NSW Treasury

NSW Government Business Case Guidelines

TPG24-29

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NSW GOVERNMENT

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:
Regeneration by Josie Rose

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Treasury Policy and Guidelines (TPG) is relevant to?	☒ GSF agencies ☒ General Government Sector ☒ Public non-financial corporations ☒ Public financial corporations ☒ State owned corporations ☐ Other
	☒ Executive agencies related to Departments
	☒ Subsidiaries of the NSW Government established under the Corporations Act 2001
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Contact	Centre for Economic Evidence, cee@treasury.nsw.gov.au
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☒ **MANDATORY POLICY** compliance set out by NSW Treasury.	
☒ **RECOMMENDED POLICY** reflecting best practice standards.	
☒ **GUIDANCE/ADDITIONAL INFORMATION** to provide clarity or explain requirements in detail.	

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NSW Government Business Case Guidelines

Purpose

Business cases support decision-makers in the allocation of scarce resources. They ensure that the problem is clearly stated, explain why the proposal will work to solve the problem, and define what success looks like. Business cases should not be completed as a box-ticking exercise.

These guidelines establish mandatory requirements and guidance to assist agencies in the preparation of business cases. They form part of the NSW Government Investment Framework, which sets out a structured and consistent approach to building evidence across the investment lifecycle. They apply to recurrent, capital and digital proposals above defined cost and risk thresholds.

These updated guidelines include changes to streamline and simplify business case development. They use a risk-based, scalable approach, supplemented by ready-to-use resources and templates, intended to help build agencies' business case capability and reduce reliance on external consultants.

Overview

Well-prepared business cases support responsible financial management by ensuring that government has the information and advice required to make informed resource allocation decisions. They establish whether a proposal is expected to improve the welfare of the community, whether it's the best option for meeting the objectives, the expected cost, whether it can be delivered efficiently and effectively, whether the associated risks can be managed, and the basis against which success can be measured.

These guidelines bring together best practice, expert advice, insights from other jurisdictions and a practical approach to guide business case development. They establish when a business case is mandatory and what it should contain, scaled according to proposal cost and risk.

The business case process

Business case development can occur across three stages:

- **Stage 0:** A 'go/no-go' to establish the problem and support a decision on whether a business case should be prepared.
- **Stage 1:** A 'preliminary business case' shortlists options to support a gate 1 review and a decision about whether to proceed to a full business case.
- **Stage 2:** A 'full business case' identifies a preferred option and is the main document for a gate 2 review and investment decision.

Smaller, lower risk proposals can combine stage 1 and stage 2 into one 'lean business case.'

Project development activities – such as design, procurement planning and market engagement – continue following an investment decision. The extent to which these are needed for a business case will depend on the extent they're needed to inform an investment decision. That is, whether they'll materially impact assessment of costs, benefits or risks. These guidelines do not detail requirements following funding approval.

Gateway and risk tiers

The NSW Gateway Policy (TPG22-12) establishes a framework for external project assurance through a tiered, risk-based approach. These guidelines apply in conjunction with gateway policy

and have adopted gateway risk tiers as a consistent way to guide agencies on the required level of business case detail.

Detail of analysis should be highest for tier 1 (high-profile, high-risk) proposals, with appropriate reduction in detail, time and resources between tier 2, tier 3 and tier 4. Agencies should proceed with business case development based on their self-assessed risk tier, or if available, the risk tier as endorsed by the relevant governance committee.

How NSW Treasury assesses business cases

NSW Treasury provides advice to Cabinet on the merits of new funding proposals and relies on business cases to inform this advice. The assessment framework in section 1.10 guides NSW Treasury's advice to government on business cases against the following questions:

- **Strategic fit:** Is there a clear rationale for the proposal that supports current government priorities?
- **Societal impact:** Is economic, social, cultural and environmental value demonstrated by evidence-based analysis such as cost-benefit analysis (CBA)?
- **Affordability:** Are costs understood and affordable within the current budget context?
- **Deliverability:** Can the proposal be effectively and efficiently delivered?

What is CBA and why is it important?

In NSW, CBA is the preferred method for assessing the relative merit of government proposals, including policies, programs, regulatory changes and infrastructure projects. It can be undertaken before, during or after implementation of an initiative.

CBA is a form of economic analysis and offers a structure for assessing government proposals in terms of their capacity to improve welfare, compared with the required investment. This determines the 'net benefit' to society. CBA is an important component of business cases.

CBA is more than a financial analysis. It attempts to capture a full range of monetary and non-monetary costs and benefits – including economic, social, environmental and cultural. This allows decision-makers to directly compare the benefits and costs on a like-for-like basis.

Where impacts cannot be quantified or expressed in monetary terms, CBA allows for a qualitative description of impacts. This provides decision-makers with comprehensive analysis and evidence to support their considerations.

