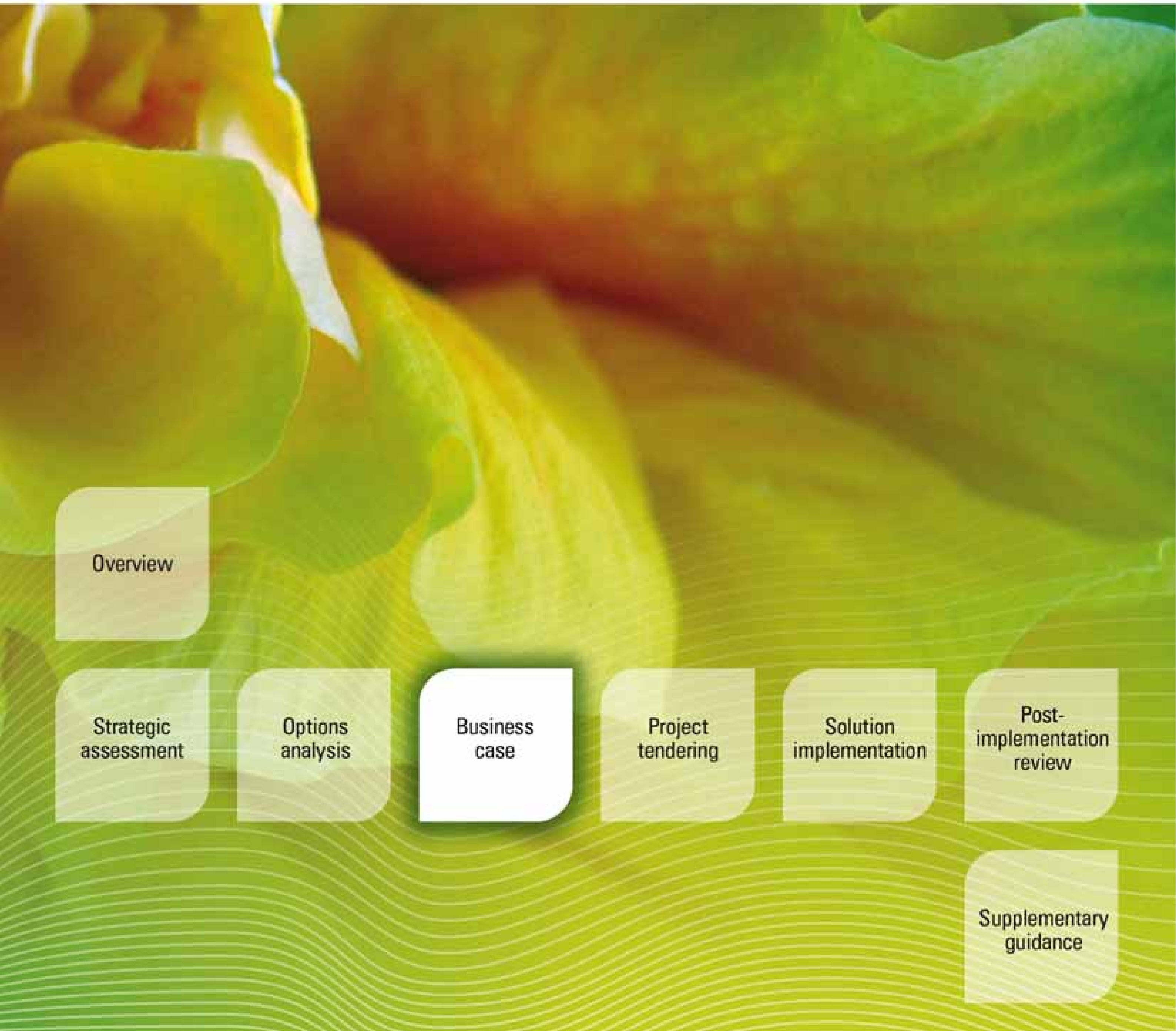
INVESTMENT LIFECYCLE GUIDELINES

Business case



Department of **Treasury & Finance**

Victoria
The Place To Be

Investment Lifecycle Guidelines

Business case

'Is there a compelling case for investing?'

Version 1.0

July 2008

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This Business Case is part of the Investment Lifecycle Guidelines, first published in 2003. The publications in the 2008 series are:
Overview
Strategic Assessment
Options Analysis
Business Case
Project Tendering
Solution Implementation
Post-implementation Review

More information at: www.lifecycleguidance.dtf.vic.gov.au

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Abbreviations

CEO	Chief Executive Officer
CFO	Chief Finance Officer
DTF	Department of Treasury and Finance
EES	environmental effects statement
EIS	environmental impact statement
ERC	Expenditure Review Committee
ICT	information and communications technology
ILM	investment logic map
IMS	Investment Management Standard
IPP	information privacy principle
IT	information technology
KPI	key performance indicator
MYS	multi-year strategy
PPM	project profile model
TBL	triple bottom line
TEI	total estimated investment

Executive summary

A business case provides government (or the investor) with the information needed to make a fully informed decision on:

- the merits of an investment proposal
- whether it should proceed
- how funding should be provided.

The business case should evaluate viable alternatives to determine the desired solution, explain how the solution delivers value for money, outline resourcing requirements and describe the impacts on stakeholders. Most importantly, a business case should analyse the cost, benefits, risks and other important qualitative information involved in evaluating an investment.

A business case makes compelling arguments for a specific investment and provides a detailed whole-of-life view of the scope of the investment, the options, costs, benefits, risks, interdependencies and project governance. It provides those responsible for making investment decisions with all the factors they need for a clear understanding, so they can prioritise soundly and make informed decisions.

A business case should fulfil the following key objectives:

- outline the business need
- provide important background and supporting information to put the investment into context
- describe how the investment aligns with government and agency policy
- provide a robust estimate of the whole-of-life costs of the investment, and its financial benefits
- estimate the non-financial benefits of the investment
- describe the approach to be used, including timelines, resources, the procurement strategy and governance
- rigorously assess the inherent risks, including how they are likely to affect the investment, and outline strategies for mitigating them
- convey the level of uncertainty surrounding the proposal
- provide options for government (or the investor) to consider in reaching a decision.

1 Context

Does the investment proposition hold up to scrutiny?
Thorough analysis now will minimise problems later.

1.1 Investment Lifecycle Guidelines – background

The Investment Lifecycle Guidelines series (the guidelines) are designed to be applied to Victorian Government investments so they provide the maximum benefit for the State's individuals, communities and businesses.

They are mandatory for major[1] investments, but can be used for any investment, whatever its type, complexity or cost.

Every investment needs to address a basic set of questions consistently and robustly. The guidelines provide practical assistance to shape investment proposals, inform decisions about them, monitor their delivery and track the benefits they achieve. They also refer to tools best suited to help at each phase of the investment lifecycle.

The guidelines have seven parts – an Overview and one document for each of the six phases in the process. Their titles and the questions they address are:

1. ***Strategic Assessment*** (What are the business needs and the likely solution?)
2. ***Options Analysis*** (Which option will provide the best solution?)
3. ***Business Case*** (Is there a compelling case for investing?)
4. ***Project Tendering*** (What is the preferred delivery option?)
5. ***Solution Implementation*** (Is the investment proceeding as planned?)
6. ***Post-implementation Review*** (What benefits were delivered and what were the investment lessons?)

Supplementary guidance includes *Procurement Strategy* and *Risk Management* guidance.

1.2 Purpose of the guidelines series

The guidelines provide standards for activities carried out at various phases of an investment. The Overview explains the whole context of the series and relevant processes. Supplementary guidance material has 'how to' details about processes and methods (available at www.lifecycleguidance.dtf.vic.gov.au).

This guideline addresses the business case, the third phase of the project lifecycle. The business case validates the service need and analyses short-listed options in detail—to determine and recommend the best solution. This document also refers to related processes and guidance material regarding business cases. A resource directory is provided for web-links.

[1] To meet current government requirements, *major* has a total estimated investment (TEI) > $5 million.

2 Business case

A business case provides advice to decision-makers so they can determine whether a project is worth proceeding with. It makes a substantiated argument for the preferred option and its delivery. It rigorously examines the options, costs, timeframe and risks. Once approved, it becomes the core governance document for managing and measuring the project.

Key principles in preparing the business case

- Clearly articulate evidence-based and agreed drivers and assumptions underpinning the business need. The validity of the business needs is essential.
- Substantiate the preferred option and show how it meets government and departmental service delivery needs better than other alternatives, taking into account future scenarios and assumptions.
- Apply a disciplined approach to collecting relevant information, analysing the proposal (including identifying the source and basis of the assumptions used), and developing acquisition and risk management plans.
- Clearly communicate the key issues and recommendations rising from the business case to aid executive decision-making. Make sure stakeholders are aware of financial impacts that result from compressed timelines or changes to scope.

2.1 Purpose

A full business case provides key decision-makers with information to assess how the preferred option best meets the service need. There should be sufficient information for decision-makers to:

- agree on the validity of the service need and understand it better
- determine the preferred option
- endorse the preferred option
- agree on the levels and sources of proposal funding
- understand the level of uncertainty surrounding the investment.

In most cases, only the executive summary will accompany an investment or funding submission to the Expenditure Review Committee, with the full business case submitted to the Department of Treasury and Finance (DTF) for analysis.

2.2 When to undertake a business case

A full business case should be prepared for any proposal with a total estimated investment (TEI) of more than $5 million, or one that materially affects service delivery. This should happen whether or not the proposal needs formal government (or ministerial) approval or specific funding through the budget process.

Departments and agencies determine the level of analysis required, based on the proposal's size, complexity and risk. These factors influence how many elements of the business case should be analysed and how deeply. Appendix D provides additional guidance on this.

Departments should use the Gateway Review Process's PPM (Project Profile Model) to revisit the assessment completed during earlier proposal phases. The PPM can help gauge project risk and complexity and the level of analysis needed in the business case.

For projects identified as high or medium-risk under the PPM, a Gateway Review (Gate 2) is likely to be required. This review should happen before any submission to the Expenditure Review Committee.

Gateway Reviews focus on the business justification and can give an assurance that the proposed approach to meeting the service delivery need has been adequately researched, that the risks have been identified and that the initiative can be delivered.

Gateway Review information and documentation can be found at www.gatewayreview.dtf.vic.gov.au.

2.3 Developmental business cases

Agencies without the capital resources needed to produce a detailed business case for the Expenditure Review Committee can use a developmental business case to seek interim funding. This outlines their proposal's critical components. Successful bids receive additional funding to develop a full business case for the proposal.

The developmental business case is mainly derived from the investment concept brief and the benefit management plan – these are done in the strategic assessment phase. (Further information on the investment concept brief and the benefit management plan is available at www.dtf.vic.gov.au/investmentmanagement and in the Strategic Assessment guideline document www.lifecycleguidance.dtf.vic.gov.au.)

Developmental business cases should not place strain and costs on agencies, but rather provide a way to articulate the reasoning behind their initiative effectively. Appendix E is a template for preparing a developmental business case.

