August 2018

TPP

18-06

Policy and Guidelines Paper

NSW Government Business Case Guidelines

Preface

The NSW Government Business Case Guidelines have been developed to assist agencies and government entities with the preparation of business cases in line with best practice.

The NSW Government is committed to the ongoing improvement of public services by ensuring resource allocation decisions are made and public funds are spent in the most efficient way and are directed to services that provide the best outcomes and benefits for New South Wales.

Business cases are a key tool to inform evidence-based investment decisions by government. These decisions include policy and program interventions utilising scarce community resources to deliver outcomes for the people of NSW. Treasury has a central role in providing guidance to public sector entities. It aims to ensures resource allocation decisions are well timed, offer value for money, consider and mitigate risks and are consistent with Government priorities and objectives.

The NSW Government Business Case Guidelines (the Guidelines) establish a best practice, clear and consistent approach to preparing business cases. Business cases which are prepared according to these guidelines provide a robust evidence base for government policy and investment proposals and inform effective and efficient resource allocation decisions for capital, recurrent and ICT investment and regulatory proposals.

In addition, the Guidelines are designed to assist in reducing the time and cost of developing business cases, while meeting best practice. The Guidelines are supported by a suite of templates and tools.

The Guidelines will support the sector's capacity and capability to deliver investment and policy proposals that are robust, transparent and appropriate to the size, complexity and cost of the intervention. They will strengthen confidence in the government to make sound investment decisions.

This version of the NSW Government Business Case Guidelines supersedes the previous Department of Premier and Cabinet Business Case Guidelines 2000, the Treasury policy papers Guidelines for Capital Business Cases (TPP08-05) and the Commercial Policy Framework: Guidelines for Financial Appraisal (TPP07-04).

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August 2018

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Note
General inquiries concerning this document should be initially directed to:
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Executive Summary

The NSW Government is committed to delivering efficient and effective services and developing regulations that maximise the benefit for the people of NSW.

NSW is facing many challenges, including growing demands for services, an ageing population and budget constraints. As a result, there is an increased need for Government to focus on delivering the right services that are customer centric and best meet the needs of our community now and into the future, while providing value for money and the right regulatory settings.

Fundamental to this focus is standardising and improving the requirements and criteria of resource allocation and policy impact.

The NSW Government Business Case Guidelines (the Guidelines) are designed to facilitate evidence-based resource allocation and regulatory impact decisions. The Guidelines provide a best practice guide on developing business cases. The Guidelines also provide a performance-informed resource management and regulatory framework consistent with the move to Outcome Budgeting and outcome focused regulation.

A business case captures the reasoning for initiating a project or program and is the primary document for describing how the case for change, economic and financial analysis, along with sound commercial and management analysis inform the decisions and actions for any investment proposal. It should also be a well-written and well-structured document.

Applying the Guidelines will facilitate preparing a business case based on robust logic that links the proposed investment and policy intervention with immediate and long-term outcomes and benefits, including strategic Government priorities, i.e. State Outcomes. Critical parameters such as cost, time, limitations, quality, social and environmental benefits should be documented, along with an assessment of the agency's capability for timely delivery of the project or program.

The Guidelines have been developed to be adaptable to business cases for projects of all types and sizes. They should be scaled to the size, complexity, level of risk and estimated cost on a case-by-case basis. The scope of the Guidelines extends from the initial stages in the investment process where analysis is used to support a funding decision, through to retrospective analysis of the benefits of an investment after its completion.

While the Guidelines have been developed to support better investment decision making, they can also be applied to regulatory and policy interventions that involve costs and benefits for government and the wider community. The wider application caters for the need to understand the impact of government action by considering the costs and benefits of a range of options, including non-build and non-regulatory options.

There has been a move to develop different types of business cases including integrated program, vision led, place-based, spatial and corridor projects and agile business cases. The Guidelines may need to be adapted for these types of interventions. Treasury will work with other agencies through a Community of Practice to co-design, where necessary, additional guidance to address these types of business cases over the next three to eighteen months. The principles of preparing a business case in these guidelines nevertheless remain the same. If you are currently preparing business cases for these types of projects, please contact your Treasury analyst.

The Guidelines supersede the previous Department of Premier and Cabinet Business Case Guidelines 2000, the Treasury policies - Guidelines for Capital Business Cases (TPP08-05) and the Commercial Policy Framework: Guidelines for Financial Appraisal (TPP07-04).

When compared to these previous publications, the following outlines the key features and main changes in the Guidelines:

- Step-by-step, user-friendly guidance on preparing business cases for capital, recurrent and ICT investment, and also for policy and regulatory interventions
- Staged and iterative approach for the development of business cases with emphasis on facilitating early engagement with Treasury
- Scalability of the evidence required based on size and risk of the intervention and/or investment
- Strong emphasis on benefits identification, management and realisation from the case for change all the way to post project implementation
- References to existing and related NSW Government policy papers, guidelines and circulars.

Acknowledgements

NSW Treasury wishes to acknowledge everyone who contributed to the development and production of these Guidelines, and the many NSW Government agencies that participated in the extensive consultation process.

NSW Treasury also wishes to acknowledge Department of Treasury and Finance, Victoria; HM Treasury, United Kingdom; and the New Zealand Treasury; whose documentation and processes were used as sources in the development of these Guidelines.

1. About the Business Case Guidelines

The NSW Government aims to meet the expectations of the people of NSW by making investments and regulatory decisions that maximise both the value for taxpayers' dollars spent and contribute towards achieving outcomes that benefit the people of NSW. Fundamental to this focus is standardising and improving the requirements and criteria of resource allocation and policy impact.

Developing a business case is the first step in ensuring the effective and efficient allocation of resources or regulatory powers. It puts outcomes and benefits at the centre of investment decision-making and allows opportunities for appropriate innovation while balancing risks to people, the environment and the State's finances. A business case should support the decision to invest and/or regulate, the selection of options and the successful realisation of anticipated benefits.

The Business Case Guidelines can be adapted to apply to business cases for projects of all types and sizes. They should be scaled to the size, complexity, level of risk and estimated cost on a case-by-case basis. The scope of the Guidelines extends from the initial stages in the investment process where analysis is used to support a funding decision, through to retrospective analysis of the benefits of an investment after its completion.

While the Guidelines have been developed to support better investment decision making, they can also be applied to regulatory and policy interventions that involve costs and benefits for government and the wider community. The wider application caters for the need to understand the impact of government action by considering the costs and benefits of a range of options, including non-build and non-regulatory options.

1.1 Purpose of the Business Case Guidelines

A business case is an essential component of planning and investment decisions. The purpose of these Business Case Guidelines (the Guidelines) is to assist agencies, other government entities, investors and decision makers to develop effective and robust business cases.
The Guidelines:

- apply to all types of investment proposals - capital, recurrent and, information and communication technology (ICT) - and to policy proposals that impact resource use in the community such as changes to regulations
- improve the standard, transparency and robustness of investment, policy and regulatory proposals to better inform decision making including evidence based Cost Benefit Analysis (CBA)
- are scalable, so that the level of effort expended on developing a business case is appropriate for the size, complexity and risk of the proposed intervention
- support outcome-based regulation, budgeting and reporting
- link the proposed intervention with outcomes, including strategic Government priorities i.e. State outcomes
- consolidate relevant referencing sources for all types of business cases in one document. There may, however, be additional resources, specific to the nature or type of project or program that should also be considered.

Applying the Guidelines is encouraged when a critical investment, policy and/or regulatory decision is contemplated. They provide a best-practice approach on the key elements of a business case for projects of any type, size or risk and are supported by a suite of templates and tools that complement each stage of the business case process.

There has been a move to develop different types of business cases including integrated program, vision led, place-based, spatial and corridor projects which involve multiple agencies and sectors delivering the same Government priorities and State outcomes in a region. There has also been a shift toward agile business cases that involve adapting for incrementally developing projects, where assumptions and facts may not be known at the start. This will require regular updates to the business case and assumptions, and may include requesting early funding for the development stages.

For these types of projects, it may be necessary to adapt the Guidelines. For example, vision led projects may involve identifying overarching needs that are more remote than those identified in a traditional project, while still requiring evidence to support government intervention. The principles of preparing a business case in these guidelines nevertheless remain the same.

NSW Treasury will work with agencies to provide additional guidance, where necessary, to address these types of business cases over the next three to eighteen months. In addition, a Community of Practice will be formed to facilitate the co-design and development of any further guidance. If you are currently preparing business cases for these types of projects please contact your Treasury analyst for assistance and advice.

1.2 How to use these Guidelines?

The Guidelines can be used as a source of content and as a road map for the development of a business case. The Guidelines contain the steps needed to prepare a detailed business case that demonstrates that a proposed intervention is based on a case for change, represents value for money, is financially and commercially viable and can be achieved.

The Guidelines should be applied when developing, assessing or approving spending and regulatory proposals. They are particularly relevant for:

- program and project managers, responsible for successful program/project delivery
- managers of services, with responsibility for developing and delivering programs with customer-focused outcomes
- managers of finance, procurement and planning, with responsibility for the forward planning of operational aspects of an investment proposal
- employees of agencies with strategic responsibility for approving proposals and overseeing the effectiveness of regulatory arrangements
- gateway reviewers responsible for conducting assurance services on projects and programs
- those responsible for evaluating programs and projects that have been implemented
- central agencies that advise Cabinet, Cabinet Standing Committee on Expenditure (ERC) or Cabinet Infrastructure Committee (CIC) on funding and policy proposals.

The Guidelines have been developed to be adapted and applied to projects of varying sizes, complexities and risks. It is important to adapt the size and level of detail of the business case to the specific type of project.

Feedback and consultation in the early stages is important. Planning for the business case development should include liaising with key decision-makers who will also use the business case, e.g. NSW Treasury, Infrastructure NSW or Department of Finance, Services and Innovation.
In some instances, the Guidelines may reference other resources for additional information, e.g. NSW Government Guide to Cost Benefit Analysis (TPP17-03). In conjunction with the Guidelines, agencies will need to be familiar with other related NSW Government policies and processes, including Gateway review process, Commissioning and Contestability, Better Regulation and Outcome Budgeting.

A summary of the policies mentioned in this document and related to investment decisions will be available on the NSW Treasury website.

2. Purpose of a Business Case

2.1 What is a Business Case?

There are many definitions of a **business case** but NSW Government decision makers use the following definition:

> A **business case** is a documented proposal to meet the Government's objectives that is used to inform an investment and/or policy decision. It contains analyses of the costs, benefits, risks and assumptions associated with various investment and policy options linked to policy or program outcomes and informs future implementation, monitoring and evaluation.

In practice, a **business case** is a management tool and a living document which is developed over time and reflects the priorities of investment stages – from making a case for change at the concept stage all the way through to implementation and review. It is a multi-purpose document that can generate the participation necessary to turn an idea into reality. The business case summarises in one place, research and analysis of how proposals will contribute to key investment objectives and reflect the strategic context.

The business case provides the basis against which continued funding is compared and evaluated and against which the success of the investment and/or policy intervention is measured.

2.2 What are the characteristics of a good business case?

A good business case should:

- outline the relevant information and arguments for a recommended action, that informs investment, policy and regulatory decisions
- provide a succinct, clear, logical and user-friendly structure and content. The size of the business case is not a guarantee of quality
- minimise costs and time through clear purpose, requirements and early planning at the outset
- integrate project and post implementation evaluation into the process
- reflect stakeholder views and integrate consultation outcomes
- convince through arguments, that are optimally supported by hard data, including accurate costing of alternatives and expected benefits
- provide reference of previous experiences and outcomes in implementing similar initiatives
- consider risk, governance and value for money throughout the development process
- be a living document, that is continuously updated and reviewed.

2.3 When should a business case be prepared?

Business cases are prepared for different reasons, including to:

- inform an investment or regulatory decision
- demonstrate that adequate due diligence and thinking was undertaken
- obtain approval including funding.

Business cases are prepared and submitted to NSW Treasury as part of the annual outcome-based Budget process to inform Cabinet Committee consideration of proposals and expenditure decisions made by the Cabinet Standing Committee on Expenditure Review (ERC). Submission of business cases should align with the timing of the NSW Budget process, as advised to agencies annually by Treasury. ERC considers all proposals submitted to Treasury, including in exceptional circumstances those needing additional funding that cannot wait for the annual Budget process.

Business cases may also need to be submitted to Infrastructure NSW, the Department of Finance, Services and Innovation and Treasury as part of the Gateway review process as required under the relevant Gateway Coordination Authority Framework.

Business cases can also be produced for policy and regulatory proposals that may not involve significant expenditure, but have a significant impact on the community, economy and environment. A business case, incorporating a CBA or a Better Regulation Statement, provides an ideal format to provide Ministers and Cabinet with the information required to make significant policy and regulatory decisions.

It is good practice to prepare business cases for significant proposed investments as part of an agency's **internal prioritisation** and decision-making process within an appropriate governance framework.

Further information:

- Recurrent Investment Assurance Framework (TPP17-02)
- Infrastructure Investment Assurance Framework (INSW), December 2016
- ICT Assurance Framework (NSW ICT Strategy), February 2017
- NSW Gateway Policy (TPP17-01)
- Submission of Business Cases TC 12-19.

2.4 How much time should be spent in developing a business case and who should prepare it?

There is no prescribed 'size' for a business case. It may be a short document of minimal pages that can be completed in a few days, containing all relevant aspects including key objectives, costs, benefits, risks and stakeholders. Conversely, a large or complex project will likely involve more detailed and robust analysis requiring many months to prepare and a more resource intensive process.

The time required to develop a business case will depend on a multitude of variables related to the proposal such as:

- complexity of the proposal
- size in terms of funding involved
- potential risks arising from possible impacts
- the availability of evidence
- actors involved in the proposal development e.g. one cluster or cross cluster
- number and type of stakeholders impacted e.g. internal or external
- criticality of service, e.g. substantial impact to existing service delivery processes
- degree of innovation and time involved in the realisation of benefits.

In certain instances, it may be necessary to initiate a trial or pilot project to test the feasibility of a specific approach especially when the information necessary to make decisions is only vague or not yet available.

This is particularly the case when developing a business case for agile projects. An agile project is based on the idea of delivering incremental or interim outputs, rather than delivering a final output at the end of the planned time. In this case a separate business case reflecting a similar structure to the traditional business cases will be needed to support the pilot project. The main difference is a more continuous adaptation of the business case and less accurate estimates in the initial stages.

The agency is responsible for ensuring that **the cost of developing a business case is proportionate to the size, risk and complexity of the potential investment** and remains appropriate at any time, including when outsourcing parts of the business case development to external providers.

The evidence and information required to develop a business case usually sits with the organisation submitting the investment proposal. It is recommended, therefore, that agencies **foster internal capabilities in the development of business cases**. Responsibility for the development of the business case should not be outsourced to external consultants. Rather external consultants can assist in developing the business case where the necessary skills and resources are not available within the agency.

Note that confidentiality arrangements that are consistent with the treatment of Cabinet information must be in place if ‘third parties’ or external consultants are involved in developing business cases for Cabinet submission.

The Business Case templates have been developed to provide further guidance and are accessible on the Treasury website.

