quality of operation
- apply alternative, and cheaper, technologies or materials
- consolidating (or disaggregating) locations for service delivery
- sequencing the development of the project into phases
- shared delivery of services with another agency, private sector or the not for profit sector or
- installation of new assets versus modifying existing assets or contracting out services.

Reference material for preparing business cases

- Total Asset Management Value Management Guideline TAM04-14
- Total Asset Management Demand Management Guideline TAM04-08
- Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007
- Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- Treasury Policy Paper TPP08-2 Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS)
- Treasury Circular NSW TC 08/07 Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention

4.3 Costs and benefits

A mandatory requirement for all business cases submitted to Treasury is the completion of:

- an **economic appraisal** (supported by financial analysis) to evaluate the costs and benefits of the options and to determine which option offers superior value for money
- a **financial impact statement** to evaluate the budget impact of the options and the preferred option. A financial impact statement template must be prepared for all submissions to Cabinet. Submissions must be referred to Treasury for review and sign off prior to consideration by Cabinet and
- a **financial appraisal** for capital projects of Government businesses and all projects of General Government agencies which involve a financing decision (e.g. outsourcing projects and joint public/private sector infrastructure projects) and Treasury may also request a financial appraisal be undertaken for projects that are outside these categories.

Economic appraisal

An economic appraisal systematically analyses all the costs and benefits of various options to achieve a particular service objective. An economic appraisal assists selection of projects or programs which maximise benefits to the community relative to costs, or which are the most cost effective. An economic appraisal will show:

- whether the benefits of a proposed project are likely to exceed its costs
- which among a range of options to achieve an objective has the highest net benefit and / or
- which option is the most cost effective, where benefits are equivalent.

When preparing an economic appraisal, agencies should consider these prerequisites:

- if the objectives are scoped and measurable (section 4.1)
- are the options, including the base case (section 4.2) are developed and address key risks, environmental, social, financial, technical and legal requirements (sections 4.4-4.6)
- if the options have been adequately costed and include capital costs and recurrent costs (note credible methodologies for estimating costs must be used and referenced)
- if the quantified and qualified benefits have been identified
- if early intervention and demand management strategies have been considered (section 4.2)
- if the assumptions underpinning these costs and benefits are included (section 4.4)
- if the analysis includes the appropriate discount rates, sensitivity analysis and
- if the analysis is applied over the life of the proposal – the project plus its operating life.

The major techniques used are for economic appraisals are:

- Cost Benefit Analysis (preferred) or
- Cost Effectiveness Analysis.

Financial impact statement

A financial impact statement analyses agency financial impact of the proposed project or program (savings and costs) and implications for the agency, such as additional staff, equipment or any financial impacts on other agencies where there is a joint proposal.

The financial impact statement template is available from the Treasury internet site and must be completed and submitted with final business cases. The Treasury analyst can be consulted on which parts of the template needs to be completed for any specific project or proposal.

Financial appraisal

A financial appraisal is a method used to evaluate the financial viability of a proposed project. It assesses the extent to which a project will generate revenues sufficient to meet its financial obligations as measured by the Net Present Value (NPV) of its cash flows. All revenues resulting from, and expenditures incurred under, the project are taken into account. The primary features of assessment are:

- project cash flows including sources of funding
- sensitivity of financial projections to key project risks and
- adequacy of the estimated investment cost and financial impact of alternative projects.

Reference material for preparing business cases

- NSW Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- NSW Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007
- NSW Treasury Circular TC 06/02 Treasury Review of Financial Impact Statements
- NSW Treasury Policy Paper TPP07-4 Commercial Policy Framework: Guidelines for Financial Appraisal July 2007
- Total Asset Management Life Cycle Costing Guideline TAM04-10
- NSW Treasury Policy Paper TPP 06-10 – Information and Communication Technology (ICT) Capital Investment Process
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention

4.4 Risks assessment

Agencies must apply a formal assessment of risk in planning new projects or programs. A rigorous risk assessment as part of the analysis of the proposal will inform the risk management strategy required for implementing the project or program (section 5.5).

Risk assessments identify a range of risks relevant to each of the options and identifying the effects of these occurring. These risks must be considered when evaluating options.

Agencies must document the assumptions, constraints and dependencies used in the development, analysis and evaluation of options at the earliest planning stages and continue to identify or refine these assumptions as part of the project management and delivery of the proposal.

