Government of **Western Australia**
Department of **Treasury**

Strategic Asset Management Framework

Business Case Guidelines

December 2024

Strategic Asset Management Framework – Business Case Guidelines

Acknowledgement of Country

This document was prepared by the Department of Treasury (WA Treasury) on the traditional Country of the Whadjuk people of the Noongar Nation.

WA Treasury respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia's Aboriginal communities and their cultures and to Elders past and present.

We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

Further information relating to these guidelines may be obtained by emailing samf@treasury.wa.gov.au.

The Department of Treasury wishes to acknowledge those who contributed to this guide. In particular, the entities of the Western Australian Government that participated in the consultation for this work. This guide draws on best practice approaches as applied by: Commonwealth of Australia, Infrastructure Australia, and the Department of Infrastructure, Transport, Regional Development, Culture and the Arts; New South Wales Government, Department of Treasury; State of Queensland, the Department of State Development, Infrastructure, Local Government and Planning; Northern Territory Government, Department of Industry, Tourism and Trade; United Kingdom Government, Infrastructure and Projects Authority; and, the New Zealand Government, Department of Treasury.

Contents

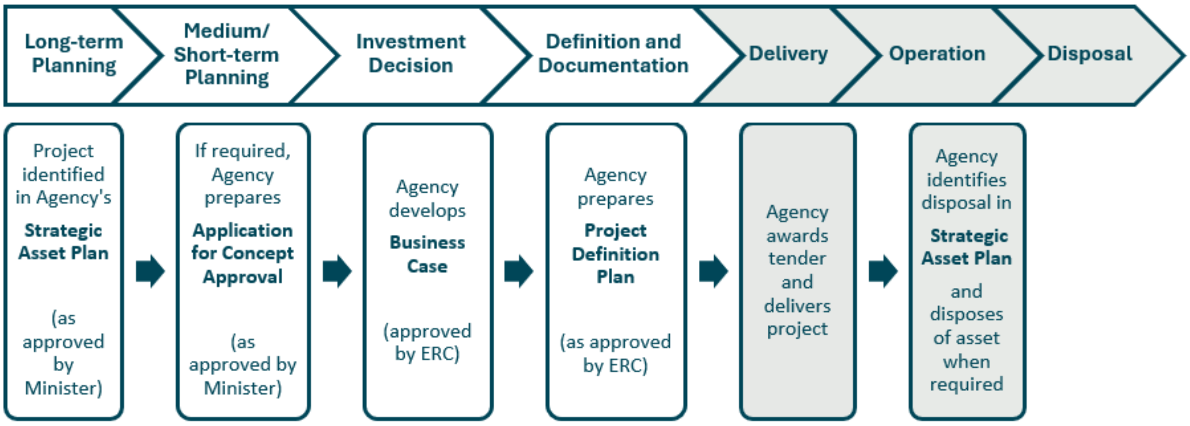
SAMF Overview

Asset investment proposals are developed and considered under a sequenced approach which involves government approval at various stages. The Strategic Asset Management Framework (SAMF) has distinct modules that are intended to provide advice to government during the planning, investment, operation and disposal of assets, these are:

- Strategic Asset Plan;
- Application for Concept Approval;
- Business Case; and
- Project Definition Plan.

Figure 1 provides a high-level overview of how the SAMF suite of documents inform Government asset planning and investment decision-making.

Figure: 1 SAMF Documents in Investment Decision-Making



The purpose of the SAMF Business Case Guidelines is to provide guidance on the development and evaluation of capital investment proposals considered by the Expenditure Review Committee.

The requirements of the SAMF Business Case are scalable to account for a proposal's complexity, risk profile and cost.

These guidelines should be read in conjunction with other SAMF guidelines. Agencies are encouraged to engage with the Department of Treasury (Treasury) early in the development of the business case.

Introduction

As part of the SAMF, Western Australian public sector bodies must develop business cases to support the effective and efficient allocation of taxpayer resources.

The SAMF Business Case Guidelines specify the structure and broad content requirements of business cases submitted to the Expenditure Review Committee (ERC) for review and approval. The content may be adapted to reflect a proposal's complexity, risk profile and cost, and the nature of the asset under consideration.

What is a Business Case?
A business case is a documented proposal that is used to inform an asset investment decision. It puts costs, outcomes and benefits at the centre of investment decision-making, while balancing social, environmental and financial risks. Additionally, the business case establishes the basis for monitoring and evaluating the benefits that result from an investment proposal.

How to Apply These Guidelines

Who Should Use These Guidelines?

These guidelines are to be applied by all public sector bodies including general government agencies, public financial corporations and public non-financial corporations in accordance with all relevant legislation, Treasurer's Instructions (TIs), accounting standards, and other related government policies.

Business Case Threshold Value and Applicable Asset Classes

A business case is required to be developed for all proposals with an estimated total capital cost greater than $5 million.

These guidelines apply to proposals for all asset classes, including non-residential buildings, plant and equipment, rail, roads, ports, and leased and/or acquired information communication technology (ICT). Market led proposals, also known as unsolicited bids, are subject to additional requirements specified by the Department of Planning, Lands and Heritage.

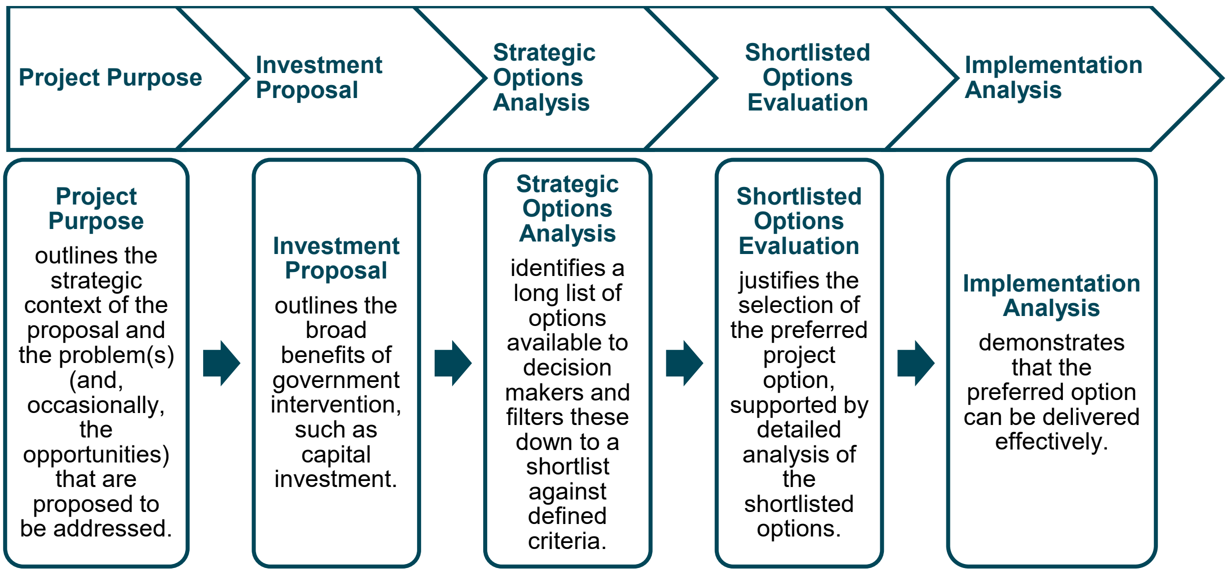
These guidelines may be also used to inform the development of proposals for recurrent programs and services.

Business Case Structure

Figure 2 illustrates the high-level structure of the business case. This structure is based upon the analytical requirements of the Five Case Model, which is a framework for evidence based government investment decision-making used in the United Kingdom and elsewhere. The analytical framework is broadly aligned with the Infrastructure Australia's Assessment Framework.

The level of detail required is expected to be proportional to the proposal's risk and cost profile. The higher the proposal's value and/or risk, the more detailed the effort and analysis required. A business case may also be tailored to reflect the circumstances of a particular proposal. Appendix A: Business Case Requirements – Overview, provides an overview of the requirements within the broad headings outlined in Figure 2.

Figure 2: Business Case Structure



Quality Assurance

Business cases can be improved through independent quality assurance reviews.

These assurance reviews are particularly important for high-value, high-risk proposals. When developing the business case, agencies are encouraged to actively engage with other government organisations, which may be done through the formation of multi-agency governance arrangements, or other more informal processes.

