



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

Strategic Asset Management Framework

# Business Case





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

Strategic Asset Management Framework

# **Business Case**



# Contents

<b>INTRODUCTION .....</b>	<b>1</b>
<b>Purpose.....</b>	<b>1</b>
Investment Decision .....	1
Application .....	1
Fast-Tracked Proposals.....	2
<b>Approvals .....</b>	<b>2</b>
<b>Responsibility.....</b>	<b>2</b>
<b>Value .....</b>	<b>3</b>
<b>PART ONE: STANDARD .....</b>	<b>4</b>
<b>Vision .....</b>	<b>4</b>
<b>Options .....</b>	<b>4</b>
Options Analysis .....	5
<b>Rigour and Detail.....</b>	<b>6</b>
Sequence .....	6
Quality .....	6
<b>Elements .....</b>	<b>7</b>
Scope .....	7
Caveats.....	8
Cost.....	8
Contingency .....	9
Total Cost.....	9
Schedule.....	10
Risk .....	10
<b>Procurement .....</b>	<b>11</b>
<b>Finance .....</b>	<b>12</b>
<b>Implementation.....</b>	<b>12</b>

<b>PART TWO: BUSINESS CASE MODEL.....</b>	<b>14</b>
<b>Method .....</b>	<b>14</b>
<b>Application.....</b>	<b>15</b>
<b>APPENDIX A: PURPOSE, RIGOUR AND DETAIL.....</b>	<b>16</b>
<b>APPENDIX B: BUSINESS CASE – OVERVIEW.....</b>	<b>18</b>

## Introduction

---

This module clarifies the purpose, standards and model for the content, development and review of a business case. Before proceeding, readers should consult the SAMF Overview which describes how a business case is used during asset investment planning and decision-making.

## Purpose

### Investment Decision

A business case provides decision-makers with a robust appreciation of the objectives and benefits of an investment proposal and the value for money, scope, costs, risks and schedule for alternative options that were supported in principle, based on the preceding application for concept approval.

The business case provides a recommended option and alternatives, based on an objective appraisal of their relative strengths and weaknesses. It provides sound, total cost estimates for both capital and recurrent items, including the costs of operation over the asset's life.

Based on a robust, costed business case, decision-makers are well-placed to determine whether a proposal with strong strategic justification should be assigned provisional funding by Cabinet in the State's Asset Investment Program.

## Application

Based on the justification in an agency's strategic asset plan, a business case is developed for all investment proposals that involve significant costs (generally, a capital cost of \$1 million or more) and medium-to-high risks in terms for example of the scale, technology, workforce skills, change management or stakeholder engagement involved.

A business case may be triggered for a range of objectives including to:

- address a maintenance shortfall for an asset or asset class;
- refurbish an existing asset or acquire a new one;
- replace or upgrade ICT software and infrastructure;

- establish a long-term office accommodation arrangement;
- undertake a large office fit-out; or
- dispose of real property and seek to retain all or a portion of the net sale proceeds.

## Fast-Tracked Proposals

A robust business case is particularly important for proposals that Cabinet has agreed should be fast-tracked – given the urgency, timing constraints and risks involved, and that the Government may have focused the alternative options down to one or two (beyond the status quo).

Further guidance is in the SAMF module on Fast-Tracked Proposals.

## Approvals

A business case is submitted to the relevant Minister in order to seek approval for it to be considered as part of the annual Budget process.

In this way, a business case assists discussions between Ministers and the Treasurer on the range of investment items that have highest priority. If a business case is endorsed during the Budget process, provisional funding is allocated in the Government's four-year Asset Investment Program.

## Responsibility

The agency is responsible for determining the amount of in-house and external resources that should be applied to meet the SAMF standards for a business case. It is important to get the balance right, in order to provide the best possible advice to decision-makers at the time of submission without over-investing, for example, in specialist cost benefit analysis or engineering and architectural advice at a point too distant from the investment decision.

The business case is signed-off by the agency CEO based on advice from senior investment decision-makers in an agency, including the CFO, CIO and heads of other asset planning areas, depending on the nature of the investment proposal.



## Value

The draft business case records in concise terms the logic and assumptions that underpin an investment proposal. This enables scrutiny and critique by reviewers, and focused questioning by decision-makers, with the deliberate intention of identifying flaws that should be addressed.