Reference material for preparing business cases

- Total Asset Management Risk Management Guideline TAM04-12
- Department of Commerce Government Chief Information Office Project Risk Management Guideline
- Australian and New Zealand Standard AS/NZS 4360:2004: Risk Management
- NSW Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- NSW Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007
- NSW Treasury Policy Paper TPP 06-10 – Information and Communication Technology (ICT) Capital Investment Process

4.5 Sustainability

Agencies will need to document if the project or program is sustainable. Agencies must demonstrate they have scoped and evaluated the social, economic and environmental impacts (negative and positive) that are a result of the options. Agencies should carefully consider the range of social, economic and environmental issues that may affect a proposal. Agencies need to address the following areas only if applicable, and if they have not already been included in other areas of analysis such as 4.3 Costs and Benefits.

Social

Social issues can include workforce diversity, employee well-being, corporate governance practice, integration, adverse effects on indigenous communities (such as land rights and cultural sensitivities), religious and cultural sensitivities and gender, age and cultural discrimination.

Economic

Economic issues can include economic development, local industry participation, involvement of small to medium enterprises, changes to market structure, impacts on competition, a need for increased regulation and regional and State employment.

Environment

Environmental issues can include air quality, impacts on landscape (including, townscape, heritage and other related matters), water pollutants, noise; greenhouse gas emissions and biodiversity.

Where an assessment confirms areas of significant social, economic or environmental concerns, possible intervention strategies and options should be developed to feasibly address these concerns. The costs and benefits associated with these strategies should be identified, valued or ranked and then accounted for in the economic appraisal

Reference material for preparing business cases

- Total Asset Management Sustainable Development TAM04-13
- NSW Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- NSW Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007
- NSW Treasury Policy Paper TPP 06-10 – Information and Communication Technology (ICT) Capital Investment Process
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention

4.6 Technical standards and legislative requirements

Agencies must document any relevant technical standards or legislative requirements associated with the proposal and the options. These requirements must be scoped to enable adequate evaluation in the economic appraisal and the completion of a statement of compliance.

NSW Government agencies deliver vital services and the construction and delivery of those services may be regulated (e.g. environmental, safety, etc), or at times standardised to meet recognised industry benchmarks of quality or operability. Sometimes technical standards are reflected in legislation or policies and are administered by State and Commonwealth agencies.

Technical standards can often influence the scope, design and performance of services (such as an Australian Standard) and agencies will need to document these requirements at the earliest stages of scoping the service need, or as part of scoping the facility to meet the service need. Compliance with facility standards in particular areas, e.g. for health, education or justice facilities may be a significant driver of the level of design specification, quality and cost of a project. For ICT related business cases, industry-wide standards or the agency's own enterprise architectures may apply. Integrating these technical standards early will enable agencies to demonstrate and monitor compliance through the design process, procurement, commissioning and operation.

The provisions of the *Environmental Planning and Assessment Act 1979* are likely to apply to most construction and property and accommodation projects. Major projects can be considered under different parts of the Act and this can significantly impact on the planning and management of a project, particularly Part 3A of the Act. Agencies are required to identify whether Part 3A of the Act will be triggered at the earliest opportunity. Agencies are encouraged to carefully consider the application of such legislation and discuss the potential requirements with the relevant authority (State or Commonwealth).

Reference material for preparing business cases

- Policy
- Legislation
- Industry standard
- Agency standards and architectures
- Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007
- State Environmental Planning Policies, especially SEPP (Major Projects) 2005 and SEPP (Infrastructure) 2007 (see www.planning.nsw.gov.au/planningsystem/sepp1.asp)
- Treasury Policy Paper TPP 06-10 – Information and Communication Technology (ICT) Capital Investment Process

5 Implementation of the proposal

Key principles:

- Agencies are accountable for achieving the business case and must demonstrate the capacity and capability to deliver the proposal from procurement to implementation. These factors will assist in evaluating whether the proposal can be delivered on time, within budget and realise the anticipated project benefits.
- Governance arrangements must demonstrate that the activities required to ensure a successful project are based on the scale, risk and significance of the proposal and cover management arrangements for meeting project deliverables.
- Where the business case is to deliver an election commitment, agencies need to make the case that the commitment will be cost effectively delivered to achieve the maximum benefits and that the operating costs are affordable.
- Agencies must put in place an effective benefits realisation mechanism that documents agency accountability and responsibility for implementing change management and delivering the anticipated project benefits.

Application:

- Preliminary businesses cases are to address the governance arrangements to deliver the final business case.
- Final business cases are to address the following requirements in full.

5.1 Project planning

Agencies will need to document the proposed plan for implementing the project or program.