2.4 Benefits of business cases

Preparing a full business case is a key phase in the project lifecycle. Business cases are not just one-off documents to gain government funding, but tools to improve service delivery and substantiate general government sector accountability.

A sound business case results from the three-phase development process – strategic assessment, options analysis and then business case. It builds on the options analysis and provides a more detailed evaluation of a proposal. It confirms that the business need identified in the strategic assessment is true and stands up to scrutiny and that the proposal can achieve the benefits sought. It details costs, timeframes and risks. It also explains the project's operational specifications and way it will be governed.

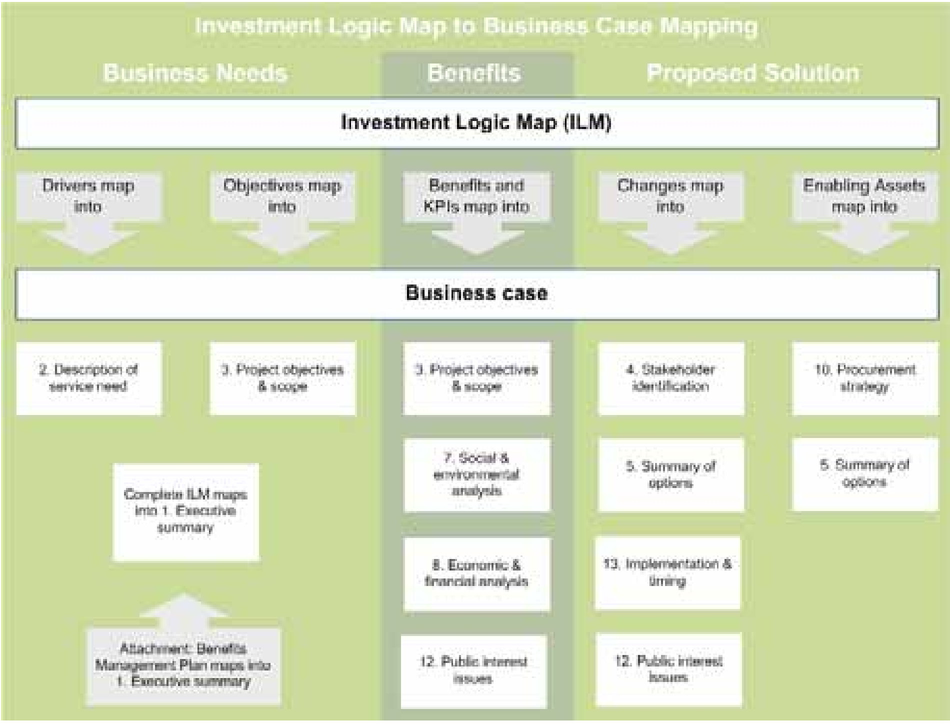
Benefits include:

- confirming the service need, including how it aligns with government policy objectives
- evaluating the costs and benefits of alternative proposals for meeting an identified service need (including non-asset solutions)

- clarifying the key assumptions, risks, timeframes and costs on which the initiative is based
- evaluating project progress by continuously referring back to the business case and benchmarking actual versus planned performance
- tracking and evaluating benefits
- identifying funding sources for the proposal
- improving accountability for the proposal and increasing management's ability to monitor whether it achieves set milestones and key outcomes.

The business case template in Appendix C is an aid to thinking through all the relevant aspects of the business case thoroughly. It builds on the logic of the ILM as shown below.

Figure 3.1: Investment Logic Map to Business Case Mapping



As noted earlier, how much detail is needed will vary depending on the size, risk and complexity of the proposal. (Appendix D has further details.) Some issues in the template will not be relevant to all proposals. However, the completed business case should show that each issue identified has been considered.

Need help?

Preparing business cases can be resource-intensive. Working through them progressively, keeping informed, and engaging with central agencies, can help minimise development costs.

Departments and agencies would benefit from getting in touch with their DTF Client Services contact when they are starting to develop a business proposition. Expert panels of external advisers that DTF establishes from time to time can also assist in a range of activities, including business case development. There are details on current panels (whole-of-government contracts) and how to access them at www.vgpb.vic.gov.au.

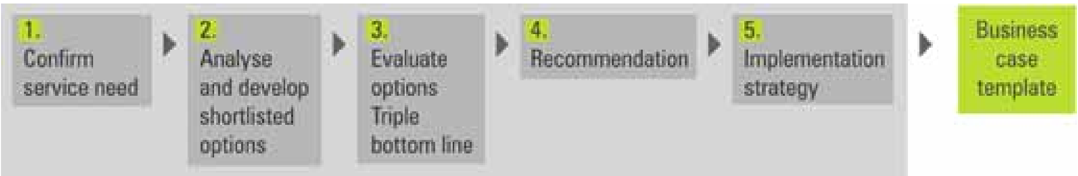
3 Steps – full business case

The full business case builds on the strategic assessment and options analysis phases as shown in Figure 3.1, producing a comprehensive analysis of the short-listed options. It needs more detailed work than the earlier two phases, to tighten and refine the assumptions and the information provided.

It is generally appropriate to consider two or three options in the business case. The analysis will be more in-depth for larger, complex or riskier proposals, particularly if private financing is involved. However, in low-value, low-risk cases, it should be common practice to derive the preferred option using the strategic assessment and options analysis.

Figure 3.2 outlines the main elements of the business case phase.

Figure 3.2: Business case – key elements



3.1 Confirm the service need

It is important for the stated service needs to be real and to fit wider departmental and government strategic objectives. For example, there should be clear evidence of a link to the Victorian Government's strategic priorities, including *Growing Victoria Together,* and those of the department or agency.

Departments and agencies are expected to check their proposals' full alignment with government and departmental or agency strategic objectives and priorities. Proposals should be tested against departmental and agency asset and service strategies under the Asset Management Framework.

Reconfirm the initial need

A way of confirming the initial need is to use a set of practical tools incorporated by DTF's Investment Management Standard (IMS). (IMS is a tool for investors and project owners to use to articulate the reason for the investment, its strategic alignment to organisational outcomes and the benefits it will deliver.)[2]

By the start of the business case phase, the IMS problem, solution and benefits definition workshops should have concluded, producing an investment logic map (ILM), an investment concept brief and a benefit management plan. As a result, key stakeholders should have a clear, shared understanding of the business need, expected benefits and possible solutions to the problem.

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[2] The Overview document in this series goes into more detail about the IMS tools. Alternatively, you can find more information at www.dtf.vic.gov.au/investmentmanagement, or email investmentmanagement@dtf.vic.gov.au.

However, if it is some time since the proposal was initiated, social, economic and political conditions may have changed. The assumptions underpinning the proposal might be outdated. Revisiting the ILM can pinpoint possible discrepancies and update the investment logic.

Business case template

The business case template can reaffirm and provide evidence for the drivers, objectives, benefits, business changes and enabling assets identified in the ILM. The template builds on these components and those from the strategic assessment phase, and calls for a detailed analysis of each item. These context steps are discussed further in the Business case template (at Appendix C).

3.2 Confirm and develop short-listed option(s)

The preferred or short-listed option(s) from the options analysis phase should be not only reviewed but reaffirmed when needed, if considerable time has passed since the proposal was initiated or where development has been delayed.

The business case should also document and test the major assumptions and constraints surrounding the options. The assumptions and sources of information underlying the analysis are important to establish the credibility and rigour of the business case.

As noted, social, economic and political conditions may have changed. This can affect the perceived risks, benefits and costs of identified delivery options. If there is a significant impact on the preferred option(s), consideration should be given to reworking the options analysis process.

3.3 Evaluate to determine preferred option

The full business case should build on the options analysis, as noted earlier. This includes a comprehensive whole-of-life cost-benefit or cost-effectiveness analysis of the short-listed options.

When evaluating the options, the ILM will have identified benefits and associated measures that are expected to result from the investment. It is fundamental to the analysis of options that the ability to deliver on those benefits is retained when the range of other factors and impacts are being considered.

Following the Investment Management Standard, potential investors may by now have developed multiple ILMs to support the identified options. The ILMs are used to identify related business changes and enabling assets. The existence of multiple ILMs points to likely variations in costs, risks and benefits surrounding the investment options which will need to be analysed in determining the preferred option. (Further information is available at www.dtf.vic.gov.au/investmentmanagement and the business case template in the appendix has more details.)

The evaluation should include economic (including financial), social and environmental analyses – the triple bottom line (TBL) approach. Using the TBL approach means taking into account both the positive and negative impacts in determining the recommended option. Melbourne Water has developed a useful step-by-step guide to triple-bottom-line analysis. Also chapters 6-10 of DTF's Investment Evaluation Policy and Guidelines have additional guidance on these issues. These two documents are available as investment lifecycle supplementary guidance at www.lifecycleguidance.dtf.vic.gov.au.

Economic/financial analysis

The objectives of financial and economic analysis are different. It may be that a proposal is not seen as *financially* viable (with a positive net present value) even if it is *economically* viable for government to do it.

Government proposals may appear to be economically viable when external factors (market imperfections for example) are considered. However, they are not always financially viable (looking at narrower cash flow considerations and the need to draw on funding).

To what degree the business case can assess the impacts of external factors will depend on both the availability of data and the scope (time, budget and appropriateness) of all three elements in triple-bottom-line assessments. They all need to address both quantifiable and non-quantifiable costs and benefits to fully inform government decision-making (more information on the Triple bottom line can be found on the federal government department of the Environment, Water, Heritage and the Arts at www.environment.gov.au).

The economic analysis should demonstrate which option offers better value for money. Options include to 'do nothing'. The do nothing option may not be cost-free. It serves to inform decision-makers of the consequences of not making an investment at this time.

The business case should set out significant underlying assumptions and estimates of the cost and benefits over the life of the investment. A cheap option based on up-front capital alone may be the expensive outcome when operating and maintenance costs are considered. For social infrastructure, in particular, operating costs generally exceed capital investment after only a few years. It is therefore important to consider this in making an investment decision locking in ongoing expenditure.

The business case should also provide details of alternatives to address identified challenges and opportunities – typically the top-ranked options from the options analysis. Integration opportunities may represent better value propositions. The business case should offer a brief explanation for the different cost-benefit results for assessed alternatives.

In some cases, there may be only one feasible option to best meet the required service need. In this case, the business case should state which alternatives were investigated and explain why there is only one viable option.

Social analysis

Most government investments are undertaken to deliver services and, as a result, will have some social consequences. Business cases should analyse social outcomes, unless it is clear that the external impacts are minimal. Social analysis identifies and quantifies social issues rising from a proposed investment and accounts for them in the decision process.

A social impacts analysis should capture issues and opportunities linked to the proposal. These may be developed internally or from stakeholder or public consultation. This analysis should gauge any uncertainty that stems from the social dimension of the proposal. The analysis should explain the nature and extent of the effects (and, where possible, quantify them) and outlined strategies to best deal with them.

Issues should be made transparent to decision-makers. The business case should inform them of any policy implications, employment opportunities or community impacts of the proposed initiative. The extent and nature of the analysis should reflect the size of the social impact of the proposal. It is important to communicate the extent of uncertainty to decision-makers.

