Business Case (template)

# About the template

## Purpose

This template is designed to assist Local Governments – large and small – to advocate more effectively for funding partners, including State and Commonwealth Governments, to support local economic development initiatives. These can include:

* infrastructure investments, such a road, rail and port upgrades
* programs to provide incentives, support and subsidies for local economic development, for example, the creation of business incubators
* regulatory initiatives, for example, mandating provision of worker accommodation in planning schemes, and
* initiatives to improve local livability and attractiveness to skilled workers.

## The overall business case narrative

The template adopts a six part structure.

1. What is the problem or opportunity being addressed in the business case?
2. Why is the problem or opportunity of interest? What kinds of benefits are likely to arise – over and above what would have happened anyway – should the problem / opportunity be successfully addressed?
3. What are the options for addressing the problem or opportunity, and how has a preferred option been determined?
4. Will the preferred option deliver a net community benefit; that is, will the value of the additional benefits gained by the community at large outweigh the costs of implementing the preferred option?
5. How would the preferred option be funded and delivered; would it be financially viable and, if not, how will the viability gap be bridged?
6. How will delivery of the benefits promised by the preferred option be monitored and validated?

This structure is derived from the standard practices of State Governments in evaluating budget bids.

A business case should not be confused with a promotional document extolling the virtues of a proposed project or program. Local Governments may wish to produce a promotional document, but it would be used to complement rather than substitute for the business case.

## Example business case

Where relevant, the six sections listed above are illustrated in this template with reference to a published business case - the *Rosebud Aquatic Centre Business Case.* This was completed for the Mornington Peninsula Shire Council (Vic) by GHD Advisory in November 2017. (<https://www.mornpen.vic.gov.au/files/assets/public/new-website-documents/about-us/news-amp-media/media/docs/rosebud-aquatic-facility-final-business-case.pdf>)

While Rosebud example may assist in understanding the nature and scope of the template steps, it does not necessarily provide a guide as to the depth of analysis and documentation that users will need to develop in their business case.

The level of detail required in the documentation will vary depending on the nature of the project under examination and the resources available to the proponent Local Government.

# Section 1: Problem

This section describes the problem, or opportunity, which the business case is addressing. It presents evidence of the scale and impact of the problem.

## 1.1 Background

*Content guide*

Briefly describe the history / circumstances giving rise to the problem or opportunity.

Introduce the parties or stakeholders that have commissioned the business case.

## 1.2 Problem definition

*Content guide*

Describe the causes and the effects of the problem. ‘Causes’ are drivers or circumstances giving rise to the problem, while ‘effects’ are the consequences or impacts of the problem.

Provide quantitative and qualitative evidence of the existence of the problem and its consequences.

Explain why there is a need to deal with the problem/opportunity now, rather than at some point in the future.

*Sources and tips*

The problem statement in the business case should make clear that there is a significant issue at hand that warrants focused and immediate attention.

The problem statement should refrain from postulating solutions. It should focus on ***what*** needs to be addressed not ***how***.

An Investment Logic Mapping (ILM) process can be applied to help define the core or primary problem at hand, as distinct from second round or derived effects. (<https://www.statedevelopment.qld.gov.au/__data/assets/pdf_file/0019/55027/further-guidance-01-investment-logic-mapping-guide.pdf> )

Ideas Advisory (2021) recommend four tests for a good problem definition:

*1. Is it clear what the problem is that needs to be addressed – both the cause and effect?
2. Is there sufficient evidence to confirm both the cause and effect of the problem?
3. Does the problem need to be addressed now
4. Does the defined problem capture its full extent/scope including sources of future uncertainty?*<https://ideasadvisory.com.au/wp-content/uploads/2021/07/Investment-Logic-Map-Workshop-Pre-reading.pdf>

Problem definition and the ILM process are more likely to be tackled successfully in a workshop setting.

*Rosebud example*

The Rosebud example includes a full ILM at page 17. The ‘problem’ which the Aquatic Centre proposal is addressing is threefold, namely:
*1 Community expectations on quality of recreation facilities not being met resulting in high levels of dissatisfaction (deemed to have a weighting of 25% in the overall problem definition)
2 Lack of access to suitable recreation opportunities is reducing community health outcomes (40%), and
3 Lack of year round safe swimming facilities is contributing to higher number of safety incidents (35%).*

# Section 2: Strategic alignment

This section explains why the problem defined above is deserving of attention, by demonstrating that an effective response would align well with Local Government, State and Federal Government, and stakeholder policies and aspirations, and deliver substantial benefits which are capable of measurement.