In the life of a project there are a number of key steps that will follow a resource allocation decision including:

- proposal
- procurement
- design/development/construction
- commissioning
- operation

Each step involves rigorous planning to address the activities being undertaken, milestones to meet deliverables, decision points for the agency and Government, specific skills and levels of resources required; acquisition of sites; purchase of equipment and materials; consultation with stakeholders, implementing change management to deliver the project or program.

Agencies must consider the likely project planning implications as it will support agency capacity and capability to achieve the deliverables of the project or program. Key deliverables will often include time, cost, quality, risk, procurement, safety, change management and realising service benefits or objectives.

5.2 Governance arrangements

Agencies will need to document the proposed governance model for implementing the project or program.

Governance arrangements for managing the delivery of a project or program can begin when a service need has been identified and continues during the project's lifecycle. Governance is not static as agencies must ensure there are appropriate mechanisms in place to achieve key deliverables such as time, cost, quality, risk, procurement, safety, change management and service benefits.

It is critical for agencies to consider the appropriate governance arrangements based on the scale, risk and complexity of the project or program. Agencies must identify at the earliest stage the skills and seniority required as part of the governance arrangements. Governance arrangements may generally include the following elements.

Steering committee

Usually a steering committee is established for major projects by the delivery agency. These skills may be sourced from within the agency, other agencies if it is a cross agency proposal, or from the private sector.

Project sponsor

The project sponsor is responsible for the deliverables of the project or program and the realisation of project objectives and/or benefits.

Project director

The Director-General or a delegated representative of the delivery agency should appoint a project director. The project director is responsible for delivering the project and managing members of the project team, including external advisers and consultants. The project director requires a good understanding of Government processes and well-developed commercial skills applicable to developing and negotiating contractual arrangements.

Probity advisor

A probity advisor may occasionally be required but this will depend on the scale, complexity and sensitivity of the project or the procurement method for the project (such as a privately financed project). The role of the probity advisor is to ensure a fair, transparent, defensible and robust process is followed. The probity auditor must be objective and also endorse the probity plan, monitor the procurement process throughout, and provide independent advice to the project team, the steering committee and the Director General of the delivery agency.

Project team

The project team possesses the skills and resources to develop and deliver a project or program and it may vary over the life of a project. Agencies need specialist knowledge required for each phase of the project, including technical, planning, financial, economic, operational, community relations, environmental, contractual and legal skills.

Central agency assistance

The scale, risk, complexity and significance of the project may require assistance from the Office of the Coordinator General within the Department of Premier and Cabinet and Treasury. Agencies should consult with these central agencies when governance arrangements are being established.

Reference material for business case

- Premier's Memorandum 2005-09 Major Infrastructure Coordination and Delivery
- *Working with Government*, Guidelines for Privately Financed Projects (see project management structure section at page 38)

5.3 Procurement strategy

While a detailed procurement plan is developed after resource allocation has been approved, agencies must document the proposed procurement strategy to identify the most effective way of achieving the objectives of the project or program.

Finalising the procurement strategy is important task as procurement costs can contribute up to 30 per cent of the estimated total cost of the proposal. Agencies need to demonstrate at an early stage how the procurement strategy will contribute to value for money and how this will be managed as part of the governance arrangements (5.2 above).

Agencies must ensure that a procurement strategy takes into account the risks and constraints, use of the market's capabilities and the procuring agencies' requirements. A procurement strategy aims to achieve the optimum balance of risk, innovation, control and funding for a particular project.

Procurement options will depend on the scale, risk and complexity of the project or program, affordability of the options and also the capacity of the delivery agency. These factors may lead to different procurement models such as direct purchase, service level agreements, construct and design; design, construct and manage, alliancing, or privately financed projects.

The decision for delivering a project through private financing or similar procurement methods can only occur after the Government has made a resource allocation decision, that is, it has been proven that a proposal has merit, is a priority and it is value for money.

Reference material for business case

- NSW Code of Practise for Procurement
- NSW Government Tendering Guidelines
- *Working with Government*, Guidelines for Privately Financed Projects

5.4 Change management strategy

Agencies will need to document the proposed change management strategy for implementing the project or program and achieving the intended benefits of investment.

Change management involves understanding the level of operational change that a project or program will cause to an agency, its people and the general public and proactively developing strategies and action plans to manage the impact of that change. Change management is a critical task to achieve the benefits of a project or program.

Change management is a dynamic activity. It is a significant component of a project or program and may be a larger or more complex task than originally anticipated in a change management strategy. The critical issue to be considered by agencies is their capability to plan, manage and implement the benefits of the project or program.

Reference material for business case

- Government Chief Information Office Change Management Guideline (can be applied to non-ICT projects as well)

5.5 Risk management strategy

Agencies will need to document the proposed risk management strategy for implementing the project or program.