As a result, the final business case reflects decisions on the investment parameters that have been set with confidence. Based on this clarity, the best value for money option can be selected, any variations from the agreed parameters can be recognised easily, and the reasons and implications addressed later in a project definition plan. By using this questioning approach, each business case contributes to greater certainty for investment planning, prioritisation, implementation and reporting at the State and agency levels.

The business case is sustained and refined as an enduring point of reference, particularly for the project definition planning that may follow. It also provides a clear basis for progress and benefit realisation reports by agencies throughout the life of the investment. This allows judgements about the asset's contribution to service delivery and how lessons learned can be incorporated into planning for similar proposals in future.

## Part One: Standard

---

### Vision

It is essential that the business case demonstrates how asset investment will improve the performance of an agency (or group of agencies) consistent with the service delivery objectives and model in its strategic asset plan. The motivation for a business case should be to achieve broad outcomes, such as the increased reliability or frequency of a service, as distinct from simply replacing an asset (be it a generator, building, railway or road).

### Options

With a primary focus on improved service delivery, the business case provides combinations and flexible ideas across the full range of options including existing asset optimisation and new minor and major investment.

The business case aims to maximise the value from existing assets and related non-asset initiatives which can provide an important foundation for improved service delivery, either in their own right or to complement new assets. The business case options may therefore include:

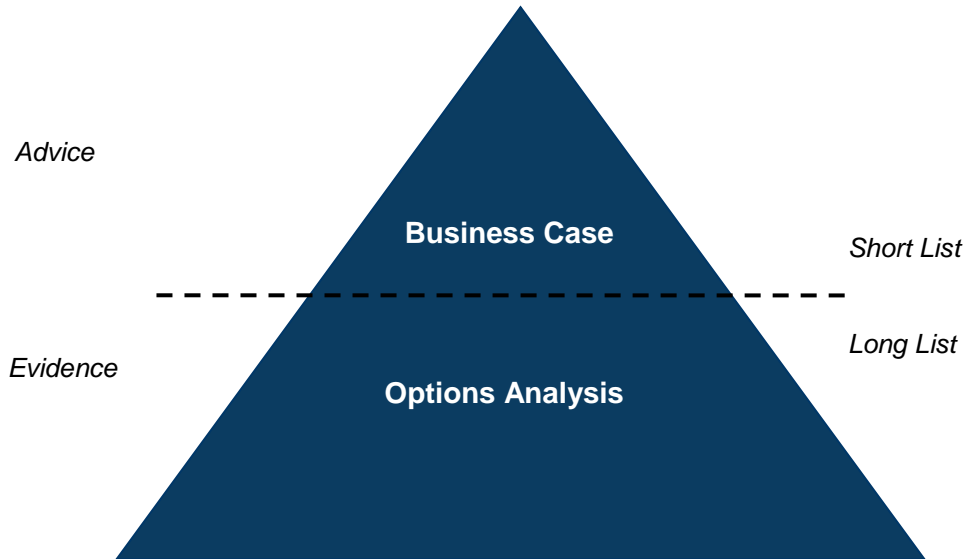
- use of contract terms and conditions to require a manufacturer to repair or replace an existing asset that has failed to reach its expected life span;
- maintenance and refurbishment of existing assets before planning to acquire new ones;
- shared use of a facility or land that is occupied by another agency, or vacant;
- modifications to operations in one work area to help meet additional demand in another;
- consolidating and optimising the use of equipment across offices;
- disposing of land or other assets, or ending a non-asset initiative, in order to gain offsets to help pay for a new investment; and
- adapting an existing facility or acquiring a new one.

The business case does not propose an asset enhancement or new acquisition in isolation from the related assets in its class. Instead, the business case takes an holistic approach to achieve a value for money solution (for example, by replacing or upgrading all of the elevators, or all of the power generators in an agency’s portfolio, rather than focusing on a single item). The investment strategy offers alternatives for sequencing the upgrade and replacement work over time within tolerable risk, funding and schedule constraints.

## Options Analysis

A business case draws on both quantitative and qualitative analysis to provide concise advice to inform judgements on the relative value for money that will be gained from alternative investment options.

As depicted in the diagram below, the business case presents the results (not the detail) of that analysis, focused on the shortlist of options. Important elements of the options analysis include the cost benefit, benchmarking and sensitivity analysis that is done to help establish the scope, cost, risk and schedule estimates in the business case.