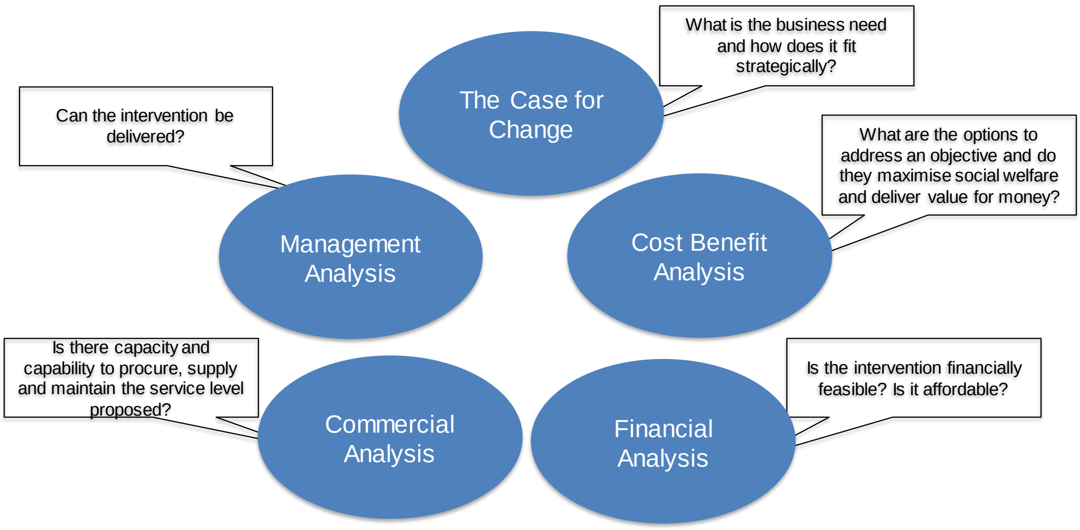
3. Overview of key components and stages of a business case

3.1 Key components of a business case

The business case comprises five interconnected areas of analysis:

1. A **case for change** - a clear rationale for agency and government action, which addresses a community need based on an identified priority, State outcome and business case objective
2. Evidence appropriate options (solutions) selected to achieve the required objective(s) and benefits, maximise **social welfare and deliver value for money (cost benefit analysis)**
3. Evidence that appropriate options (solutions) are financially **viable (financial analysis)**
4. A demonstration that the delivery agency has the capacity and capability required to procure, implement and maintain the proposal and realise the benefits anticipated **(commercial analysis)**
5. Confidence the solution put forward is deliverable, and that governance and systems are in place to optimise value and be modified if required in response to ongoing monitoring and evaluation **(management analysis).**

Figure 2.1.1. Dimensions of analysis included in the business case



The Case for Change confirms the service and/or policy intervention need. It is the first step in obtaining approval or the “go ahead” to progress to further stages in the business case development process. The case for change should have a clear customer focus and should be developed within the context of State Outcomes and the State’s strategic priorities. It should include a concise yet rigorous assessment of the underlying community need, or gap in current service provision and/or regulatory arrangements and how the contemplated action contributes to achieving a priority State Outcome. It will also identify the potential scope for change (investment/intervention) and the anticipated benefits and risks. The case for change should be based on the need to resolve a market failure, address equity concerns among different population segments and/or take a necessary action to achieve government objectives.

Cost Benefit Analysis (CBA) assesses a range of competing options that address a community, environmental or economic need and contribute to achieving the objectives identified in the case for change. It identifies the option that maximises value for the government and the public (society) by analysing the costs and benefits of a list of options and by considering external and internal factors, including impacts on the NSW community. CBA uses various techniques to estimate the economic, social and environmental costs and benefits of a project or program in monetary terms including items for which there is no market value.

Financial Analysis (FA) is used to evaluate whether a proposed project is financially viable from the perspective of the investor and policy owner. In doing so it assesses capital and operating whole of life costs from the perspective of the entity and from a whole of government perspective where there is an impact on budget aggregates and credit rating metrics. Financial analysis differs from a CBA as it does not consider external factors, such as environmental and social impacts.

Commercial Analysis – includes the planning of the procurement process. The NSW Government, *NSW Procurement: Policy Framework for NSW Government Agencies (2015)*, provides a framework for agencies to achieve value for money from their procurement activities while being fair, ethical and transparent. Agencies should ensure that proposed procurement strategies align with the mandatory requirements and principles in the framework. This stage is particularly important for innovative or more complex projects/ programs that would benefit from a more in-depth market insight at early planning stages.

Management Analysis component should demonstrate that the preferred / selected option can be successfully delivered. This includes planning of project governance, change management, risk management, benefit realisation and project evaluation.

Each dimension or component is important, but the extent of each dimension in the business case will vary with the nature and complexity of each proposal. For example, less complex business cases that do not involve significant new procurement or new building construction, may only need relatively succinct sections on procurement and commercial analysis, or require a less complex management analysis.

These dimensions of analysis are explained in more detail in Chapters 4 to 7. The analyses should be developed iteratively as the Business Case progresses from Stage 0 (Problem Definition) to Stage 2 (Detailed Business Case) and the next steps through to Updates of the Business Case following project implementation.

3.2 Business case stages

A business case is a living document that should be continuously revised and updated over time based on availability and accuracy of information.

There are three main stages related to business cases, reflecting the continuously evolving nature of the business case process:

Stage 0: Problem Definition
Stage 1: Strategic Business Case
Stage 2: Detailed Business Case.

In the early stages, the main purpose of the business case is to provide confidence the investment or intervention need is adequately identified and the objectives are defined and aligned with strategic priorities. Stages 1 and 2 of the business case are used to ensure that the right option for intervention is selected and the investment will be delivered as planned. In this way, the business case document and its process evolves through its stages beyond the funding decision to implementation and post-implementation planning.

The staged approach is a recommended way to scale the investment proposal depending on its size, risk and overall complexity and to ensure that regular engagement with Treasury is considered. Additionally, agencies can manage their risks by considering whether the project will proceed at the end of each stage. This enables agencies to save the cost of preparing a Stage 1 or Stage 2 business case if it is decided that the project should not proceed.

There might be instances, however, where time and other constraints do not allow for a staged approach. In these cases, the required content of the analyses should be reflected. For example, if it is not possible to engage with Treasury at Stage 0 (Problem Definition Stage), the content of the case for change should form part of the next stage (i.e. the strategic business case).

The figure below shows the stages of the business case process including their respective purpose, key steps and outputs.

Figure 3.1: The stages of the business case

Business Case Stages	**Stage 0:** Problem Definition	**Stage 1:** Strategic Business Case	**Stage 2:** Detailed Business Case	Updates and revisions of the Business Case
Purpose	• Needs analysis and confirmation	• Option analysis	• Option selection	• Updates and revision to the business case
Approach	• Identify the need for government intervention and make case for change • Identify the problem, benefits, strategic response, costs, risks and stakeholders	• Confirm the case for change • Identify and screen options that meet the intervention objectives based on a high level analysis	• Confirm way forward • Select the preferred option based on thorough analysis • Assess commercial and management aspects for the selected option	• Updates and revision to the Detailed Business Case following funding decision or after procurement
Output	• Progress with Strategic Business Case development • If necessary, seek funding approval for the next stage based on the output of this stage	• Confirm way forward • Progress with Detailed Business Case Development • If necessary, seek funding approval for the next stage based on the output of this stage	• Preferred option confirmed	• Update elements of the Case for Change, Cost Benefit Analysis, Financial Appraisal, Financial Impact Statement, Commercial Analysis and Management Analysis

*Where regulation is a likely option, the Better Regulation Principles should apply

At the commencement of each stage of the business case, it is essential to revisit all analyses up to that point, to ensure respective assumptions and findings remain valid. Each stage of the business case process is further defined through steps or actions undertaken to define it. Further detail on the steps involved in each stage is explained in chapters 4 to 7. A flow chart of these steps is provided in Appendix 1.

4. Stage 0-Problem Definition

4.1 Purpose of the Problem Definition Stage

The Problem Definition Stage outlines the need/opportunity or the case for change, identifies the reason for government intervention and supports the decision to proceed to further stages of the business case process.

The problem definition is the primary document for a **Gate 0 review - under NSW Gateway Policy (TPP17-01).**

4.2 Relevant steps

Figure 4.2.1: Overview of steps in the Problem Definition Stage

Stage 0: Problem Definition

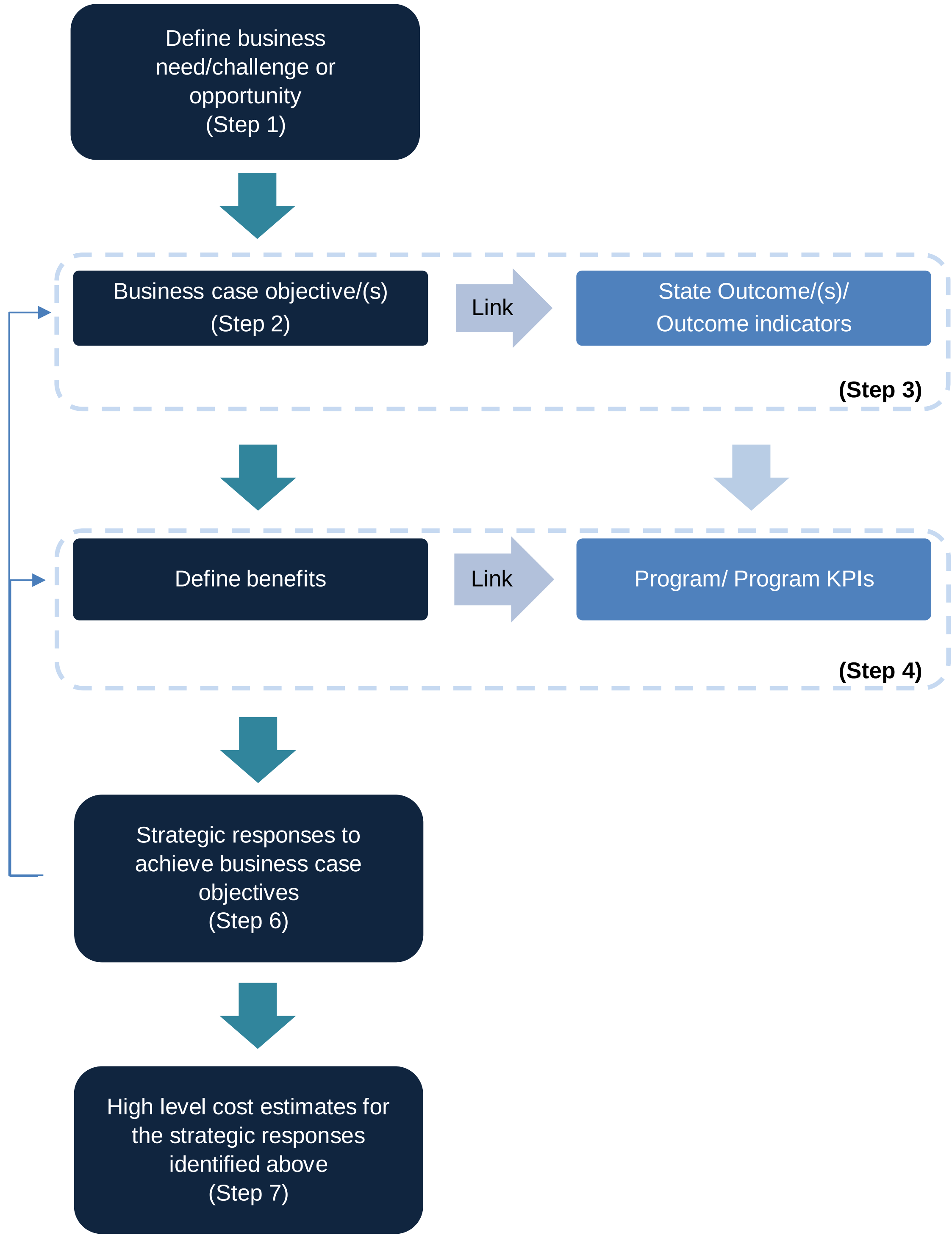
I. Case for Change

Step 1:	Define the business need/ challenge or opportunity
Step 2:	Define the objective of the intervention
Step 3:	Define the strategic context & alignment with government priorities and outcomes
Step 4:	Understand benefits and risks and how these link to Programs/Program KPIs
Step 5:	Identify relevant stakeholders
Step 6:	Identify the potential strategic responses and interventions to the problem
Step 7:	Provide high level cost estimates

An overview of the full business case process and steps is provided in Appendix 1. Business Case Templates are provided on the Treasury website and provide guidance on preparing a Problem Definition.

The **Problem Definition** usually consists of a short, high-level document based on the evidence available at that time. Engaging with key stakeholders at the Problem Definition Stage provides an opportunity to influence the early direction of the business case to avoid expending resources on proposals that are unlikely to proceed. Key stakeholders should include the users or customers of the service where possible.

Overview of Stage 0: Problem Definition



Key:

Link explained in this step

Link strategic responses to the business case objective and benefits identified

Stage 0 › Stage 1 › Stage 2

Step 1: Define the business need / challenge or opportunity – Reason for government intervention

The first step in making the case for change is to identify **why** change is needed. This involves identifying any unmet need, challenge or opportunity for necessary government intervention that cannot be addressed through existing arrangements.

Describe the problem and reason for government action

Explain succinctly the **causes and effects of the problem** (need, challenge or opportunity) from a client and community perspective. This involves identifying limitations/problems faced by individuals, communities, the environment and businesses that give rise to the need for government action.

The two main reasons for government action are:

- **improved allocation of resources** in case there is a market failure
- **promotion of equity** where the distribution of economic costs and benefits is considered inequitable.

Understand the magnitude of the problem

The business case should identify existing evidence on the key triggers of the problem and timing considerations, e.g. why it should be dealt with by the Government now rather than later. This could include succinct references to current and projected trends, demand drivers and evidence from stakeholders.

Example of a market failure that triggers government actions and policy change
Tobacco consumption

Definition: *Market failure refers to a situation where the market fails to supply a socially optimal amount of a good or service.*

Background: Smoking cigarettes is a personal consumption choice for individuals. However, there are market failures that cause a higher level of consumption than is optimal.

- Smoking imposes **negative externalities on non-smokers**: Smoke from cigarettes is harmful to individuals who are not a direct party to the transaction (in the form of passive smoking) because it can damage their health.

- **Inadequate information** about the harmful and addictive effect of smoking causes an over-consumption of cigarettes. Lack of knowledge of the harmful and addictive effects of cigarette smoke can cause individuals to smoke more than they might otherwise, damaging their health in the future.

To address these market failures, the State and Federal Governments have enacted several solutions, including:

- Taxation on cigarettes to reduce the number of people smoking and to help fund healthcare
- Labelling on cigarette packets with information on addictiveness and health issues
- Programs to support individuals who wish to quit smoking and medical products that minimise addictive properties of cigarettes.

The relevant stakeholders should be considered and engaged from the outset of the business case where appropriate and be involved with defining the business need/opportunity.

Although some stakeholder engagement should occur at Step 1, detailed considerations for planning stakeholder engagement are contained in Step 5 and Step 22.

Further information:

- NSW Government Guide to Cost-Benefit Analysis (TPP17-03)
- Department of Industry - "Market failure guide: A guide to categorising market failures for government policy development and evaluation."

Step 2: Define the objective of planned intervention

One of the most important elements of a business case is setting robust business case objectives that are outcomes focused and based on evidence. Business case objectives provide the basis for determining the success of the intervention and are a key element for the generation of options to address a need, challenge or opportunity.

The business case objectives should:

- clearly reflect the reason for change
- be outcome focused rather than focused on the potential solution, ensuring that where possible, outcomes are presented from a customer's perspective
- be well defined to ensure the identification of relevant options
- consider the risks arising from intervention.

The development of the objectives should be an iterative process which involves a reasonable degree of stakeholder engagement and evidence screening, particularly for larger/complex projects.

Objectives must be revisited, refined and reconfirmed regularly to ensure that they remain relevant and appropriate.

It is also important that where a proposed investment has multiple objectives, these are appropriately documented. A possible differentiation between primary and secondary objectives may be useful in prioritising objectives.

The level of risk identified when developing the business case objectives, identifying benefits (step 4), addressing programs (step 4) and considering strategic options (Step 6) will influence the length and depth required for the business case.

Refer to Step 4 for an example of linking business case objectives to State Outcomes and the corresponding links to benefits, programs and program KPIs.