The CBA Guide (TPG23-08) provides detailed guidance and mandatory requirements.

Summary of requirements

Before starting a business case

Much of the critical thinking needed for a good business case happens before starting a business case.

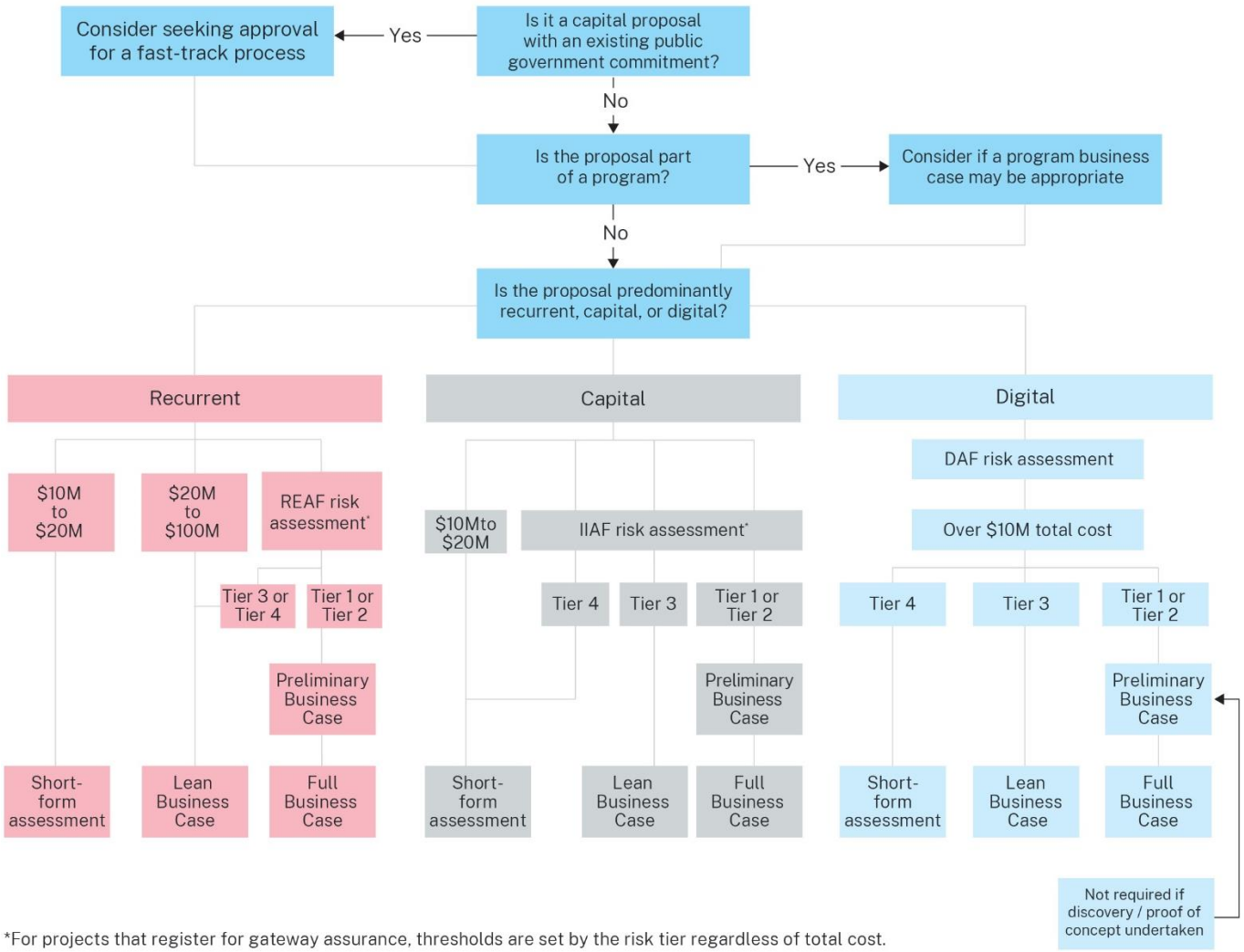
Taking additional time to clearly identify a problem, consult stakeholders, consider risks and develop a logic model can set the foundation for a successful proposal. It can also help to identify early that a proposal is not worth pursuing and avoid wasted time and resources. This information should be concisely set out in a go/no-go document.

Providing go/no-go documents to your NSW Treasury relationship lead is **recommended** for tier 1, tier 2 and tier 3 proposals prior to commencing business case development. This provides an opportunity for early feedback, such as alignment to government priorities and affordability in the current fiscal context. This feedback should inform a decision, supported by robust internal agency assurance processes, about whether to invest in developing a business case. Capital proposals may also require Cabinet endorsement for a gate 0 go/no-go decision.