Environmental analysis

An environmental analysis is required for all proposals, to meet all relevant legislative requirements and likely community concerns. Proposals should be consistent with government environmental policy. The environmental analysis should assess the extent and nature of environmental consequences and opportunities surrounding the proposal.

For some major projects, an Environmental Effects Statement (EES) or a (Commonwealth) Environmental Impact Statement (EIS) may be required. The results of these statements should be summarised in the business case.

Where an assessment confirms there are significant environmental concerns, possible intervention strategies and options should be developed to address these concerns feasibly. The costs and benefits of the strategies should be identified, valued or ranked, and accounted for in the assessment of options. This analysis should gauge any uncertainty that stems from the environmental dimension of the proposal. Again, it is important to communicate the extent of uncertainty to decision-makers.

Use of the triple-bottom-line approach helps with reporting the economic, social and environmental impacts of a proposal or project – its broader performance in the market – not just its financial performance. This includes areas traditionally considered intangible, such as organisational reputation. The references listed at the start of this section (3.3) have more information on triple-bottom-line analysis.

3.4 Recommendation

The business case should describe the preferred option and rationale for the recommendation, covering:

- its major features, including the statement of purpose of the proposal
- its scope
- the economic and financial analysis, including key assumptions
- risk evaluation and extent of uncertainty
- the social and environmental analysis
- the budget analysis and funding strategy
- performance measures
- key project implementation issues, including risk management.

The rationale for the preferred option should build on the earlier evaluation of options, explicitly referring to the risks and performance criteria used.

3.5 Implementation strategy

Key features and steps to implement the preferred option must be specified, together with details of the level of uncertainty and the means to manage risk. Other requirements for the business case document include the:

- management and governance structure

- scheduled milestones and key deliverables
- monitoring and reporting proposed
- legislative compliance and approval requirements and timelines
- acquisition or procurement strategy
- performance targets and benefit management plan
- stakeholder management and communication strategy
- key risks and management strategies.

It is important for the implementation phase of the project or investment to focus on tracking and realising benefits. The claimed returns have to be real.

Benefit management is the process of organising and managing an investment to both realise and report potential benefits. The 'confirm business need' during this phase can validate the initial benefits management plan, developed in the strategic assessment phase.

The benefit management plan identifies the benefits expected to result from an investment. It should identify specific benefits, their relative importance, KPI targets, and deadlines and timelines for key deliverables.

The benefit management plan should incorporate a method for regular status reporting against each benefit the investment was claimed to deliver. The KPIs should be expressed in terms of the total benefit achieved at a certain point. The plan should nominate both the person responsible for realising the benefit and the person responsible for measuring it.

The Strategic Assessment document in this series has more detail about benefit management plans. Alternatively, visit www.dtf.vic.gov.au/investmentmanagement or email investmentmanagement@dtf.vic.gov.au

Appendix C (business case template) has more detail.

3.6 Executive summary

The executive summary is a particularly important part of the business case. It may be presented as a stand-alone companion document to the main body of the report. It must be a clear, concise, plain English outline of the whole proposal, including the rationale for proceeding with the recommended option. It needs to be carefully composed in non-technical language because:

- Decision-makers will primarily consult the executive summary.
- Some key decision-makers may rely heavily on the summary. It must therefore convey a quick and explicit understanding of the arguments, the key issues and the major implications, without undue detail.
- It must provide a useful big-picture overview.
- In some instances, the executive summary will accompany an investment or funding submission to the Expenditure Review Committee, with the full business case submitted to DTF for analysis.

4 Project assurance

There is a range of ways to make sure that projects are reviewed and governed effectively. For medium or high-risk projects, Gateway reviews may be required. Whether or not it is a requirement, it may be useful to review the issues that would normally be considered in a Gateway review.

4.1 Gateway Review Gate 2: Business Case

Gate 2 reviews the business case and the proposed way forward to confirm that the project is achievable and likely to deliver what is required. The aims of the review include confirming:

- how strong the business case is, whether it aligns with business needs and whether the project is affordable and achievable
- that potential options have been identified and analysed (using appropriate expert advice where necessary) and that the appropriate option delivers value for money
- that the underlying investment logic is reflected in the business case
- that the feasibility study has been completed satisfactorily
- that the project is authorised and supported internally and externally
- that the market's likely interest has been investigated
- that major risks have been identified and risk management plans have been developed
- that the scope and requirements specifications are realistic, clear and unambiguous
- that the project is likely to deliver its business goals and that it supports wider business change, where this applies
- that the risks have been translated to a measure of the extent of uncertainty
- that quality and benefit management plans are in place, including key performance targets for the project and its outcomes.

The review primarily examines documents such as the:

- business case (addressing the business need, affordability, achievability, value for money, a range of options, estimates of the project's cost and benefits, some form of feasibility study, sensitivity analysis, market sounding, and preliminary procurement strategy)
- project brief, with the project's scope and the need for change
- project initiation document or equivalent
- investment concept brief and investment logic map
- quality management strategy

- project strategy, including how to deliver the intended outcome
- an initial assessment of the current and proposed physical and technical environment
- report on project cost to date against budget
- draft high-level definition of the business requirements and total scope of change
- risk management plan
- communications strategy
- benefit management plan
- authority and approval to proceed documents.

Resource directory

Further information may be obtained from the following publications/websites. Please advise the Department of Treasury and Finance if your agency, or other agencies, have additional information that should be included in this listing.

Resource name	Access details
Investment Management Standard	
Problem Definition (Investment Logic Map)	www.dtf.vic.gov.au/investmentmanagement investmentmanagement@dtf.vic.gov.au
Solution Definition (Investment Concept Brief)	
Benefit Definition (Benefit Management Plan)	
Business Case	
Investment Reviews	
Benefit Report	
Gateway Review Process	
Project Profile Model	www.gatewayreview.dtf.vic.gov.au gateway.helpdesk@dtf.vic.gov.au
Program Reviews	
Gate 1 Review: Strategic Assessment	
Gate 2 Review: Business Case	
Gate 3 Review: Readiness for Market	
Gate 4 Review: Tender Decision	
Gate 5 Review: Readiness for Service	
Gate 6 Review: Benefits Evaluation	
Investment Lifecycle Guidance	
Overview	www.lifecycleguidance.dtf.vic.gov.au
Strategic Assessment	
Options Analysis	
Business Case	
Project Tendering	
Solution Implementation	
Post-implementation Review	
Supplementary Guidance	
Investment Evaluation Policy and Guidelines	www.lifecycleguidance.dtf.vic.gov.au
Project Alliancing Practitioners' Guide	
Procurement Strategy Supplementary Guideline	
Melbourne Water Triple Bottom Line	
Asset Investment Reporting	www.dtf.vic.gov.au/assetinvestmentreporting
Asset Management Policy	www.dtf.vic.gov.au/assetmanagementpolicy
Multi Year Strategy	www.dtf.vic.gov.au/multiyearstrategy
Partnerships Victoria Guidance	www.partnerships.vic.gov.au
Other Guidance	
Building Commission Guidance	www.buildingcommission.com.au
Capital Development Guidelines	www.dhs.vic.gov.au/capdev.htm
Construction Supplier Register	www.doi.vic.gov.au
Environmental Sustainability Framework	www.dse.vic.gov.au
Health Privacy Principles	www.health.vic.gov.au/hsc/
Human Rights Charter	www.justice.vic.gov.au
Information Privacy Act	www.privacy.vic.gov.au
Multimedia Victoria	www.mmv.vic.gov.au/policies
Standards Australia	www.standards.org.au
Tender Documentation	www.tenders.vic.gov.au
Whole of Government Contracts	www.vgpb.vic.gov.au

Glossary

Asset management framework: A Victorian Government initiative to allow the Expenditure Review Committee to exercise greater strategic control over the asset base, with a tighter focus on adapting the asset base to better support output delivery. The framework has a series of linked strategies (service strategy, asset strategy and multi-year strategy) that guide investment planning in departments and agencies.

Appraisal: The process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made.

Asset option: An asset option is a means of satisfying service needs by investing in existing assets or creating new assets.

Asset strategy: Sets the direction and communicates up-front the assumptions and decisions about levels of service and who provides them; is the means by which an entity proposes to manage its assets over all phases of their lifecycle to meet service delivery needs most cost-effectively.

Assets: Service potential or future economic benefits controlled by an entity (e.g. a department) as a result of past transactions or other past events. Assets may be physical (e.g. plant, equipment or buildings) or non-physical (e.g. financial investments). Assets may also be current (having a store of service potential which is consumed in one year or less) or non-current (having a store of service potential that is consumed over a period of more than one year).

Base case: The base case is a realistic option that involves the minimum expenditure to sustain existing standards of service delivery or to achieve previously agreed service standards. Therefore, the base case does not always mean ‘do nothing’; rather it is the minimum essential expenditure option (e.g. carrying out obligatory works to meet safety and health regulations).

Benefit: The value that the investment will provide to the organisation or its customers. Benefits are normally a positive consequence of responding to the identified driver. Each claimed benefit must be supported by key performance indicators that demonstrate the investment’s specific contribution to the identified benefit.

Benefit management plan: A short document that defines the pre-requisites for delivering each expected benefit, how the delivery of each benefit will be measured, and who will be responsible for measuring and realising each benefit.

Benefit reports: Regular reporting of the delivery of benefits, which are tracked and reported consistently with the benefit management plan.

Business case: A document that forms the basis of advice for executive decision-making for an asset investment. It is a documented proposal to meet a clearly established service requirement. It considers alternative solutions, and identifies assumptions, benefits, costs and risks. The development of the business case is based on the logic in the investment logic map.

Capital expenditure: Expenditure involved in creating or upgrading assets.

Change: The things that must be done by the business if the benefits are to be delivered. The changes provide detail of how the strategic intervention defined in the objective will actually happen.

Cost: An expense incurred in the production of outputs.

Cost-benefit analysis: Cost-benefit analysis is a technique that can express in a comparable (monetary) way the net effect of the costs and benefits associated with an investment proposal.

Demand management: A management technique used to identify and control demand for services.

Depreciation: The allocation of the cost of an asset over the years of its useful life.

Disposal: The process in which an asset is disposed of or decommissioned – resulting in removal from an entity's balance sheet.

Dis-benefit: A negative impact that might occur as a direct consequence of implementing a particular solution.

Driver: The reason that action needs to be considered at this time. Drivers are normally couched in negative terms such as 'Climate change is demanding new ways of living in Australia'. A driver should capture the essence of what is broken and the consequences.

Economic cost (or opportunity cost): The value of the most valuable of alternative uses.

Enabling asset: Any physical asset that must be built or purchased for the identified changes to occur. This may be, for example, a hospital, a pipeline or an IT system.

Evaluation: The process of defining objectives, examining options and weighing up the costs and benefits before a decision is made to proceed.

Financial analysis: An investment evaluation technique that is confined to the cash-flow implications of alternative options and is undertaken from the perspective of the individual department or agency or government as a whole.