Managing risk has two main parts: risk analysis and risk management. Risk analysis is essential for effective management of risk and comprises risk identification, estimation and evaluation. Identifying risks must be gathered through consultation with stakeholders. Use skilled resources that can speak to the technical, environmental, social, procurement, change management and service integration requirements of the project or program.

Risk management identifies how future events will be managed to ensure that the identified benefits will be achieved within the scope, time frame and proposed budget.

Agencies are encouraged to document the results of risk assessments within a risk register (which is part of the Risk Management Plan) which is regularly reviewed, updated and reported as part of the governance arrangements for the life of the project or program.

Reference material for business case

- Total Asset Management Risk Management Guideline TAM04-12
- Department of Commerce Government Chief Information Office Project Risk Management Guideline
- Australian and New Zealand Standard AS/NZS 4360:2004: Risk Management
- Treasury Policy Paper TPP07-5 NSW Government Guidelines for Economic Appraisal July 2007
- Treasury Policy Paper TPP07-6 Economic Appraisal Principles and Procedures Simplified July 2007
- "People First" the NSW Government's ICT Strategic Plan

5.6 Benefits realisation strategy

Agencies must document the proposed benefits realisation strategy for implementing the project or program.

Benefits realisation is an established practice of ensuring that projects or programs produce the anticipated benefits claimed in the project's economic appraisal (section 4.3). It is also a method to address the changes that are necessary to realise benefits. The type and extent of benefits evaluated will be proportionate to the value and risk of the project. Benefits realisation is relevant to all categories of proposals.

Benefits realisation can manifest in a number of methodologies ranging from a post occupancy evaluation through to a benefits realisation plan or register. The methodology adopted by agencies must be fit for purpose.

The timing attached to evaluating the realisation of the benefits will depend on the expected timing attributable to the practical realisation of these benefits (either at occupation or when service delivery performance targets are expected to be achieved).

Where anticipated benefits include longer term savings for government or other benefits achieved through prevention and early intervention strategies, the benefits realisation strategy should include measures to evaluate the effectiveness of these strategies, and realise these savings.

Within the established governance arrangements, it is the responsibility of senior management to ensure the benefits can be measured and are capable of being delivered within specified timeframes. Agencies should establish regular reporting of the progress and achievement of the objectives and or benefits as part of the reporting to the project governance committee (section 5.2).

Reference material for preparing business cases

- Government Chief Information Office Benefits Realisation Register Guideline
- Government Chief Information Office Benefits Management Plan Guideline
- *Working With Government* Guidelines for Privately Financed Projects (see post implementation review section at page 43)
- Premier's Memorandum 2007-20 State Plan Priority F4: Embedding the Principle of Prevention and Early Intervention

5.7 Stakeholder consultation strategy

Stakeholders are the people and organisations able to significantly influence the success of any of the phases of the business case.

The stakeholder consultation strategy:

- identifies the key stakeholders who must be consulted in order to ensure the effective implementation and delivery of the business case.
- what consultation has occurred and
- how any issues are assessed and managed.

Agencies must document a consultation strategy for implementing the project or program.

Identifying, engaging and communicating with stakeholders is an ongoing process in the project or program's lifecycle. The extent of engagement with stakeholders will invariably be proportionate to the scale, risk and complexity of the project and will involve both agency and external stakeholders. Stakeholders are those who have a significant stake in the project or program and may include other agencies, and other units in the proponent agency, as well as external parties such as the community.

While agencies are likely to have stakeholder consultation methodologies, they will need to consider the most effective way of engaging with stakeholders over the life of a project to keep them informed and to respond to issues that are raised throughout the communication process. This process is not a static activity so agencies are encouraged to regularly review and monitor their strategies/plans to ensure they continue to be relevant and have regard to emerging risks and issues.

5.8 Resourcing

This section describes how you will ensure you have the skills and capabilities to implement the project, operate the system and achieve the business case benefits.

The business case should describe what resources are needed to deliver the project and how will they be sourced. This should state:

- What resources are necessary to implement this project and realise the benefits of this business case.
- How resources will be managed and sourced.
- Specific resources for each stage of the project can be stated in the Gantt chart provided in the project workplan.
- Impact on current internal resources.
- How vendor management and legal capabilities will be achieved.
- Additional training for use and support of the deliverable.

Appendix 1 - Preliminary business case template

Treasury Circular NSW TC 08/07 *Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports* specifies when Preliminary Business Cases are required to be submitted.