Engagement with Treasury early in the development of the business case is recommended to ensure that the level and detail of analysis is scaled to reflect the size, complexity, risk profile and cost of the proposal.

The Gateway Review methodology is an independent project assurance mechanism designed to support the effective development, planning, management and delivery of major projects and programs.

The Department of Finance manages the Gateway Review process, with agencies required to contact the department's Gateway Unit at the earliest opportunity to discuss the requirements specific to an agency's proposal scope, quality, budget, and schedule.

For major projects of $100 million or more, and for ICT project of $10 million or more, there are specific requirements for proposal quality assurance outlined in the General Procurement Direction 2024/03 – Improving the Outcomes of Major Projects Through Gateway Reviews. Projects subject to this General Procurement Direction, must undergo at least two Gateway reviews, one of which **must** be conducted at the **Business Case** stage.

For all ICT projects, consultation with the Department of the Premier and Cabinet, Office of Digital Government, is mandatory for ICT business cases (for leased and/or acquired assets).

Major Infrastructure Proposals Assessments

Infrastructure WA is tasked with providing expert advice to Government on the State's infrastructure needs and priorities, including assessment of major infrastructure proposals before an investment decision is made. This function has been established in accordance with the *Infrastructure Western Australia Act 2019*.

Infrastructure proposals with a capital cost of more than $100 million will be assessed through Infrastructure WA's Major Infrastructure Proposals Assessment (MIPA) function. An assessment report containing IWA's analysis of each major infrastructure proposal is provided to the Premier and attached to the subsequent ERC submission seeking an investment decision.

Business Cases and the Budget Process

The Expenditure Review Committee (ERC) Handbook and Cabinet Handbook provide guidance on submitting business cases for consideration by the Government.

Business cases are required to be referred for consideration by the ERC as part of the annual Budget process. This provides the Government with the opportunity to make informed investment decisions in the context of competing opportunities for investment and the Government's financial objectives. Treasury advises the ERC on the merits of each business case.

Program Business Cases

There has been an increased focus on program-level planning and investment decision-making in the infrastructure sector. Programs are an investment roadmap, and typically comprise a number of related projects and activities that will be completed in tranches over an extended period.

A program business case may optimise potential value for money of a suite of related projects and actions. A program business case:

- confirms how the program fits within the agency's strategic context;
- confirms the need to invest and the rationale for addressing the identified problem;
- recommends a preferred program and approach to future development of the investment proposal;
- identifies the key asset and non-asset based projects and activities that will support the program outcomes; and
- provides decision-makers with indicative costs to deliver the entire program.

A program may **not be materially amended (i.e. reallocate funding for other projects) without ERC approval**. A program business case should be revisited prior to any major departure to the program's rationale, benefits, approach, timeline or costs. It is expected that the issues to be addressed by the recommended proposal in the business case have also been identified in the agency's **Strategic Asset Plan**.

This linkage provides assurance that the proposal has been developed in line with the agency's strategic objectives, existing asset management responsibilities, and Government priorities.

Streamlined Business Cases

From time to time, it may be appropriate to develop an asset investment proposal in a compressed timeframe. Examples include government election commitments, responding to a natural disaster, or an urgent unforeseen service need.

For election commitments, it may be sufficient for a streamlined business case to focus on confirming the parameters of the proposal where there is confidence that the election commitment can be delivered as intended.

Where there is insufficient information to define the project scope, risks and sensitivities (including financial implications), it may be more appropriate to develop a standard business case.

Regardless of the compressed timeframe in which a streamlined business case may be developed, analysis should be sufficiently robust to support a potential investment decision by Government and provide confidence around delivery.

A streamlined business case template should only be used where directed by Treasury.

Accountability and Transparency

Ownership of the Business Case

Each business case must be signed off by the agency's Chief Finance Officer, the Director General (or equivalent), and the responsible Minister, before referral for consideration by the ERC.

In addition, for public financial corporations and public non-financial corporations, the Board's approval is required for each business case submitted for consideration by Government.

Transparency

To promote openness and transparency to the public, consistent with the objectives of the *Freedom of Information Act 1992* (FOI Act) and with decision-makers' legal obligations, requests to publicly disclose business cases are considered on a case by case basis.

As business cases are usually developed to inform the deliberations of government, they are generally exempt from disclosure in accordance with the FOI Act. Some content of business cases may be suited to a delayed disclosure, after the relevant deliberative process has been finalised and any announcements have been made (e.g. following awarding of contract). This disclosure may be best achieved by the release of a summary of the business case.

Business Case Requirements

Project Purpose

Project Purpose	Investment Proposal	Strategic Options Analysis	Shortlist Options Evaluation	Implementation Analysis

Project Context
Problem Definition
Rationale for Intervention
Timing Considerations

The Project Purpose section outlines the strategic context of the proposal and the problem(s) (and, occasionally, the opportunities) that are proposed to be addressed.

The Project Purpose section provides decision-makers with an understanding of the proposal and the strategic context in which it has been developed; it provides a narrative that helps to establish the case for change.

Project Context

The Project Context section describes the alignment of the proposal with government and/or corporate priorities and the agency's Strategic Asset Plan.

To help establish the current need for the investment, describe the strategic context in which the proposal has been developed. This will generally involve providing relevant background information, including any relevant Government decisions. In discussing the proposal's context, consider how it will affect current service levels, or address forecast future demand for services, as described in the Strategic Asset Plan.

Overall, the project context demonstrates the proposal's alignment and contribution to:

- Government priorities;
- corporate objectives;
- statutory requirements; and
- asset management objectives as identified in the agency's Strategic Asset Plan.

State Infrastructure Strategy

Infrastructure WA is responsible for the development of a State Infrastructure Strategy that outlines Western Australia's significant infrastructure needs and priorities over the next 20 years.

Agencies are strongly encouraged to consider how a proposal aligns to the Government's response to Infrastructure WA's State Infrastructure Strategy when considering the proposal's strategic context.

What is Required?

Describe any context and background necessary to outline the existing service delivery environment and introduce the problem or opportunity.

Identify how the proposal links to the agency's Strategic Asset Plan or other relevant strategic plans, such as the Government's response to the State Infrastructure Strategy and articulate how the proposal will address a need in the agency's service delivery model. In doing so, document:

- any existing similar or related services currently being delivered, how they are being delivered and by whom;
- the existing asset base and its condition, capacity and capability to support ongoing service delivery requirements;
- current and forecast future demand for services; and
- any funding commitments or other resources that support service delivery, including any commitments that are subject to review or are due to lapse.

Problem Definition

Problem identification and definition is critical for a robust and compelling business case. Problem definition provides the basis for generating and investigating a range of options for intervention. Inadequate business cases often fail to properly identify and define the real problem that needs to be addressed.

The Problem Definition section defines the problem(s) and opportunities that the investment is intended to address. The Problem Definition section identifies the cause of each problem, who is affected, and how they are affected. Ideally, there are clear and understandable problem statements that are linked to objectives identified in the project context section.

Some questions to be asked regarding the identified problem(s) are:

- is it clear what problem needs to be addressed, both the cause and effect?
- is there enough evidence to confirm both the cause and effect of the problem?
- does the problem need to be addressed now?
- to what extent is the problem identified in other documents, plans, and reports, including future sources of uncertainty?

Evidence of the Problem

It is important to provide clear evidence that substantiates and validates the cause and effect of the problem and outline any critical assumptions made.

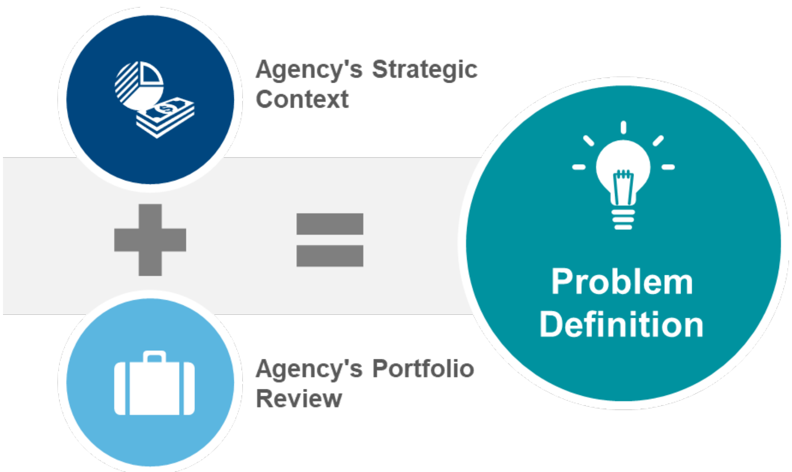
This may include references to issues or risks identified in the agency's Strategic Asset Plan. Where possible it is suggested that the agency demonstrate a link between its Strategic Asset Plan and the business case.

