[insert agency logo]

Template: [insert agency name]
Strategic Business Case

xx month 2018

Strategic Business Case Template

This document is a template for completing a **Strategic Business Case**. Agencies should modify as needed and ensure that appropriate branding is applied.

This template may be used for a range of purposes. If the template is used for Cabinet and/or Cabinet Standing Committee on Expenditure Review (ERC) submissions, the template should be adapted to reflect the appropriate sensitivity of information (e.g. including “Sensitive: NSW Cabinet” in the header).

The development of a business case is organised along three stages including Problem Definition, Strategic and Detailed Business case as well as five dimensions (types of analyses) designed to systematically ascertain that the investment proposal:

1. is supported by a compelling case for change – the ‘Case for Change’
2. optimises value for money – the ‘Cost Benefit Analysis’
3. is financially affordable – the ‘Financial Analysis’
4. is commercially viable – the ‘Commercial Analysis,’ and
5. is achievable – the ‘Management Analysis’.

The Strategic Business Case usually follows the Problem Definition Stage of a Business Case. The key purpose of the **Strategic Business Case** is to reconfirm the need for government intervention identified in the case for change (Problem Definition Stage), as well as identify and select a list of available and feasible options. The Strategic Business Case provides decision makers with an early indication of the preferred way forward for the investment. The Strategic Business case is used to seek decision makers’ approval to proceed with the development of a detailed business case.

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

This template is provided as guidance only and is not mandatory. The nature of the information and the level of detail should be determined on a case-by-case basis, in consultation with NSW Treasury, and may be more or less than is presented in this template.

For further information on the development of a Strategic Business Case, agencies should refer to this template in conjunction with TPP18-06 Business Case Guidelines.

Agencies should be mindful of any Budget or Gateway Assurance requirements when developing a Strategic Business Case.

# Strategic Business Case

In the Business case for your agency, you should include the following headings and provide appropriate information in each section. The text provided below the headings is for guidance only, however the blue text may be retained for presentation purposes.

## Project Background

**Project Name** [ ]

**Project Date and Version** [ ]

**Project Location** [ ]

**Lead Agency** [ ]

**Other Organisations** [ ]

## Executive Summary

Highlight the overall story and key points of the business case including the proposed outcomes and potential options to achieve these. The executive summary should be no longer than 1 page.

## The Case for Change

**[Step 8: Review the Case for Change – Problem Definition]**

Review the case for change – validate or update for any significant changes in the political, social, economic and organisational environment that might have an impact on problem definition, desired objectives, government priorities and stakeholders’ landscape. Include supporting evidence.

Refer to section 5.2.1 of TPP18-06 for more information.

## Cost Benefit Analysis

Identify, assess and refine a Long List of options identified at this stage and reduce these to a Short List for the Detailed Business Case Stage. Refer to section 5.2.2 of TPP18-06 for more information.

1. Creating your options – Develop and refine the **Long List** of options

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

1. [**Base case** reflecting the option that involves the “minimum amount” of government’s involvement including ‘do nothing’, ‘business as usual’ or ‘do minimum’ approaches.]
2. [**All other options** with the realistic potential to meet the investment objectives and outcomes]
3. Assessing and narrowing down your options (conduct a Cost Benefit Analysis (CBA)) to create a **Short List**

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

*CBA on the Long List of options template:*

**CBA on the Long List of options**

**Stated objective**: [ ].

**Base case**: [ ].

**Further information**:

* Key driver of the benefits: [ ]
* Key driver of the cost: [ ]

|  | **Benefits** | **Costs** | **NPV** | **BCR** |
| --- | --- | --- | --- | --- |
| **Base case:** No change | $0 | $0 | 0 | 0 |
| **Option 1**: [ ] | $ [ ] | $ [ ] | $ [ ] | [#] |
| **Option 2**: [ ] | $ [ ] | $ [ ] | $ [ ] | [#] |
| … | … | … | … | … |
| **Option 20**: [ ] | $ [ ] | $ [ ] | $ [ ] | [#] |

**Results:**

[Reduce the Long List of options to a few viable projects based on an assessment of the NPV and BCR. Include a justification for excluding specific options and consideration of other qualitative factors.]

1. Supporting information for the CBA

[Detail of all critical assumptions used including key drivers, inputs, risks and assumptions for the base case and options and evidence to support assumptions. This includes the identified qualitative factors, distributional impacts and sensitivity testing.]

## Financial Analysis

Assessing and narrowing down your options (conduct financial analysis)

1. Prepare a Financial Appraisal for the shortlisted option. Refer to section 5.2.3 of TPP18-06 for more information.

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

[Conduct a financial appraisal on the Long List of options to develop a Short List of options.]