Stage 0 | Stage 1 | Stage 2

Tools and Resources:

Setting Objectives

The following questions might be used as a guide to setting appropriate objectives:

- What are we trying to achieve? Do the objectives reflect that? What would constitute a successful achievement of the objective?
- Have similar objectives been set in other contexts that could be adapted?
- Are the objectives user or customer focused?
- Are the objectives defined to reflect benefits (e.g. improved health, crime reduction or enhanced sustainable economic growth in evidence based measurable format) rather than in terms of outputs (e.g. operations, prosecutions or job placements)?
- Can progress toward meeting the objectives be monitored and measured based on evidence?
- What targets can be set?
- What constraints may limit the realisation of the objectives?
- Are there any interdependencies with other initiatives that might have an impact on the objective of the interventions?
- What are the key risks that may impact the achievability of objectives?

Do the objectives relate to addressing:

- **Improved effectiveness** (e.g. improving the quality of services, improving access or better targeting these services to meet demand)
- **Improved efficiency** (e.g. improving the relationship between the quantity of inputs employed and the quantity, quality and timeliness of services delivered)
- **Reduced costs** (e.g. reducing the underlying costs of the inputs employed to deliver existing services)
- **Meet statutory, regulatory or organisational requirements** (e.g. complying with new or changing legislative requirements (or organisational policies))
- **Re-procurement of services or alleviation of service failure** (e.g. at the end of an existing contract or where an enabling asset is no longer fit for purpose).

Step 3: Define strategic context/ intention and explain how this business case will contribute to relevant government priorities and outcomes (qualitatively and quantitatively)

This step constitutes an initial assessment of how the proposed change and business case objectives defined in Step 2 fit with overarching macro and micro (organisational) policies, strategies and programs.

This section should demonstrate the **strategic alignment** of the proposal and business case objectives with agreed priorities and overarching strategies including:

- State Outcomes
- Premier's Priorities and State Priorities
- strategic planning documents
- State Plans
- other Government strategies, such as long-term sector based infrastructure strategies reflected in the State Infrastructure Strategy (SIS) 2018-2038
- the recurrent assurance process
- other relevant government priorities, regulatory and legislative requirements and policies
- other projects or programs planned or underway (alignment with public sector priorities and strategy).

Refer to Appendix 3 for further information on State Outcomes and outcome budgeting. Refer to Step 4 for an example of linking business case objectives to State Outcomes and the corresponding links to benefits, programs and program KPIs.

Step 4: Understand benefits and risks from the intervention (change) and how these link to Programs and contribute to Program KPIs

Benefits are the advantages gained by undertaking an intervention (e.g. investment or regulation) and are used to measure whether the business case objectives defined in Step 2 have been achieved. For example, increasing efficiency, effectiveness, quality, sustainability and/ or equity. Benefits must be real in nature, attainable, consider sustainability, derive directly through the proposed intervention and be supported by evidence.

Agencies should identify the key benefits (qualitative and quantitative) of addressing the need identified in Step 1 and meeting the business case objectives identified in Step 2. This includes considering:

- How do the benefits link to Programs and Program KPIs? (Example 1 below)
- Why these benefits are important to government and to other stakeholders?
- Whether the benefits are supported by existing evidence obtained from post evaluation of similar interventions and/or existing literature? (Refer to Appendix 5 for an example)
- What types of project KPIs are appropriate to measure the impact of interventions on these benefits?
- What are the key interdependencies that might influence benefit delivery through the interventions proposed?

Example showing completion of Step 3 and Step 4 of a business case

	Step 3			
#	**Business case objective**	**Relevant State Outcome/s**	**Relevant State Outcome indicator/s**	**Other Government priorities, regulations or policies**
1	Equity - Increase the number of children accessing early childhood education	Best start in life for young children	Increase the proportion of children enrolled in early childhood education program in the year before school	N/A
2	Effectiveness - Reduce the number of people in NSW suffering from smoking related health issues by 5 per cent by 2020 from 2018 levels.	Healthy, resilient communities.	There is no relevant Outcome Indicator for smoking. (A suitable indicator should be identified at the program level in Step 4.)	N/A

	Step 4			
#	**Business case objective**	**Business Case Benefit**	**Relevant Program**	**Relevant Program KPI**
1	Equity - Increase the number of children accessing early childhood education	Everyone can access education (equity)	Support access to early childhood education	Number of licensed early childhood education services in NSW Further equity indicators e.g. access for Aboriginal and disadvantaged children
2	Effectiveness - Reduce the number of people in NSW suffering from smoking related health issues by 5 per cent by 2020 from 2018 levels.	Reduction in number of people experiencing smoking related health issues	Preventative health	There is no relevant Program KPI in the framework. (A suitable Program KPI should be identified.)

If there is no relevant State Outcome indicator within the Outcome Budgeting framework, an appropriate indicator should be developed at the program level.

Risks that can impact the delivery of the identified benefits and how these risks may be mitigated should also be identified early in the problem definition phase. The agency's enterprise risk management specialist should be engaged from this step onwards, on all risk related activities and their impact on substantial elements of the business case.

Step 5: Identify relevant stakeholders

Early in the process you should identify the **key stakeholders** likely to be impacted by the change. They can contribute actively to the development of the investment proposal by providing their expert opinions, research and evidence. Stakeholders can be classified based on their power and interest in shaping a successful case for change. The Figure in Appendix 6 shows the approach to engagement with stakeholders based on a consideration of the two dimensions of stakeholder influence and impact at varying degrees.

Stakeholders should include appropriate representatives from the agency developing the investment proposal, other agencies impacted by the proposal, users, recipients or customers of the proposed service, and central agencies such as Treasury, Department of Premier and Cabinet and Infrastructure NSW.

Engaging early with key stakeholders can provide valuable inputs in developing the business case. However, stakeholder engagement should be planned carefully as there will often be reasons to engage certain stakeholders only later in the process. For example, to maintain confidentiality or to avoid creating expectations before the project is adequately committed to.

This step or section of the business case should:

- identify key stakeholders at the start of the proposal planning process and the likely impact of the change on each
- identify how stakeholders should be involved while developing the proposal
- include a high-level stakeholder consultation plan
- incorporate initial evidence of key stakeholder support for the proposal
- identify risks, including:
  - risks associated with involving (or not involving) certain stakeholders in the development of the proposal (i.e. considering if it is appropriate to contact external stakeholders)
  - risks to stakeholders deriving from the implementation of the proposal.

Step 6: Investigate potential strategic responses and interventions to address the problem

The potential strategic response is a high-level approach to addressing the problem/ market failure. For instance, in the examples above, strategic responses might be: fund free childcare places; and fund a health education program, respectively. Step 6 will focus on the needs of the customers and consider:

- a **range of alternative approaches (including non-capital)** to achieve the business case objectives and benefits identified in Steps 2 and 4. The approaches should:
  - take into consideration the risks of government intervention, to delivery and to stakeholders
  - include new or revised service provision, regulatory changes, considerations of subsidies and funding arrangements
  - present an opportunity for the government to be innovative and customer centric in its approach to tackling major drivers that have triggered the service need, e.g. changing the demand curve, improving productivity or addressing the supply side.
- **Evidence to support the costs and benefits** of the potential strategic response and its impact on the business case objective. Gathering the right evidence in Stage 0 is key in informing the development of the long list of options compiled in Stage 1. Contact your Cost Benefit Analysis analyst at Treasury for further information.

Stage 0 Stage 1 Stage 2

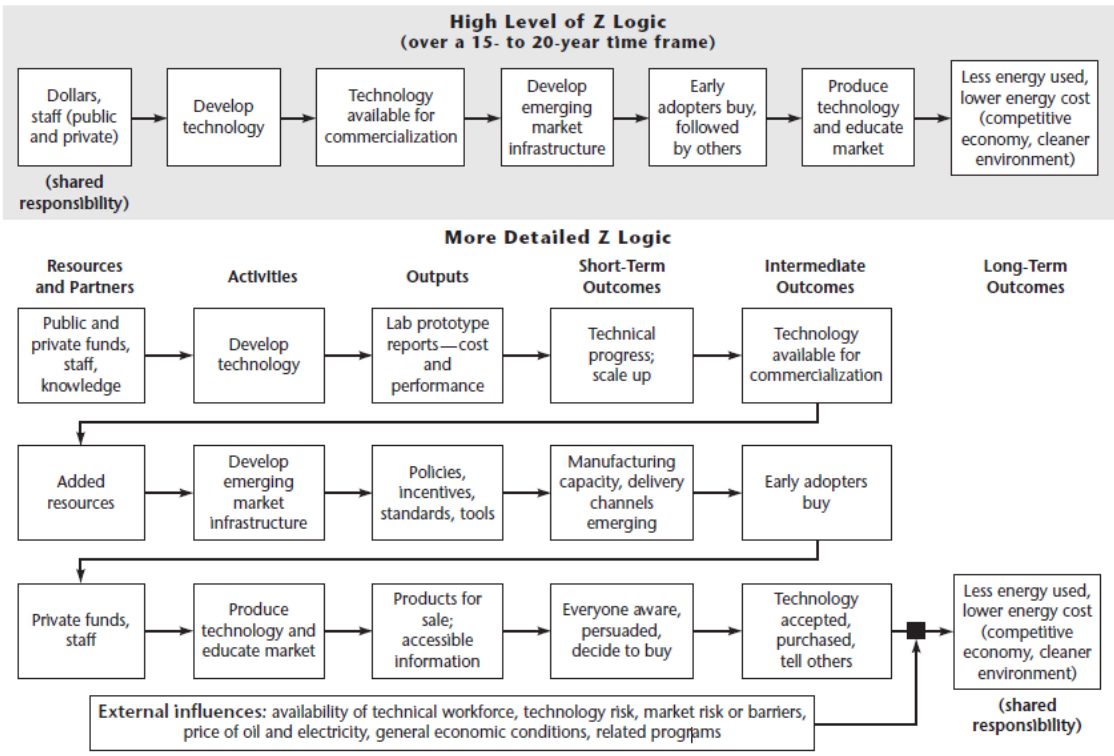
The business case should include: a program logic that articulates the causal pathway between the identified need or issue that a program is seeking to address; its intended activities and processes; their outputs; and the intended program outcomes. Refer to the example logic map following.

Tools and Resources:

- NSW Government Commissioning and Contestability Practice Guide provides a useful framework for identifying and evaluating potential strategic responses.

Example logic map:

A Z logic model for a research and technology development organisation, at two levels of detail.



Source: Wholey, J S, Hatry H P and Newcomer, K E, *Handbook of Practical Program Evaluation (3rd Edn)*, Jossey-Bass, San Francisco, CA, 2010.

Stage 0 Stage 1 Stage 2

Step 7: Provide high level cost estimates for the intervention (strategic responses) identified

This step provides a high-level costing for the strategic responses identified in Activity 6, if available. A brief description should be included, outlining the basis of the estimate, its accuracy and any key cost assumptions for each strategic response (e.g. use a range rather than a single dollar value or otherwise).

A preliminary Financial Impact Statement (FIS) should also be prepared. The purpose of the FIS is to estimate the impact of strategic responses on the State Budget and agency financial statements. Refer to Step 12 for further details on a FIS.

In Stages 1 and 2, as outlined in the sections following, costs will be further defined and estimated for specific options generated later in the process.

Next steps

Refer to your Treasury analyst and the Business Case Treasury Circular for guidance on whether to progress to the next Stage in the guidelines.

5. Stage 1 - Strategic Business Case

The strategic business case should build upon the work undertaken in the Problem Definition Stage.

5.1 Purpose of the Strategic Business Case Stage

The **Strategic Business Case** follows the Problem Definition Stage. It provides decision makers with an indication of whether there are beneficial options to address the objectives that are worthy of further investigation.

The Strategic Business Case is the primary document for a **Gate 1 review (under the NSW Gateway Policy).**

The purpose of the Strategic Business Case is to:

- reconfirm the need for government intervention and the case for change outlined in the Problem Definition Stage
- consider the value for money and feasibility of a full range of options and based on that reduce the number of options to a shortlist
- seek the approval of decision-makers to proceed with the development of a Detailed Business Case.

The evidence expected at this stage is preliminary by nature, and the level of detail and accuracy will increase over time as the proposal develops. The size and extent of the Strategic Business Case should reflect the scale, complexity and risk of the proposal.

The Strategic Business Case is the foundation for the development of a **detailed business case** and can be used to seek support for a trial or pilot proposal. Lessons learnt and evidence gathered through the trial or pilot process can then be used to develop a larger scale change proposal through a Detailed Business Case.

5.2 Relevant steps

Figure 5.2.1: Overview of steps in the Strategic Business Case Stage

Stage 1: Strategic Business Case

I. Case for Change	II. Cost Benefit Analysis	III. Financial Analysis
Step 8: Review the Case for Change	**Step 9:** Identify and assess the long list of options (option appraisal) **Step 10:** Assess and narrow down your options (conduct a CBA)	**Step 11:** Assess and narrow down your options (prepare a Financial Appraisal) **Step 12:** Assess and narrow down your options (prepare a Financial Impact Statement)

Refer to Appendix 1 for an overview of the full business case process and steps. Refer to the Business Case templates accessible on the Treasury website for guidance on preparing a Strategic Business Case.

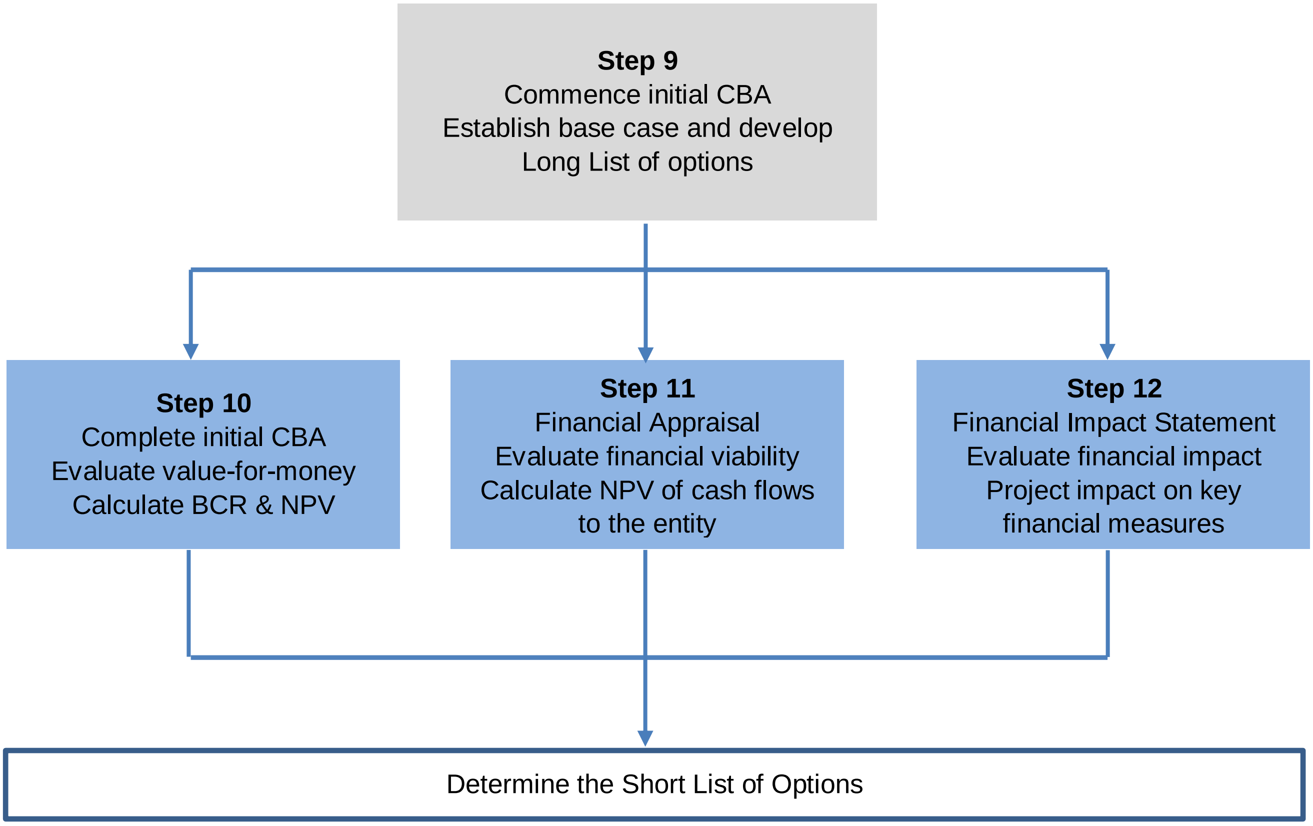
5.2.1 The Case for Change

Step 8: Review the Case for Change – Problem Definition

The purpose of this step is to review the Case for Change by validating and updating the information assembled during the Problem Definition Stage. This step should cater for any significant changes in the political, social, economic and organisational environment that might have an impact on problem definition, desired objectives, government priorities and stakeholders' landscape. Supporting evidence should be provided.