Application

- The preliminary business case constitutes the planning framework, and is used to demonstrate and justify the service rationale, consider service delivery alternatives and also inform internal agency priority setting.
- The preliminary business case template and the Strategic Gateway review report must be prepared and submitted for Treasury assessment before proceeding to the Business Case Review stage.
- Each section of the template is to be addressed to an appropriate level of detail. If this cannot be achieved then a full referenced justification must be provided.
- The extent and accuracy of evidence for the preliminary business case will be proportionate to the value and risk of the project or program. The degree of accuracy and basis for the cost and time estimates should be stated. The degree of accuracy is expected to be lower than that for a full business case.
- The standard of evidence is to be based on quantitative (preferred) and qualitative data underpinned by established methodologies. The standard is lower than that required for a full business case.

The case for change (Section 3) - What is the rationale for the case for change? (Based on current strategic planning.)

The case for the service need (Section 3.1) – Is there a legitimate service need and why?

- state the service need
- state the rationale for government intervention - *what is the market failure?*
- state the drivers of the service need such as population growth, demographic change, ageing and longevity, technical developments, relative prices, service utilisation, asset condition, environmental and social conditions, availability of natural resources, changing social expectations of service delivery
- state how, and to what extent (quantified estimates) the proposed project or program will contribute to desired services and results identified in the agency's RSP, and any applicable State Plan priority or mandated priority (policy statement, legislation, contractual arrangements, intergovernmental agreements, government decision/commitment)
- outline any cross-agency involvement or impacts, and governance or consultation processes for managing this
- outline the anticipated change resulting from the project or program, both inside (including business processes) and outside the agency, and the framework for managing the change efficiently and effectively
- outline the scope and timing of the service to be delivered

Priority of the service need (Section 3.2) – Is there a legitimate service priority and why?

- state the priority of the proposal (note: must be consistent with TAM data tables)
- state whether reprioritisation of priorities has occurred to permit the proposal to come forward

Benefits of the service need (Section 3.3) – What are the key benefits from the proposed service?

- outline (as applicable) the projects or programs key expected social, economic and environmental benefits
- identify the beneficiaries and the type and timing when they are to receive the expected benefits

Stakeholder engagement (Section 3.4) – Are there key stakeholders that influence the service scope?

- if applicable, state the consultation already undertaken
- list the major stakeholders and their relationship to the proposal
- identify how stakeholder issues have been integrated into the service scope or why they have not been included
- identify how the relevant issues will be managed
- if a cross-agency proposal, have the other agencies signed off on this business case?

Analysis of the proposal (Section 4) - What are the realistic service delivery alternatives and the key costs and benefits?**Objectives (Section 4.1)**

- outline the strategic objectives
- objectives must be expressed in results logic or be specific, measurable, achievable, relevant and timely
- priority of the proposal

Options (Section 4.2)

- define a range of realistic alternative service delivery options
- the base case option must be considered
- consider prevention and early intervention and demand management strategies
- initial value management study

Costs and benefits (Section 4.3)

- identify and provide economic and financial analysis of the key costs and benefits of these options, including disaggregated estimates for key intended beneficiaries
- early stage estimates of costs and benefits may be highly subjective and should be given as ranges, to identify the key risks and uncertainties (including risks relating to the “base case” of not proceeding with the project)
- the level of certainty for the cost estimates should be stated

Risk assessment (Section 4.4)

- identify the major risks inherent in each of the options
- identify the impact and likelihood of these risks occurring
- identify critical assumptions and dependencies

Sustainability (Section 4.5)

- identify critical environmental, economic or social constraints or opportunities

Technical standards and legislative requirements (Section 4.6)

- identify critical technical standards, legislation and policies (standards) relevant to the design and performance of services
- state the applicability of any legislative requirements, including whether Part 3A of the *Environmental Planning and Assessment Act 1979* has been triggered

Implementation of the proposal (Section 5)

- outline the governance structure and arrangements in place (or any planned improvements) to ensure the project is successfully taken through to the final business case (to be included in the Business Case Development Plan)

Business case development plan – How will the final business case be achieved?

- identify outstanding major risks regarding project delivery and intended results and how these will be addressed for the final business case
- Identify uncertainties in quantified costs and benefits and how these will be resolved, to achieve the final business case
- identify the consultation required to complete the final business case

Appendix 2 - Final business case template

NSW Treasury Circular NSW TC 08/07 *Revised Project Size/Risk Thresholds for the Submission of Business Cases and Gateway Reports* specifies when Final Business Cases are required to be submitted.