**Financial appraisal**

[Should include:

1. Identifying and measuring the cash flows
	* Forecast the incremental costs, revenues, risks and best alternatives of the long list of options.
	* Calculate the nominal cash flow on an after-tax basis over the project’s economic life, including the estimated residual.
2. Discounting cash flows
	* Discount the after-tax cash flows calculated for each option to calculate the net present value (NPV)
3. Calculating the NPV of the project
	* Calculate by summing together the discounted project cash flows in (ii) and subtracting the discounted whole of life costs
	* Evaluate all positive NPV options and use the Profitability Index (NPV of post initial investment cost divided by the initial investment cost) to rank the options based on capital constraints
4. Analysing the sensitivity associated with the cash flows
	* Sensitivity analysis on the critical assumptions used in each option. Include calculations of the best and worst scenarios and break-even analysis
5. Undertake an independent review of the financial appraisal results
	* Internal but independent review of the project’s expected returns.]

Conclusion: [assess NPV and Profitability Index to generate a Short List of options]

*Example Financial Appraisal template:*

1. Financial Summary (NPV)

|  |  |  |  |
| --- | --- | --- | --- |
| **$m** | **Option A** | **Option B** | **Option C** |
| Revenue |  |  |  |
| Costs |  |  |  |
| Project net position |  |  |  |
| NPV at [ ]% discount rate |  |  |  |
| IRR % |  |  |  |

1. Key inputs and assumptions

|  |  |  |
| --- | --- | --- |
|  | **Assumption** | **Comments** |
| Interest |  |  |
| WACC/ Discount rate |  |  |
| Escalation/ Inflation |  |  |
| GST |  |  |
| Funding Structure |  |  |

* Revenue assumptions

|  |  |  |  |
| --- | --- | --- | --- |
| **$m** | **Option A** | **Option B** | **Option C** |
| +[types of revenue] |  |  |  |
| +[types of revenue] |  |  |  |
| - [Revenue offsets] |  |  |  |
| - [Revenue offsets] |  |  |  |
| **Net revenue** |  |  |  |

* Cost assumptions

|  |  |  |  |
| --- | --- | --- | --- |
| **$m** | **Option A** | **Option B** | **Option C** |
| [types of costs] |  |  |  |
| [types of costs] |  |  |  |
| [types of costs] |  |  |  |
| [types of costs] |  |  |  |
| **Total project costs** |  |  |  |

1. Cumulative cash flows

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Item | FY18 | FY19 | FY20 | Total | NPV |
| Revenue |  |  |  |  |  |
| Cost |  |  |  |  |  |
| Annual cash flow |  |  |  |  |  |
| Cumulative  |  |  |  |  |  |

1. Risks and sensitivities
* Risks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Relevant options | Risk Category | Rank (unmitigated) | Description | Comment |
| [All options] |  |  |  |  |
| [Option B] |  |  |  |  |

* Sensitivity analysis

Option A

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Central base** | **+10% costs** | **-10% costs** | **+10% revenue** | **-10% revenue** |
| Project revenue |  |  |  |  |  |
| Project costs |  |  |  |  |  |
| Project net position  |  |  |  |  |  |
| NPV at [ ]% discount rate |  |  |  |  |  |

1. Whole of government considerations

[Reflects the whole-of-government net position from the project]

|  |  |
| --- | --- |
| **Item** | **Nominal ($m)** |
| Project revenues |  |
| Project costs |  |
| Project net position |  |
| [Stamp duty] |  |
| Whole of government net position |  |

1. Prepare a Financial Impact Statement to define the impact of the proposal on costs and savings. Refer to section 6.2.3 of TPP18-06 for more information.

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

[Prepare a Financial Impact Statement (FIS) for the long list of options requiring budget funding.]

*Example Financial Impact Statement template:*

### *Highlight the Financial Impact*

* Carefully consider the financial impact of a proposal across the parameters set out in the table below
* If there is no financial impact, please delete the table and write in bold: “**No financial impact”**
* In some cases, it will be compelling to show the impact if the proposal is supported. In others, you might show the impact if the proposal is opposed. Decide on this case by case
* The table should be expanded/adapted to reflect the life of the project
* If there is a substantial difference between the impact on the entity’s budget compared to Whole of Government Budget, this should be demonstrated.

**Financial Impact Statement**

|  |  |  |
| --- | --- | --- |
|  | **Current Year****($’000)** | **FORWARD ESTIMATES** |
|  | **Current Year + 1****($’000)** | **Current Year + 2****($’000)** | **Current Year + 3****($’000)** | **Current Year + X****($’000)** |
| **RECURRENT** |  |  |  |  |  |
| **Expenses:** |  |  |  |  |  |
| Employee related |  |  |  |  |  |
| Depreciation |  |  |  |  |  |
| Other |  |  |  |  |  |
| **Total Expenses** |  |  |  |  |  |
| *less* agency offset savings |  |  |  |  |  |
| **Net Expenses** |  |  |  |  |  |
| *less* Agency revenue |  |  |  |  |  |
| **Net Cost Of Services** – lead agency |  |  |  |  |  |
| Net recurrent on-costs to other budget sector agencies (as per schedule 3) |  |  |  |  |  |
| **Total Net Cost of Services (NCS)** |  |  |  |  |  |
| **CONSOLIDATED FUND REVENUES** |  |  |  |  |  |
| **Taxes** |  |  |  |  |  |
| **Commonwealth Funding** |  |  |  |  |  |
| **Other** (please specify) |  |  |  |  |  |
| **Total Consolidated Fund Revenues** |  |  |  |  |  |
| **CAPITAL** |  |  |  |  |  |
| **Capital Expenditure**  |  |  |  |  |  |
| *less*Agency offset savings (incl. asset sales) |  |  |  |  |  |
| **Net Capital Expenditure –** lead agency |  |  |  |  |  |
| Net capital on-costs to other budget sector agencies (as per schedule 3) |  |  |  |  |  |
| **Total Net Capital Expenditure** |  |  |  |  |  |
|  |  |  |  |  |  |
| **TOTAL FINANCIAL IMPACT** ***Equals* NCS (net of Depreciation) + Net Capital Expenditure less Consolidated Fund Revenues** |  |  |  |  |  |
| **Funded by:** |  |  |  |  |  |
| Cash Balances/Loans/Advances |  |  |  |  |  |
| Consolidated Fund |  |  |  |  |  |
| Other (please specify) |  |  |  |  |  |
| **Total** |  |  |  |  |  |