Linking the Strategic Asset Plan to the Identified Problem

Demonstrating the business case's linkage with elements of an agency's Strategic Asset Plan reinforces that an investment proposal aligns with long-term service planning to meet future service needs and demands as well as asset management objectives. Where possible, the business case should reference the following elements of a Strategic Asset Plan:

- Strategic Context outlines the objectives of the agency and the external factors (e.g. demand for services) that have the potential to affect the agency's asset portfolio.
- Asset Portfolio Review describes the agency's existing asset portfolio including its current and forecast performance, and risks to achieving agency objectives.

Figure 3: Linkage between Agency Strategic Asset Plan and Problem Definition in Investment Proposals



The evidence presented focuses on the identified problem, rather than the proposed solution. Evidence might include:

- demand forecasts with clearly detailed underpinning assumptions;
- current performance levels;
- benchmarking information relating to similar agencies;
- identified examples of the problem; or
- evidence from the agency's asset portfolio review.

Key demographic and economic datasets are available from Data WA and the Department of Treasury.

Where detailed quantitative evidence is not available, findings of audits, professional technical reports, reviews or other internal or external research, or other facts or examples of the problems can be helpful.

For high-value, high-risk proposals that are likely to be assessed by Infrastructure Australia, it is appropriate to monetise the problem to further strengthen the evidence for intervention. Infrastructure Australia's Assessment Framework provides guidance on monetising problems.

What is Required?
Describe the problem(s) in terms of its cause, who it affects, and how they are affected. Detail the impact of the problem in the broader service context - including highlighting the risks associated with the problem. If possible, this should reference the Strategic Asset Plan. Note any relevant relationships between the problem and the agency's long-term service and asset planning, Government commitments and strategic priorities (including election commitments) or other relevant plans. If feasible, monetise the problem that the proposal is intending to address.

Rationale for Intervention

Not all problems justify intervention by government. The business case must outline why the Western Australian Government should address the problem as opposed to a private sector/market/not for profit solution, Commonwealth or local government investment.

The rationale for intervention can be based on:

- strategic objectives of the agency;
- statutory requirements;
- changes to existing Government policy; or
- market failure.

The Rationale for Intervention section demonstrates why ‘business as usual’ is not an adequate response to addressing the identified problem. Understanding the ‘business as usual,’ or the status quo, provides the basis for designing an effective intervention.

This information highlights why government is required to intervene to remedy the problem or address the opportunity, as opposed to another sector.

While ‘business as usual’ will be used for comparing options, it is important that it is discussed when establishing the case for change.

Defining the Base Case

Business cases compare the costs and benefits of doing something (e.g. building infrastructure) with a base case. The base case in these guidelines is referred to as ‘business as usual’ but may also be defined as ‘do minimum,’ ‘do nothing’ or ‘keep safe and operational.’

The base case includes any known and funded changes to the infrastructure or service that are likely to occur in the absence of a decision to proceed with the proposal.

A well-established base case provides the foundation for the Strategic Options Analysis and Strategic Options Evaluation. Errors in defining the base case can compromise this analysis.

If the ‘business as usual’ base case appears to be inappropriate for a proposal, agencies should engage with Treasury early to agree an alternative definition of the base case.

Proposals for consideration by Infrastructure Australia are required to specify ‘do minimum’ as the base case. ‘Do Minimum’ reflects the continued operation of the network or service under good management practices. Whilst different terminology, this definition is aligned with the SAMF suggested approach.

What is Required?

Define the ‘base case;’ i.e. the situation in the absence of any intervention or change in practice.

Describe the rationale for government intervention. Justify why the Government should intervene.

Timing Considerations

Timing considerations establish the urgency of the investment proposal, and can include:

- a description of why the problem needs to be solved at this time;
- linkage to broader Government initiatives and programs;
- linkage to long-term Government plans; and
- a statement of the implications and issues of delaying a response to the defined problem, such as impacts to service delivery, safety, or performance expectations.

Note the relative urgency or priority of the proposals as stated in the Strategic Asset Plan.

What is Required?
Indicate the urgency of the problem(s) by explaining why the problem(s) should be solved now rather than later. State the implications of delaying a response to the problem.

Investment Proposal

Proposal Objectives
Benefits to be Delivered
Stakeholders
Interdependencies

The Investment Proposal section outlines the broad benefits of government intervention, such as capital investment.

The Investment Proposal section articulates the broad benefits that are expected to result from the proposal. This is a key element of mapping the logic for investment, which demonstrates that the proposal is worthwhile.

Proposal Objectives

To analyse the options developed as part of the business case it is important that it is clear what the agency is seeking to achieve. Business case objectives are the foundation for developing options and should link to the problem identified in the Project Purpose section.

What is Required?
Detail the proposal’s objectives.

Benefits to be Delivered

Benefits are the direct advantage secured as a result of undertaking a particular investment to address the identified problem.

When defining the benefits of the proposal, identify whether the benefits:

- align to corporate outcomes, long-term plans, policies and objectives;
- align to asset management objectives;
- are portfolio or agency specific, or whole of government; and
- are attainable and will be realised as a direct consequence of the proposed investment.

Benefits to Government

Relate the project context, and identify benefits to be realised through meeting:

- state-wide priorities (including State Infrastructure Strategy recommendations adopted by Government);
- corporate objectives; and
- if relevant, Commonwealth Government objectives.

These benefits are considered (and ideally quantified) in the options evaluation analysis to gauge the relative effectiveness of the shortlisted options in realising the proposed benefits.

For some proposals, detailed metrics associated with the proposal's benefits may not be required. Rather, it is expected that the business case broadly discusses the qualitative benefits of the proposal in terms of:

- the impact of the proposal on the existing service level or quality;
- how the proposal may support Government policy initiatives;
- improved outcomes; and/or
- key high-level economic, environmental and social benefits.

Map the Investment Logic

The case for investment needs to be clear. There are several approaches to clearly articulate the anticipated outcomes of the investment.

One approach developed by the Victorian Department of Treasury and Finance is the Investment Logic Map (ILM). It aims to communicate the investment story on a single page using language and concepts that are understandable to a layperson. The ILM process will help to concisely articulate:

- **the problem** – identifies the problem driving consideration of a new investment or intervention, the evidence to confirm both cause and effect of the problem, and the benefits for the agency in responding to the problem;
- **the benefits** – identifies the evidence that will be needed to demonstrate that the identified problems have been properly addressed, who will be responsible for delivering the benefits and how these will be tracked and monitored;
- **the strategic response** – considers a broad range of interventions such as demand management, regulation change, repurposing assets, investing in new assets and market-based solutions; and
- **the solution definition** – builds on the strategic response and identify the project options or procurement options.

What is Required?
State the benefits (these can be drawn from the Investment Logic Map and Benefits Maps if the investment logic mapping exercise has been carried out). Be comprehensive. Outline how the base case will impact on government policies and strategies. Highlight any drawbacks or disadvantages of the proposal.

Stakeholders

Proposals are likely to have interfaces with, and impacts on, a range of stakeholders (both within and outside Government). A planning process that does not engage with stakeholders has an increased likelihood that a proposal does not adequately account for the broader strategic context. Consequently, it is important that the business case provides decision-makers with an understanding of key stakeholders and their likely position in relation to the identified problem, and possible strategic responses.

Some key stakeholder consultation may be undertaken in developing the Stakeholder Engagement Plan for the business case. This does not need to be comprehensive and can be developed as the proposal progresses towards delivery. Consultation may assist the development and assessment of options in the Strategic Options Analysis section.

What is Required?
Map the key stakeholders, their interests and likely position in relation to the problem. Identify any potential opportunities for collaboration. Comprehensive stakeholder consultation is not expected for this stage.

Interdependencies

Successful project delivery is likely to have key dependencies on other agencies, planned projects, initiatives and stakeholders. Any linkages and interdependencies with other programs and projects should be explained, especially where the proposed project is intended to contribute to shared outcomes across multiple organisations.