The options analysis is provided separately to the reviewers of a proposal. The analysis provides strong evidence that all of the feasible options were considered objectively and that options were only excluded from the business case after careful consideration. Further guidance is in the SAMF Options Analysis module.

## Rigour and Detail

### Sequence

As outlined in the SAMF Overview, a business case is generally preceded by an application for concept approval which provides an early assessment of the scope, cost, schedule and risk parameters for various options to deliver a high priority investment proposal in an agency's strategic asset plan.

The business case builds on that early work to provide decision-makers with sufficient confidence to select one investment option from the various contenders, and to set the parameters that should apply. The advice in the business case should therefore be robust.

If the business case is supported as part of the Budget process, further work is done to refine it and to develop a detailed project definition plan for the approved option before it goes to tender. The plan should either confirm that the business case and investment decision were valid, or advise that they should be reconsidered based on new, material information. The advice in the plan should therefore be accurate.

**Appendix A** to this module summarises the different purpose, content and levels of rigour and detail required in an application for concept approval, business case and project definition plan respectively.

### Quality

The advice in a business case should be robust because the proponent is asking decision-makers to agree that the proposal merits the investment of significant amounts of taxpayer funds.

Given the importance of the decision, a business case does not rely on later work in the PDP to provide the true scope, cost, risk and schedule. If the business case has been well prepared, the PDP will confirm that the advice in the business case was sound.

The business case must therefore have a low risk of material variation, and provide clear advice on the residual risks that are likely to cause changes to the parameters agreed by Cabinet. The business case removes as many of the 'unknowns' and uncertainties as possible.

The evidence used to establish the reliability of the cost, risk and schedule should be strong based on initial, formal advice by industry providers. The evidence includes benchmarking and costed design models from similar projects to compare, for example, the proposed hospital, major infrastructure or IT system design with a recently completed one. An initial master plan is provided for the recommended and feasible alternative options.

Given the need for reliability, there will be a strong case for an agency to engage consultants to assist with the technical aspects of business case development and options analysis, such as the application of cost benefit analysis, benchmarking and early master planning techniques. This will be particularly important for complex assets. However, an agency and Treasury should also be proactive and use their in-house knowledge and research to question the consultants' advice and the initial advice from potential industry partners.

## Elements

### Scope

In describing the scope of an investment proposal, it is important to provide decision-makers with a clear, early idea of the broad design standards that will be pursued to deliver an improved level of service and functionality throughout the life of the asset. In this context, it should be emphasised that good design is a necessity and not an extravagance in the pursuit of value for money outcomes.

The benefits of seeking high performance design outcomes when appropriate should be clearly explained. For example, a high road maintenance standard is related directly to the benefits that would accrue, including in terms of public safety, reduced through-life operating costs and the extended life of the asset.

Similarly, for non-residential buildings, the justification for the investment of public funds would include clarification that the levels of performance to be sought are appropriate. For example, the benefits of pursuing high design standards may include the obligation to meet future, more stringent environmental and sustainability requirements from Government, and to provide a level of functional performance that meets the future demand projections established in the agency's strategic asset plan.

To assist agencies in the delivery of non-residential building assets, the Office of the Government Architect in Finance has developed overarching policy to guide design, supported by a set of standards for various facility classes. The standards are used to help clarify the performance requirements for the refurbishment or new construction that may be required.

## Caveats

Given the availability of information on design standards, investment proposals for assets and non-asset initiatives are not made primarily on the basis of an appeal to achieve general outcomes such as the:

- comfort, symbolism, image, iconic appeal or ambience of a building;
- strategic significance of infrastructure;
- public interest in retaining the asset; or the
- reach, impact and appeal of a non-asset initiative, such as a public education campaign.

These general aspirations are used only if directly relevant to the asset or non-asset initiative, and should be defined and reviewed closely. For example, measurable standards for the comfort of the occupants of a building are available publicly and can be used as an objective point of reference.

It is also important to emphasise that an investment proposal should not aim for an ideal asset vision, or refer to an agency's or the public's needs or desires. Unless clarified, such measures are unlikely to reflect reality – either in terms of demand or the funding available to meet it.

If left unchallenged, general aspirations provide decision-makers with little insight into the scale, feasibility or likely value for money from an investment.