Gateway Review Process: A review of a procurement project or a program of works/activities carried out at critical points of a project/program's development by a team of experienced people, independent of the project team. These critical points are known as Gateways or Gates. There are six gateways during the lifecycle of a project and reoccurring program reviews for programs of works/activities.

***Growing Victoria Together*:** A ten-year Government vision that articulates what is important to Victorians and the priorities that the Victorian Government has set to build a better society.

ICT-dependent: Information and communications technology (ICT)-dependent projects meet any of the following conditions: The ICT component of the project is critical to the overall success of the investment; or $5 million or more of the total estimated investment (TEI) is assigned to the ICT component; or 50 per cent or more of the TEI is assigned to the ICT component. Examples of ICT components include hardware purchases, software development and IT project management costs (i.e. anything that is covered by the whole-of-Victorian Government ICT classification.

Impact: The cost, benefit or risk (either financial or socio-economic) rising from an investment option.

Investment: The expenditure of funds intended to result in medium to long-term service, or financial benefits rising from the development or use of infrastructure or assets by either the public or private sectors. A single investment proposal may contain a number of related investment expenditures addressing the same service need.

Investment concept brief: A two-page document that shows the logic underpinning an investment and identifies the likely costs, risks, dependencies and deliverables of the proposed solution. It summarises the merits of an investment and allows decision-makers to prioritise competing investments before proceeding to the business case.

Investment logic map: A simple single-page depiction of the logic that underpins an investment. It provides the core focus for an investment and is modified to reflect any changes to the investment logic throughout its lifecycle.

Investment Management Standard: A best-practice approach applied over the life of an investment that aims to reduce the risk of investment failure, provide greater value-for-money and drive better outcomes. It has been designed to enable the *investor* to shape and control investments throughout their lifecycle.

Investment reviews: Formal scheduled periodic reviews that aim to confirm that the logic for an investment remains valid.

Investor: The person who has an identified business problem (or opportunity), will be responsible for making (or advocating) a decision to investment, and who will be responsible for delivering the expected benefits. This person is often referred to as the 'senior responsible owner'.

Lifecycle cost: Lifecycle cost is the total cost of an item or system over its full life. It includes the cost of development, production, ownership (operation, maintenance, support), and disposal, if applicable.

Key performance indicator (KPI): A measure that has been selected to demonstrate that a benefit expected from an investment has been delivered. The KPI must be directly attributable to the investment.

Multi-year strategy: An agreed listing of asset and non-asset initiatives intended to be implemented in the medium term (generally, the next 5-10 years).

New asset option: Acquisition, transfer or commissioning of an existing asset, or creation of a new asset.

Non-asset option: Under this option, service capacity is met without creating additional assets. This could be done through reconfiguration of the way the services are provided (contracting out, increased use of existing or private assets, or reduction of demand through selective targeting).

Objective: The high-level action (or strategic intervention) that is proposed as the response to the identified driver. This intervention must be framed within the context of the organisation's purpose.

Optimism bias: The demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery.

Options analysis: A process in which a range of options (both asset and non-asset) are evaluated. The most cost-effective options are then selected for more detailed evaluation through a business case.

Outcome(s): In the Government's output/outcome framework, outcomes equate to benefits.

Partnerships Victoria: The Victorian framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through public-private partnerships. The policy focuses on whole-of-life costing and full consideration of project risks and optimal risk allocation between the public and private sectors. There is a clear approach to value for money assessment and the public interest is protected by a formal public interest test and the retention of "core" public services. Partnerships Victoria is most useful for major and complex capital projects with opportunities for innovation and risk transfer.

Project alliancing: A form of procurement where the State or another government entity collaborates with one or more service providers to share the risks and responsibilities in delivering the capital phase of a project. It seeks to provide better value for money and improved project outcomes through a more integrated approach between the public and private sectors in the delivery of infrastructure. Project alliancing should generally only be considered in the delivery of complex and high-risk infrastructure projects, where risks are unpredictable and best managed collectively.

Project lifecycle: The stages of an asset lifecycle between the identification of the need and the delivery and handover of an initiative.

Proposal: An idea for a policy, program or project that is under development and appraisal.

Residual value: The net value applied to the asset at the end of the investment lifecycle or evaluation period; this may result in either a positive or a negative value.

Resources: Labour, materials and other inputs used to produce outputs.

Revenue: Inflows or other enhancements, or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity (other than those relating to contributions by owners) that result in an increase in equity during the reporting period.

Risk: Risk is often characterised by reference to potential events, consequences, or a combination of these and how they can affect the achievement of objectives. Risk is often expressed in terms of a combination of the consequences of an event or a change in circumstances, and the associated likelihood of occurrence.

Risk versus uncertainty: Uncertainty is the extent of variability in the capacity to achieve the desired outcomes or the outcomes themselves. Risks lead to uncertainty.

Scenario analysis: Scenario analysis is a procedure for providing the decision-maker with some information about the effect of risks and uncertainties on an investment. In a scenario analysis, a set of critical parameters and assumptions that define a particular scenario are identified and varied to reflect a best-case and a worst-case scenario.

Service strategy: The strategy for the supply of appropriate services to the community, which is consistent with the entity's corporate goals. It is based on strategic analysis and review of how services are presently provided.

Social benefit: The estimated direct increase in the welfare of society from an economic action. It is the sum of the benefit to the agent performing the action, plus the benefit accruing to society as a result of the action.

Social cost: The estimated direct total cost to society of an economic activity. It is the sum of the opportunity costs of the resources used by the agent carrying out the activity, plus any additional costs imposed on society from the activity.

Strategic assessment: The phase of the project lifecycle during which a need is translated, where justified, into a proposal where outcomes, purpose, critical success factors and the level of strategic alignment are clearly defined.

Value management: Value management is a technique that seeks to achieve optimum value for money, using a systematic review process. The essence of value management is a methodical study of all parts of the product or system to ensure that essential functional requirements are achieved at the lowest total cost. Value management examines the functions required from a product, functions actually performed, and roles of the product's components in achieving the required level of performance. Creative alternatives which will provide the desired functions better or a lower cost can also be explored.

Weighting and scoring: A technique that assigns weights to criteria, and then scores options in terms of how well they perform against those weighted criteria. Weighted scores are summed, and then used to rank options.

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Appendix A: Elements of the service delivery process

Element and content	Relationship to strategic assessment, options analysis and business case
Government policy	
From time to time, government releases statements that outline key strategic service objectives. Project proposals are expected to be derived from, and consistent with, all relevant government policy. This would include: ▪ government strategy and policy, including Growing Victoria Together ▪ legislation ▪ public commitments ▪ asset management policy.	▪ Specifies the State's strategic direction and priorities. ▪ Identifies compliance with legislative obligations.
Service strategy	
Aligns service delivery to the corporate strategy. It sets out broad service delivery targets that are used to drive corporate planning. The service strategy should provide a medium-term focus for planning.	▪ Specifies the broad service delivery strategy. ▪ This should be the focus for the corporate plan, asset strategy, strategic assessment, options analysis and business case.
Service plan	
Translates the direction in the service strategy into planned and timed actions used in the corporate planning process	▪ The broad planned service actions will guide the corporate plan and asset strategy.
Corporate plan	
Used as basis for departmental submissions to Expenditure Review Committee Stage 1. Plans have a three to five-year outlook and set the strategic priorities, vision, mission and objectives of the organisation. Corporate plans identify the relationship between departmental objectives and the government outcomes to be achieved. The plans are high-level and strategic and set the context for departmental activities, rather than detailing activities themselves.	▪ Specifies the departmental objectives and priorities.
Asset strategy	
The asset strategy sets the direction and communicates up-front decisions about levels of service and who provides them. It aligns these directions to the corporate strategy so that the asset base supports departmental objectives and government policies, priorities and targets. It has two main parts: ▪ present situation: includes the current size, condition, cost and forward maintenance and renewal consequences of the existing asset portfolio. It provides high-level background on all existing assets for decision-making. ▪ future possibilities: identifies future opportunities and directions. It should provide short reference papers on various key topics. The information presented is drawn from long-range forecasts (including renewal forecasts, demographic studies, and studies of industry changes). The asset strategy is a major input into the corporate planning process.	▪ The asset strategy determines projects to be evaluated through a strategic assessment, an options analysis and business case development.

Element and content	Relationship to strategic assessment, options analysis and business case
Business plan	
Each departmental business plan has a one-year outlook and translates the corporate plan into a detailed work plan for the year. Business plans include: ▪ the objectives for the department (i.e. a brief statement of the desired state to be achieved) ▪ outputs, performance measures and resource requirements ▪ links to departmental objectives ▪ strategies (i.e. the key activities to be undertaken to achieve the stated objective) ▪ performance measures (i.e. the measures that the organisation will use at the system level for performance improvement, accountability and reporting purposes) ▪ performance targets where set (i.e. the intended level of performance to be achieved within the specified time).	▪ Specifies approved priorities and targets to be delivered in the year
Multi-year strategy (MYS)	
The multi-year strategy presents a consolidated five to ten-year view of all planned and agreed asset and non-asset-related proposals for each department. It identifies the different stages of development and different time-slots for each proposed initiative. Details would change over time as an initiative evolves and develops.	• The multi-year strategy presents the end results from the strategic assessment, options analysis and business case phases. A proposal should be recognised on the MYS after a strategic assessment is undertaken. The entry should then be updated following both the options analysis and business case phases.

Appendix B: Case study

Melbourne Airport Transit Link

The Melbourne Airport Transit Link business case detailed a number of options to achieve a transit link between central Melbourne and the Tullamarine Airport. Options in the business case ranged from heavy rail (express and limited express) to bus service transport. Benefit/cost analysis indicated the bus service was the preferred option, with its relatively low cost and high benefit/cost ratio compared to the proposed rail link.

Consideration was also given to existing services and projected patronage growth for the transport corridor. With airport passengers already having a number of alternatives for commuting to the airport, including bus services, taxis and private vehicles, there appeared little justification for a high-cost investment like the rail link.

Patronage studies indicated limited growth, consistent with estimates provided by the bus operator SkyBus. Low taxi fares, low airport car parking fees and car travel offering short journey times and door-to-door delivery convenience, would hinder increases in patronage, and reinforce the justification for a low-cost upgrade of the airport link.

The commercial viability of the rail option was also benchmarked against a similar operation in Sydney. Although Sydney Airport is the busiest in Australia, the operator of the airport rail line has experienced commercial difficulties, and it was considered unlikely that a similar rail option could operate at a low cost to government in Victoria.

Lessons learned

From an options and benefit/cost analysis, a bus service contract was considered a more feasible option, compared with the high asset investment cost of a rail link. The bus solution was also considered the most appropriate for achieving policy outcomes.

Appendix C: Business case template

The level of detail you provide in the business case depends on the size, risk and complexity of the proposal. Some issues in the template may be less relevant to your proposal and you need only note these. You should show, however, that you have considered each issue.

Please note that the executive summary is an essential part of any business case. Decision-makers rely mainly on the executive summary when assessing a proposal. It should be a clear, concise, plain-English outline of the whole proposal, including the rationale for proceeding with it. While the executive summary is the first section of the business case, it is close to the last area completed.