This is of particular importance for high-value, high-risk proposals where the business case must provide evidence that interdependencies or conflicts between projects and other agencies/GTEs have been identified, the implications assessed, and the consequence of supporting the proposal on other State projects are clearly articulated.

This includes clearly identifying dependencies on key infrastructure and services, such as utilities (e.g. power, water) and transport networks. Failure to identify and manage these dependencies early can lead to significant delays or unforeseen costs, particularly due to connection issues with utility providers or misalignment with transport infrastructure timelines.

What is Required?
Outline any key interdependencies critical to benefit delivery and strategies required for management. Identify necessary and potential partnerships with other organisations to ensure successful outcomes/benefits realisation.

Strategic Options Analysis

Strategic Responses and the Long List of Options

Long List Evaluation

The Strategic Options Analysis section identifies a long list of options available to decision-makers and filters these down to a shortlist against defined criteria.

The Strategic Options Analysis section provides a high-level assessment of the benefits, costs and risks of a suite of options that may be employed to address the problem. Take a broad approach to develop options available to Government.

Strategic Responses and the Long List of Options

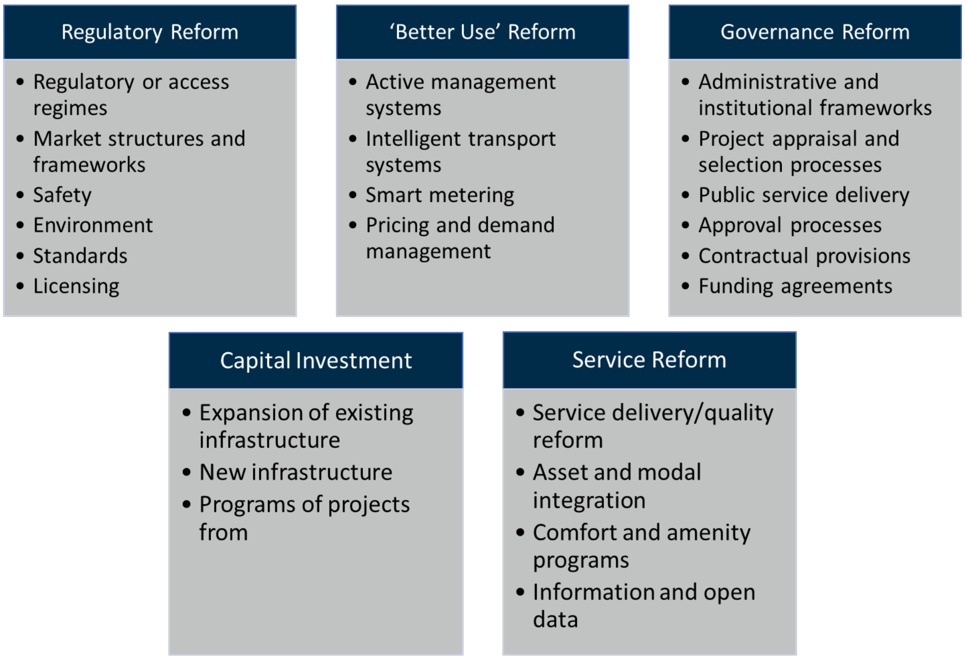
The business case identifies a range of potential options to address the identified problem, with different benefit profiles.

When developing strategic options for the long list, give consideration to broad responses that may enable the same outcomes that could feasibly deliver the intended benefits and mitigate the identified problems. These responses can include non-asset solutions, including digital options or operational interventions that would change the way services are delivered or regulated.

It is important to test a range of potential strategic options to respond to a problem rather than focussing on what may intuitively appear to be the best solution.

Figure 4, based on Infrastructure Australia's Assessment Framework, illustrates the process of identifying possible reform and asset investment options to develop a range of strategic options. This approach enables a mixture of strategic options to be developed.

Figure 4: Possible Strategic Options



Sustainability

Designing and constructing assets that meet the needs of the present without compromising the ability of future generations should be a key consideration in asset investment planning.

Sustainability principles should be embedded in agency asset planning and investment decision-making which address social, economic, environmental and governance outcomes.

Additional considerations to address sustainability may be outlined:

- for infrastructure proposals submitted to Infrastructure Australia for assessment; and
- for transport infrastructure projects over $100 million, as agreed by the Infrastructure and Transport Ministers' Meetings (ITMM).

What is Required?
State potential interventions – i.e. the broad action by the Government (base options, asset options, service options, etc.). State how the potential interventions can be developed into strategic options. List all strategic options considered feasible in addressing the problem. If a large number of options have been considered, it may be appropriate to provide a summary in the business case and include the detail as an appendix.

Long List Evaluation

Shortlisting is a structured process to evaluate options and narrow from the long list of options to the shortlist and, finally, to select the preferred option.

The process of shortlisting strategic options is to be structured, objective, evidence based and consistent with the stated method and criteria. These guidelines do not prescribe defined criteria to apply for shortlisting options, as it is done on a case-by-case basis.

Determining the Shortlisted Options – Outline the Method and Criteria

It is important that the business case outline the method and criteria that was used to develop the shortlist of options.

These criteria could include:

- alignment with the identified objectives;
- alignment with Government policy;
- achievability;
- social, economic and environmental impacts;
- approximate capital and recurrent costs, including the impact on operational costs (or savings), over the lifecycle of each option; and
- relative risks of options.

The key principle to shortlisting options is that options are evaluated on their merits and ruled out if they do not address the problem and deliver the benefits in a cost-efficient way.

Beyond outlining the criteria by which each option is assessed, this assessment must be undertaken using an objective and transparent method. The shortlisting process may focus on each option’s alignment with goals, objectives, strategic plans and value for money. For more complex proposals it may be appropriate to analyse each option’s benefits and costs.

The **shortlist must include the base case and preferably at least two other options**. For streamlined business cases it may be reasonable to limit the number of shortlisted options to the recommended solution and base case.

Multi-Criteria Analysis – Possible Shortlisting Tool

An example of how the criteria is used to shortlist the options is through the application of multi criteria analysis. There are many ways of conducting a multi-criteria analysis, but it generally involves:

- defining the objectives of the proposal;
- determining a set of criteria to measure performance against each objective;
- assigning weights to all criteria;
- providing a score against each criterion for each option; and
- weighting the criteria and summing the scores for each option to provide an overall score.

What is Required?

Evaluate the long list of strategic options using an identified method and criteria to determine those options that will be subjected to further analysis ('the shortlisted options'). This generally involves a qualitative shortlisting process, but for some high-value, high-risk proposals a quantitative methodology may be more appropriate.

Justify the exclusion of any longlisted options in forming the shortlisted options.

Specify the method and criteria used to assess and rank a long list of potential strategic options, including assumptions.

Shortlisted Options Evaluation

Social and Environmental Impact Analysis

Economic Analysis

Financial Analysis

Timing and Program Analysis

Risk Evaluation

The Shortlisted Options Evaluation justifies the selection of the preferred project option, supported by detailed analysis of the shortlisted options.

All business cases, regardless of value or risk, are required to include a Shortlisted Options Evaluation.

The evaluation of the shortlisted options is critical to the provision of a robust recommendation to the ERC. This process requires extensive evaluation of the shortlisted options against quantitative and qualitative criteria.

Shortlisted Options Summary

The business case provides comprehensive information on the shortlisted options for consideration.

When describing each option, it is important to include the following information:

- the broad scope of each option (including any recurrent service elements of scope in addition to asset requirements);
- critical assumptions or constraints and windows of opportunity;
- the proposed funding and financing mechanism; and
- assumptions or constrains applied to each shortlisted option.

Where significant uncertainty exists, greater flexibility and resilience should be built into options to accommodate uncertainties and deliver intended outcomes through the use of scenario or real options analysis. Infrastructure Australia provides detailed technical guidance on risk and uncertainty analysis for major projects.

What is Required?
Describe the following for each shortlisted project option: • scope; • cost; • program and delivery schedule; and • the risk of not delivering in line with the defined scope, costs and schedule.

Social and Environmental Impact Analysis

The Social and Environmental Impacts Analysis section is an evaluation of each shortlisted option against social and environmental metrics. The extent and nature of the impacts may vary substantially across the shortlisted options.

For high-value, high-risk proposals, analysis will extend beyond a description of the proposal's key impacts to assessing the impacts specific to each shortlisted option.