## Cost

The advice on the costs of each option is based on a methodical approach normally taken, for example, by quantity surveyors who prepare estimates for major construction proposals. This does not mean that precise micro-planning is expected to the level of a final design – but rather that all significant cost elements of an option are analysed rigorously.

The business case must identify the main cost and risk drivers, drawing on actual expenditure and schedule data derived from local examples in Western Australia. For example, the gross floor area will be a major driver for a proposed building because the scale of materials and extent of labour required will depend on the final area selected. This parameter also presents a high risk for related sub-items because it is often varied prior to a final decision on whether to proceed.

Other cost and risk drivers for facilities include: the complexity of the design, the quality of materials and the location of the site – for which recent, local cost premiums should be known and from which informed projections can be made. Similarly, the implications of ICT cost drivers, such as software integration and programmers' salaries, can be benchmarked and projected.

The business case also addresses basic aspects such as the future impact of inflation, both in a broad sense (using the latest CPI projections) and in terms specific to the type of asset involved (for example, using the latest Building Cost Index).

Overall, the business case minimises the number of unknowns in the scope and cost of the items that would make up the asset or the support elements required to ensure that the asset is ready on schedule and operates effectively throughout its life. For example, it would not be acceptable to leave as vague or unknown key factors for a facility such as the cost of land acquisition, site decontamination, environmental approvals, or the recurrent costs for staff and utilities.

For this reason, SAMF does not support the creation of a general, indicative estimate that obscures or omits coverage of key line items in a work breakdown structure. Instead, for example, the cost of the 'external works' needed to support the operation of a facility should be derived from robust estimates of the constituent elements including stormwater drainage, sewerage, water, gas, electricity and communications.

## **Contingency**

The contingency estimate must also be robust, based on careful consideration of the risks that are specific to a particular option and its elements.

The contingency is based on sound logic, benchmarks and reasons as to the amount that should be set aside specifically for each cost item and its associated risks. For example, the contingency to address an unexpected increase in the salary of an ICT specialist would be based on: current salary + future labour supply and salary projections (in competition with the private sector). The information to support this work is publicly available.

## **Total Cost**

The total cost is provided as a point estimate, including the specified contingency for risk. The business case and cost analysis may reach the legitimate conclusion that the overall contingency for, say, a complex ICT proposal should be high. However, the justification for that amount must be transparent, logical and open to debate.

## Schedule

The schedule for project delivery should be realistic with adequate time allocated to tasks. Proposed schedules must not contain unachievable deadlines that suggest, for example, that the tender evaluation process for a major project can be completed in two months (when six months is typically required), or which fail (in terms of project delivery) to consider the number of working days in the annual Western Australian construction calendar.

The schedule is not driven by a 'desired' date (such as for the public opening of a facility), if such dates are unrealistic – because the advice to Cabinet will not be robust and schedule slippage will be inevitable. If desire rather than reality is the schedule driver, this should be made clear in the business case, along with the consequent risks.

The business case clarifies the logic for the schedule contingency for slippage. This is also developed in terms specific to the particular investment option – for example, the number of heavy rain and storm days in the location that the facility will be constructed. The schedule contingency is benchmarked against public research that shows, for example, the indicative timing in weeks for the design, documentation and completion of projects of a similar type, scale and total cost.

## Risk

Senior decision-makers in an agency develop concise advice on the main risks and mitigation controls for the planning and delivery of the short-listed options in the business case. The risks and controls will differ between projects. However, common items include:

- Service continuity: minimal disruption to services and public access during the construction phase can be achieved by implementing project delivery in gradual stages combined with public information on the temporary service modifications and work-arounds.
- Project complexity: the potential for an asset upgrade or acquisition to become more difficult than is currently understood can be addressed by investigating specific high-risk elements in more detail during the project definition stage, for example, site areas that initial investigations indicate may be contaminated.
- Governance: the failure to coordinate delivery of critical project components (such as the facility, workforce and ICT) can be addressed by ensuring that senior committees and risk owners are aware of the dependencies across the project, that readiness to proceed to the next stage is rigorously tested and confirmed and that regular progress reviews are provided to the Minister, agency CEO and Treasurer on a whole-of-project basis.



The risk management advice is underpinned by detailed planning by senior project team members and stakeholders. Their judgements and supporting information are consolidated and updated regularly in a risk register. The use of workshops to maximise the identification of risks and controls is strongly encouraged in order to benefit from the practical expertise and lessons learned by experienced asset investment planners and managers.