Appendix D further explains the detail expected in each stage of the business case template, according to each project's complexity.

Business case template

1 Executive summary

The executive summary is a stand-alone part of the report. You should provide:

1. An introduction (outline of the proposal and the business concept), showing:
   - the objective of the proposal, including links to government policy
   - the scope of the project
   - key concepts and strategies (service need, key stakeholders and clients)
   - an outline of the process used to develop the business case.

2. An analysis of the proposal, with:
   - an outline of the options or alternatives, including the 'do nothing' option
   - the economic, financial, social and environmental analysis of options
   - the risk evaluation, including key assumptions, risks and the sensitivity analysis
   - a budget analysis and the funding strategy.

3. The recommended option, including:
   - identifying the recommended option
   - identifying performance measures to be used for the preferred option
   - key implementation issues, including risk management.

You should reference key supporting documentation in the table of contents, the executive summary or the body of the report. If not appended to the business case, it should be readily available from the project sponsor.

2 Description of service need

The service need section details the problems or issues to be addressed. Here, you outline the context provided in the strategic assessment and list the drivers identified in the investment logic map (ILM), describing all the listed items briefly and clearly, and providing evidence for each one.

→ **Please insert the ILM here** (then continue with the next section of the template).

Business case template

Drivers

List the drivers identified in the investment logic map:

- Driver 1 (description and evidence to prove it)
- Driver 2 (description and evidence to prove it)
- etc.

3 Project objectives and scope

The objectives and scope section should clearly state:

- what will be built or acquired with the capital
- the initiative's connection to government priorities and the department's strategic plan and multi-year strategy.

Here, you list the objectives and benefits identified in the investment logic map, describing all the listed items briefly and clearly, and providing evidence for each one.

Objectives

List the objectives identified in the investment logic map:

- Objective 1 (description and evidence to prove it)
- Objective 2 (description and evidence to prove it)
- etc.

Benefits

List the benefits identified in the investment logic map:

- Benefit 1 (description and evidence to prove it)
- Benefit 2 (description and evidence to prove it)
- etc.

↓ **Please attach the benefit management plan to your business case.**

Enabling assets

List the enabling assets identified in the investment logic map:

The description in the business case should expand on the objectives and scope described in the investment logic map, investment concept brief and benefit management plan. It should provide:

- strong and convincing evidence of how closely the proposed initiative or program aligns with government and departmental priorities
- a review of the objectives in the wider social and economic context
- key performance indicators (KPIs) for both project milestones and outputs; these should show how you will measure project performance (in meeting quality standards, keeping to projected timing and costing and realising predicted benefits); (Note: Full details should be captured in the benefit management plan you attach)
- an adequate project monitoring framework, including progressive performance measures showing how the project will be monitored as it progresses and an outline of the post-project evaluation; this will help departments assess whether they have the capacity to deliver the project.

Note: Investments generally contribute to the delivery of service outputs and there should be quantitative performance measures or changes to existing measures resulting from the investment proposal. Proposals must directly contribute to the identified outputs and associated measures.

Business case template

4 Stakeholder identification and consultation

Identifying and consulting with key stakeholders is an integral part of successfully scoping and delivering major infrastructure projects. You should develop a consultation and communication strategy as part of the business case. (Appendix F has more detail on the requirements for major infrastructure projects.)

Key stakeholders are those who are affected by or have a direct interest in the project. They will be different for different projects and may include bidders, investors, users, politicians and officers at the local and state government level, special interest and community groups. The business case should:

- summarise the nature of these relationships and the proposal's potential impact (synergies, benefits, concerns), outlining the consultation already undertaken
- identify actions and responses to stakeholder input, as well as potential stakeholder impact on the proposal. It is important to identify both who in the project team is responsible for particular consultation activities and the related timeframes
- present the wider implications of the proposal, including the impact on any other proposals or opportunities that rely on this proposal or should be jointly considered (to give optimal cross-government outcomes)
- confirm that key stakeholders who provide information can certify its accuracy and identify their data sources
- identify the clients who are the intended end-users of the proposed services (and where appropriate, provide information on the likely demand and any charging policies to recover costs—either in full or in part)
- address the resource implications of the consultation strategy and detail measures of success.

Some stakeholders may be disadvantaged or not fully informed, and may not support the proposal. Other stakeholders may resist change through fear of the unknown ('not in my backyard'), and actively resist the proposal. In these cases, the business case should outline a formal communication strategy with specific objectives to address these issues, including possible public communication from the responsible Minister. It is important that designated speakers are nominated and adequately briefed.

Major projects, including *Partnerships Victoria* projects, are required to complete a public interest test as part of the business case seeking project approval. Government takes this test into account when considering applications for project funding. It is important to ensure that the consultation strategy links with the public interest test, including identifying key groups for consultation and reviewing information gathered.

5 Summary of options

The business case refines and completes the evaluation of options flowing from the options analysis phase of the project lifecycle. It is a more detailed assessment of the options examined in that phase and may also include additional options or discard some options previously considered.

Options summary requirements are:

- Include two or three short-listed options, generally—the two options that are most likely to deliver the desired outcomes and the 'do nothing' or minimal approach option:
- → Insert the investment logic maps for each option identified and describe their respective business changes and enabling assets.
- Clearly identify the benefits, costs and consequences of each option, remembering that budgetary constraints may mean an option other than the recommended one receives funding. (It is important to note that the 'do nothing' option may not be cost-free.)
- Include information on the present service delivery performance, status and condition, use of existing infrastructure; this may be in the form of a "do nothing" option.
- Describe the impact on related services and assets and opportunities for integration with other government services, showing you have considered a 'joined-up' government approach.

Business case template

- Include information on whether the operation, or part of it, could be efficiently and reliably contracted out.
- Provide details of capacity for variations to the design or the life of the proposal.
- Assess the scope to trade off capital and maintenance costs.
- Point out whether interim or staged implementation solutions are available.
- Include information on whether the proposal could be scaled down, or some aspect of the existing operation scaled down or closed.
- Outline the strategic thinking surrounding the options, and the investment of departmental and other resources in developing the business case
- Provide information on whether the delivery options are feasible and realistic and any constraints or assumptions regarding particular options.

Where appropriate, address *Partnerships Victoria* delivery options under the Procurement Strategy, below.

6 Critical assumptions or constraints

Critical assumptions or constraints for the proposal need to be explicitly documented. These must be proposal-specific and should be identified as early as possible.

- Critical assumptions include revenue drivers, capital and operating costs, social and environmental factors, financing constraints, and availability of resources and expertise.
- Include any known or emerging constraints (or windows of opportunity) directly affecting the proposed initiative.
- Identify regulatory, legislative, policy issues and relevant Acts that may impinge on the proposal, including information on where this may be a constraint.
- What is the extent of uncertainty that stems from these factors?

Note: These assumptions or constraints should be considered using a sensitivity analysis (in the economic and financial analysis) and may generate risks requiring management strategies.

7 Social and environmental analysis

Include an analysis of social outcomes, unless it is clear that the external impacts are minimal. Social analysis is undertaken to identify social issues rising from a proposed investment and account for them in the decision process. A social impacts analysis should:

- identify any significant social issues or opportunities directly attributable to the proposal
- address aspects identified in the stakeholder analysis
- outline the nature and extent of the impact on each group or individual
- develop strategies and options to capitalise on opportunities and manage negative issues
- identify the extent of uncertainty that stems from these factors.

State the issues identified in this analysis clearly in the business case so that they are transparent to decision-makers and inform them of any policy implications, employment opportunities or community impacts of the proposed initiative. The extent and nature of the analysis should reflect the size of the social impact of the proposal.

Business case template

An environmental analysis is required for all proposals, to meet all relevant legislative requirements and identified likely community concerns. Proposals should be consistent with government environmental policy. The environmental analysis should assess:

- the extent and nature of both on-site and off-site environmental consequences
- the short and long-term environmental effects of the proposed initiative
- opportunities to deliver environmental benefits from the proposed initiative (e.g. by incorporating conservation and sustainability initiatives)
- the extent of uncertainty that stems from these factors.

For some major projects, an Environmental Effects Statement (EES) or a (Commonwealth) Environmental Impact Statement (EIS) may be required. The results of these statements should be summarised here.

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

Social and environmental impacts should be identified as either quantified (e.g. carbon emissions) or non-quantified (e.g. sense of security), as a different methodology will apply for integrating these into the economic and financial analysis.

Using the triple-bottom-line approach helps with reporting the economic, social and environmental impacts of a proposal or project—its broader performance in the market, not just its financial performance. This includes areas traditionally considered intangible, such as organisational reputation. See Triple bottom line for more information. Further assistance on socio-economic analysis is provided in Chapter 7 of the Investment Evaluation Policy and Guidelines.

8 Economic and financial analyses

This section of the business case is essentially a triple-bottom-line cost-benefit analysis. It will generally rely on a financial model attached to the business case that addresses whole-of-life costs (capital and operational) and benefits (financial or quantifiable economic). You should provide evidence of appropriate sensitivity analysis and detail the financial assumptions. In addition, the analysis needs to integrate non-quantifiable economic, social and environmental costs and benefits. It is necessary to gauge the uncertainty surrounding these factors.

Appendix G addresses a range of issues regarding the financial and economic analysis. Appendix J gives guidance on the project cost estimation. More detailed guidance can be found in sources such as Chapters 6, 7 and 8 of the Investment Evaluation Policy and Guidelines. For proposals where *Partnerships Victoria* delivery is a viable consideration, a preliminary Public Sector Comparator should be a specific output from the financial analysis.

You should consult with the Department of Treasury and Finance to agree costings before submitting the business case.

For proposals requesting continued or additional funding (for a new phase, new module, or as a result of increased costs), you must provide evidence that the newly submitted information reflects any changes to the overall cost, benefit and risk.

Business case template

9 Risk analysis and management

The business case must identify all material risks associated with the proposal, an indication as to who is positioned to bear those risks, and a proposed means to manage risk. Points to note:

- Each proposal invariably involves some element of risk and uncertainty, involving a range of factors that may result in a proposal failing to deliver the expected outputs or outcomes at the estimated cost and time.
- Both risk and uncertainty can rarely be removed, but can usually be managed.
- The risks should be assessed in detail and strategies developed (and documented in the business case) to reduce or manage them (for the preferred option).
- There will be a range of potential project-specific risks and some non-project-specific risks to be addressed such as general and non-divestible financial market risk.

To assist in identifying the various risks in a proposal, you should consider the following risk categories:

• change in law/policy	• investment planning
• commercial	• management
• commissioning	• obsolescence
• completion/construction	• operations
• contractual	• organisational
• demand	• political
• economic	• private sector
• environmental	• regulatory/technological
• financial	• residual value
• implementation	• upgrade

This list is not intended to be comprehensive or exhaustive. Individual project leaders need to consider the context of their projects.

These risks need to be assessed for the business case and on an ongoing and routine basis during proposal development (including the degree of risk sensitivity associated with assumptions used). A risk management planning process should also be covered. Refer to Appendix G.