Social Impacts

Social impact analysis is concerned with identifying the sectors of the community that would gain, and which (if any) would lose by each shortlisted option. This analysis presents qualitative and quantitative information to the attention of decision-makers. Common social impacts include urban amenity, heritage, sustainability, Native Title, quality of life, health and safety, intangible economic impacts (e.g. business confidence or state development), and law and order.

Agencies may consult sector-specific guidance on undertaking social impact analysis with an environmental, social and governance (ESG) focus.

Identify all social issues or opportunities specifically relevant to each shortlisted option. If a Cost Benefit Analysis is required (see Preferred Methodology section), the social impacts are to be monetised where possible. In monetising social impacts, state the robust assumptions and available benchmark comparators included.

Environmental Impacts

State significant environmental issues, impacts or opportunities relevant to each shortlisted option including:

- the extent and nature of short- and long-term environmental consequences;
- opportunities to deliver environmental benefits (or mitigate risks) that may not be critical to delivering the proposal but support other Government objectives (e.g. through the incorporation of conservation and sustainability); and
- any uncertainties or risks stemming from these factors and plans to address them.

As with social impacts, where environmental impacts can be monetised, these form part of a Cost Benefit Analysis (CBA). Inclusion of monetised environmental impacts in a CBA need to be supported by robust assumptions and, where possible, available benchmark comparators.

In some cases, an environmental impact assessment is required to meet statutory obligations and address community concerns. Where this is the case, summarise the results in this Environmental Impacts section and provide the full analysis as an appendix.

Table 1: EXAMPLE - Potential Environmental Impacts

Potential Environmental Impacts	Considerations
Topography, Geology, and Soils	• Consider sediment and erosion-control management. • Identify relevant matters in the Environmental Management Register and Contaminated Land Register.
Water Quality	• Provide information on any existing management strategies as well as proposed infrastructure. • Describe strategies to manage existing or potential water quality issues.
Climate and Air Quality	• Potential impacts of climate and seasonal variations on design, project delivery, and asset whole-of-life operations. • Potential impacts and strategies for managing air quality issues during project delivery.
Flora and Fauna	• Describe important flora and fauna (including aquatic flora and fauna if relevant).
Climate Change and Emissions	• Consider and describe how the project will mitigate climate change by contributing to a reduction in global carbon emissions. • Consider the emissions profile of each option.
Noise	• Potential impacts and strategies for managing noise and vibration issues during project delivery.
Waste Management	• Consider waste management during project delivery and operation.

What is Required?
Provide a high-level overview of the social and environmental impacts, both positive and negative, of the proposal and identify any significant issues or opportunities specifically relevant to each shortlisted option. For high-value, high-risk proposals, comprehensively assess all the anticipated impacts of each shortlisted option. This may include undertaking social impact assessment and environmental impact assessments. If relevant, include potential state-wide and national impacts. This may include commentary on how these impacts may affect other agencies and services.

Economic Analysis

The Economic Analysis section requires an assessment of the merits of investment from the perspective of the people of Western Australia. Broadly, the economic analysis involves an assessment of the costs and benefits to the community over an extended time period, with the aim of determining which of the shortlisted options offer the highest net return to the community.

The Economic Analysis section compares the costs and benefits of a shortlisted option to the broader community, whereas the Financial Analysis section is directly concerned with the impact of the proposal on State finances.

Preferred Methodology

Consult with Treasury as soon as possible to discuss the appropriate approach for conducting an economic assessment. Scale the effort invested in carrying out the economic analysis in line with the size, complexity and nature of the proposal.

Where possible, agencies are encouraged to provide quantitative information, even if it is not monetised, that assists in evaluating the economic impacts of the proposal. In addition to this information, it is appropriate to supplement the quantitative information with further qualitative economic analysis.

A qualitative assessment of the costs and benefits to the community is sufficient for most lower value, lower risk proposals.

Where possible and pragmatic to do so, monetise the social and environmental impacts included in the Impacts Analysis (the previous section). If impacts cannot be monetised, a qualitative assessment is appropriate.

Macroeconomic Impacts

A proposal may be developed to respond to key macroeconomic drivers such as productivity, workforce participation and unemployment.

Economic impacts can be identified in a qualitative manner (e.g. by describing possible changes and likely magnitude).

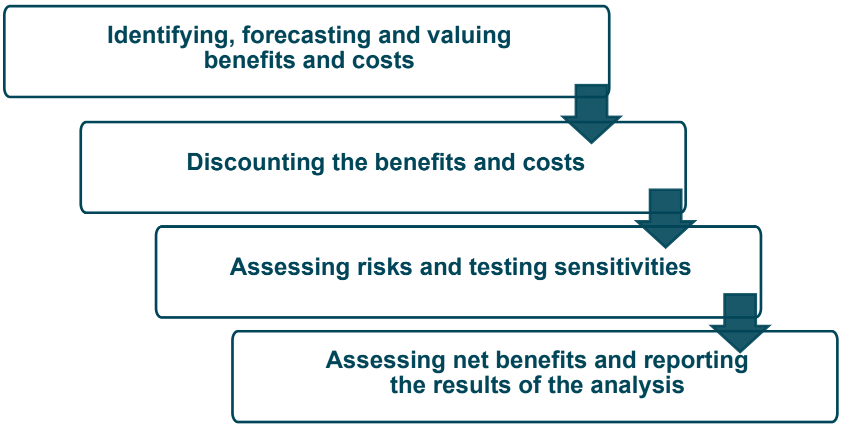
For a very small number of high-value, high-risk proposals it may be appropriate to quantify macroeconomic impacts through economic modelling, using techniques such as Computable General Equilibrium (CGE). Treasury can provide advice on the suitability and application of CGE modelling.

Cost Benefit Analysis

For high-value, high-risk proposals a CBA may be used to conduct the economic analysis. A CBA evaluates whether the proposal would make a sufficient contribution to society's welfare that justifies the expenditure. These impacts include both market and non-market specific impacts.

It compares the monetised costs and benefits on a present value basis to assess whether the benefits exceed the costs of each option, and that no other allocation of resources would generate higher net benefits. Figure 5 outlines the high-level process for a CBA. Agencies are encouraged to consult further information on CBA methodology, including that provided by Infrastructure Australia and the Australian Transport Assessment and Planning.

Figure 5: High-Level Process for Cost Benefit Analysis



Assess the Value of the Benefits and the Costs

Quantify and monetise benefits and costs to the community where possible.

Assign monetary values to impacts in a robust and neutral manner, in line with the appropriate use of existing valuation techniques or default values. If impacts cannot be assigned monetary values, they are to be described in quantitative/qualitative terms. Account for any potential biases, including optimism bias. It is important to avoid 'double counting' the same benefits and costs of a shortlisted option across two or more categories.

Where economic impacts cannot be accurately monetised, quantitatively outline the impact to allow comparison between options. Additionally, the economic evaluation will qualitatively describe non quantifiable impacts so that decision-makers understand the full economic impact of each option.

Accounting for Optimism Bias

Optimism bias is the systematic tendency for project proponents to be overly optimistic about key project parameters, including capital costs, operating costs, project duration and benefits delivery. Overly optimistic estimates can lock in unachievable targets.

The aim of adjusting for optimism bias is to provide a more realistic assessment of the initial estimates of costs, benefits and time taken to implement a project. To reduce this tendency, business cases should make an adjustment for optimism bias. Ideally, an agency will use its own evidence base to derive adjustments.

The UK Government HM Treasury Green Book – Central Government Guidance on Appraisal and Evaluation, provides general guidance on accounting for optimism bias in business cases.

Discount the Costs and Benefits

The costs and benefits of the project over time must be discounted back to present day values, which reflects that a dollar today is worth more than a dollar tomorrow. In doing so, care must be taken to ensure that nominal and real (inflation adjusted) values are not confused, and that the discount rate reflects the choice of nominal or real values.

Use Appropriate Discount Rates

For assessment purposes and comparability, the following real discount rates are to be used:

- 4 per cent per annum; and
- 7 per cent per annum (for the central case).

Proposals that are referred to Infrastructure Australia are also required to apply a real discount rate of 10 per cent per annum as part of the evaluation of shortlisted options.

Assess and Test the Sensitivities

Sensitivity analysis enables an examination of the sensitivity of the shortlisted option's net benefits to the key assumptions underpinning the evaluation.

Sensitivity analysis is a key tool to identify the factors that have the most impact to the estimated net benefits. Even a simple table illustrating the impact of changing the key variables on each option's net benefits can be beneficial.