Further information on risk management is available in the international standard ISO 3100:2009 and guidelines by RiskCover in the Insurance Commission of Western Australia.

## Procurement

Decision-makers consider the potential procurement arrangements after the merits of the main business case have been established. This is to ensure that a proposal is supported in the first instance due to its strengths and relative merit in relation to Government policy and service delivery objectives.

Typically at the business case stage, a preliminary procurement options analysis is conducted in order to identify the range of procurement models that are more likely to achieve value for money for the State. This approach is taken because the range of asset investment options (and hence the potential procurement models) remains open until the EERC has endorsed a particular option – and because the scope of the endorsed option will be subject to further definition.

To ensure that the initial advice in the business case is sound, an agency conducts a workshop involving senior representatives with experience in the procurement and delivery of similar projects. The workshop provides an opportunity to apply lessons learned in the context of the new proposal. For example, the proposal may involve similar aspects such as the refurbishment of a building shell and replacement of the site services infrastructure. However, the deadline for project delivery may allow more time for competitive design work and pricing, and for the gradual staging of construction work to minimise disruption to service delivery. Close consideration of each project-specific aspect will therefore help to identify the procurement models with stronger value for money potential.

A detailed plan for a particular procurement arrangement is not developed until after the EERC has considered the business case and has endorsed an investment option, and sufficient project definition and interaction with the market has been completed during the project definition stage and beyond. Accordingly, informal market sounding is not conducted (and an invitation for Expressions of Interest is not released) before the EERC has endorsed an option.

## Finance

As with the procurement options analysis, the potential financing arrangements are not considered by decision-makers until after the merits of the main business case have been established, rather than simply because access to finance can be secured.

Based on discussions among senior experienced officers in an agency and in Treasury, the initial financing advice in a business case identifies the range of sources that may be feasible and are likely to achieve value for money for the State – whether through the investment of State Budget funds, or a joint funding arrangement with the private sector or with the Federal Government.

For each source, the indicative risks and the relative, potential levels of debt are clarified across the full life of the proposed asset – rather than on a start-up or capital cost basis alone.

It is important to emphasise that regardless of the source envisaged, any financing proposals received, and any advice and analysis by an agency, must be prepared in consultation with Treasury, particularly when co-investment and financial risk sharing by the State are involved. Given the importance of achieving value for money, the advocacy of a preferred financing arrangement without advice on the alternatives is not acceptable.

The development of a detailed financing plan and the final decision on the most appropriate source of finance for a major proposal is not taken until after the cost and risk advice has been improved based on the stronger definition of the asset and the initial market engagement that occurs after business case approval, during the project definition stage and beyond.

## Implementation

The business case is backed by management and resource plans for:

- agency governance, including progress reports against performance indicators;
- project delivery;
- risk mitigation;
- stakeholder communication and change management; and
- through-life asset operation.

The business case identifies any unintended negative consequences that could arise and how they will be avoided, for example, by providing adequate resources and supervision to ensure that frontline staff do not sacrifice service quality in order to meet high targets (such as the number of enquiries addressed per hour).

In particular, the business case must show how implementation risks experienced by similar investment proposals in Western Australia and other jurisdictions will be addressed. Reports by State, Commonwealth and overseas auditors provide examples.

## Part Two: Business Case Model

---

### Method

There are many examples of sound business case methods in Australia and overseas. They cover similar aspects: clarity upfront on the purpose and reason for an investment; gaps and strengths in current services; options to address the gaps; the relative pros and cons of each option; and the proposed next steps.

Consistent with this approach, the SAMF business case model identifies the essence of what should be included in the asset investment and management context. The model focuses on the essential elements that should be addressed, namely the scope, benefits, costs, schedule, risks and implementation issues for alternative investment options. An overview of the model is at **Appendix B**.

The SAMF model is suitable for all types of investment proposal. It is used regardless of the type of asset, or whether the proposal involves investment to sustain the existing asset base or to acquire new assets. It is used whether the proposal involves high, medium or low costs and risks.

The aim is not to provide a one-size fits all, prescriptive template. Instead, agencies are encouraged to use and improve on the SAMF model, provided that their final business case meets the SAMF standards.