Application

- The final business case is used to document a defined project. This includes an updated justification of the service rationale, and demonstration of value for money and the agency's capability to implement the service.
- Final business case template and the Business Case Gateway review report must be prepared for proposals submitted to Government for funding approval.
- Each section of the template is to be addressed to an appropriate level of detail. If this cannot be achieved then a full referenced justification must be provided.
- The extent of evidence for the final business case will be proportionate to the value and risk of the project or program. The degree of accuracy and basis for the cost and time estimates should be stated.
- The standard of evidence is to be based on quantitative (preferred) and qualitative data underpinned by established methodologies.
- Expected degree of accuracy is proportionate to costs and time estimates. This should be higher than in the preliminary business case.

Executive summary

Provide a summarised description of the:

- case for change – what is the service need and scope?
- priority of the proposal
- contribution to agency service delivery and Government objectives or priorities
- relative priority (must be consistent with TAM data tables)
- key stakeholders and clients
- objectives
- options, including the base case option
- costs and benefits of the options and the preferred option – *does it offer superior value for money and why?*
- financial impacts upon the agency
- funding strategy internal/external
- key risks, including key assumptions
- key technical standards or legislative requirements
- key project planning requirements – does your agency have the capacity and capability to deliver the project?
- governance model
- benefits realisation – is there an accountable and transparent process for managing the changes to realise the project benefits?

Introduction

Provide a description of the:

- purpose and approach of the business case
- process used to develop the business case
- structure of the business case

The case for change (Section 3) - (revisit, update & complete) What is the rationale for the case for change?

Provide a description of the:

Service need (Section 3.1) – Is there a legitimate service need and why?

- if no preliminary business case was submitted for the proposal state the service need
- if a preliminary business case was submitted for the proposal revisit, update and complete the case for the service need
- outline rationale for government intervention - *what is the market failure?*
- state the drivers of the service need such as population growth, demographic change, ageing and longevity, technical developments, relative prices, service utilisation, asset condition, environmental and social conditions, availability of natural resources, changing social expectations of service delivery
- state how, and to what extent (quantified estimates) the proposed project or program will contribute to desired services and results identified in the agency's RSP, and any applicable State Plan priority or mandated priority (policy statement, legislation, contractual arrangements, intergovernmental agreements, government decision/commitment)
- outline any cross-agency involvement or impacts, and governance or consultation processes for managing this
- outline the anticipated change resulting from the project or program, both inside (including business processes) and outside the agency, and the framework for managing the change efficiently and effectively
- outline the scope and timing of the service to be delivered

Priority of the service need (Section 3.2) – Is there a legitimate service priority and why?

- state the priority of the proposal (note: must be consistent with TAM data tables)
- state whether reordering of priorities has occurred to permit the proposal to come forward

Benefits of the service need (Section 3.3) – What are the key benefits from the proposed service?

- state (as applicable) the key anticipated social, economic and environmental benefits
- identify the beneficiaries and the type and timing of expected benefits to be received

Stakeholder engagement (Section 3.4) – Are there key stakeholders that influence the service scope and how has this been integrated?

- if applicable, state the consultation already undertaken
- list the major stakeholders and their relationship to the proposal
- identify how stakeholder issues have been integrated into the service scope or why they have not been included
- identify how the relevant issues will be managed
- if a cross-agency proposal, have the other agencies signed off on this business case?

Analysis of the proposal (Section 4) - Does the proposal offer value for money and is it affordable?

Provide a description of the:

Objectives (Section 4.1) – What objectives will the proposal be measured and evaluated against?

- document the full range of objectives to measure and evaluate the options
- the objectives must contribute to the performance of agency service delivery
- objectives must be expressed in results logic or be specific, measurable, achievable, relevant and timely

Options (Section 4.2) – What are the realistic options for meeting the service need?

- summarise the evaluation of the wide range of options that was undertaken and the reasons why options were eliminated
- provide the short-list of options which are most likely to deliver the objectives
- clearly state the base case
- fully describe the base case and other options
- demonstrate that other technologies have been considered (as applicable)
- demonstrate that prevention and early intervention and demand management strategies have been considered
- describe the impact on related services and assets and opportunities for integration with other government services
- include information on whether the operation, or part of it, could be efficiently and reliably performed by the private sector
- document details of capacity for variations to the design and/or useful economic life of the proposal

Costs and benefits (Section 4.3)

Economic Appraisal – What are all the costs and benefits of the options and do they meet the service objectives?