Test the sensitivity of the economic evaluation by altering critical assumptions adopted that are subject to uncertainty, including the discount rate. This allows changes in key variables to be examined as well as alternative views of the future.

Sensitivity analysis in the CBA seeks to:

- show which variables have a material impact on the proposal. Identified, key project variables can be managed, and risks minimised;
- identify where more information is needed to improve estimates; and
- expose inappropriate forecasts.

The minimum requirement is to assess the sensitivity of the proposal to changes in the discount rate, as articulated in the feature box above.

Present the results of the CBA and compare the options

The discounted costs and benefits are then used to produce Net Present Value (NPV) and Benefit Cost Ratio (BCR) summary measures.

An option is expected to generate a net benefit if the NPV is greater than zero or if the BCR is greater than one.

NPVs are influenced by the project's size and may not be appropriate to use to compare options. The BCR is more appropriate to compare options of different size and scale, where projects with the greatest BCR are favoured (if monetary impact on social welfare is the sole criterion for decision-making). The option that generates the highest NPV or BCR is not necessarily the best option. Nor does an NPV greater than zero, or BCR greater than one, justify government intervention.

The justification to proceed with the proposal and selection of the recommended solution overall must be in light of all other evidence that supports the business case.

What is Required?
An economic analysis may not be required for very low value, low risk proposals. A qualitative assessment of the costs and benefits to the community is sufficient for most lower value, lower risk proposals. In doing this, provide an assessment of the key benefits and costs of each shortlisted option for proposals that are of increased complexity or value. The analysis needs to be sufficiently detailed for decision-makers to be confident of its results. Costs of the shortlisted option are considered in the Financial Analysis section. For a quantitative CBA, include: • the basis for costs and benefits for shortlisted options; • an articulation of the methodology used for the economic analysis; • quantified and monetised (wherever possible) costs and benefits; and • a statement of all assumptions. For high-value, high-risk proposals: • use detailed costs and benefits of each option. These cost estimates will primarily be based on option specific designs, engineering and quantity surveyor cost estimates; • state all assumptions and, if appropriate, refer to comparable projects to justify costs and benefits used; and • include sensitivity analysis on key assumptions and the discount rate.

Financial Analysis

An essential element of business case evaluation is demonstrating the proposal’s expected financial viability and budgetary impact. Whereas the Economic Analysis section compares the costs and benefits of a shortlisted option to the broader community, the Financial Analysis section is directly concerned with the impact of the proposal on State finances.

A robustly presented financial evaluation clarifies the full financial consequences of the proposal for consideration in the context of the proposal’s shortlisted options evaluation.

Financial evaluation is conducted using Discounted Cash Flow analysis. Based strictly on project cash flows, Discounted Cash Flow analysis recognises several important features:

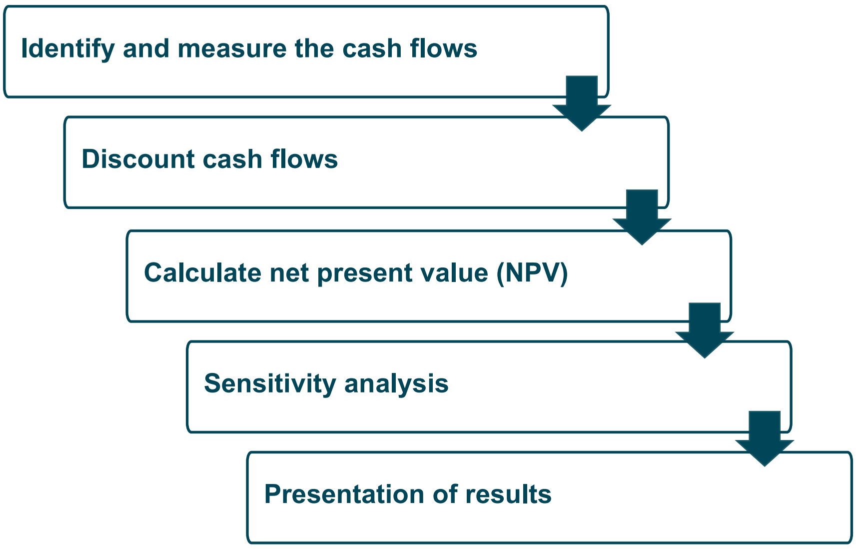
- an amount of money, even when adjusted for inflation, is worth more now than it is in the future. This is termed the ‘time preference of money’;
- resources employed by a project could be utilised elsewhere. This is termed the proposal’s ‘opportunity cost’; and
- project cash flows are frequently uncertain (which should be accounted for in each option’s contingencies).

Financial analysis also accounts for the direct impact on other government agencies as a result of the proposal. Where this is the case, provide the justification and assumptions for the inclusion.

Steps in Financial Analysis

Figure 6 provides the high-level process for conducting financial analysis.

Figure 6: High-Level Process for Discounted Cash Flow Analysis



Identify and Measure the Cash Flows

The evaluation must identify all incremental cash flows that accrue to, or are incurred by, the agency, and the Government overall, as a direct result of the project. This involves determination of capital costs, residual values, annual operating costs, and revenues. Other issues include treatment of inflation, avoiding double counting and determining the appropriate timeframe being considered in the evaluation.

Table 2: EXAMPLE - Flows that may be included in a Discounted Cash Flow Analysis

Flows that may be included in a Discounted Cash Flow Analysis	
IN	• 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
OUT	• 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)

Five basic principles for identifying project cash flows are:

- incremental analysis, where incremental revenues and costs are weighted by an appropriate probability and then discounted with the risk weighted discount rates to generate weighted average expected cash flows;
- opportunity costs in terms of the return of the next best alternative foregone as a result of the proposal;
- accounting practice, in terms of recording actual cash movements;
- inclusion of all incidental effects, such as corporate overheads; and
- exclusion of sunk costs.

Include all assumptions made and sources of data for cash flows. As far as possible, ensure that estimates are based on empirical data.

Cost Estimation

Capital, operational costs, revenues and cash flows are required to be modelled over a sufficient period (which may be beyond the Budget and forward estimates period) to consider whole of life impacts and to allow meaningful comparison of the financial impacts between the shortlisted options.

The cost evaluation of the shortlisted options requires detailed cost estimates, developed by a cost planning professional and consistent with relevant cost planning guidelines. The Expenditure Review Committee Handbook requires that for non-residential capital works projects, cost plans must be validated by the Department of Finance.

Include a brief description of each shortlisted option's estimated capital cost, including information on:

- the estimated range of the proposal's total investment;
- the basis for this estimate;
- outline of cost inclusions/exclusions consistent with scope; and
- cost assumptions that were used.

The assumptions underpinning the cost plans are to be detailed, and consistent with the assumptions underpinning lifecycle costing and programming.

The business case provides a detailed analysis of the operational cost implication for each shortlisted option, developed in consultation with the Treasury.

Cost estimates will also cover any associated impacts on other State Government agencies.

For high-value, high-risk proposals, probabilistic (P90 or P50, depending on the nature of the project) estimation methods may be required for the financial analysis of the business case to determine an appropriate level of contingency.

Clearly document the levels of contingency.

The Commonwealth Department of Infrastructure, Transport, Regional Development and Communications and the Arts provides further information on Cost Estimation.

Discounting Cash Flows

The financial feasibility of project options is normally assessed on a stand-alone basis before financing options are considered. The proposal's cash flows are normally discounted to the present day – that is, to the time the investment decision is being made – regardless of the proposed starting date for the proposal. This recognises that capital expenditure costs and project revenues, or cash flow profiles, are spread over the life of the project, and that these cash flow profiles may differ a great deal between shortlisted options. Discounting allows the financial impacts of shortlisted options to be compared on a like for like basis, through recognising the project owner's time preference for money.

In the financial analysis, the net cash flows should be discounted at a discount rate reflective of the risk inherent in a project.

Generally, for general government agencies developing proposals that are not exposed to economic or market risks, this will generally be at or close to the risk-free rate (approximated by the Western Australian Treasury Corporation (WATC) long term borrowing rate), which represents the general government sector's cost of funds.
To compare shortlisted options in these circumstances, it is acceptable to apply the following real discount rates as sensitivities:

- the risk-free rate (i.e. the WATC long-term borrowing rate);
- 4 per cent per annum; and
- 7 per cent per annum.