Further assistance is provided in Chapter 10 of the Investment Evaluation Policy Guidelines, *Partnerships Victoria* Risk Allocation and Contractual Issues Guide (June 2001), *Partnerships Victoria* Public Sector Comparator: Technical Notes (June 2001 and July 2003) and *Partnerships Victoria* Updated Standard Commercial Principles, April 2008.

10 Procurement strategy

In this section, outline the strategy required to procure the services or the project. Various models can be adopted including (a) construct to design, (b) design and construct, (c) design, construct and manage, (d) *Partnerships Victoria,* and (e) Alliancing.

Consider the possibility of *Partnerships Victoria* delivery fully and objectively for initiatives where the net present cost of the cash flows is greater than $50 million. (This threshold is stated each year in the Budget Information Request dealing with Expenditure Review Committee Stage 2.) *Partnerships Victoria* has real potential to deliver value for money where:

- It is possible to clearly define required outputs to allow a payment mechanism to be structured.
- The project has complexity and there is significant scope for innovation.
- There are opportunities for cost-effective risk transfer.
- There is a potential market interest in the proposal.

Appendix H provides more detailed guidance on assessing the suitability of a *Partnerships Victoria* strategy

Business case template

11 Budget analysis and funding strategy

A budget analysis should illustrate how the options relate to output funding and delivery as well as capital funding. The analysis should allow decision-makers to consider the option that will deliver the best outcomes in line with government objectives and will have a demonstrable effect on output/service delivery performance.

Where there are hard budget constraints (for example, where funding sources are not available or funding is not endorsed for the proposed investment), it may not always be the case that the option providing the highest net benefits will be selected. Instead, decision-makers may select the option that maximises net benefits within overall budgetary constraints and the investment mix.

The budget analysis must identify the operating budget (revenue and expenses) over the proposal's lifecycle and the capital cost impacts over its life (initial costs and any known renewals requirements), together with cash flows for each financial year over the forward estimates period. It should outline:

- the impact on the department's outputs and associated outcome targets (i.e. measurable impact on performance)
- the cost impact, including all changes to revenues and expenses (capital charging, depreciation equivalent, as well as maintenance, security, cleaning etc.) and the impact on the net cost of agency outputs
- asset investment requirements, net of any income from the sale of surplus or redundant assets (net capital costs)
- process costs, for example project management, legal and procurement advice, rent for accommodation for the project team or environmental approvals processes
- cash outflows and inflows, including explicit identification of the proposed funding sources and details of any financial arrangements, including user charging.

It should also consider the extent of uncertainty that stems from these factors.

12 Public interest issues

The public interest test involves determining whether suitable measures can be established to adequately protect the public interest. The areas of concern should have been highlighted during the strategic assessment and options analysis phases.

In the business case, detail the impact of the project on the eight elements of public interest: effectiveness, accountability and transparency, affected individuals and community, equity, consumer rights, public access, security and privacy.

All major infrastructure projects are required to undertake a public interest test at the pre-tender stage of the project. This would include projects to which the Project Development and Construction Management Act 1994 applies (through section 6 of that Act), projects requiring government capital funding of more than $100 million, or projects that the Economic Development and Infrastructure Delivery Committee considers 'major infrastructure projects' for this purpose.

For *Partnerships Victoria* projects, a full public interest test is also completed as part of the business case. Appendix I and Chapter 18 of the *Partnerships Victoria* Practitioners' Guide (June 2001) further explain public interest issues and how to undertake a public interest test.

Business case template

13 Implementation and timing

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

Implementation requires establishing sound governance and project management arrangements. These should be detailed, along with the parameters for performance, project assurance and investment management.

A range of proposal delivery performance measures (milestones) is necessary at the project level. This includes measuring standards to be met, timing issues, location (where relevant), benefit realisation and costing. Detail timing and delivery sequencing and the potential lead-time expected.

- Develop an indicative and realistic timetable outlining the key delivery events.
- Detail implementation issues, particularly where a physical site is involved:
  - In the event that a site is not already held, provide details of the site acquisition strategy, including how this might affect timing, sequencing and costs of the proposed initiative.
  - Consider planning requirements and specific environmental requirements.
- Detail the project schedule, including information on potential competing priorities, dependency analysis, skills, capabilities, availability of agency staff, contractor expertise and experience etc.
- Confirm that you have adequately identified all actions needed to progress the initiative.
- Identify resourcing implications for the department.
- Implement the benefit management plan identified in the Strategic Assessment phase.

Thought should also be given to 'key related processes' to be carried out in parallel with construction to deliver the service output, including:

- organisational change management
- scope management
- stakeholder management
- risk management
- issue management
- knowledge management
- quality management
- probity.

14 Recommendation of preferred option

Clearly recommend the preferred option, with a clear outline of the reasons for the recommendation.

15 Signoff

It is important that the primary author of the business case is identified and signs it off. You need signoffs by:

- your Chief Finance Officer (or equivalent) on any Project Profile Model (PPM) you include to update proposal risks
- the Chief Financial Officer and the department's Secretary – these are required for business cases to be considered by the Expenditure Review Committee.

You also need to provide details of any review process (e.g. a Gateway review Stage 1 or 2).

So that decision-makers know that business cases have been carried out thoroughly and completely, you should provide a quality assurance checklist with business case submissions seeking endorsement from the Expenditure Review Committee, portfolio ministers and departmental Secretaries. Appendix K contains a template checklist that should be incorporated into the business case signoff.

Appendix D: Detail expected in the business case

Full business case High-risk/ High-expenditure projects	**Strategic business case** Low-risk/Low-expenditure projects
• Mandatory	• Mandatory
Business case element - 1a. Executive summary	
• Listing of major supporting documentation provided • Copies of critical documentation (or summaries) attached to business case	• Listing of major supporting documentation provided
1b. Supporting documentation	
• Needs to be clearly stated • Investment logic map, investment concept brief and benefit management plans to be included, thoroughly described and elements proven. • Significant effort undertaken to confirm, quantify and prioritise needs • Major stakeholders consulted on needs and priorities • Market research (demand, pricing, growth) and community consultation undertaken • Present level of performance in addressing present and future need fully evaluated • Short, medium and long-term implications of need addressed • Process documented in business case	• Needs to be clearly stated • Investment logic map, investment concept brief and benefit management plans to be included, thoroughly described and elements proven. • Needs identified through departmental strategic documentation (service strategy, service plan and asset strategy) • Present, required and known emerging level of performance evaluations undertaken
2. Service needs analysis	
• Clearly and succinctly documented and prioritised (investment concept brief)	• Clearly and succinctly documented and prioritised (investment concept brief)
3a. Project objectives	
• Clearly and succinctly documented	• Clearly and succinctly documented
3c. Strategic alignment	
• Level of alignment with government and departmental policy and strategic direction clearly documented	• Level of alignment with government and departmental policy and strategic direction clearly documented
3d. Performance measures	
• Wide range of critical success factors addressing triple bottom line documented • Critical success factors should be SMART (specific, measurable, achievable, realistic and timebound) • Inclusion of the benefit management plan	• Limited range of critical success factors documented • Critical success factors should be SMART (specific, measurable, achievable, realistic and timebound) • Inclusion of the benefit management plan
4a. Stakeholder analysis	
• Stakeholder mapping undertaken • Stakeholder segmentation analysis	• Interviews of key stakeholder representatives

Full business case High-risk/ High-expenditure projects	**Strategic business case** Low-risk/Low-expenditure projects
• Communication strategy developed • Stakeholders involved in development of business case • Stakeholder issues/constraints/support fully documented and impacts analysed • Process documented in business case	• Stakeholders advised on a well-informed 'as required' basis
4b. Cross-organisational issues	
• More research into potential issues and flow-on costs and benefits undertaken • More stakeholder involvement • Opportunities for collaboration fully explored • Business case provides detailed information and documents process taken to identify cross-organisational issues	• Other departments and agencies consulted on a well-informed 'as required' basis • Business case highlights any issues
4c. Communication/consultation requirements	
• Stakeholder communication strategy fully documented	• Basic information provided on communication/consultation strategy to progress project
5. Options analysis	
• Collaboration of stakeholders in options analysis • Wider range of options considered and refined for in-depth analysis • 'Do nothing'/minimal approach considered • Significant investment in evaluating non-asset solutions • Significant detailed supporting studies • Complex scenario/sensitivity analysis undertaken • Value management studies undertaken • Longer-term focus – more outward looking (beyond State considerations) • Options analysis documented in detail	• Most feasible options considered, including 'do nothing'/minimal approach • Non-asset solutions considered • Limited supporting material/feasibility studies may only be required • Results documented in business case
6. Critical assumptions and constraints	
• Constraints identified through detailed studies or consultation • Assumptions firmed up through detailed studies/analysis • Critical assumptions and constraints documented and used in scenario/sensitivity analyses	• Desktop evaluation and documentation of assumptions and constraints (based on existing studies/knowledge)
7. Social/environmental impacts	
• Detailed impact assessments and peer-reviewed expert reports • Market research/community consultation undertaken • Process and results documented in business case	• Preliminary studies or desktop evaluation undertaken • Results summarised in business case

Full business case High-risk/ High-expenditure projects	**Strategic business case** Low-risk/Low-expenditure projects
8. Economic/ financial assessment	
• External review of inputs and outputs • Economic benefits quantified and integrated with socio-economic benefits • Optimism bias addressed (risk-based cost) • Complex financial/economic modelling • Complex scenario/sensitivity analysis • Whole-of-life costing • Presentation includes cases from pessimistic to most likely to optimistic	• Desktop assessment • Simple net present value (NPV) analysis • Sensitivity analysis consists of simple 'what if' analysis • Whole-of-life costing • Presentation of most likely scenario in business case
9. Risk evaluation	
• Detailed risk assessment undertaken, including qualitative and quantitative approaches • Wider range of risks considered, including political risks and compliance with relevant legislation • Stakeholder involvement in risk assessment and management • Worst case scenario considered • Full assessment of all risks for preferred option • The extent of uncertainty that stems from all relevant factors assessed • Project risk management processes documented • Pilot/modular/incremental approaches considered as risk reduction strategies • Risk management strategies and contingency planning approaches documented • Business case details risk management issues and highlights major risks and potential impacts on various stakeholders	• Simple qualitative assessment documented in business case • Responsibility for management of major risks (and who bears risk) documented • Mitigation strategy for major risks • Assessment of the extent of uncertainty that stems from all relevant factors
10. Procurement strategy	
• Wider range of options considered, particularly *Partnerships Victoria* • Analysis of short-listed options and recommended strategy included	• Limited range of options considered • Preferred option and reasons documented
11. Budget analysis	
• Capital, recurrent and cash flow budget impacts and funding sources documented • Full lifecycle impacts highlighted	• Capital and recurrent budget impacts documented
12. Public interest issues	
• Issues determined from consultation or market research • Public interest issues documented and key issues highlighted	• Key public interest issues highlighted
13. Implementation strategy	
• Detailed implementation program and specific milestones provided, including resource allocation	• Basic implementation program and milestones documented

Full business case High-risk/ High-expenditure projects	**Strategic business case** Low-risk/Low-expenditure projects
• Pessimistic, most likely, optimistic scenarios documented • Critical path activities highlighted, including risk management strategies • Legislative compliance and approval requirements and timelines	• Legislative compliance and approval requirements and timelines
14. Preferred option recommendations	
• Greater robustness in testing of preferred recommendations • Recommendation and reasons including processes for testing validity of recommendations documented	• Preferred recommendation and reasons documented
15. Signoff	
• Signoff by Chief Executive Officer (CEO) and Chief Finance Officer (CFO)	• Signoff by delegated senior management

Appendix E: Developmental business case template

Context

- What is the compelling reason this investment should be considered further?
- What will happen if we don't do anything? (Use a summary from the problem definition workshop.)
- What are the key drivers and objectives of the initiative?