Schedule 2: Additional Budget Sector Staffing

|  |  |  |
| --- | --- | --- |
|  | **Current Year** | **FORWARD ESTIMATES** |
|  | **Current Year + 1** | **Current Year + 2** | **Current Year + 3** | **Current Year + X** |
| Staffing (FTE) – lead agency |  |  |  |  |  |
| Other Budget sector agencies (FTE) |  |  |  |  |  |
| **TOTAL** |  |  |  |  |  |

Schedule 3: Net on-costs to Other Budget Sector Agencies

|  |  |  |
| --- | --- | --- |
|  | **Current Year****($’000)** | **FORWARD ESTIMATES** |
|  | **Current Year + 1****($’000)** | **Current Year + 2****($’000)** | **Current Year + 3****($’000)** | **Current Year + X****($’000)** |
| **RECURRENT:** |  |  |  |  |  |
| Agency 1 (insert agency name) |  |  |  |  |  |
| Agency 2 (insert agency name) |  |  |  |  |  |
| Agency 3 (insert agency name) |  |  |  |  |  |
| **Impact on Net Cost of Services**(Transfer to Schedule 1) |  |  |  |  |  |
| **CAPITAL:** (including asset sales) |  |  |  |  |  |
| Agency 1 (insert agency name) |  |  |  |  |  |
| Agency 2 (insert agency name) |  |  |  |  |  |
| Agency 3 (insert agency name) |  |  |  |  |  |
| **Impact on Net Capital Expenditure**(Transfer to Schedule 1) |  |  |  |  |  |

Schedule 4: Net on-costs to Non-Budget Sector Agencies

|  |  |  |
| --- | --- | --- |
|  | **Current Year****($’000)** | **FORWARD ESTIMATES** |
|  | **Current Year + 1****($’000)** | **Current Year + 2****($’000)** | **Current Year + 3****($’000)** | **Current Year + X****($’000)** |
| **RECURRENT:** |  |  |  |  |  |
| Agency 1 (insert agency name) |  |  |  |  |  |
| Agency 2 (insert agency name) |  |  |  |  |  |
| Agency 3 (insert agency name) |  |  |  |  |  |
| **Impact on Net Cost of Services** |  |  |  |  |  |
| **CAPITAL:** (including asset sales) |  |  |  |  |  |
| Agency 1 (insert agency name) |  |  |  |  |  |
| Agency 2 (insert agency name) |  |  |  |  |  |
| Agency 3 (insert agency name) |  |  |  |  |  |
| **Impact on Net Capital Expenditure** |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Financial Impact ($000)** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **Four years** |
| **Budget Result (-ve worsens)** |  |  |  |  |  |
| Operating Result |  |  |  |  |  |
| Net Lending |  |  |  |  |  |
| **Control Limits (+ve increases)** |  |  |  |  |  |
| Net Cost of Services |  |  |  |  |  |
| Capital Expenditure (CEAL)Labour Expense Cap |  |  |  |  |  |
| **Appropriations (+ve increases)** |  |  |  |  |  |
| Consolidated Fund Recurrent |  |  |  |  |  |
| Consolidated Fund Capital |  |  |  |  |  |

*Calculating net lending*

* Net lending attempts to determine an “underlying” Budget result that shows the impact on the Government’s borrowing requirements. In the main, the Net Lending impact is:

|  |
| --- |
| **Operating Result Impact**  |
| Add: | Associated Depreciation Impact  |
| Add: | Associated Asset sales and other movements in non-financial assets  |
| Deduct: | Asset Acquisitions (Capital Expenditure)  |
| **= Net Lending Impact (-ve number implies a worsening or an increase in borrowings)** |

* Note: Net Lending will also be impacted in scenarios where assets are acquired through finance leases or assets are granted to external entities.

## Short list

Develop a Short List of options based on the CBA and financial analysis

1. Results of CBA [(Options with the highest BCR and NPV) and financial analysis (options with the highest NPV and Profitability Index) including the base case
2. Other factors impacting the Short List options such as qualitative factors.

## Appendix

Include additional supporting detail, e.g. support for the Long List, CBA, financial appraisal and support for excluding options from the Short List.