*Content guide*

Detail the benefits which the wider community would accrue from an effective response to the problem, while stopping short of defining what this response should be.

Identify how these benefits might be measured; nominate key performance indicators (KPIs) for each.

Explain why delivery of these benefits is important. In doing so refer to relevant policies and strategies. That is, show how these benefits would align with the policy priorities of funding bodies and government generally.

*Sources and tips*

This part of the business case should audit all published policies, strategies and Ministerial statements that could potentially add weight to the call for action in respect of the problem/opportunity outlined in Section 1.

The KPIs established for the nominated benefits should be specific, measurable, attainable, relevant and time bounded (‘SMART’).

Section 2 of the Commonwealth Government’s guidelines for Transport Assessment and Planning (ATAP) provides helpful advice on benefits identification and measurement (<https://www.atap.gov.au/framework/goals-objectives-targets/2-defining-goals-objectives-targets> )

*Rosebud example*

The Rosebud business case covers the scope of this section here in three chapters covering Project Benefits (Chapter 4), Alignment with Government Policy (Chapter 5) and Stakeholder Consultation (Chapter 6). The ILM at page 17 includes a good example of KPI specification for each of the anticipated benefits from the project.

# Section 3: Options assessment

This section identifies and evaluates potential responses to the identified problem, arriving at a preferred approach

*Content guide*

Describe and categorise the different ways in which the problem/opportunity might be addressed. This may cover distinctly different responses spanning capital investment, subsidy programs, regulation and taxes.

By way of example, a Local Government may see a need to boost engagement in active transport in the municipality to achieve health, economic and social cohesion benefits. The responses to this problem/opportunity could include:

**Response (A)** - A marketing campaign encouraging people to work or cycle more,
and/or
**Response (B)** – Increasing local parking fees and fines, to discourage non-active transport modes, and/or
**Response (C)** – Construction of a major new bike trail,
and/or
**Response (D)** – Providing people with subsidized access to bike share schemes.

Evaluate the responses individually or in strategic groupings using Multi-Criteria Analysis (MCA). MCA brings together qualitative and, where available, quantitative information in the form of a matrix to appraise the relative merits of the responses.

Relevant MCA parameters might include cost, likelihood of delivering the outcomes detailed in Section 2, organizational readiness, and presence of an appropriate authorizing environment.

On the basis of the MCA, identify a preferred approach, which may include one, or a combination, of the response elements previously listed.

*Sources and tips*

Infrastructure Australia has published a comprehensive guide (including a template) for Multi-Criteria Analysis (<https://www.infrastructureaustralia.gov.au/guide-multi-criteria-analysis>).

*Rosebud example*

In the Rosebud example, options are specified by reference to two parameters – where the aquatic centre might be located within the Shire (2 potential sites are nominated for analysis) and the service specification for the centre (indoor vs outdoor, whether a gym should be included and the extent of environmentally sustainable design) – see Chapter 7.

# Section 4: Economic case

Having determined a preferred solution in the previous section, Section 4 demonstrates that this solution will deliver a net community benefit. A net benefit arises when the benefits generated by the solution over and above what would have happened in a business as usual case, are greater than the costs of implementation when expressed in present value terms.

*Content guide*

Define the preferred solution in operational terms; that is, describe how the solution will be rolled out, what it will cost and how it will connect to other relevant programs, projects and infrastructure. A more detailed description of solution delivery will be required in Section 5. However, in Section 4, the reader should have sufficient information to visualize the solution in practice.

With reference to the discussion in Section 2, draw up a matrix of ‘marginal’ or ‘incremental’ costs and benefits associated with implementing the preferred solution.

Marginal costs refer to the additional resources – financial and non-financial – that must be expended over and above those that would be expended in a business as usual or base case scenario.

Likewise, marginal benefits refer to improvements in welfare over and above those that would have accrued in the base case. Marginal costs and benefits should be identified on a community wide (usually WA or City wide) basis; that is, regardless of which party is incurring the costs and benefits.

In a spreadsheet or equivalent, identify the year on year flow of marginal costs and benefits and monetise them wherever possible.