Long-List to Short-List

The next four steps each play a role in developing a Long List of options and deciding how to narrow the Long List to a Short List of options.



A Long List of options is developed in **Steps 9** using the initial steps of a Cost Benefit Analysis (CBA) including establishing the base case and developing a range of options that have the potential to meet the business case objectives.

Once the Long List of options is developed, the following three types of analysis are performed to narrow down the options to a Short List:

- **Step 10**: Cost Benefit Analysis (CBA) is completed to assess whether the benefits of a proposal are likely to exceed the costs, and which option among a range of options will result in the highest net social benefit
- **Step 11**: Financial Appraisal (FAP) is performed to assess whether the project's cash flows will generate sufficient revenue to meet its financial obligations and the direct financial impacts on the entity

- **Step 12**: Financial Impact Statement (FIS) will provide a view of how each option will impact key financial measures including the entity's budget.

A Short List of options will be selected based on the above analysis. These steps are explained in further detail below.

5.2.2 Cost Benefit Analysis

Cost-Benefit Analysis (CBA) is an appraisal and evaluation technique that estimates the economic, social and environmental costs and benefits of a project or program in monetary terms. The main purpose of a CBA at the Strategic Business Case Stage is to support a systematic options analysis. The results from the CBA will support moving from a long list of options to a short list of options (in the Strategic Business Case). The short list of options will then be assessed in more detail and accuracy at the Detailed Business Case Stage, when a preferred option is usually selected. The CBA:

- estimates costs, benefits and risks associated with each option, to validate value for money and solution viability
- is likely to be a preliminary assessment at the Strategic Business Case Stage (CBA on the Long List of options) that reflects the preliminary nature of information generally available at this stage.

The *NSW Government Guide to Cost-Benefit Analysis* (TPP17-03) provides guidance on the nine steps of CBA.

Key outputs of a CBA, that are used to evaluate options are:

Benefit/Cost Ratio (BCR): The ratio of the present value of total benefits to the present value of total costs.

Net Present Value (NPV): The difference between the present value of benefits and the present value of costs.

The following steps are recommended when undertaking a CBA as part of the strategic business case:

Step 9: Creating your options – Develop and refine the long list of options

The first two steps of CBA are to state the objectives and then define the base case and develop options. The range of options in a business case is derived by the nature and magnitude of the objectives. For a major project, a wide range of options should be considered, each of which needs to be compared to a base case. Options should be customer focused and designed around the needs of the user and/or customer. This section explains how options are created, valued, adjusted for future uncertainty (using sensitivity analysis) and how non-monetised impacts are considered. Further guidance on the development of options can be found in *NSW Government Guide to Cost –Benefit Analysis* (TPP17-03).

Stage 0 Stage 1 Stage 2

Establish the base case

A CBA compares the state of the world with the proposal against the state of the world without the proposal. Creating a list of options involves identifying the range of activities possible and available to Government to achieve the identified objectives. The list of options is compared to a base case. The base case shows the state of the world without the project, usually represented by a "business as usual" (i.e. the current policy environment including continuation of current quality and quantity of service such as planned maintenance and usage). In other cases, the base case might entail "do minimum" level of government involvement to meet requirements. In some cases, the base case may be defined as "do nothing" or "spend nothing". Examples could include, letting an existing contract lapse, or letting a regulation lapse, as most have sunset clauses.

The definition of the base case requires special attention because the costs and benefits of all other options, are compared with the base case. If no options present a greater welfare improvement than the base case, the base case might be the preferred option where the government chooses to maintain current quantity and quality of service, "do minimum", or "do nothing". Additional guidance on establishing the base case can be found in TPP17-03 *NSW Guide to Cost-benefit Analysis.*

Once the base case has been defined, a Long List of options should be developed.

Long list of options

The long list of options is a range of feasible solutions with the potential to meet the investment objectives and deliver the expected State Outcomes and benefits of the proposal (**the Long List**). These options should be diverse and include optimally capital, recurrent programs, regulatory change, different policy settings and reforms.

The following components could be considered when developing the long list of options:

- **Demand-side measures** – could existing services be rationed better using pricing or eligibility criteria?
- **Supply-side measures** – e.g. would better training or changes to operating guidelines be effective?
- **Alternative policy interventions** – what forms of government intervention would best achieve the objectives? For example, consider provision of information, regulation, tax concession or subsidy, contracting private providers, or government provision.
- **Variations in scale or scope** – could the operation be smaller, combined with other programs, provide a different quality of service, use different materials, have a different design life, entail a different method of procurement or have alternative locations (site selection)?
- **Alternative time paths –** could the operation be deferred or undertaken in discrete stages? Delaying or bringing forward a project could alter the benefits and costs to the community. Alternative time paths could have different scope and delivery risks.
- **Interdependencies** with other initiatives and **limitations** that might impact the options generated.

In developing options, consideration should be given to the potential for commissioning and contestability, public private partnerships, value sharing and innovation.

Table: Summary of aspects to consider in the option generation process

Commissioning and Contestability	Government agencies are expected to consider commissioning and contestability in the context of service delivery improvement, and provide the Cabinet and Expenditure Review Committee (ERC) with confidence that all service delivery policy and funding proposals have been developed in line with the NSW Government *Commissioning and Contestability Policy*. Options for service responses should demonstrate application of the following principles: ▪ Commissioning of services should focus on improving State Outcomes and delivering quality services, regardless of organisational boundaries and constraints ▪ Government must act in the interest of customers and the community by putting them at the centre, with greater attention to the integration of services and an improved end-user experience ▪ Productivity, quality and efficiency benefits should be shared with the customer through service improvements as well as being reinvested in Government priorities ▪ Effective commissioning will clearly define and prudently manage delivery and financial risk ▪ Agencies should consider their role as policy-maker, commissioner, regulator and provider and whether a separation of roles would be of benefit within the service design. ▪ Commissioning will encourage innovation and openness to more diverse service delivery models in the public, private and not-for-profit sectors. These models should be flexible, reflect the needs of the customer and recognise the limitations of certain markets ▪ Contestability allows government to challenge existing providers to deliver service outcomes within agreed resources.
Value Sharing	Several possible mechanisms can potentially provide funding for infrastructure, ranging from taxes and levies to various forms of beneficiary pays mechanisms (e.g. cost recovery, user charging, value sharing). When new or upgraded infrastructure is built, many of the benefits generated by that infrastructure are effectively monetised through increases in local land values in or around the areas affected by the infrastructure, reflecting the market's 'willingness to pay' for those benefits. Value-sharing is a funding mechanism that attempts to quantify and use part of the economic uplift created by new or upgraded infrastructure to help fund that infrastructure. Value sharing differs from cost recovery and user charging because in the latter two mechanisms, the payment by any one beneficiary is based on recovery of the costs of providing the infrastructure, which at the margin aligns to the private benefit enjoyed by that beneficiary. However, with value capture the payment by beneficiaries is not based on the cost of delivering the infrastructure but on benefits derived from the infrastructure.

Stage 0 Stage 1 Stage 2

Innovation and Digital	NSW *Innovation Policy* and *NSW Digital Government Strategy* applies to all agencies. The business case process can assist agencies to develop new ways of working by supporting trials or pilot proposals. Smaller proposals can be a way to establish an evidence base that a new way of working is effective before larger scale changes are made. Business cases should also leverage digital technology to deliver smart, simple and seamless services and more effective regulation. (see *NSW Innovation Policy and NSW Digital Government Strategy)*
Potential Public Private Partnership (PPP) projects	Public infrastructure projects with a total estimated capital value exceeding $100 million, must be assessed for possible PPP procurement to ensure value for money (see NSW *Public Private Partnerships Guidelines)*. Contact NSW Treasury as early as possible in the business case development process to discuss the necessary requirements.

Appendix 7 includes further tools that might support the generation options.

In some cases, particularly in large, complex and risky proposals, option identification and appraisal will be an iterative process as more information comes to light or as agency and government priorities change.

Further information:

- NSW Government Guide to Cost-Benefit Analysis (TPP17-03)
- NSW Public Private Partnerships Guidelines (2017- Preparation, Procurement and Contract Management) (TPP17-07)
- NSW Government Commissioning and Contestability Policy (TPP16-05)
- Appendix 7: Option generation tools.

Stage 0 Stage 1 Stage 2

Step 10: Assessing and narrowing down your options (conduct a CBA for Stage 1)

When the Long List of options has been generated, a further assessment is undertaken to determine how well the options meet the investment objectives and provide value for money. The remaining steps of CBA (refer to TPP17-03) outline the process for conducting this assessment.

CBA is used to assess the options that could meet the identified objectives and identify the best solutions for the community (short list of options). CBA captures all benefits and costs (including those that may not be reflected in market transactions). CBA also indicates **which groups (in society) bear costs or receive benefits** (distributional considerations). This type of analysis enhances the understanding of the fairness of a specific option compared to other solutions, their social impact and scale.

Refining or narrowing the number of options to a **Short-List** has practical advantages in terms of reducing complexity. However, there is also a risk of excluding the optimal solution prior to completing the full analysis. Therefore, it is recommended adequate documentation is retained in the business case (e.g. as an appendix) to justify why specific options have been excluded.

Example: Identifying who gains and who loses as part of the CBA

Consider the example above on meeting an energy saving target for NSW. A list of those who might be impacted by the intervention could include:

- **Households** – Lower energy bills (in the home, during a commute) from more efficient appliances
- **Businesses** – Energy intensive Industries become more competitive by lowering their energy costs, but may have to invest in new technologies
- **Government** – Reduced service delivery costs
- **Broader community** – Health benefits through goods and services that burn less fossil fuels and emit less air pollution
- **The Environment** – Reduced emissions from power generation that impact air, soil and water quality.

Some of these impacts might be easier to quantify than others e.g. health benefits through less air pollution. It is important to consider all types of impacts as part of the CBA Report.

Overall, a CBA reports whether the benefits of a proposal are likely to exceed the costs, and which option among a range of options will result in the highest net social benefit.

Types of CBA include:

Stage 1 CBA applied to a Long List of options (Strategic Business Case) which includes the same steps and principles as the full CBA but may be conducted using preliminary information on costs, benefits and risks.

Stage 2 CBA applied to a Short List of options (Detailed Business Case) which assesses in detail the economic, social and environmental costs and benefits of the short list of options identified in the Strategic Business Case.

Refer to Appendix 8 for an overview of the difference between a Stage 1 and Stage 2 CBA.

In any type of CBA, the key milestones include:

a. Identifying, forecasting and valuing benefits and costs over an adequate evaluation period → b. Identifying qualitative costs and benefits and distributional impacts → c. Assessing risks and testing sensitivities → d. Assessing net benefits and reporting the results of the analysis

For further guidance on the CBA process and implementing CBA techniques for inclusion in a business case, agencies should refer to *NSW Government Guide to Cost – Benefit Analysis* (TPP17-03). The steps below are a summary of a CBA.

a) Identifying, forecasting and valuing benefits and costs over an appropriate evaluation period

An estimate of costs and benefits for each option identified should include:

- **Direct costs and benefits** imposed on government from planned expenditure
- **Positive and negative externalities** to third parties not directly involved in consumption or production
- **Costs and benefits realised in related markets** (i.e. complement or substitute markets).

Evaluation period:
Benefits and costs should cover the whole life of the project or program and a period over which the costs and associated benefits can be measured including **capital expenditure** (e.g. roads and bridges), **recurrent expenditure** (e.g. running schools or hospitals), **externalities** (e.g. pollution, knowledge spill overs), and **regulation (**e.g. environmental and sanitary regulation).

b) Identifying qualitative factors and distributional impacts

Qualitative costs and benefits:
While quantifiable costs and benefits are the key components of a CBA, qualitative costs and benefits should also be included. There are cases where a quantification may not be practical or even possible. A list of qualitative factors is part of a CBA and informs decision makers regarding e.g. the direction of impact and likely significance of a specific option. This list should include consideration of risks of natural hazards and human-related threats and whether options are resilient against these threats. These factors should be presented without subjective weighting.

Distributional impacts:
Proposals will often have different impacts for different sections of the community. This should include a summary of the distributional impacts and potential transfers between different groups. The success of some reforms can depend on having a robust understanding of the distributional gains and losses and adequate strategies to address these.

c) Assessing risks and testing sensitivities

The purpose of sensitivity testing is to assess the robustness of the proposal to movements (up/down or positive/negative) in the variables that determine its viability, such as demand or population growth forecasts or costings. **Sensitivity testing should be informed by the key risks identified and how uncertainties about the costs and benefits may affect the NPV and BCR**. This should include identifying key dependencies between different elements of an initiative to help construct realistic upside and downside scenarios.

d) Assessing net benefits and reporting the results of the analysis

The aim of the CBA is to summarise the full impacts of a range of project or policy options. To achieve this, costs and benefits for all segments of NSW (i.e. consumers, businesses, government) are aggregated into an overall measure of net social benefit.

To allow for costs and benefits occurring at different times, CBA uses the concept of present value – where future costs and benefits are discounted to reflect their value in the present. Discounting reflects the view that a dollar received in the future is worth less than a dollar today. Present values allow for decisions to be made in the present about initiatives that have costs and benefits in the future.

At a minimum, the following measures should be calculated for each option in the CBA:

- **Net Present Value (NPV)** – The difference between the present value of benefits and the present value of costs.
- **Benefit Cost Ratio (BCR)** – The ratio of the present value of total benefits to the present value of total costs.

The central value of these two measures, as well as their ranges based on key sensitivities, should be reported as part of a clear and concise summary of **the base case, options assessed and the main results of the sensitivity tests**. The summary should focus on major differences between the options.

All **critical assumptions** should be made explicit and be supported by evidence. This includes transparency of the key drivers, inputs, risks and assumptions used in constructing the base case and the options considered. Examples of key assumptions include demand growth and its components (e.g. population growth, any changes in usage of the service).

Results: A NPV > 0 and a BCR > 1 implies that a proposal could be viable, but this is not a sufficient condition to accept a proposal. The results attained from the CBA should be benchmarked against other similar projects in the past and other options. Furthermore, there could be a risk that the project does not provide a net benefit to the people of NSW, particularly if the BCR is closer to 1. The BCR is based on the best estimate of what is thought to be the effect of project, but there will be risks associated with the estimates. The benefit eventually attained may be less than forecasted. Therefore, sensitivity testing is important. It provides a more robust appraisal of a proposal, taking into consideration the possibility of a worst-case scenario.

Stage 1 CBA applied to a Long List of options

CBA is used to assess the full set of options and narrow it down to a short-list that will undergo further assessment in the detailed business case. **Stage 1 CBA (as part of the strategic business case):**

- Is one of the tools to shortlist the identified options in a systematic, evidence based and streamlined fashion by progressing the options with the highest BCR and NPV for further analysis in the Detailed Business Case. Where the options rank differently between the BCR and NPV, the BCR is the preferred approach where a budget constraint exists. However, where a budget constraint exists but some proposals are complementary, e.g. where benefits and costs of one proposal depend on whether another proposal is implemented, further analysis may be needed to rank proposals.
- Adopts the same principles as the Stage 2 CBA, but is based on the preliminary evidence available at Stage 1 of the business case. For example, this could include tools that use standard parameters for estimating benefits and costs. The risks associated with using standard parameters, rather than project specific parameters, should be stated and tested.