Summarise the key findings of the economic appraisal:

- **Identify all relevant costs** (quantified or estimated) – capital, operating, maintenance; provision for contingencies. The stream of costs should cover the full project period which will be based on the economic life of the project or program. Costs need to be in sufficient detail to have their accuracy verified. The level of certainty for the cost estimates and the basis for estimation should be described. The basis for annual cost escalation indices should be provided.
- **Identify the benefits** – may include avoided costs, savings, revenues, benefits to consumers not reflected in revenue flows, benefits to the broader community.
- **Identify qualitative factors** – may include environmental considerations, industrial relations, social or regional impacts, safety, public relations, resource availability.
- **Assess net benefits** - costs and benefits should be valued in real terms: that is they should be expressed in constant dollars and increases in prices due to the general rate of inflation should not be included in the values placed on future benefits and costs. The stream of costs and benefits (expressed in real terms) should be discounted by a real discount rate and sensitivity tested using discount rates pursuant to the Economic Appraisal Guidelines.

Using the discounted stream of costs and benefits, the following decision measures should be calculated:

- Net present value
- Net present value per dollar of capital outlay
- Benefit-cost ratio
- Internal rate of return
- **Sensitivity testing** – analyse the sensitivity of the options under different scenarios and different discount rates.
- **Explicit reference to data sources and assumptions** – document all sources of data and assumptions.

Financial impact – Has the agency financial impact of the proposed project or program as well as the broad implications for other agencies been analysed?

- summarise the finding of the completed financial impact statement
- identify major budget impacts for the agency and broader implications for other budget sector agencies
- the Treasury financial impact statement template (available from the Treasury internet site) must be completed and submitted.

Financial appraisal – Has the financial viability of a proposed project/program been analysed?

Summarise the key findings of the economic appraisal:

- costs – capital, operating, maintenance; provision for contingencies
- data sources, references for assumptions (e.g. CPI, building price index, wage increases; internal rate of return/hurdle rate)
- financial impacts, including the retiring of older assets and associated operating and maintenance savings
- any third party revenues, source for revenue assumptions
- justification for assumed discount rate

Risk assessment (Section 4.4) – What are the risks and the underlying assumptions?

- identify the risks inherent in each of the options
- identify the impact of these risks occurring

For each of the risks document determine:

- the probability of the risk occurring
- what are the risk management strategies to address the risks
- whether additional costs will be incurred
- whether additional costs should be incorporated into the analysis and
- the need (if any) for any contingencies.

In addition:

- list critical assumptions including revenue drivers, capital and operating costs, social and environmental factors, financing constraints, availability of resources and expertise
- state known or emerging constraints directly impacting on the proposed initiative
- identify any relevant regulatory, legislative, policy issues and relevant Acts which may impinge in the proposal need to be identified including information on where this may be a constraint
- identify any key dependencies that affect the performance of the options

Sustainability (Section 4.5) – What are the sustainability issues associated with each option and what strategies are in place to mitigate any impacts?

- document the full description of sustainability (environmental, social and economic) impacts (positive or negative)
- describe the nature and extent of the impact
- describe the impacts as either quantified or non-quantified
- develop strategies and options to capitalise on opportunities and manage negative issues

Technical standards and legislative requirements (Section 4.6) – What technical standards or legislative requirements impact on the performance of the options? Has part 3A of the Environment Planning and Assessment Act 1979 been triggered?

- identify the technical standards, legislation and policies (standards) relevant to the design and performance of services
- indicate how these standards have been included in the scope of the services, objectives of the proposal, integrated into the options, or used as part of the evaluation of the options
- state the extent to which the options comply with technical standards (statement of compliance)
- identify any risks or costs attached to the implementation or integration of the standards
- if applicable, document consultations undertaken with the relevant authority (State or Commonwealth)
- state if the provisions of Part 3A of the *Environmental Planning and Assessment Act 1979* have been triggered and what are the implications for implementing the project or program?

Implementation of the proposal (Section 5) - Does the agency have the capacity and capability to implement the proposal?

Provide a description of the following:

Project planning (Section 5.1) – What is the planning behind delivering the major components of the project?

- provide an outline of a project plan that includes the major project components for implementing the project or program from resource allocation decision to operation, (that is, procurement, design/development/construction, commissioning, and operation)
- outline the major requirements to support these project components including key milestones and delivery dates, major decision points, critical path items, key dependencies, resourcing requirements and strategy, risk management plan, governance arrangements, environmental planning requirements, change management and stakeholder consultation requirements
- Note, the project plan should not be a high level work plan of the project phases and should provide the due dates for the major project deliverables/milestones
- A Gantt chart is preferable: the level of detail should be appropriate for an executive audience and enable an expert assessment of the soundness of the proposed workplan

Project planning (Section 5.2) – What governance model is to be adopted and how will this be resourced?