There will be aspects that will be different for a particular type of asset. For example, a business case for an ICT upgrade addresses the:

- short life span of software, and the frequent need for refresh planning and expenditure; and the
- merits of reducing the technical scope to small, high value increments, rather than pursue large, extreme risk phases.

However, regardless of the type of proposal, agencies must make clear the logic and assumptions that underpin their advice, and the key judgements and conclusions. Sufficient justification must be provided that a proposed investment represents value for money.

## **Application**

To assist the proponents and reviewers of asset investment proposals to achieve the SAMF standards, the model includes the sorts of universal issues and questions that should be addressed in each section of the business case.

Agency proponents should contact the relevant Director and analyst in Treasury before starting the business case work in order to identify the issues that should be addressed in the specific context for the proposal.

The shared objective should be to clarify the expected results, significant risks, and necessary action from the Government's perspective, as the investor on behalf of the community.

## Appendix A: Purpose, Rigour and Detail

	ACA	Business Case	PDP
<b>Purpose</b>	Clarify highest priority proposals in SAP Early appreciation/initial advice For the AIP out-years (5-10)	Robust advice / reasonable certainty to identify the best value for money option Initial business case for the forward estimates (AIP years 2-4)	Reality check before preparing for tender Helps decision-makers set the parameters for project delivery (e.g. scope, cost, schedule and risk)
<b>Options</b>	3-4 feasible, indicative options (including status quo)	Focused in detail on at least three options (status quo; recommended; and alternatives)	Focused on the approved business case option Highlights and seeks approval for material variations from the endorsed parameters
<b>Depth/Rigour</b>	Indicative but sound desk top analysis	Robust	Accurate
<b>Scope</b>	Indicative scale and standard (e.g. broad area of land and facility; type of hospital; possible vehicle type and fleet size)	Early/initial master plan Clear scale and standard (e.g. m <sup>2</sup> of land and facility; hospital room and bed numbers; vehicle model and numbers)	Demonstrates project resolution and clarity Clear asset definition package: an improved master plan; detailed functional requirements, design criteria, standards and layout; and an initial technical description
<b>Benefits</b>	Early, broad benefit statement (mostly qualitative) Broad cost benefit analysis, with desk top coverage of: social impact; agency financial; agency performance; and economic	Precise statement of benefits and KPIs Rigorous cost benefit analysis (strong quantitative)	Nil additional analysis, unless endorsed business case parameters have changed

	ACA	Business Case	PDP
<b>Cost</b>	Order magnitude/best available benchmarks Indicative contingency (benchmarked)	High-quality estimates by appropriately experienced people (similar to quantity surveyor standard and method)  Robust contingency calculation by line item (justified/not broad brush)	Accurate/closer to tender-quality/fully itemised/based on detailed understanding of asset scope and risk
<b>Schedule</b>	Indicative, but realistic/conservative (based on results from actual projects)	Detailed and well-constructed  Based on indicative work breakdown structure	Accurate completion dates and implementation durations  Broken down by month
<b>Risk</b>	Main risks and mitigation flagged (esp. lessons learned from similar proposals)	Sound strategies to control main project risks  Backed by risk register and risk management reviews	Focused on project delivery risks (scope, cost and schedule, procurement etc)  Clear, overall risk profile based e.g. on project-specific evaluation and lessons learned from similar projects
<b>Delivery Plan</b>	Governance and implementation resources and processes sketched	Clear implementation plan with strategies established for major aspects including: governance; project management; stakeholder communication and engagement; benefit realisation and reporting	Detailed implementation plan to support preparation to achieve readiness for market

## Appendix B: Business Case – Overview

---

### **EXECUTIVE SUMMARY**

#### **Purpose/Business Problem**

Recommended and Alternative Options  
Key Approvals and Next Steps

### **STATEMENT OF PURPOSE**

#### **Strategic Justification**

Alignment to Government Policy and Legislation  
Demand Drivers and Projections  
Service Delivery Objectives and Model

### **EXISTING ASSETS**

Weaknesses, Strengths, Risks

### **INVESTMENT PROPOSAL**

Objectives and Benefits  
Performance Indicators

### **OPTIONS**

#### **Shortlist Description**

Status Quo/First Alternative/Other Alternatives

#### **Value for Money Comparison**

Scope  
Benefits  
Costs  
Schedule  
Risk Mitigation  
Finance and Procurement

### **RECOMMENDATIONS**

Best Option and Alternatives  
Implementation Issues and Resources