Example: CBA on the Long List of options undertaken in Stage 1 - Strategic Business Case

Stated objective: Improve health outcomes through meeting a service delivery need for renal dialysis health services in a Local Health District (LHD).

Base case: No change to health services in NSW – business as usual. Current service delivery continues.

Available information:

- Modelling based on demographic projections has been used to generate an early estimate of potential health service needs (i.e. health service demand) in a LHD
- Costings have been estimated based on early planning of a variety of health infrastructure options, as well as for non-infrastructure options such as preventative health programs and potential regulatory solutions
- Clinical information is available for the effect that different options can have on health outcomes and the value of health outcomes.

Benefits: The modelling of health service needs are available (based on demographic projections) and can be combined with clinical information on health outcomes and values to estimate health benefits. This initial modelling will be refined in the Stage 2 CBA as the scope and definition of different options becomes clearer and as demographic projections are refined.

Costs: Costs have been estimated based on infrastructure costs for capital options and costings based on the early design of different preventative health programs and regulatory options. These costs will be refined in the Stage 2 CBA when detailed costings have been estimated using further information such as detailed site plans, program operation models, regulatory impact assessments and so on.

The table below illustrates how the options are compared to the base case and incremental results are presented.

	Present value of benefits	**Present value of costs**	**NPV**	**BCR**
Base case: No change	$0	$0	0	0
Option 1: New renal dialysis hospital wing	$90 million	-$60 million	$30 million	1.5
Option 2: Regulatory option	$15 million	-$30 million	- $15 million	0.5
…	…	…	…	…
Option 20: Preventative health program	$40 million	-$20 million	$20 million	2.0

Results: If there is agreement to proceed to Stage 2, the Long List of options can be reduced to a few viable projects that will be analysed in greater detail in a full CBA (next Stage: Detailed Business Case). In this example, the results suggest that Option 1 and Option 20 are worthy of further consideration in the Stage 2 CBA since both have positive NPVs and BCRs greater than 1. Since Option 2 has a negative NPV and BCR less than 1, it should not be considered in the Stage 2 CBA. The Stage 2 CBA will go on to assess viable options in a greater level of detail to help inform the preferred option(s) necessary to achieve the objective based on the NPV and BCR of options assessed.

Further information

- NSW Government Guide to Cost Benefit Analysis (TPP 17-03).

Stage 0 Stage 1 Stage 2

5.2.3 Financial Analysis

Financial analysis looks at the impact of a proposed project on the finances of the government entity undertaking the project or policy. In Stage 1, this involves preparation of two high-level assessments:

- financial appraisal (FAP)
- financial impact statement (FIS).

The high-level approach in Stage 1 relies on existing or standard parameters for quantifying inputs so that a long list of options can be assessed in a timely manner. Both should be completed in more detail in Stage 2.

At both Stages the scope and effort involved in a financial appraisal should be commensurate with the size and risk of the proposed project. Although applications of financial formulae are generally part of an appraisal, qualitative considerations and sound business judgement are also integral.

Step 11: Assessing and narrowing down your options (prepare a Financial Appraisal)

Financial Appraisal

The financial appraisal (FAP) is an important aspect of the business case and is necessary to provide decision makers with sufficient evidence to make informed decisions and to understand the financial and Budget impacts on the entity.

The FAP is a method of evaluating the financial viability of the proposed project. It uses the Net Present Value (NPV) of a project's cash flows to assess the extent to which the project will generate revenues to meet its financial obligations. All revenues and expenditures incurred must be considered.

In summary, a FAP considers:

- project cash flows
- sensitivity of all financial projections to key project risks
- the estimated cost of investment
- financial impacts of alternative projects.

Its purpose is to assist decision makers to assess options that will best deliver the objectives given whole-of-State budget considerations and the overall fiscal context.
FAPs are required for:

- capital projects proposed by government businesses
- all projects proposed by General Government agencies that involve a financing decision (including outsourcing and public/private partnerships)
- other types of projects as requested by NSW Treasury.

FAPs should be reviewed by senior management and, in the case of government businesses, by the Board.

A FAP is generally undertaken by government entities involved in a commercial project proposal. These commercial proposals may involve asset construction, purchase, lease or sale and may be financed in a wide variety of means through grants, borrowings, revenues, supplier finance or a combination of these mechanisms.

FAPs, however, are useful for all types of projects including government proposals that do not generate significant revenue streams, to understand the direct financial impacts on the entity. This form of analysis provides a different perspective than CBA as explained below and in Appendix 2.

The key steps in preparing a financial appraisal are:

a. Identify and measure cash flows → b.Discount cash flows → c. Calculate net present value (NPV) → d. Sensitivity analysis → e.Independent review

a. Identifying and measuring the cash flows

Project incremental costs, revenues, risks and best alternatives should be identified and initially measured as nominal cash flows in the period they occur. Typical cash flows and more information are summarised in Appendix 2.

Cash flows should be estimated on a before and after-tax basis over a project's economic life. However, financial impacts should be excluded if they would have occurred regardless of whether the project was implemented. Additional information on financial impacts that should be excluded from a FAP is provided at Appendix 2.

For assets that have an economic life beyond the term of the financial analysis, the appraisal term can be restricted to 20 years. An estimate of the asset's residual value at the end of year 20 should be included in the appraisal to represent the asset's remaining service potential. However, it is not mandatory for FAPs to be limited to 20 years.

The approach used to estimate residual (or terminal) asset values should be clearly specified. Special care needs to be taken to ensure this calculation accurately values assets at the end of the appraisal term.

Periodic cash flows should be estimated using increments no longer than one year. However, the periods chosen should be of the most practical relevance to the analysis (such as six-monthly, quarterly or monthly). Shorter periods might be adopted where the overall project life is relatively short.

All assumptions made and sources of data for cash flows should be provided and as far as possible, be based on empirical data.

b. Discounting cash flows

Net cash flows should be discounted at a discount rate reflective of the risk inherent in a project. For projects that involve cash flows subject to market risks (e.g. user charges, commodity prices, demand risks and changes in technology) these cash flows should be discounted at a rate reflective of the risks inherent in the project (e.g. an appropriate post-tax WACC). For some government projects which do not involve cash flows exposed to economic or market risks, this will generally be at or close to the risk-free rate.

Constructing the correct discount rate for specific projects can be complex and may require external advice. Agencies should contact NSW Treasury for advice as soon as possible in a project lifecycle where they anticipate such advice may be necessary.

This calculation of discounted cash flows enables the assessment and comparison of after tax cash flows.

The project cash flows should be discounted to the present day – that is, to the time the investment decision is being made - regardless of the actual starting date for the project. Calculations must recognise that capital expenditure costs are not necessarily incurred at the commencement of a project and are usually incurred over a period.

The discount rate can be thought of as a hurdle rate when applied to project assessments. It describes the expected financial market return that investors would require to supply capital for investment in a similar asset.

For more information see Appendix 2.

c. Calculating the net present value

The Net Present Value (NPV) of a proposed project's net cash flows is an important measure of the financial assessment of a project. It is calculated by subtracting a project's cash outflows from its cash inflows for each relevant period (typically a year or a quarter) to arrive at a net cash flow for the period. Individual net cash flows for each period are then discounted to the present day and summed to arrive at the overall NPV. More information is provided in Appendix 2.

A project is potentially viable if total discounted revenues are greater than the discounted costs, which means that the NPV is greater than zero. A negative NPV implies that State capital contributions will likely be required (to achieve a zero NPV). Where multiple projects are being compared, and they are mutually exclusive, the project yielding the highest (positive) NPV indicates a preferred financial outcome.

If an entity has more proposed projects with positive NPVs than it can fund, then a separate ranking exercise of these projects is required. This may involve both qualitative and quantitative measures as deemed appropriate by the agency in consultation with Treasury. A common method is a profitability index which is calculated by dividing the NPV of post-initial cash flows by the initial investment amount.

d. Sensitivity analysis

FAPs are based on a range of assumptions about a proposed project. The critical assumptions adopted for a FAP that are subject to uncertainty should be altered one at a time to test the sensitivity of financial projections. This allows changes in key variables to be examined as well as alternative views of the future. Sensitivity analysis allows best and worst-case scenarios to be specified. Break even points for critical assumptions – situations where the NPV of a proposed project becomes negative – can also be determined.

Risk categories which might be considered include:

- market risk
- completion risk (on time, on budget)
- operating risk
- financial risk
- environmental risk
- private sector partner risk (contractual obligations)
- political risks.

e. Independent review

A FAP should be subjected to a structured internal, but independent, review. The reviewer should be satisfied with:

- project objectives, outputs, outcomes, benefits and scope
- range and feasibility of options considered
- completeness of the list of costs and their valuation
- adequacy of the sensitivity analysis and the impact on NPV
- risks faced by the project as well as the implications of such risks
- forecast project impacts and timing
- rate at which post tax cash flows have been discounted, and
- identification of the parties responsible for project implementation and for monitoring project execution and results.

Depending on the depth of in-house expertise and resources, it might be appropriate in some instances to engage the services of expert external advisers to conduct a review.

FAP vs CBA

As discussed above, the role of the FAP is to evaluate the impact on the finances of the government entity undertaking the project. Whereas the role of the CBA is to evaluate the value for money more broadly, in addressing the investment objectives.

The building blocks of a CBA and a FAP have some common elements. For example, both the CBA and FAP rely on quantification of future streams of costs and benefits that are discounted to obtain NPVs.

However, a CBA and FAP differ in their scope, the bases for valuation of costs and benefits, and the discount rate used. A FAP calculates the net financial value (positive or negative) from a policy change or project by analysing the direct cash flows for government. Whereas, a CBA monetises the total economic impact across all stakeholders. Methodological and practical differences between a FAP and a CBA are outlined in Table 2, Appendix 2

Further information:

NSW Public Private Partnerships Guidelines (TPP17-07), (2017 - Preparation, Procurement and Contract Management)

Refer to the Strategic Business Case Template for an example of a financial appraisal.

Step 12: Assessing and narrowing down your options (prepare a Financial Impact Statement to define the impact of the proposal on costs and savings)

A Financial Impact Statement (FIS) should be prepared and submitted for all longlisted options requiring budget funding as part of the Strategic Business Case.

The **purpose** of the Financial Impact Statement is to provide a view of how each option will impact key financial measures in the future on both the entity's budget and the Whole of Government (WoG) budget. The FIS should include estimates of:

- expenditure required to meet the projected level of demand, while optimising efficiency
- revenue (if applicable) based on the approved forward budget
- capital expenditure
- funding sources, including appropriations
- impact on key financial metrics, including:

- net cost of service
- total financial impact
- labour expense cap and staffing
- Budget result
- net lending.

The FIS should also address projected budget growth, efficiency gains, revenue from compensable activity and other sources of income, and/or internal redistributions.

The Business Case Templates provide an example of a FIS which should be adapted to reflect the full life of the project.

The main differences between a FAP and a FIS are outlined in Table 3 of Appendix 2. However, put simply, the FAP evaluates the financial viability of an option by measuring the NPV of future cash flows. Whereas the FIS projects the impact of the option on the entity's and Government's key financial measures, including balance sheet and operating statement, on an accruals basis.

Where applicable, agencies must consult with other agencies to determine any sector wide financial impacts. For joint agency proposals, each agency should complete a separate Financial Impact Statement. The lead agency should then aggregate the financial impacts of all relevant agencies and adjust for any overall financial impacts at the whole-of-government level.

If a financial impact statement is not prepared in Stage 1, the justification for this should be detailed.

Further information:

- Refer to the Strategic Business Case Template for an example of a financial impact statement.

Rationale for the short list of options:

Following the Stage 1 cost benefit analysis (CBA) and financial analysis (FA), a short list of options should be selected based on indicators such as BCR and NPV from the CBA and NPV and Profitability Index from the FA. The shortlist of options should always include the base case.

Other factors for consideration when shortlisting proposed projects might include:

- achievability
- supplier capacity and capability
- reputational risks
- environmental impacts
- qualitative factors, including their importance and the reasons they could not be quantified
- how the options meet the objectives of the business case and contribute to State Outcomes.

Consideration should also be given to compiling an appendix outlining critical gaps and the steps that will be taken to address those gaps in Stage 2.

When assessing and shortlisting options, a negative net present value (NPV) does not necessarily mean an investment should not progress. For example, it might be appropriate for NSW government to invest in overcoming market failure, provide a social good or commission services without a revenue source being produced. In this situation, it is possible for a FAP to produce a negative NPV, while the CBA results show an economic benefit outweighing the cost (Benefit Cost Ratio in step 10).

Next steps

Refer to your Treasury analyst and the Business Case Treasury Circular for guidance on whether to progress to the next Stage in the guidelines.

Stage 0 Stage 1 Stage 2

6. Stage 2-Detailed Business Case

6.1 Purpose of the Detailed Business Case Stage

The Detailed Business Case builds on the analysis of options undertaken as part of the *Strategic Business Case* and provides a more comprehensive analysis of the proposal. This stage includes a selection of the preferred option, which can be delivered while maximising social welfare and value for money, as well as affordability. In addition, the Detailed Business Case sets up the commercial and management arrangements for the successful procurement and delivery of the project.

A Detailed Business Case is commonly used for funding submissions to ERC as part of the Budget Process, and is the primary document for a **Gate 2 review under the NSW Gateway Policy.** Refer to the Business Case Treasury Circular for guidance on when a detailed business case must be prepared.

The Detailed Business Case should:

- Revisit and confirm the case for change developed as part of the Problem Definition and Strategic Business Case
- Identify the preferred option, which maximises social welfare and optimises value for money, by undertaking a more detailed, evidence based analysis of the costs, benefits and risks of the options shortlisted in the strategic business case
- Identify potential sources of funding and undertake a financial appraisal for the shortlisted options
- Plan the necessary steps for the successful procurement and delivery of the project.

As with the Problem Definition and the Strategic Business Case, the extent of the Detailed Business Case should be informed by the size, scope, risk and complexity of the investment proposal.

6.2 Relevant steps

The Detailed Business Case should contain all dimensions of analysis involved in developing a business case including case for change, economic, financial, commercial, and management analyses.

Figure 6.2.1 below outlines the recommended steps when undertaking the Detailed Business Case.