- describe the governance arrangements for the planning, procurement and implementation of the proposal
- state the roles and responsibilities to account and report on project deliverables – the key project deliverables should be identified
- document an outline of how the governance arrangements are to be resourced from within the agency, the private sector or from other agencies
- state whether (because of the scale, risk and complexity of the project) assistance is being sought, or is to be provided, by a central agency

Project planning (Section 5.3) – What procurement method will be employed to implement the project?

- describe the procurement objective or what result is expected from the procurement
- explain the value for money from the procurement choice and the governance arrangements for managing the procurement (this is to complement the description of the governance arrangements identified below)
- outline the market characteristics as this may influence the method of procurement or who to procure from
- outline how the market is to be engaged whether open tender, from a pre-qualified list of tenders, etc
- an outline of the key steps and timing for developing and implementing the procurement method
- an outline of the cost of procurement and the key risks and management methods
- a realistic statement of the capacity and resources of the agency to manage the procurement process and to manage the agency's responsibilities under the contract (may be included in the project plan)

Project planning (Section 5.4) – How will changes to service delivery be managed?

- document the changes to be managed (this includes the benefits or objectives of the project or program)
- document the stakeholders who will be involved in the change management process. These may involve the agency, a business unit within an agency, other agencies (where there are cross agency implications), service providers, users or recipients
- document the change management roles and responsibilities such as a change sponsor, change agents and the stakeholders that will have to make changes to their work practises
- outline the communication strategies and plans to be developed
- outline the training of new tools, processes or work methods to be developed
- state the mechanism to monitor and measure the effectiveness of the change management process

Project planning (Section 5.5) – What is the process for identifying, monitoring and managing risk during the implementation of the project?

Document the risk analysis by:

- stating what the project risk is assessed as (Gateway Project Profile Assessment risk evaluation tool)
- identifying the range of significant risks
- measuring each of the risk exposures in the project/program, in terms their likelihood (e.g. almost certain, unlikely) and their consequences (e.g. very high, moderate)

Risk exposure = Consequences x Likelihood

Consequences	Likelihood				
	Rare - 1	Unlikely - 2	Moderate - 3	Likely - 4	Almost certain - 5
Very high - 5	5	10	15	20	25
Major - 4	4	8	12	16	20
Moderate - 3	3	6	9	12	15
Minor - 2	2	4	6	8	10
Insignificant -1	1	2	3	4	5

Key

Risk Exposure: Very high High Moderate Low

- assessing whether the level of each risk is acceptable, and what the controls are to mitigate or reduce the level of gross risk

Document risk management approach by:

- selecting the option most appropriate to mitigate or reduce each identified risk
- identifying and assigning the resources necessary to do the work
- stating what will be done to monitor the status of each risk, and checking controls are performed and are effective

Benefits Realisation Strategy (Section 5.6) – How will the benefits of the project be realised?

- document the benefits realisation methodology to be adopted
- describe the benefit to be achieved
- describe the contribution to agency service delivery, -Results and Services Plan, Statement of Business or Corporate Intent, State Plan, etc
- identify the person responsible for implementation and what will be managed and measured during implementation. This is to ensure that the objectives and/or benefits will be achieved and to track whether the project is being implemented in a way to give assurance that the benefits will be achieved. This will be a set of measurable KPIs that have a results logic to the post-implementation benefits)
- identify performance measure or service level before and after the service change
- identify target date(s) for the objectives and or benefit to be implemented or realised

Stakeholder consultation strategy (Section 5.7) – How are stakeholders to be engaged and what is the process of managing stakeholder issues?

- document the range of stakeholders that have an interest or are affected in the project
- state the nature of the interests
- state objectives for communicating with stakeholders
- outline the information needs and methods for communicating
- outline the extent of communication and timing for communicating with stakeholders (this should be linked to key milestones in the project)
- state the skills and resources required for communicating with stakeholders
- address how the issues raised through the communication process will be captured, responded to, monitored and reported to the governance arrangements for the project

Resourcing (Section 5.8)

The business case should describe what resources are needed to deliver the project and how will they be sourced. This should state:

- What resources are necessary to implement this project and realise the benefits of this business case
- How resources will be managed and sourced
- Specific resources for each stage of the project can be stated in the Gantt chart provided in the project workplan
- Impact on current internal resources
- How vendor management and legal capabilities will be achieved
- Additional training for use and support of the deliverable

Appendices

Attach the financial impact statement (completed template).

Attach other supporting analysis, including (if applicable):

- value management study report
- environmental studies
- social studies
- economic appraisal
- financial appraisal