For public non-financial corporations and land development agencies that have commercial objectives and proposals that involve cash flows subject to market risks (e.g. user charges, commodity prices, demand risks and/or changes in technology), the discount rate is a key factor in determining the financial feasibility of an option.

For these agencies it may be appropriate to construct an industry specific discount rate that allows cash flows to be discounted at a rate that is reflective of the risks that are inherent to the project. In these circumstances, the Weighted Average Cost of Capital approach may be used, subject to agreement with Treasury. The selected rates should be benchmarked against recent commercial projects with similar project and risk profiles. Please contact Treasury for further guidance on advice on the development and application of bespoke discount rates.

Calculating the Net Present Value

The Net Present Value (NPV) of a proposal's net cash flows is an important measure of its financial assessment. It is calculated by subtracting a proposal'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.

The proposal's NPV reflects its added value or profitability after adjusting for the timing of revenue and cost cash flows by the appropriate discount rate.

Where multiple options are being compared, and they are mutually exclusive, the option yielding the highest (positive) NPV indicates the best financial outcome.

For proposals that are required to yield a commercial return, a proposal 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 contributions will likely be required for the proposal to proceed.

Sensitivity Analysis

The financial analysis is based on a range of assumptions about the proposal. Sensitivity analysis examines the sensitivity of the shortlisted option's NPV to the key assumptions underpinning the evaluation.

Sensitivity analysis is a key tool to identify the significant risks to the estimated cash flows. Even a simple table illustrating the impact of changing the key variables on the estimated cash flows can be beneficial.

Test the sensitivity of financial projections by altering critical assumptions adopted that are subject to uncertainty, including the discount rate. This allows changes in key variables to be examined as well as alternative views of the future.

As with sensitivity testing in CBA, sensitivity analysis in the Financial Analysis seeks to:

- identify variables that have a material impact on the project. Identified, key project variables can be managed, and risks minimised;
- identify where more information is needed in order to improve assumptions;
- identify the consequences of inaccurate estimates of variables; and
- expose inappropriate forecasts.

Presentation of Results

Present the results of the financial analysis to provide a clear comparison and contrast of each shortlisted option's relative:

- value for money; and
- budgetary implications and the impact on the Government's financial targets.

What is Required?
Present the capital and recurrent cost estimates of each option. These estimates should be sufficiently robust for an investment decision-maker to have confidence in understanding the impact on State finances. For high-value, high-risk proposals, the inputs into the Financial Analysis (the cost plans) of the business case are to be developed to a higher degree of certainty (P50 or P90). Present the results of the analysis in a Discounted Cash Flow Analysis. Document all assumptions in an appendix. All assumptions should be defensible, with a clearly documented rationale.

Time Planning and Program Analysis

Identify the indicative timeline with key milestones for delivery of each option and identify any staging requirements.

It is expected that high-value, high-risk proposals provide a greater level of accuracy and detail.

Ensure that the underpinning assumptions for the Program, Cost Plans and Options Evaluation are clearly documented and internally consistent.

What is Required?
Identify the indicative timeline with key milestones for delivery of each option and identify any staging requirements.

Risk Evaluation

The Risk Evaluation section focuses on each option's delivery, and transition to operations, risks and uncertainties. Identify a methodology for identifying project risks and mitigation treatments, as well as a method of evaluating the risks as part of the project option assessment. A risk workshop is often used to identify key project risks.

In setting out the risk assessment of solution options, include:

- a description of the risk assessment methodology undertaken;
- an outline of the risk profile of the investment, including risk causes, events and responses/mitigation strategies; and
- a summary of the key risks to incorporate into the integrated analysis of the investment solution options.

For more complex proposals it is expected that the risk analysis will be a critical input to determining the recommended solution. These proposals will need to undertake a comprehensive risk comparison of the shortlisted options. For each option, this should include the risk profile, risk causes, events and responses/mitigation strategies.

What is Required?
Identify option-specific key risk factors and likely impacts to allow differentiation.

Recommended Solution

From the shortlisted options, based on the analysis presented, state the recommended solution for Government's consideration. Demonstrate why the recommended solution is the best alternative among the shortlisted options. If an option has a BCR<1, or a negative NPV, this does not automatically preclude it from being the recommended solution.

In advocating for the recommended solution:

- clearly state the recommended solution and summarise the rationale for its selection;
- provide details of the recommended solution, including its project objectives, assumptions and scope;
- if a major asset is required, provide concepts and specifications (to the extent that they have been developed);
- provide information on preferred sequencing or staging of the recommended solution and justify why any staging/ sequencing is required; and
- describe any significant broader impacts that are directly attributable to the recommended solution, e.g. on the sector, economy more generally, and/or other key stakeholders (cross references can be made to other sections of the business case if necessary).

What is Required?
Based on the evaluation of the shortlisted options, state the recommended solution.

Implementation Analysis

Project Purpose > Investment Proposal > Strategic Options Analysis > Shortlist Options Evaluation > **Implementation Analysis**

- Procurement Strategy
- Risk Management
- Governance Arrangements
- Stakeholder Engagement
- Delivery Timelines
- Risk Evaluation
- Benefits Management

The Implementation Analysis section demonstrates that the preferred option can be delivered effectively.

All business cases, regardless of value or risk, are required to include an Implementation Analysis section for the recommended solution. Implementation Analysis focusses on the strategy for successful implementation, delivery and operation of the recommended solution.

Procurement Strategy

Based on a Procurement Options Analysis (POA), nominate the indicative, or likely, procurement strategy for the recommended solution (e.g. basic project governance structure, public private partnership project governance, alliance contracting). For lower value, lower risk proposals, the choice of procurement strategy may be straightforward.

Utilise a POA workshop with appropriate representation from executive, Department of Finance, Treasury, State Solicitor's Office (SSO) etc. The procurement strategy will be confirmed in the Project Definition Plan.

Financing Arrangements and Budgetary Impacts

It is important that the budgetary impacts of the recommended solution are clearly defined. There may be more than one potential funding source for the proposal. The most common forms of funding are Consolidated Account, agency borrowings, Commonwealth grants and subsidies, agency own source revenues and proceeds from asset sales.

In some cases, the choice of procurement strategy may have implications for the choice of financing arrangements. The choice to lease or buy office accommodation or ICT assets or services are common situations in which a 'lease or buy' financial evaluation is required to assess the best value for money procurement strategy. The financial evaluation is to be based on a discounted cash flow analysis of the relevant options to finance the proposal.

Articulate the proposed financing and funding arrangements. This information is to be consistent with the information presented in the Financial Analysis section. In doing so, the Financing Arrangements and Budgetary Impacts section:

- identifies the overall funding requirement;
- discusses the potential funding sources, which may include contributions from other levels of government, private sector financing, proceeds from asset sales, agency own source revenue streams, etc; and
- outlines any existing capabilities that can be used to complement/subsidise/offset the investment value.

What is Required?
Nominate and justify the anticipated choice of procurement method for the recommended solution based on the procurement options analysis. Complex proposals will undertake a Procurement Options Analysis (POA) and summarise the results. State the relevant options to fund the proposal. Utilise a POA workshop with appropriate representation from the executive, Finance, Treasury, State Solicitors Office etc. In some instances, the POA will be high-level and confirmed during the Project Definition Plan stage.

Risk Management

All options of all proposals involve some element of risk. The Risk Management section presents the risks of the recommended solution and addresses them in a risk management plan.

Provide a brief overview of the risk management planning process that was undertaken for the recommended solution. This may leverage the work undertaken in the Risk Evaluation section but is a more comprehensive analysis of the recommended solution's risks.

Outline the strategy for the management of all risks related to the recommended solution. This needs to include detailed commentary on the key risks (e.g. stakeholders affected) and a review of the risk rating. Capture any new risks, and responsibility for ongoing risk monitoring/management.

Possible Risks

Below is a non-exhaustive list of some risks that may be considered when developing the risk management plan for the recommended solution.

Investment planning risk – The risk the investment proposal has not been rigorously prepared.

Completion/construction risk – Relates to the development and implementation of the investment within the time and budget parameters.

Implementation risk – Involves assessing the likelihood the proposed investment will deliver specified outcomes and outputs.

Management risk – The ability to deliver the expected outcomes.

Operations risk – Dependent upon the nature of the integration of the recommended project with other agency operations.

Financial risk – Dependent upon the investment's financial structure. Interest rates, exchange rates, timing of cash flows and ability to absorb losses.