Figure 6.2.1: Overview of steps in the Detailed Business Case Stage

Stage 2: Detailed Business Case

6.2.1 Case for Change
- Step 13: Revisit the Strategic Business Case and confirm the case for change

6.2.2 Cost Benefit Analysis
- Step 14: Revisit the Strategic Business Case CBA to confirm the short list of options
- Step 15: Select preferred option – Conduct Stage 2 / Full CBA on short list of options

6.2.3 Financial Analysis
- Step 16: Revisit the Strategic Business Case FAP and FIS to confirm the short list of options
- Step 17: Select the preferred option – Conduct Stage 2/ Full Financial Appraisal on short list of options
- Step 18: Prepare a Financial Impact Statement on Short List of options to define the impact of the proposal on costs and savings

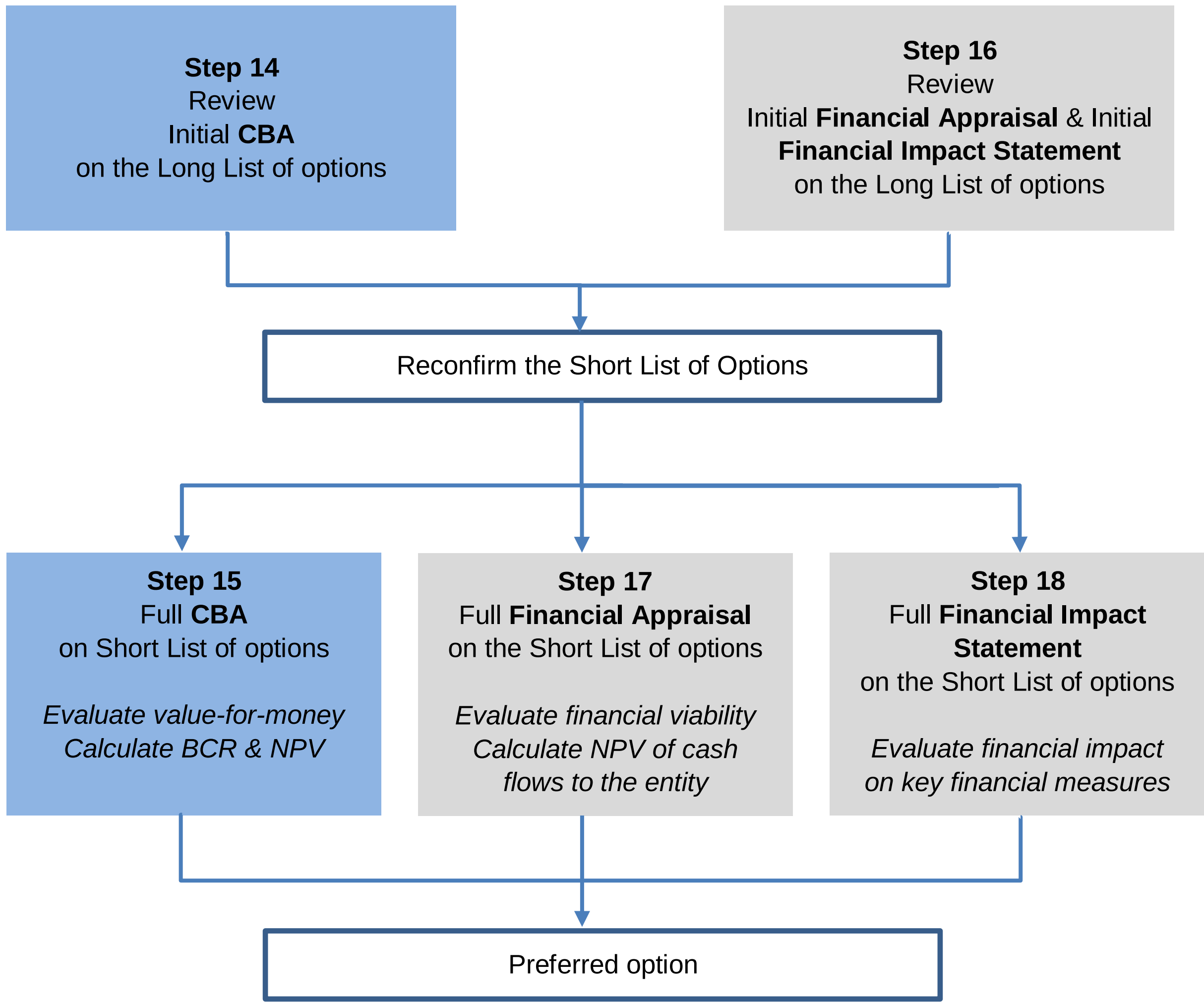
Preferred option defined

6.2.4 Commercial Analysis
- Step 19: Develop a procurement strategy
- Step 20: Specify technical requirements
- Step 21: Identify contractual issues

6.2.5 Management Analysis
- Step 22: Establish governance arrangement
- Step 23: Establish a project management strategy, framework and plan
- Step 24: Establish a change management strategy and plan
- Step 25: Develop a benefits plan and register
- Step 26: Establish a risk management strategy, framework and plan
- Step 27: Establish a post implementation evaluation plan

Refer to Appendix 1 for an overview of the full business case process and steps. Refer to the Business Case Templates accessible on the Treasury website for guidance on preparing a Detailed Business Case.

Short List to Preferred Option



6.2.1 The Case for Change

Step 13: Revisit the Strategic Business Case and confirm the case for change

The purpose of this step is to confirm and update the case for change outlined in the Strategic Business Case (Stage 1). This is mainly to reflect changes in the internal and external landscape since the initial determination of the objectives. Changes may impact the following business case elements:

- need identification
- objective of the intervention
- strategic context and intention
- expected benefits, costs or risks
- relevant governance arrangements/ list of stakeholders.

The rationale for any significant changes or revisions should be clearly documented including the reasons why the conclusions of previous stages remain valid.

6.2.2 Cost Benefit Analysis

Step 14: Revisit the Strategic Business Case CBA to confirm the short list of options

The purpose of this step is to confirm or update elements of the Strategic Business Case including the option appraisal (Stage 1 CBA). Since the Strategic Business Case Stage, new information affecting the option appraisal (CBA in the Strategic Business Case) may have become available and it is important to ensure this is adequately reflected in the Detailed Business Case.

Changes might include:

- Further information becoming available including (but not limited to) costings, demographic drivers and valuation of benefits
- The expected benefits included in the Strategic Business Case, might be lower or higher due to more detailed scoping or additional evidence becoming available
- The expected costs included in the Strategic Business Case, might be lower or higher because of more accurate cost information becoming available or more refined project scoping
- The risk profile of specific options might have changed and as a result, initially unviable options might need to be further assessed
- Other key assumptions may have changed, resulting in options that were initially not shortlisted, now requiring consideration.

The rationale for any significant changes or revisions should be clearly documented. This should include why the conclusions of previous stages remain valid and consider whether any options previously eliminated from the Long List should be revisited based on the new, more accurate information.

Stage 0 Stage 1 Stage 2

Step 15: Select preferred option – Conduct Stage 2 / Full CBA on short list of options

The objective of the Stage 2 or full CBA is to determine which of the options(s) shortlisted in Stage 1 and reconfirmed in Step 14 are likely to maximise social welfare and provide **the best value for money (the optimal mix of benefits, costs and risks).**

The milestones in performing a CBA are outlined in Stage 1 of the Business Case (Step 10) and are also valid for Stage 2 CBA. In a similar way, the costs and benefits of the short-listed options are compared to the costs and benefits of the base case.

However, the Stage 2 CBA is a more detailed analysis of the Short List of options based on new and more accurate information than used in Step 14.

The additional detail may include:

- More accurate cost estimates, including more definitive project specifications, more detailed project scoping and current market costs
- More accurate benefit estimates, including market or service demand studies, valuation studies, stakeholder consultation plans and more details design specifications.

These more detailed and accurate cost and benefit estimates should then be utilised when performing a full CBA on the Short List of options. The full CBA will indicate the option with the highest expected net present value and the highest benefit cost ratio (BCR). The rationale for recommending the preferred option must be clear in terms of the evidence, assumptions used and calculations leading up to the option selection.

Refer also to Appendix 8 which outlines some aspects that are more developed in a Stage 2 CBA compared to a Stage 1 CBA.

6.2.3 Financial Analysis

Along with the full CBA, the financial analysis is also used to evaluate the Short List of options and comprises:

- Full Financial Appraisal (FAP) that evaluates financial viability by calculating the net present value of estimated cash flows using a weighted average cost of capital, and
- Full Financial Impact Statement (FIS) that projects the impact of the options on key financial measures, such as the agency and State budgets.

Step 16: Revisit the Strategic Business Case FAP and FIS to confirm the short list of options

The purpose of Step 16 is to review, and update as necessary, the Financial Appraisal (FAP) and Financial Impact Statement (FIS) prepared at the Strategic Business Case Stage. Following the Strategic Business Case Stage, new information affecting the option appraisal (FAP in the Strategic Business Case) may have become available.

The Short List of options may be impacted by the following changes:

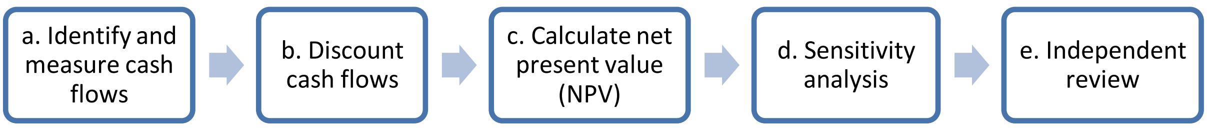
- additional or new information is available e.g. costings, demographic drivers, etc
- the expected revenue or cost streams, might be lower or higher due to more accurate or additional evidence
- the risk profile of specific options might have changed and, as a result, initially unviable options might need to be further assessed
- other key assumptions may have changed and this might mean options which were initially not shortlisted might require further consideration.

The rationale for any significant changes or revisions should be clearly documented. This should include why the conclusions of previous stages remain valid and consider whether any options previously eliminated from the Long List should be revisited based on the new, more accurate information.

Step 17: Select the preferred option – Conduct Stage 2/ Full Financial Appraisal on short list of options

An initial FAP was conducted in Stage 1 of the business case (Step 11). Like the CBA, the key milestones of a FAP outlined in Stage 1 apply also in Stage 2. However, a Stage 2 FAP is a more detailed analysis of the Short List of options, using updated and more detailed and accurate evidence and assumptions on financial costs and benefits. These updated assumptions were identified in Step 16 and should be analysed in more detail compared to the parameters that may have been used in the initial FAP. The more accurate financial costs and benefits should then be applied to the Short List of options to indicate the option with the highest NPV and Profitability index.

The steps involved in preparing a **FAP** were outlined in Stage 1. The key milestones of a Stage 2 FAP likewise involve:



Please refer to Stage 1 (Step 11) for more detailed information on each milestone involved in conducting an FAP and conducting more detailed analysis of each milestone for the full FAP.

Generally, the option with the highest NPV and Profitability index will be the option that is selected. However, agencies should consider the results from the CBA analysis in Step 15, that assesses the net increase in social welfare, whereas the FAP reflects the net cost to the Budget.

Further information:

- NSW Public Private Partnerships Guidelines (TPP17-07), 2017- Preparation, Procurement and Contract Management.
- Refer to the Detailed Business Case Template for an example of a financial appraisal.

Step 18: Prepare a Financial Impact Statement on Short List of options to define the impact of the proposal on costs and savings

An initial Financial Impact Statement (FIS) was conducted in Stage 1 of the business case (tep 12). A Stage 2 FIS should be prepared and submitted for all shortlisted options requiring budget funding as part of the Detailed Business Case. This may include updates on the Short List of options using updated evidence and assumptions. Refer to the Detailed Business Case Template for an example of a financial impact statement.

Selecting the preferred option:

Following the Stage 2 CBA, FAP and FIS a **preferred option** should be selected from the shortlist of options based on indicators such as BCR and NPV from the CBA and NPV and Profitability Index from the FAP. It should be noted that there are other factors which deserve consideration when selecting the preferred option. These might include early considerations on achievability, supplier capacity and capability and reputational and environmental risks and impacts.

In addition, as highlighted in the CBA, careful considerations need to be given to all significant qualitative aspects identified. Documentation of qualitative aspects and their importance, including the reasons why they could not be quantified, should be included in the detailed business case.

6.2.4 Commercial Analysis

The **purpose** of the Commercial Analysis is to develop a procurement approach that meets governance standards and maximises project benefits. Steps involved in this stage, including assessment of procurement options and specification of contractual terms, increase the confidence around cost and benefit estimates as well as the ability to deliver the project.

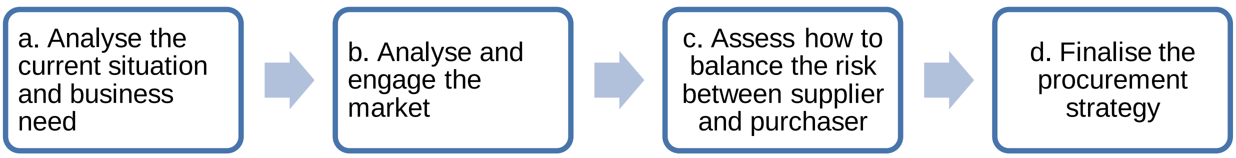
The Commercial Analysis involves following milestones:

- developing a procurement strategy (Step 19)
- specifying the technical requirements (Step 20)
- identifying any potential contractual issues (Step 21).

Step 19: Develop a procurement strategy

A procurement strategy entails an appropriate procurement process and plan that is proportionate to the nature, size, complexity, value and risk of the service or product being procured.

The Detailed Business Case should address the following key steps in procurement planning:



Each of these key steps in procurement planning is discussed below:

a. Analyse the current situation and business need

- Determine if a new procurement arrangement is necessary, including the risks and costs of a new arrangement versus current arrangements (commonly addressed in the CBA)
- Assess whether the procurement capabilities are adequate
- Identify key stakeholders (internal and external) and develop an engagement strategy
- Determine whether the project should be procured as a whole or as separate parts.

b. Analyse and engage the market

The objective of this step is to develop a clear profile of the supply market, its capabilities and key drivers. Potential activities can include:

- Research innovative solutions in the supply market that meet the program objectives and deliver value for money
- Analyse the balance of power between the agency/Government and suppliers to assess the Agency's buying position versus the supplier. This helps to identify areas where Government can leverage its position to improve procurement outcomes.
- Early industry engagement with potential suppliers, including small and medium enterprises. Consulting suppliers before the project is committed, allows for a better understanding of suppliers' capability, resulting in more accurate estimated costs which contributes to potentially reduced transactional costs.

When engaging with potential suppliers, it is important to respect their commercial confidence and intellectual property rights. Additionally, communication should be clear on whether a commitment to proceed is provided at this stage.

c. Assess how to balance the risks between supplier and purchaser

The Procurement Strategy should consider and document how risk and liability will be apportioned between the parties, based on each party's abilities to manage the risks. This involves:

- Clearly defining the roles and responsibilities of purchaser and supplier
- Developing and documenting an approach to proportionate liability (refer to the Procurement Policy Framework and Procurement Board Directions for more information)
- Defining types and level of insurances required, factoring in the potential impact on the supply market and/or project costs as well as any other warranties or guarantees.

d. Finalise the procurement strategy - Summarise key findings about procurement options, business needs, key risks and opportunities

- Determine the level of business criticality of the project
- Consider different strategic options including ways to approach the supply market (e.g. multi-phased process and open or selective tender), defining procurement benchmarks and KPIs
- Document the risk assessment including the approach to liability and insurances
- Identify the benefits to be realised from the procurement including baseline values
- Address any regulatory issues (e.g. privacy, conflicts of interest; and necessary certifications, applicable Australian or international standards and planning approvals)
- Select and define the procurement method and provide an overarching project plan.

Step 20: Specify technical requirements

Technical requirements of the service/asset that is being procured are a key element in guiding procurement selection. The purpose of specifying technical requirements is to set the quality and performance standards for the service/asset.

In general, the outline of technical requirements should be functional rather than merely a generic description, brand name, or references which would favour or hinder specific providers, products or services. That is, include details describing the service/asset in terms of its intended function and the required level of performance.

Step 21: Identify contractual issues

Defining the appropriate form of contract between the organisation and the supplier forms the basis for ensuring high quality and cost-effective methods to achieve the objectives and might include:

- type of contract that ensures the best fit for the type of procurement and the nature of the project
- contract management on an ongoing basis as well as the likelihood and degree of the benefit realisation being affected by contractual terms and incentives
- accounting standards, that ensure adequate representation on the agency's financial statements during and after procurement
- regulatory and other implications, e.g. privacy, conflict of interest and necessary certifications/planning approvals.

If the program proposal is approved, agencies should proceed to formally approach the market, select vendor, and negotiate and award contract and implement and manage arrangement phases of procurement.

Further information:

- NSW Procurement: Policy Framework for NSW Government Agencies (2015), NSW ProcurePoint
- NSW Department of Finance & Services: Market Approaches Guide (2015), NSW ProcurePoint
- NSW Public Private Partnerships Guidelines (TPP17-07), 2017 - Preparation, Procurement and Contract Management
- NSW Procurement Service Centre, NSW ProcurePoint
- Chief Procurement Officer of your agency
- Statement on Value for Money, NSW ProcurePoint
- NSW Government Action Plan: A ten point commitment to the construction sector (June 2018), Infrastructure NSW.