Policy alignment

- What is the main policy to which this investment will contribute?

Stakeholders

- What other departments, agencies or entities are affected by this proposal? (stakeholder analysis)
- Is this a cross jurisdictional or whole-of-government initiative?

Benefits

- What benefits will this investment deliver to government? (This will be the high-level summary of the benefit definition workshop.) [Attach the benefit management plan as an appendix.]

Negative effects

- What negative impacts to government might result from the identified solution?

Risks

- What are the primary risks to the success of this investment?
- What are the headline sources of uncertainty that may affect the success of this investment?

Description of identified risk	Ranking	Material exposure ($)

Critical dependencies

- Are there any conditions that may change the need for this investment if they were to change (e.g. policies or dates)?

Timeframe

- What are the expected timeframes for the key deliverables?

Description of deliverable/milestone	Commencement date	Delivery date (+ variance)

Cost

Investment costs

- What are the likely costs of this investment?

Item	Description	Cost $ (+ accuracy%)
Item 1		
Item 2 etc.		
↓		
Total cost		**$**

Business case costs

- What are the components and their relative costs?

Item	Description	Cost $
Item 2		
Item 3 etc.		
↓		
Total cost		**$**

Investor

- Who is the senior person who will ultimately be responsible for delivering the identified benefits?

Signature:

Name: ____

Position: ____

Date: ________________

Appendix F: Consultation guidelines for major infrastructure projects

Identifying and consulting with key stakeholders is important for successfully scoping and delivering major infrastructure projects. You should develop a consultation and communication strategy as part of the business case. The consultation/communication strategy should detail:

Key stakeholders who are affected or have a direct interest in the project

Key stakeholders will differ between projects and may include bidders, investors, users, politicians and officers at the local and state government level, special interest groups and community groups.

Stakeholder analysis (including for each stakeholder/ group)

This includes:

- each stakeholder's relationship to the project
- consultation already undertaken
- synergies/benefits from the project
- issues and their potential impact on the success of the project
- actions/response (if further work is needed, above the current planning and consultation processes); may include, for example, addressing specific stakeholder concerns in project specifications or increasing communication activities
- timing of activities
- key responsibility – who will take responsibility for the actions surrounding an individual stakeholder,

Project consultation and communication objectives

Identify the key objectives that the department or agency seeks to achieve through implementing the strategy.

Key issues to be addressed

Using the stakeholder analysis, detail the key issues that have emerged for action and their priority —in terms of their impact on the investment or the project's cost, schedule, quality and its capacity to achieve the benefits intended.

Key messages

Define the key messages at the overall project level, and develop them further for each stakeholder as required.

Designated spokespeople

It is important to nominate designated speakers and brief them appropriately with the desired key messages.

Measures of success
Identify and detail key measures of success.
Resources
Detail the resources required to implement the strategy

Major infrastructure project types

Major infrastructure projects would include, for example those:

- arising from the *Project Development and Construction Management Act 1994* (section 6 of that Act)
- requiring government capital funding greater than $100 million
- deemed by the Economic Development and Infrastructure Delivery Committee to be a 'major infrastructure project' for this purpose.

Public interest test

Major projects are required to complete a public interest test as part of the business case seeking project approval. Government takes this test into account when considering an application for project funding. It is important that the consultation strategy links with the public interest test, including identifying key groups for consultation and reviewing information gathered. Appendix I has information on this.

Appendix G: Guidance on economic and financial analysis

The objectives of financial and economic analysis are different. It may be that a proposal is not seen as *financially* viable (with a positive net present value) even if it is *economically* viable for government to do it.

Government proposals may appear to be economically viable when external factors (market imperfections for example) are considered. However, they are not always financially viable (looking at narrower cash flow considerations and the need to draw on funding).

Financial analysis

The financial model will include detailed analysis of the financial costs and benefits of the options under consideration (presented in nominal value terms) and an analysis of the economic, social and environmental costs and benefits. The economic and financial analyses should use discounted cash flows in calculating the net costs and benefits of a proposal, to the extent they are quantifiable.

- All assumptions are to be transparent.

- For capital costs, quantified risks (and contingency) should be calculated as:

Value of risk = value of exposure[3]

a. In quantifying risk, it is essential that the pricing framework and assumptions used are reasonable, transparent and consistent with both current and expected best practice. If risk is transferred inappropriately, government will pay a premium, either by paying the bidder too much for a risk government can manage more effectively or by retaining a risk that the bidder is in a better position to manage.

b. When assessing particular types of risk, risk data from previous similar projects may be used to determine exposure levels.

c. The comprehensive project risk identification and assessment undertaken as part of business case development will allow some risks to be to be quantified and costed with reasonable accuracy. Some risks, however, will be more uncertain—in terms of both their likelihood and their quantum. In these cases, the degree of uncertainty can be measured and contingency calculated to reflect the maximum material exposures.

d. Despite best endeavours with risk identification and quantification, every project is exposed to unforeseen risks. This exposure historically reflects project management maturity, skills and capability, and particular project characteristics; for instance, IT projects tend to have a higher unforeseen contingency reserve.[4] This unforeseen contingency factor should be included in the project risk assessment, and should reflect the historical uncertainty of a particular style of project.

e. The amount of any contingency that added to the estimate should reflect the level of uncertainty/certainty around particular risk events. Where contingency provisions are made, care must be taken to:

   i.avoid duplication

   ii. identify and appropriately calculate correlated risks.

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[3] The value of the exposure is a more accurate indication of the contingent costs (as opposed to a portion of the cost calculated using the risk formula).

[4] The unforeseen contingency provides for any unobservable costs that would otherwise lead to undervaluing identifiable and quantifiable risks.

- Provide information on full lifecycle costs, including recurrent costs and provision for any uncertainty in the estimates.
- A financial analysis is used to determine the costs and quantifiable risks of a proposal from government's perspective. It demonstrates the level of cost recovery expected.
- All costs and benefits of options should be quantified where possible, including social and environmental costs and benefits.
- Estimates may be developed, for example, by using Monte Carlo analysis to aggregate the risk data from the business case risk assessment. The Monte Carlo process provides a statistical analysis of probable and worst case project outcomes, based on risk data inputs. The quality of the Monte Carlo outputs depends heavily on the quality of the risk assessment and subsequent data inputs. When statistical methods like Monte Carlo are used, it is useful to check the outputs against benchmark data, or 'bottom up' estimating methods like the 'three point estimates' derived from the work breakdown structures, schedule and cost estimates. Finally, the risk-adjusted cost is then used in the cost-benefit and financial analysis.

Discount rates: The discount rate applied to the net cash flows for longer-term projects is derived from the nominal rate applying to ten-year Treasury Notes. (Refer to Chapter 6 of the Investment Evaluation Policy and Guidelines.) This rate needs to be adjusted to incorporate an appropriate risk premium:

- For non revenue generating investments the discount rate should be the risk-free rate, plus a modest risk premium of two per cent.
- For revenue generating investments, the discount rate should be the risk-free rate, plus a risk premium that would be expected to be between two and six per cent, and would be based on the rate of return expected by the private sector in an equivalent activity.
- For *Partnerships Victoria* projects, the rates are published for very low, low and medium risk projects along with an explanation of their derivation. These can be used as a guide for other (non *Partnerships Victoria*) projects. The *Use of Discount Rate in Partnerships Victoria Process: Technical Note* (July 2003) sets out the relationship between project risk and discount rates. Updated discount rates for use in *Partnerships Victoria* projects can be found at www.partnerships.vic.gov.au

Source and reliability: You should state the source of cost and performance information used as a basis for the analysis, noting its likely accuracy. This would include whether revenue and cost information has been constructed using accepted methods and techniques prescribed by the agency or accepted industry practice. In the event that estimates are used, disclose the basis of those estimates and benchmark them where possible.

Data sensitivity: Information on the sensitivity of assumptions needs to be provided, including the potential impact of significant variations in key assumptions on the choice between options, and the project viability. The sensitivity analysis process involves changing the key parameters and assumptions of the proposal and examining the effect on its desired outcomes.

By assessing the impact of changing key input variables, [what is an example of a key input variable?] decision-makers can concentrate their attention on those variables that are most likely to have a significant impact on the conclusions and recommendations in the business case. It will also give an indication of the likely range of expected outcomes.

Integration of non-quantifiable economic, social and environmental differences

As part of the economic assessment, it is essential not just to consider quantitative measures but also to incorporate qualitative measures. This is particularly important because many social costs (such as increased tension) and social benefits (such as reduced mortality) can be difficult to quantify, much less to value in dollar terms. Further, socio-economic benefits are the prime drivers for many investment choices in service areas like human services, education and law and order.

- A financial analysis does not take into account any benefits to the beneficiaries that are not captured as a revenue stream of the proposal.

- Agency-specific business improvement initiatives need only consider agency costs and benefits (or cost savings).

- Whole-of-government or cross-agency initiatives must consider costs and benefits from a broader perspective and examine how participating agencies share the benefits, costs and risks.

- Benefits included in the cash flow analysis should be limited to direct benefits only; flow-on effects or unrelated factors can be mentioned, but should not be included in the cash flow analysis.

- Costs and benefits may be measurable in financial terms, quantifiable in non-monetary terms or not quantifiable, but identifiable, in broad impact terms. These need to be integrated in a relativity analysis.

One method of ranking these proposals is to prefer those proposals that meet the service needs at the minimum discounted cost, all other things being equal.

Another method, where economic benefits and costs cannot be reliably quantified, is to use a rating system. Comparisons and ranking of options (for example, a high/medium/low ranking scale and weighted criteria reflecting the importance of the different benefits and costs being ranked) should be used to support the analysis.

This ranking and weighting of socio-economic impacts allows non-monetary considerations to be compared with monetary impacts and may be important in areas of health, education and welfare where the market for the outputs from the asset proposal is not fully developed.

For some projects it may be helpful to present benefits (and costs) in a table, identifying where different options provide different types, recipients or levels of benefits. One possible presentation is as follows:

Benefit	Beneficiary	Relevant project objective	Nature of benefit (✓)				Value ($NPV or n/a if not quantified)
			Financial	Economic	Social	Environ-mental	
Option 1							
Option 2							
etc.							

Note: For proposals where *Partnerships Victoria* delivery is a viable consideration, a preliminary Public Sector Comparator should be produced from the financial analysis.