Cyber-security risk – Involves considering the exposure or loss resulting from a cyber-attack or data breach on your organisation.(See: WA Government Cyber Security Policy for guidance)

Environmental risk – Impact of the proposal upon the natural environment.

Stakeholder risk – Arises when there are conflicting expectations of investments, or significant stakeholder input required to ensure the project's success.

Risk management is not a static process; therefore, risk assessment continues during proposal development (including the degree of risk sensitivity associated with the assumptions used).

Where the proposal potentially involves risk sharing between the Government and/or the private sector, the risk management plan identifies how risk might be allocated across the parties and comments upon how the risk sharing arrangements will be managed.

It may be warranted to include a separate appendix addressing risk issues. This may include the risk register of key risks with a brief description of each risk, its rating, mitigation arrangements, and who is responsible.

What is Required?
List the key risks to the successful implementation of the recommended solution and state how these risks are to be managed. For high-value, high-risk proposals, list all risks to successful delivery and transition to operations. Outline proposed arrangements for ongoing risk monitoring and management. Include an appendix with the risk management strategy and risk register.

Governance Arrangements

Good governance is a key ingredient to successful asset investment planning and delivery. Clarity around decision-making and accountability forms the basis of robust project planning and management, procurement and contract management, and transparency outcomes.

Key principles for effective project governance include:

- a single point of accountability;
- unambiguous roles and responsibilities. This includes separating project delivery responsibilities from those of asset owner and service delivery responsibilities;
- clear scope definition to ensure there is a shared understanding of project objectives and deliverables;
- project decision-making separated from stakeholder management;
- information based decision-making, with clear processes and procedures for action and decision-making;
- transparent reporting on project progress, achievements, forecasts and risks that is timely, accurate and relevant, and in accordance with pre-determined protocols for the escalation of risks and issues;
- strong project controls, focussed on clear performance criteria; and
- independent project scrutiny and assurance mechanisms.

Clear governance arrangements are required to ensure that the right decisions are made at the right time by the necessary decision-making authority during project delivery.

It is good practice to plan, govern, control and report on project planning and delivery through an appropriate and well understood governance and management regime. This means:

- defining and informing all relevant parties of the governance and management expectations;
- ensuring project governance bodies and structures are appropriate for the scale of the project and reflect the procurement model proposed;

- selecting the right people for the project steering committee (or project governance board) who are appropriately skilled and authorised; and
- the project decision-making body. This body is separate to stakeholder management and engagement bodies.

Outline the governance arrangements that are in place to progress the proposal to the Project Definition Stage and how these arrangements will align with any existing governance frameworks.

Major Non-Residential Buildings Project Governance

A single-point accountability governance model has been endorsed by Cabinet for the planning and delivery of the Government's major non-residential building projects under the *Public Works Act 1902*.

The following key principles apply:

- the Accountable Authority of the agency that holds and controls the project's capital works budget is the single point of accountability throughout the life of the project (from project planning, through delivery and transition into operations);
- the Accountable Authority seeks ERC approval (through the relevant portfolio Minister) for the asset investment decision and, where applicable, changes to the project's approved scope, cost, time and funding parameters; and
- the Director General, Finance is responsible for the procurement and delivery of the asset in line with the project scope, cost and time parameters approved by the ERC.

The governance arrangements apply to major non-residential building projects with an estimated capital cost above $100 million, or less costly non-residential building projects that are considered high-risk or highly complex (determined on a case-by-case basis by Finance and Treasury).

The arrangements do not impact the Transport agencies or Government Trading Enterprises.

A SAMF Practice Note provides additional guidance on these requirements.

What is Required?

State the current governance arrangements in place for the proposal. Outline any proposed changes to governance arrangements that will be required to support project delivery if the proposal is approved by Government.

For high-value, high-risk proposals, document any key changes to governance arrangements that need to be undertaken to ensure the project is delivered as intended.

Stakeholder Engagement

The stakeholders for the recommended solution may be slightly different to the broad range of stakeholders identified in the Investment Proposal section. Further information is needed in the Implementation Analysis section to confirm the recommended solution's key stakeholders that will be affected by its planning and delivery.

It is important that decision-makers are confident that the recommended solution's stakeholders can be managed throughout the planning and delivery of the proposal. Consequently, agencies should attach a stakeholder management plan. However, it is not expected that all stakeholders have been consulted at this time.

What is Required?
Map the key stakeholders and project dependencies, and their interests and likely position in relation to the recommended solution as project planning matures. This will build upon the work identified in the Investment Proposal section but at a more granular level. Outline engagement with key stakeholders to date.

Delivery Timelines

Decision-makers need to understand the extent of pre-construction activities and lead times, so it is important that the business case details the timelines and details about project readiness.

Include a high-level project schedule listing all the major milestones, including:

- the basis and assumptions used in setting timelines;
- advice of independent experts to establish practicality of timelines;
- comparison of timelines to similar projects, explanation for variance if it exists;
- key risks to achievement of timeframes (referring to the Risk Management section if necessary) (e.g. planning approvals);
- transition/ change management timelines;
- critical dependencies; and
- the timing of uncertainties and real options trigger points and the timing of the response.

What is Required?
List the likely major deliverables and the approximate delivery timeframe. For high-value, high-risk proposals more detail is expected to be provided regarding major project milestones and timeframes. High-value, high-risk proposals must provide a detailed outline of the recommended solution's delivery timeline. Attaching a high-level project schedule, listing all the major milestones, as an appendix is required.

Benefits Management

Performance measures are an essential source of information in the performance management process, indicating the extent to which project objectives, and investment benefits, are being achieved to ensure success.

The Benefits Management section outlines how benefits delivery will be demonstrated. Update the benefits management plan and set out project specific performance measures and monitoring systems that will be put in place to track benefits as they relate to the recommended solution.

Benefits management processes should ensure that:

- projects have defined target benefits and outputs that relate to the overarching investment benefits;
- outputs of the project remain consistent with Government objectives;
- costs are closely managed and monitored;
- action will be initiated when key performance indicators are not being met;
- forecast costs and benefits are frequently reviewed; and
- targets and achieved benefits are measured, reported to an appropriate forum and communicated.

What is Required?
Provide a statement of investment benefits to show how well the recommended solution addresses the problem and key benefits that were previously identified. Provide a detailed description of: • KPIs to measure the delivery of the benefits; • baseline, interim and target measures and dates; and • person/position responsible for delivering the benefits, and the forum for reporting. Append an updated benefits management plan to inform this section. Specify the impact of the proposal on the agency's existing outputs and performance measures.

Next Steps and Requested Outcome

This section of the business case outlines areas of uncertainty to be resolved in the next stages of project delivery and form a communication from the business case team to the project delivery team.

Next Steps

A business case is an early step in defining the recommended solution. To support the next phases of the project's delivery, identify the next steps for the project team to ensure the resolution of areas of uncertainty.

What is Required?
State key areas of uncertainty to be resolved. If applicable, raise issues that will need to be addressed in the Project Definition Plan.

Requested Outcome

States the decision(s) that is/are being sought from Government.

Provide a clear recommendation requesting approval for the recommended solution. Advise of the implications of proceeding with the recommended solution.

If appropriate, include recommendations for any associated decisions that are being sought. Some examples of other potential decisions that may be sought include referral to, or engagement with Infrastructure Australia or other Commonwealth bodies, parameters for the procurement strategy, or parameters for further stakeholder engagement.

What is Required?
Briefly summarise the recommended solution and its justification. State the decision(s) that are being sought from Government. Make clear the recommendation(s) state what is sought (including reference to the scope identified in the Shortlisted Options Evaluation), estimated project cost and financial impacts.

Quality Assurance Plans

Identify and attach the assurance documents developed in the process of business case planning. Additionally, identify the documents required in the next phases of the project. These are likely to include:

- Communications Plan;
- Stakeholder Engagement Plan;
- Workforce Plan;
- Organisational Transition (Change Management) Plan; and
- ICT Plan.

What is Required?
For high-value, high-risk proposals, append the Communications Plan, Stakeholder Engagement Plan, Workforce Plan, Transition and ICT Plan to the business case. Quality assurance plans are rarely required to be attached for lower-value, lower-risk proposals. If relevant, outline how the agency will continue to engage with other assurance mechanisms, e.g. Infrastructure WA; Gateway Review Unit; and/or Infrastructure Australia.