Apply an appropriate discount rate to confirm that the present value of the flow of marginal benefits is greater than the present value of the flow of marginal costs.

Present a sensitivity analysis which confirms that the finding of a net community benefit is robust in the face of variations to key variables and assumptions.

Provide a ‘distributional analysis,’ which identifies the incidence of marginal costs and benefits across various groupings in the community, to demonstrate that the preferred solution is reasonably fair as well efficient in an economic sense.

**What is a discount rate in cost benefit analysis?**

A monetised benefit worth, say, $1 million in today’s dollars will be worth less than that in ‘present value’ terms if it will not be delivered until some point in the future, say, 5 years. Discount rates are similar to interest rates. At a 7% discount rate, gaining a nominal $1 million benefit in 5 years’ time is the equivalent as receiving $783,526 today. In other words, $783,526 notionally invested today at a cumulative rate of 7% would yield $1 million in year 5.
The discount rate is set having regard to the opportunity for returns from alternative investments and to the level of risk attaching to the investment under examination. If the CBA is working in nominal prices, the discount rate should also allow for expected inflation. Most CBAs in public sector analysis work in ‘real’ $s, that is, free from inflation. Real discount rates are therefore lower than nominal discount rates in line with the expected rate of inflation.

*Sources and tips*

The Commonwealth Government publishes guidance on cost benefit analysis, albeit with a focus on regulatory measures. <https://oia.pmc.gov.au/sites/default/files/2023-05/oia-impact-analysis-guide-march-2023_0.pdf> . See also <https://oia.pmc.gov.au/sites/default/files/2021-09/cost-benefit-analysis.pdf>

The Cost Benefit Analysis Report – Kununurra Aquatic & Leisure Centre Redevelopment, completed in 2019, provides a good example of the CBA approach in regional, economic development, setting. (<https://www.swek.wa.gov.au/council-meetings/ordinary-council-meeting/ordinary-council-meeting-kununurra/72/documents/120312-kununurra-aquatic-and-leisure-centre-cost-benefit-analysis-report.pdf> ). Note that this CBA identifies impacts to employment and regional gross value added as substantive benefits. While this may be appropriate in the Kununurra context, State Governments often counsel against inclusion of such effects in a CBA because they may simply represent redistributions of economic activity from other sectors or parts of the State.

Other examples of CBAs covering local government projects include:

a) The Northern Regional Trails upgrade project - Victoria (2022) <https://www.whittlesea.vic.gov.au/media/10349/appendix-c_cost-benefit-analysis_02022023.pdf>
b) Huon River Foreshore Shared Pathway – Tasmania (2020) <https://www.huonvalley.tas.gov.au/wp-content/uploads/2019/12/SGS-Cost-Benefit-Economic-Impact-Report.pdf>
c) Cowes Community and Cultural Centre – Victoria (2019) <https://d2n3eh1td3vwdm.cloudfront.net/general-images/Strategy-and-Growth/COWES-COMMUNITY-AND-CULTURAL-CENTRE-%E2%80%93-COST-BENEFIT-ANALYSIS-AND-ECONOMIC-IMPACT-ASSESSMENT.pdf?mtime=20200717130135&focal=none>
d) Cost benefit analysis of Surf Life Saving - Western Australia (2018) <https://www.mybeach.com.au/app/uploads/2018/11/RITM0200765-Cost-benefit-analysis-of-Surf-Life-Saving-Western-Australia_lo_res.pdf>
e) Busselton Performing Arts and Convention Centre Cost Benefit Analysis (2020) <https://ehq-production-australia.s3.ap-southeast-2.amazonaws.com/3a8d382f347765e2bca29d9d366ecbaaa708f7cc/original/1615876429/f9653e0fa7113e7649fc359773852935_BPACC_Cost_benefit_assess_excl_c_indust_Hub.pdf?X-Amz-Algorithm=AWS4-HMAC-SHA256&X-Amz-Credential=AKIA4KKNQAKIOR7VAOP4%2F20230725%2Fap-southeast-2%2Fs3%2Faws4_request&X-Amz-Date=20230725T063906Z&X-Amz-Expires=300&X-Amz-SignedHeaders=host&X-Amz-Signature=4775822fe59bff68c1ac61a1314f5af3f6d95e5a29997d4c6f7139d91b1cea49>

A proforma CBA model, prepared by SGS, may be found a (**provide web link**)

*Rosebud example*

The Rosebud example does not contain a cost benefit analysis. This is something of limitation of this otherwise comprehensive business case.