6.2.5 Management Analysis

The **purpose** of the Management Analysis is to provide the assessor of the business case with confidence that an economically and financially viable solution is also realistically implementable, its risks are manageable and its benefits can be tracked and realised.

The management analysis includes a range of activities that are described more detail below.

Step 22: Establish clear governance arrangements

Clear governance arrangements are critical to the proposal's successful implementation. Demonstrating effective project governance includes describing:

- the governance structure and roles and responsibilities
- project management structure including key roles and responsibilities
- project reporting, monitoring and evaluation arrangements
- any supporting assurance arrangements.

Inter-agency collaboration is encouraged. Where collaboration across departmental portfolios is necessary, appropriate lead and inter-agency arrangements should be formalised and documented. The governance arrangements should also allow for the fast and proactive management and escalation of issues, risks and/or disputes to the appropriate body or person for resolution. It may be appropriate to review governance arrangements on an ongoing basis and make appropriate adjustments to reflect the lifecycle stage or changed circumstances impacting the proposal.

Specific governance requirements may be required for Public Private Partnership (PPP) projects. There may be an opportunity to utilise existing governance structures where appropriate, e.g. utilising a steering committee for more than one proposal.

Refer to Appendix 9 for a table of common governance arrangements.

Step 23: Establish a project management strategy, framework and plan

The **purpose** of this activity is to ensure that strategies, frameworks and plans are in place to ensure the project is well managed and is achieving its targets.

Project management is a structured framework for defining and implementing change within an organisation. The level of detail and the sophistication of the project management plan should be at a high level at the detailed business case stage.

The **project plan** is the document that describes methods, timeframes and responsibilities for a target or milestone to be achieved. At a minimum, a project plan should include:

- key milestones and timeframes associated with each stage of implementation
- proposal dependencies - i.e. deliverables from other related projects
- key decision points and identification of any independent assurance requirements
- governance and resourcing arrangements, including staff.

Step 24: Establish a change management strategy and plan

The **purpose of the change management strategy** is to assess the impact of changes associated with the proposal, on the culture, systems, processes and people working within the delivery agency and other affected agencies, as well as other stakeholders (e.g. the public). Various management strategies can be adopted for implementing change, depending on the nature of the proposal. The agency's choice of change management strategy should be detailed comprehensively, together with underlying communication and development strategies.

A **strong change management plan** indicates how affected organisations, business units and relevant staff have contributed or been involved in the preparation of the change management plan to date and have confirmed that the impacts of change are manageable.

Further information:

- Information Management Framework: Change Management Guidance (2014)
- NSW Department of Finance, Services and Innovation
- Agency Change Management Guidelines, (D2011_014, 2011), NSW Department of Premier and Cabinet.

Stage 0 Stage 1 Stage 2

Step 25: Develop a benefits plan and register

Benefits Realisation Management involves monitoring benefits identified in the business case to inform investment decisions and optimise the realisation of benefits. It is an active approach that collaborates with stakeholders in an ongoing search for benefits and includes developing a benefits plan and register. The interrelationship of benefits and change management is paramount for the successful delivery of a program.

Benefits are the main reason for investment in a project or program, and planning for benefits realisation should commence during the development phase of the business case. Benefits management begins with defining the project objectives (Step 2) and the benefits they will deliver (Step 4). Early identification and understanding of benefits helps when refining the business case as it is developed.

Benefits management asks the following key questions:

- why are we undertaking the program?
- what are the strategic outcomes of the program?
- what are the measurable benefits?
- how will they be measured?
- when will we realise the benefits?
- who owns the benefits?
- what is the mechanism required to realise the benefits?

The *NSW Benefits Realisation Management Framework* provides a structured tool to assist in identifying potential benefits, their valuation, planning, modelling and tracking as well as the assignment of responsibilities and accountabilities on delivering these benefits. This framework provides best practice principles and concepts for benefits realisation across NSW agencies. It helps agencies to:

- focus on the most important benefits
- assign and track accountabilities for the benefit realisation
- improve communications with stakeholders
- improve the chances of successful business change by focusing on outcomes
- identify, manage and mitigate the risks associated with the realisations of the benefits
- provide input for program evaluations.

Key performance indicators (KPIs) should measure whether the benefits are being realised and the business need/challenge or opportunity has been adequately addressed.

Further information:

- Benefit Realisation Management Framework v3 (Part 1-5, 2018), NSW Department of Finance, Services and Innovation

Step 26: Establish a risk management strategy, framework and plan

The business case should include a risk management strategy, framework and plan. Risks should be regularly monitored from the early stages of the business case and as part of options generation and assessment. Key stakeholders should be consulted regarding risk throughout the lifecycle of the proposal. Once a preferred option has been selected, risk management processes specific to that option need to be established to inform the implementation process.

Risk management is a structured approach to identifying, assessing and controlling risks related to the project. The purpose of risk management is to enable the agency to:

- understand the potential threats and opportunities to the achievement of the proposal's objectives and address their impact
- maximise opportunities to achieve the targets and objectives set.

Ongoing management and revision of risks

A detailed business case should include a **robust plan to manage project risks** continuously and as part of the agency's Enterprise Risk Management (ERM) framework to avoid silos (in line with AS/NZS ISO 31000:2018).

This process of managing project risks involves:

- outlining **project risks** and how these will be addressed, managed and mitigated within the agency's existing ERM framework
- outlining the methods to ensure that relevant risks are identified, risk mitigation actions to be taken and risk management controls implemented
- updating reviewed risk registers regularly as part of future project management board and/or risk management board meetings. Refer to Appendix 10 for key inclusions in a risk register.

Project risks should be:

- identified through workshops and stakeholder and expert interviews
- assessed in accordance with the Agency's risk management framework
- visible at the appropriate level of senior management
- supported by the proposal's governance structure
- assigned to a risk owner.

Further information:

- Risk Management Toolkit for the NSW Public Sector (TPP12-03)
- Internal Audit and Risk Management Policy for the NSW Public Sector (TPP15-03)

Step 27: Establish a post implementation evaluation plan

The **purpose** of a post implementation evaluation is to examine the outcome of a project including its progress (did benefits outweigh the final costs), timeframes and responsibilities in delivering the project that was defined.

Evaluations are a key input into the evidence base used for outcome budgeting. Under the NSW Government Program Evaluation Guidelines there are many different evaluation approaches that can be used. The three most common are process, outcome and economic evaluations (Refer to Appendix 11 for guidance on the different evaluation approaches).

The **purpose of the evaluation plan** is to establish the direction of the evaluation. The evaluation plan describes how the project will be monitored and evaluated, as well as how the evaluation results will be used for project improvement and decision making.

The following should be considered as part of developing an evaluation plan:

- define the program logic which maps the relationships between the outputs, outcomes and objectives of the project
- identify the key evaluation questions to establish what should be evaluated
- identify how the business case objectives will be measured
- select an evaluation methodology (experimental, quasi-experimental or non-experimental) based on the program logic
- identify which components of evaluation will be undertaken (ideally process, outcome and economic)
- scope the desired minimum data set to inform the evaluation including use of existing data and potentially the need to collect additional data
- define when evaluation activities should commence (in relation to project implementation, data availability, and key future decision points)
- establish appropriate governance and oversight for evaluation
- assess whether the expertise to conduct the evaluation is available in-house or it should be procured
- establish quality control mechanisms for the evaluation, including peer review
- for human services programs in particular, if data linkage is required or primary research is being conducted, then appropriate approval may be required from a Human Research Ethics Committee.

Evaluation planning should start when the project or program is being designed, with much of the planning completed before the project or program has started to operate. This maximises opportunities for collecting and/or utilising relevant data (or defining a control group or counterfactual).

The scope of the evaluation as articulated in the evaluation plan will also help agencies understand the resources that will be needed for conducting the evaluation, including evaluation and technical expertise.

Further information:

- The NSW Government Program Evaluation Guidelines (2016), NSW Department of Premier and Cabinet
- The Department of Premier & Cabinet's on-line evaluation Toolkit is helpful for more guidance on developing your evaluation plan.

7. Next steps and updates to the business case process

Once the detailed business plan has been completed, that is not the end of its use. The business plan should be used to facilitate delivery of the proposal, from procurement to completing the project, and then to evaluate the benefits obtained.

The business case process is an iterative process that evolves over time and therefore should be regularly updated to reflect the changes in inputs, assumptions and evidence.

Updates to the business case are recommended as good practice.

The activities following the detailed business case include initiation of the procurement process, selection of the preferred supplier, and the start of project implementation. These steps might significantly affect the inputs and assumptions that were used in the original business case.

In addition, legislative and regulatory factors might impact the analysis undertaken as part of the business case, especially in situations where there is a time lag between the funding commitment and the start of the investment implementation. Therefore, major variances in time, costs, contingency funds, scope and approved budgets throughout the implementation process of an investment should be documented.

Steps involved in reviewing and updating the business case process may include:

- revisit and confirm all the analysis dimensions of the detailed business case
- identify the supplier or partner offer that optimises value for money
- set out the negotiated commercial and contractual arrangements in case of a procurement
- confirm that final investment arrangements are affordable
- define any changes to success factors necessary to monitor the project implementation and undertake data monitoring and collection, consistent with the program evaluation plan and benefits realisation plan.

Appendix 1: Overview of the business case process and steps

	Stage 0: Problem Definition	Stage 1: Strategic Business Case	Stage 2: Detailed Business Case	*Update of the Business Case**
I. Case for Change	**I. Case for Change** **Step 1:** Define the business need/opportunity **Step 2:** Define objective of intervention **Step 3**: Define strategic context /intention and contribution to government priorities/ outcomes **Step 4:** Identify expected benefits and risks and link to Programs and Program KPIs **Step 5:** Identify relevant stakeholders **Step 6:** Identify potential strategic responses /interventions **Step 7:** Provide high level cost estimates	**I. Case for Change** **Step 8:** Review the Case for Change	**I. Case for Change** **Step 13:** Revisit the Strategic Business Case and confirm the case for change	**I. Case for Change** • Review the Case for Change
II. Cost Benefit Analysis		**II. Cost Benefit Analysis** **Step 9**: Creating your options – Develop and refine the long list of options **Step 10:** Assessing and narrowing down your options (conduct a CBA for Stage 1)	**II. Cost Benefit Analysis** **Step 14:** Revisit the Stage 1 CBA to confirm the short list of options **Step 15:** Select preferred option – Conduct Stage 2 / Full CBA on short list of options	**II. Cost Benefit Analysis** • Revisit and update (if required) the options identified in the strategic and detailed business case
III. Financial Analysis		**III. Financial Analysis** **Step 11**: Assessing and narrowing down your options (prepare a Financial Appraisal) **Step 12:** Assessing and narrowing down your options (prepare a Financial Impact Statement)	**III. Financial Analysis** **Step 16:** Revisit Stage 1 FAP and FIS to confirm the short list of options **Step 17:** Select preferred option (conduct Stage 2 FA on shortlisted options) **Step 18:** Select preferred option (conduct a financial impact statement on short list)	**III. Financial Analysis** • Revisit and update (if required) the financial implications
IV. Commercial Analysis			**IV. Commercial Analysis** **Step 19:** Develop a procurement strategy **Step 20:** Specify technical requirements **Step 21**: Identify contractual issues	**IV. Commercial Analysis** • Revisit and update (if required) commercial analysis
V. Management Analysis			**V. Management Analysis** **Step 22:** Establish governance arrangement **Step 23:** Develop project management plan **Step 24:** Develop a change management plan **Step 25**: Develop a benefits plan and register **Step 26:** Establish a risk management plan **Step 27:** Establish a post implementation evaluation plan	**V. Management Analysis** • Revisit and update (if required) management analysis

*These steps are recommended as updates post procurement once the preferred supplier has been identified

Appendix 2: Financial Appraisal

Typical Cash Flows in a Financial Appraisal (FAP)

Table 1: Typical Cash Flows in a FAP

Typical cash flows	
Inflows	**Outflows**
• Operating revenues • Subsidies from external parties • Operational cost savings in other areas • Surplus asset sales • Value of options resulting from the project • Residual or project values at end of appraisal term	• All capital and operating costs • Taxes • Operating lease payments • Worker redundancy payments • Existing contract termination payments • Revenue from existing operations that will cease • Opportunity costs of resources (including land)

Differences between CBA and FAP

Table 2: Differences between CBA and FAP

	Cost Benefit Analysis (CBA)	**Financial Appraisal (FAP)**
Focus	Demonstrate Value for Money and return to society of options – relative to the base case	Demonstrate affordability and funding implications for preferred options
Perspective	NSW or national under certain circumstances	Whole of Government or the entity considering proposals
Basis for valuation of costs and benefits	Reflects opportunity cost of resources used for the project or program	Does not indicate of the real value of the alternative use of the resources
Recognised flows	• Benefits and costs reflected in real terms	• Cost and revenue flows reflected in nominal terms
Costs	**Excluded:** • financing costs (e.g. the payment of interest or dividends), • taxes (in most cases), • depreciation and • amortisation on the fiscal position	**Included:** • interest expenses • taxes • revenues generated • maintenance • government expense and revenue impacts
Discount rates	**Real discount rates:** reflects long term social opportunity cost of capital (i.e. for society collectively, including public and private sectors).	**Nominal discount rates**: reflects the cost of capital to the entity undertaking the proposal, but also rate of return for the project/ project specific risk

Table 2: Differences between CBA and FAP (continued)

	Cost Benefit Analysis (CBA)	Financial Appraisal (FAP)
Other	Included: • spill over impacts on the rest of the economy (private businesses and households), • natural capital • other impacts not necessarily priced by the market but that can affect social welfare.	
Capital expenditure	Capital expenditure is recognised as a resource cost at the time it is incurred	Gross capital expenditure (separating government and non-government contributions) over the life of the project for taxation and other purposes

Source: TPP 17-03, NSW Government Guide to Cost –Benefit Analysis, Page 68

Estimating cash flows for financial appraisals

Inflation

All cash flows should be estimated in nominal terms, thus including inflationary escalations. Judgement is required in choosing the escalation rate and the reasons for deciding on the applied rate should be clearly disclosed in the appraisal.

Long-term projects

While it might be impractical to estimate all cash flows for the entire life of a very long-term project (e.g. beyond 20 years) it might be possible to forecast an annuity stream representing the net cash flow. Uncertainty regarding the annuity estimate can be reflected in the discount rate adopted, with a higher discount rate applied in situations of greater uncertainty.

Option valuation

An option arising from a proposed project can have a real value to the sponsoring entity. That value should be included in the FAP. Types of options might include:

- Options to expand the project or extend its life
- Options to abandon the project.

Residual value

A residual value should be estimated whenever an asset's life is:

- Longer than the life of the proposed project and there is an intention to dispose of the asset
- Longer than the appraisal period.

Estimating residual values can be difficult. Familiarity with the asset class is vital. The table below sets out examples of considerations that might be relevant in some circumstances.

Examples of considerations relevant to estimates of residual value	
Observation of a traded market	Market residual values of assets of a similar age might be observable in active second-hand markets.
Professional residual valuations	Engagement of expert advice can provide precision and mitigate risks of an inappropriate estimate.
Long-term projects	If a project's life is greater than 20 years, rather than estimating residual value at the project's final year, it might be simpler to value the asset as an annuity stream for the full life of the project.

Financing

Proposed projects should be assessed initially on a stand-alone basis before financing strategies are considered.

If, having established that a proposed project has a positive Net Present Value (NPV), it is determined that it could be financed through operating leases (rather than financed internally), the operating leases should be evaluated as cash outflows. They must be compared to an outright purchase alternative. Consideration also must be given to renewal or purchase rights where they prevail.