Appendix H: *Partnerships Victoria* assessment

Consider whether your project could be a potential public-private (*Partnerships Victoria*) project.

1. *Scale*

There may be significant potential for efficiency savings through a *Partnerships Victoria* approach for projects where the whole-of-life costs exceed net present value (NPV) (currently $50 million)—allowing for costs of up-front design and construction, ongoing service delivery, operations, maintenance and refurbishment.

The investment and scale of the project should warrant the time and cost involved in transferring responsibility for delivering and operating the infrastructure to the private sector. (The threshold is stated each year in Budget Information Requests dealing with Expenditure Review Committee Stage 2 requirements.)

Questions to ask for those projects with a present whole-of-life value of between $25 million and $50 million:

- Is there a precedent – a transaction cost-saving model?
- Is there an opportunity to aggregate a number of related projects to create a cost-effective scale?

Where the project value is less than $25 million, unless there is a successful precedent or an opportunity to create economies of scale, it is unlikely that the private and public parties will recover their project development costs in providing a value-for-money result.

2. *Measurable service outputs*

Outputs (key infrastructure performance criteria) should be practical, measurable and controllable by the agency operating the concession. Questions to ask regarding this are:

- Can government's service delivery requirements for using the infrastructure be clearly specified in output terms, with payments based on delivery of the outputs over time?
- Do the main users of the infrastructure receive the key benefits of the project? Are the benefits therefore related to the output specification?
- Can the project construct an abatement regime that provides an appropriate incentive for the operator to meet service standards?

3. *Risk transfer*

The questions to consider are:

- What are the main (top five) risks, including demand/benefits, cost to budgets, scope, timing and policy risks? Are these risks best managed by government or a private party?
- Can the project be structured to transfer significant risk to the private sector for optimal risk allocation? This is particularly related to service delivery through the term of the contract, but also applies to complex construction elements.
- Would it deliver value for money? The transfer of risks to the private sector should not be regarded as cost-free. It should only take place when the private sector is able to manage the risk more

effectively than government. Risk transfer can also provide mechanisms for measurable service output payments (e.g. road tolls) or provide opportunities for innovation (e.g. additional uses for infrastructure to generate revenues or alternative design solutions that reduce risks or increase commercial opportunities).

- Can a better risk allocation (and value for money) be achieved through *Partnerships Victoria* than through contemporary design and construct, or design, construct, operate/maintain contracts?

4. Market appetite/asset use/business opportunity

The questions to consider regarding this area are:

- Can the project create a genuine business opportunity, one that is likely to attract sufficient private parties through an effective, competitive bidding process?

- Does the project offer a potential source of revenue to a private party? In some instances, private providers can be motivated to develop opportunities for revenue beyond government payment streams. This is used in part to reduce the cost of services to government. Some informal sounding out of market participants may assist in this assessment.

5. Innovation

Questions to consider are:

- Is there scope in the proposed delivery mechanisms for innovative solutions to the problem or for managing particular risks?

- Is the project large and complex enough to warrant inviting innovative solutions that could improve value for money?

6. Long-term contract

The questions to consider regarding long-term contracts are:

- Is government or the private sector better placed to take a long-term view of infrastructure and service requirements, i.e. up to 30 years or more?

- Is there potential for private providers to accept whole-of-life cycle costing risk? In some instances the timeframe may be shorter, for example, five to seven years for information, technology and communications projects.

Summary

Where a *Partnerships Victoria* arrangement is considered inappropriate for a project (though its value would warrant it), explain this by referring to the criteria above. Reasons may also include whether it affects government's legal obligations (such as existing franchise agreements, leases or statutory arrangements), thus preventing value-for-money benefits. However, the business case could consider the potential for delivery by existing private stakeholders such as rail or tram franchisees. (Include any efficiencies generated.)

Provide a summary outlining how the project addresses each of the key *Partnerships Victoria* criteria above and whether it is a suitable for *Partnerships Victoria* project. It must demonstrate potential under each of the key (first four) criteria for it to be considered a possible *Partnerships Victoria* project.

Appendix I: Public interest guidelines for major infrastructure projects

All major projects are required to undertake a public interest test at the pre-tender stage. This examines the impact of the project on eight elements of public interest, outlined in the following table.

Element	Public interest question
Effectiveness	Is the project effective in meeting government objectives?
Accountability and transparency	Do arrangements ensure that the community is well informed about the obligations of government and the private provider, and that the Auditor-General oversees this?
Affected individuals and community	Have those affected been able to contribute effectively at the planning stages? Are rights protected through fair appeal processes and other conflict resolution mechanisms?
Equity	Are there adequate arrangements to ensure that disadvantaged groups can effectively use the infrastructure or access the related service?
Consumer rights	Does the project provide sufficient safeguards for consumers, particularly those for whom government has a high level of duty of care, or those who are most vulnerable?
Public access	Are there safeguards that ensure ongoing public access to essential infrastructure?
Security	Does the project provide assurance that community health and safety will be secured?
Privacy	Does the project provide adequate protection of users' right to privacy? (refer expanded detail below)

For all major infrastructure projects, there is a requirement to outline how the public interest has been considered in the investment evaluation and business case phases of project approval.

A major infrastructure project in this context would include a project to which the *Project Development and Construction Management Act 1994* applies (through the operation of section 6 of that Act), a project requiring government capital funding greater than $100 million, or a project deemed by the Economic Development and Infrastructure Delivery Committee to be a 'major infrastructure project' for this purpose.

For *Partnerships Victoria* projects, a full public interest statement test is also completed as part of the business case. The public interest test involves determining whether suitable measures can be established to adequately protect the public interest.

The project brief has to include a clear description of public interest issues and how any areas of potential concern have been taken into account in the proposed contractual or regulatory framework. These should be reflected in contract documents.

Further information on how to complete a public interest test is available in Chapter 18 of the *Partnerships Victoria Practitioners' Guide*.

Privacy

The *Information Privacy Act 2000* (IPA) came into effect on 1 September 2001. It has ten information privacy principles (IPPs) that have been enforceable since 1 September 2002. They attract penalties for non-compliance.

Processes for investments and the services they seek to provide will involve privacy issues for both project processes and in the service design. The following table summarises the IPPs in everyday language. These must be complied with when handling personal information. For the full version in the IPA, please visit the Privacy Victoria website at www.privacy.vic.gov.au.

IPP no.	Subject	Principles
1	Collection	Collect only what you need. Tell people you are doing it. Do it lawfully and fairly and don't intrude unreasonably.
2	Use and disclosure	Use and disclose people's personal information only for the purpose you collected it, or a related purpose they would reasonably expect. Some important interests, such as protecting health and safety or a legal requirement, can justify use and disclosure without consent. Otherwise, seek consent.
3	Data quality	Keep personal information accurate, complete and up-to-date.
4	Data security	Keep personal information secure.
5	Openness	Be open about what you do with people's personal information.
6	Access and correction	Let people see their information and correct it if necessary
7	Unique identifiers	Minimise the creating and sharing of ID numbers that can be used to match your information about people with information about them from other sources.
8	Anonymity	People must be given the option of dealing with organisations anonymously, where this is lawful and practicable.
9	Trans-border data flows	If you transfer personal information to someone outside Victoria, make sure the privacy protection travels with it.
10	Sensitive information	Sensitive information about people has special protection under law. Don't collect it without checking the rules first.

The *Health Records Act 2001* also establishes standards called health privacy principles for collecting, handling and disposing of health information in the public and private sectors. These are similar to the IPPs. For further details, visit the Health Services Commissioner's website: www.health.vic.gov.au/hsc/.

Appendix J: Project cost estimation

Departments and agencies should have their own systems in place to provide high-level and time series information on project costs and duration. It is essential to have a database that supports a good understanding of the full lifecycle costs of the assets controlled. It assists in project estimating or providing a reality check on more detailed estimates. This is particularly needed during the options analysis and business case phases.

These estimates should be regularly updated, including at project completion, and should cover operating time series information as well as asset investment estimates. Actuals and estimates of renewals and their extent, timings and costs should be recognised for planning and costing purposes.

These costs may be reported in the form of performance indicators (e.g. capital costs per functional unit) but should accommodate any specific contributing factors or data sensitivities (e.g. size or location of a facility, greenfield/brownfield site) to take the context of costs into account. Indicators should be available in a form suitable for both central agency and departmental requirements.

Indicative risk-adjusted costings are expected to be developed for different phases of the project. Table J1 provides broad guidance on cost accuracy that might be expected through the phases of project development.

Table J1: Cost accuracy guide

Project development stage	Estimate type	Stage performed	Anticipated range of accuracy
Strategic assessment - project identification	Order of magnitude estimates	**Project identification** Indicative cost only	-40% to +60%
Options analysis - project development	Concept estimates	**Stage A** Concept and options development	-30% to +50%
	Developed concept estimate	**Stage B** Option feasibility, development and evaluation, risk identification	-25% to +40%
	Preliminary design estimate	**Stage C** Concept design, costing of preferred option and preliminary financial packaging	-20% to +30%
Business case project development (ERC funding)	Detailed estimate	Costing of project for ERC approval and documentation preparation	-15% to +25%
Design, planning and approvals – project delivery	Tender estimate	**Tender** To assist with evaluation of tenders	-10% to +20%
	Tender price and contract	Negotiated contract price agreement	-5% to +10%

Where appropriate, external specialist expertise may be needed to assist internal staff in this ongoing exercise.

Costings used in the multi-year strategy are for planning purposes. Costings for the business case phase are for investment evaluation. They test the overall suitability and viability of a proposal.

The asset class, the uniqueness of the project or facility, the level of building and construction activity and the buoyancy of the broader economy may influence the ability to reliably estimate the cost of a proposal.

Other factors that come into play include whether the proposal is to enter an active market or one that is less buoyant and whether the initiative proponent is skilled and experienced in the particular asset class or the form and nature of the intended procurement.

You should specifically explain departures from these project cost guidelines. To the extent possible, avoid broad contingencies. Rather, cost specific risks and include their expected values (see Appendix G).

Appendix K: Signoff checklist

This model checklist is designed for the project proponent's endorsement.

Title:

Department or agency:

Is the need clearly established (e.g. investment concept brief)?	☐
Are the links to government policy(ies) and contributions explicit?	☐
Is the scope of this investment specified and are future implications noted?	☐
Are cost estimates provided for capital and operational phases?	☐
Do cost and benefit estimates and analyses show value for money?	☐
Are the deliverables clearly stated?	☐
Is a benefit management plan included?	☐
Are risk management processes in place and assumptions stated?	☐
Does the proposal assess the project schedule and readiness (including market appetite)?	☐
Are governance structures identified?	☐
Are stakeholder interfaces detailed?	☐
Are regulatory requirements identified?	☐
Are there quality assurance processes (e.g. Project Profile Model)	☐
Have Gateway reviews been undertaken? Gate 1	☐
Gate 2	☐

Prepared by: ....

Date: ....

Approved by: ....

(name of approving officer or delegate)

(title) ....

(date and month and year) ....