An expansive illustration of the CBA method, including coverage of similar benefits as those cited in the Rosebud project, may be found in SGS’s assessment of a proposed network of regional bike trails in northern Melbourne, noted above at item a).
The populated SGS CBA model for the Northern Trails project may also be found at (**provide web link**).

# Section 5: Funding and delivery

Whereas the previous section provided the economic case for the preferred solution, Section 5 presents the financial case, including a plan for how any viability gap will be closed. This section also sets out specifics about how the preferred solution will be implemented.

*Content guide*

Describe how the preferred solution will be realized, including organizational responsibilities, ownership of any assets required in the application of the solution, governance and management, mandate and legislative frameworks, role of investors and partners, role of Local Government etc.

Present a time bounded financial model for the project, identifying cash in and cash out over a defined trading/operating period, and projected profit and loss and balance sheet outcomes if relevant.

Include in this financial model how trading/operating deficits will be made up.

Provide a risk analysis for the preferred solution. Risks may cover uncertainties around market demand, future costs, future regulatory arrangements, competitor behaviours and environmental factors. Set out the probability and potential impact of each risk in turn.

Include an implementation plan covering appropriate phases such as planning, construction, commissioning and operational.

*Sources and tips*

Some States provide guidance on finance and delivery matters in their respective business case templates (see, for example, Section 6 in <https://www.dtf.vic.gov.au/sites/default/files/2018-02/Long%20form%20business%20case%20template_0.docx> )

The following examples illustrate how aspects of funding and delivery may be addressed in a business case:

•Main Roads Western Australia, Armadale Road – Construct dual carriageway from Anstey Road to Tapper Road – Business Case (2015) [https://www.parliament.wa.gov.au/publications/tabledpapers.nsf/displaypaper/4010375aae5d766b436f263f4825814c00342cad/$file/375.pdf](https://www.parliament.wa.gov.au/publications/tabledpapers.nsf/displaypaper/4010375aae5d766b436f263f4825814c00342cad/%24file/375.pdf)
•Keirnan Park Business Case - Shire of Serpentine Jarrahdale (2021) <https://www.sjshire.wa.gov.au/council-meetings/ordinary-council-meeting/ordinary-council-meeting-15-march-2021/494/documents/1023-attachment-2-business-case.pdf>
•Busselton Performing Arts and Convention Centre Business Case (2021) <https://ehq-production-australia.s3.ap-southeast-2.amazonaws.com/f149940b2b28cbce7c13c5b086fdcf6e963c0d37/original/1615534502/8326e1d959908d17e5df5a359c8fba3b_BBRF_BPACC_Business_Case_January_2021.pdf?X-Amz-Algorithm=AWS4-HMAC-SHA256&X-Amz-Credential=AKIA4KKNQAKIOR7VAOP4%2F20230725%2Fap-southeast-2%2Fs3%2Faws4_request&X-Amz-Date=20230725T063406Z&X-Amz-Expires=300&X-Amz-SignedHeaders=host&X-Amz-Signature=333567ae28a2051fe6cfed26ff69c75e846c50f9f0e5f4934052cf19ec28f5c8>

*Rosebud example*

The Rosebud example contains a detailed discussion of how the aquatic centre will be delivered, spanning procurement options (Chapter 13), Council’s approach to funding and financing the project (Chapter 14) and the implementation plan (Chapter 15).

# Section 6: Benefits realisation

This section proposes a data gathering system which will enable rigorous monitoring of the extent to which the benefits promised by the business case are actually delivered over time.

*Content guide*

Describe how progress towards each individual KPI identified in Section 2 will be tracked.

Outline the data bases and/or data capture strategies that will be applied to track progress.

Describe any governance arrangements that will be put in place to effect benefits realization monitoring.

Explain if, how and when benefits realisation monitoring will be published.

*Sources and tips*

Benefits realisation monitoring should focus on a small set of outcomes for which data can reasonably be collected in a timely fashion.

The WA Government provides extensive guidance on benefits monitoring as part the ‘Gateway Reviews’ it applies to State procurement <https://www.wa.gov.au/system/files/2019-08/Gateway%20-%20Benefits%20Evaluation%20Workbook.pdf>