Tax considerations

The prevailing Australian corporate tax rate should be applied when undertaking a FAP.

Project cash flows should include any annual depreciation tax shields because these benefits are not reflected in the post-tax Weighted Average Cost of capital formula.

The effects of dividend imputation should be taken into account for competitive neutrality reasons. Imputation effects can be handled through adjustments to the cost of capital formula.

Also, note that effective 1 July 2019, the concept of operating leases for lessees will be effectively abolished with the issue of Australian Accounting Standard AASB 16 *Leases*.

Exclusions from FAP

Examples of items to be excluded:	Rationale:
Interest impacts	By using a post-tax Weighted Average Cost of Capital, government entities will capture project interest expense (and associated tax benefits) in the project's discount rate. To avoid double counting, therefore, interest impacts should not be included in project cash flows.
Accounting depreciation, economic multiplier effects and sunk costs.	These factors do not impact on a proposed project's viability.

Differences between a Financial Appraisal and a Financial Impact Statement

Table 3: Differences between a Financial Appraisal and a Financial Impact Statement

Financial Appraisal	Financial Impact Statement
Details on periodic cash flows for the entire analysis period (up to 20-30 years)	• Nominal (undiscounted) cash flows over the life of the project • Government revenue, recurrent expense and capital expense impacts
Discounted to NPV terms	• More high-level and typically shows only aggregate impacts, where those impacts specifically measure changes relative to what is in the agency's Budget forward estimates, not necessarily the total cost of the proposal.
Cash Basis	• Accrual Basis

Appendix 3: Business Cases under Outcome Budgeting

Commencing from the 2018-19 Budget, the NSW Government committed to implementing outcome budgeting to enhance the efficiency and effectiveness of public spending. This involves a shift in resource allocation planning and decision making - from a focus on outputs or services provided, to a focus on the contribution that public spending makes to the outcomes and benefits for the people of NSW.

Business cases are key in ensuring investment decisions deliver the best objectives, State Outcomes and benefits for the people of NSW. Business cases should identify the specific objectives and benefits that will directly accrue from the proposed project and how these link to strategic Government priorities, i.e. the State Outcomes.

There are several key enablers for this shift in focus to State Outcomes. In 2017-18, budgeted expenditure for Clusters/Agencies was consolidated into Programs which were then aggregated into Program Groups. From 2018-19 onwards, Programs and Program Groups have been linked meaningfully to State Outcomes based on a robust results logic. To track progress over time, performance information at each level of this results hierarchy is now available systematically as headline indicators for State Outcomes and KPIs for Programs across the whole of Government.

Accordingly, from 2018-19 onwards all New Policy Proposals (NPPs) will be linked to Programs in PRIME and thus linked to State Outcomes. Cluster bilateral and ERC decision-making will be driven by a comprehensive top-down perspective focused upon whole-of-Government priorities, i.e. State Outcomes and a review of base expenditure. It will no longer be a bottom-up process, detached from strategic priorities, and focusing on a review of incremental expenditure and its ex-post consolidation.

Figure 1: The interconnection between Programs, Program Groups and Outcomes (Outcome Budgeting)

For NSW Treasury, these changes will facilitate a better understanding of investment rationales and their prioritisation by Clusters/Agencies. It will also equip Treasury and ERC with appropriate insight on the strategic potential of projects and, subsequently, their performance. This in-turn, will aid evidence-based resource allocation decisions.

The processes identified and defined in these Guidelines support the move to Outcome Budgeting and evidence based investment decision making. i.e. the information and evidence assessed by Treasury that provides recommendations to Cabinet on funding requests and is assessed by Gateway Review Panels.

Appendix 4: Style tips for writing a business case

The business case is a critical part of an agency's robust, transparent and accountable decision-making process. A business case should not be perceived only as an exercise in compliance or in securing support for policy change and/or funding. This view will not deliver the intended benefits from the business case process and could ultimately result in poor decisions. Each element of the business case should be supported by robust evidence to justify the investment decision.

While some business cases and supporting documentation will necessarily include technical information, the business case should avoid technical jargon as far as possible. It should be easy-to-read and understandable to non-specialists and those with no prior knowledge of the proposal or service area. The level of technical detail should be commensurate to the size, risk and complexity of the proposal and focus on quality and relevance rather than quantity.

In general, the business case should:

1. Have an executive summary

The executive summary is a high-level view of the business case proposal. It is usually the first section of the business case, but is usually written once the business case analysis is complete.

The executive summary should include ***a statement of purpose***, setting out the purpose of the business case and explicitly stating if it is being prepared for Cabinet approval.

The executive summary should explain the problem to be addressed and major considerations including customer centric objectives, stakeholders and resources required to complete the desired objective as well as the final recommendation. Some stakeholders may only focus on reading the executive summary, so it is essential that the business case key findings and information needed to inform decision making are included and written concisely in plain English.

2. Include a candid and robust presentation of the decision-making process and alternatives considered

The business case should contain sufficient evidence to support any conclusions and recommendations. Business cases that only discuss a base case (minimum amount of government's involvement) and a preferred option can easily seem to be an advocacy exercise rather than assessment of the best way to deliver against the objective.

3. Include clear description of assumptions used

Clearly describe and document assumptions underpinning the business case. Where practicable, assumptions should be tested against relevant evidence and updated as the business case is developed or where more accurate information becomes available.

4. State all relevant sources for data / inputs used

Often the inputs/assumptions are identified from agency documentation. Relevant data, however, may come from external sources, such as key stakeholders and/or subject matter experts. It is essential to record the logic used to generate the data and inputs, and their source.

5. Include appendices

The flow of the document should be maintained by attaching supporting information as appendices. It is important to ensure that all information relevant to the decision-making process has been included in the business case, with clear references to the analysis and assumptions used.

Appendix 5: Example of defining benefits

An example of defining benefits that have been realised from similar projects, is illustrated below.

Example: Does the existing evidence obtained from post-evaluation findings of similar interventions and/ or existing literature support the benefits identified?

Objective: Achieve at least a 5% (p.a) reduction in the number of people in NSW experiencing smoking related health issues

Summary of findings:

Projects	**Evidence on generated benefits**
A: Smoking Awareness Campaign	"A **6% (p.a) reduction in smoking related health problems for NSW residents** using post-implementation results"
B: Ban on outdoor smoking in public areas in another jurisdiction	"A **7% (p.a) reduction in smoking related illnesses for NSW residents** over 5 years post-implementation was achieved"
C: Introduction of a tax on smoking consumption in another jurisdiction	"**Reduction of 4% (p.a.) in the number of people in NSW experiencing smoking related health issues** over a 10 year post-implementation period"
D: A study on urban lifestyles and an increase in open spaces and better transport facilities	"Observed no tangible effect **in NSW residents facing smoking related health issues**"

The evidence suggests that projects A, B & C have been used to achieve similar outcomes to that stated in the objective. The insights and findings of these projects should be used as an input in the development of strategic responses and option identification explained in Stage 1 of the business case process. The evidence also suggests that project D may not be appropriate to achieve the stated objective.

Appendix 6: Stakeholder map

Figure: Stakeholder Map

Impact felt by stakeholder

Influence of stakeholder

	1	2	3	4
4	These stakeholders have a high degree of influence but will not feel a direct impact from the decisions your agency makes		These stakeholders have a high degree of influence and will feel the impact of decisions that your agency makes.	
3	**INFORMATION GIVING** These people are important in delivering your messages so make sure they have the right information		**DIALOGUE** These people are important in supporting agency decisions so you need to ensure they have a detailed understanding of your risks and how you are managing them	
2	These stakeholders have little influence and will not feel a direct impact from the decisions that your agency makes		These stakeholders will feel the impact of decisions that your agency makes but do not have much influence or 'voice'	
1	**INFORMATION GATHERING** These people are an important source of information about general trends and views that your agency needs to consider as part of its decision making processes		**CONSULTATION** These people are likely to be those that deliver or directly access your services so you need to understand their needs and perceptions of risk	

Appendix 7: Option generation tools

Tools to support generating options

Early engagement with **benefit owners** (refer to Step 25: Management of the benefit realisation) when generating options will help ensure that:

- options for service responses are informed by insights gained from front-line delivery
- benefits associated with each option are both realistic and achievable.

The benefits of early engagement with benefit owners are that financial analysis and economic appraisal are more robust, and any savings or efficiencies identified are sustainable.

Evidence for generating options could also come from the following:

- **Research reports** and consultations with **subject matter experts** and practitioners to collect the set of available data/ information relevant to the objectives and scope of the problem
- **Screening of a full range of policy instruments** or projects that may be used to meet the objectives
- **Best practice solutions**, including international examples
- **Literature reviews**, especially systematic reviews and meta-analyses
- Considerations of **external factors** that might impact the objectives
- Inclusion of **extreme options** as part of the early assessment. These might provide useful information to test the parameters for feasible solutions
- **Early engagement with the market** to understand possible solutions and assess capability and capacity in delivering the identified options.
- The wide range of **policy tools available** including provision of information, Taxes, Regulation, Commissioning/NGO provision and government provision
- **Evidence** on key learnings from previous projects. Contact your CBA analyst at Treasury for further information.

Appendix 8: Differences of a Stage 2 CBA compared to Stage 1

Table: Key differences of Stage 2 as opposed to Stage 1 CBA - Examples

More accurate cost estimates	• more definitive project specification and design • better information about conditions of planning approval • more detailed project scoping • current market costs • detailed quantity surveying
More refined benefit estimates	• detailed market or service demand studies • valuation studies • clearer definition of target beneficiaries • stakeholder consultation plans • detailed program design specifications

Figure: Evidence Hierarchy used in a CBA

Strength of Evidence	Weaker Evidence	⟷	Stronger Evidence
Type of Evidence	Non Experimental	Quasi Experimental	Experimental
Examples of studies	Pre and post studies without a control group, case studies, expert opinion	Multiple baseline design, pre and post studies with a control group, cohort studies, case control	Randomised controlled trials

Source: NSW Government Program Evaluation Guidelines, January 2016.

Appendix 9: Common governance arrangements

Table: Common governance arrangements – Elements and Description

Elements	Description
Steering committee	Usually established by a reference group to drive major proposals. Skills may be sourced from: ▪ the agency ▪ the broader public sector ▪ stakeholders, or ▪ the private sector.
Project control group	The group: ▪ reports to the steering committee ▪ includes representatives from key stakeholders ▪ closely monitors the project to ensure it stays on time and to budget and that the key deliverables in the project brief are met. ▪ advises on and mitigates high-level risks ▪ ensures the necessary project resources are available ▪ ensures the appropriate range of stakeholders are involved in the project ▪ reviews project reports provided by the project team.
Senior Responsible Officer – Day to Day Project Manager	The visible owner of the project who drives the change process. The role is accountable for successful delivery (program meets its objectives and delivers the projected benefits) and is recognised throughout the organisation and beyond as the key leadership figure in driving the change forward.
Project sponsor	The project sponsor is the designated person to provide the resources for the project. The project sponsor has the ultimate responsibility for the deliverables outlined within the proposal and the realisation of objectives and benefits. The sponsor must have good visibility of the proposal, play an active role, and be accountable for guiding its progress.
Project director	Will usually be appointed by the project sponsor and has responsibility for delivering the proposal and managing the project team, including any external consultants. The project director must understand both the government and commercial processes applicable to developing and negotiating contractual arrangements.
Probity advisor	May be required depending on the scale, complexity and sensitivity of the proposal or the procurement method to be adopted. The role of the probity advisor is to ensure a fair, transparent, defensible and robust process is followed.
Project team	Must possess the skills and resources to develop and deliver the proposal. This may include: technical, planning, economic, financial, operational, community relations, environmental and legal skills.

Appendix 10: Risk register

Key aspects of a risk register may include:

- risk ID (this is a unique identifier)
- entry date (into risk register)
- name of the person(s) assessing the risk
- description of the risk
- objective(s) that will be affected by the risk
- risk assessment information, such as: the worst-case consequence, likelihood and risk level:
  - the current controls and their effectiveness
  - the current consequence likelihood and risk level
  - whether the risk is acceptable or tolerable
  - additional treatments if the risk is not acceptable or tolerable
  - the residual risk level once additional treatments have been implemented
- risk owner – who is responsible for managing the risk
- monitoring information – how and when the risk and its controls will be reviewed and reported
- the date the risk register was last updated
- risk category (e.g. Financial, Service Delivery, Work Health and Safety).

Appendix 11: Project evaluation plan approaches

Table: Types of evaluation

Type	Focus
Process evaluation	Evaluates how the project is delivered, including efficiency, quality and customer satisfaction. May consider alternative delivery procedures. It can help to differentiate ineffective programs from failures of implementation. As an ongoing evaluation strategy, it can be used to continually improve programs by informing adjustments to delivery.
Outcome evaluation	Determines whether the project caused demonstrable effects on specifically defined target outcomes i.e. the business case objectives. Identifies for whom, in what ways and in what circumstances the outcomes were achieved. Identifies unintended impacts (positive and negative). Examines the ways the project contributed to the defined objectives and how it contributed to State Outcomes, and the influence of other factors.
Economic evaluation	Addresses questions of efficiency by standardising objectives and benefits in terms of their dollar value to answer questions of value for money, cost-effectiveness and cost-benefit.

Glossary

Analysis period	Time over which a project or program is assessed, i.e. the period for which costs and benefits are estimated.
Base Case	The scenario against which proposals are compared, and which shows baseline projections of costs and benefits 'without' the project or program
Benefit	Measurable advantages gained by undertaking an intervention to address the defined objective. e.g. increase efficiency, effectiveness, quality and safety or equity
Benefit Cost Ratio/ BCR	The ratio of the present value of total benefits to the present value of total costs
Business case objective	Reason for the proposed intervention and is linked to State Outcomes and Programs
CIC	Cabinet Infrastructure Committee
Costs	Reductions in social wellbeing
Cost Benefit Analysis/ CBA	An appraisal and evaluation technique that estimates the costs and benefits of a project or program in monetary terms
Discount Rate	The rate used to convert future streams of costs and benefits into today's dollar value (present value)
ERC	Cabinet Standing Committee on Expenditure
ERM	Enterprise Risk Management
Evaluation	Analysis of a project, program or policy to assess how successful (or otherwise) it has been, and to learn lessons for future improvement
Financial Analysis (FA)	Financial Appraisal and Financial Impact Statement
Financial Appraisal (FAP)	Appraisal of the cash flows of a project or a program
FIS	Financial Impact Statement
KPI	Key performance indicators
Market failure	A situation where the market fails to supply a socially optimal level of a good or service
NPP	New Policy Proposals
Net Present Value (NPV)	The net discounted value of a stream of either future costs and benefits. The NPV is used to describe the difference between the present value of a stream of costs (NPC) and the present value of a stream of benefits
p.a.	Per annum
PPP	Public Private Partnership
Project	The planned set of interrelated tasks to deliver a specified result, service or product to address the business case objectives. A project is typically characterised by a fixed time period for delivery, with a specified budget or set of predetermined resources. The project will link to programs defined in Stage 0
Program	A coherent set of activities managed together over a sustained period of time, for producing outputs that contribute to a State Outcome
Program KPI	Key performance indicators to measure how successful the Program has been in reaching its objectives and contributing to State Outcomes
Risk	Refers to situations where different possible outcomes have known probabilities
Risk Management	Risk management is a structured approach to identifying, assessing and controlling risks related to the project
State Outcome	The primary purpose for which Budget funding is being expended. It is defined to clearly explain to the public what a sub-national government is seeking to achieve for its citizens. State Outcomes will be sufficiently granular to aid resource allocation decisions, be fairly consistent over time and will have indicators to track progress
SIS	State Infrastructure Strategy
Weighted Average Cost of Capital (WACC)	Discount rate used in Financial Appraisal analysis. WACC is the entity's cost of capital which is the rate the entity is expected to pay on average to all its security holders to finance its assets