When is a business case required?

All proposals for NSW Government funding should be evidence-informed and supported by business case principles. Requirements are scaled according to proposal type, cost and risk. See Figure 1 and section 1.6 for more details.

Figure 1: Business case requirements map



*For projects that register for gateway assurance, thresholds are set by the risk tier regardless of total cost.

Fast-track business case and assurance for capital commitments

Alterations to normal business case processes may be warranted where a pre-existing decision has already confirmed the government's priority and constrains the scope of options. More details are in section 1.7.

Components and mandatory requirements of a business case

A business case consists of eight components. These can be approached in order or at the same time, with iteration to account for interdependency between components. For example, options may be revised based on findings of the economic or financial analysis, or costs identified in the procurement approach can be fed back into the economic and financial analysis.

The analysis needed to meet these requirements is proportionate to proposal cost and risk. For example, a larger or riskier proposal will require more evidence to demonstrate that the market has the capability and capacity to deliver than would be required for a smaller proposal.

Table 1: Summary of mandatory requirements for preliminary and full business case

Component	Purpose	Mandatory requirements
Case for change	Establish what the proposal sets out to achieve, how it supports government priorities and the chain of logic that leads to success.	**Preliminary and full business case:** identify the problem including its magnitude and urgency, explain why government action is needed, define the objectives, link the problem to the strategic context, and explain how the proposal will address stakeholder concerns. Include a logic model, with increasing level of detail, at each stage.
Options	Identify a range of realistic options that meet the proposal's objectives.	**Preliminary business case:** assess a base case and a longlist of realistic options. **Full business case:** assess a base case and a shortlist of at least two realistic options. Include a minimum viable product and non-build option (capital proposals) on an if-not-why-not basis. Provide a transparent explanation of how shortlisted options were identified in a preliminary business case and how a preferred option was identified in the full business case. Detailed design, technical specifications or planning consent materials, beyond those required to develop a reasonable estimate of costs, are not required. Options, scope or design for wider works, such as future corridor or network expansions, should not be included. Analysis of future network impacts should be limited to what's needed to identify a need for future options or expansions.
Cost-benefit analysis	Assess the costs and benefits of a range of options on the welfare of the people of NSW.	**Preliminary and full business case:** include a CBA that meets the requirements of the CBA Guide. A CBA prepared for a preliminary business case will be less detailed and may include greater reliance on assumptions and less accurate costings compared to a full business case.
Financial analysis	Estimate financial impacts of the proposal on the finances of the entity undertaking the policy and the government as a whole.	**Preliminary and full business case:** • identify the financial impacts of all assessed options • include a financial appraisal for all shortlisted options (where relevant) • include a financial impact statement.
Risk analysis	Ensure that decision-makers can carefully consider the risks associated with a proposal, by identifying, assessing, and appropriately responding to risks.	**Preliminary and full business case:** identify, assess, quantify and consider how to mitigate key risks. Provide a clear and concise summary of key risks.

Component	Purpose	Mandatory requirements
Monitoring and evaluation approach	Ensure that resourcing, accountability and data collection arrangements are in place to support evaluation.	**Full business case:** include a high-level plan for monitoring and evaluation tailored to the size, priority and risk of the proposal. This may be under a monitoring and evaluation framework or a benefits management framework.
Procurement approach	Provide decision-makers with confidence that assets and services required for completion of the proposal (and delivery of its benefits) can be procured within the cost and timeframes specified by the business case.	**Full business case:** assess market capability and capacity to deliver the project, consider the procurement approach and how risk will be shared between government and the private sector. Tailor details to the proposal type, cost and risk. For example, a tier 1 infrastructure proposal must specify a delivery model, while a grant program will require fewer details.
Management approach	Provide decision-makers with confidence that the agency will deliver and implement the proposal efficiently and effectively.	**Preliminary business case:** provide an overview of the governance framework in place to support full business case development and consider compliance issues that may significantly impact project viability. **Full business case:** demonstrate that the agency has sufficient resources and capability to deliver, major compliance issues have been identified and will be met, and that governance arrangements and a delivery schedule are in place.

Refer to section 1.4 for guidance on the difference between lean business case and full business case and refer to section 1.5 for guidance on short-form assessment.

What is the role of evaluation in the business case process?

Planning for evaluation as part of a business case helps build the evidence base for future investment decisions. This is especially important where there are limitations on the time or quality of data available to support a business case, for example for an emergency response proposal or a pilot proposal.

Emergency proposals that have had insufficient time for business case development must, at a minimum, be supported by a short-form assessment, including a high-level monitoring and evaluation plan that commits to completing an ex-post CBA.

Pilot proposals – including those that fall under the relevant business case threshold – should also include a high-level monitoring and evaluation plan to ensure evidence is available to inform ongoing funding decisions.

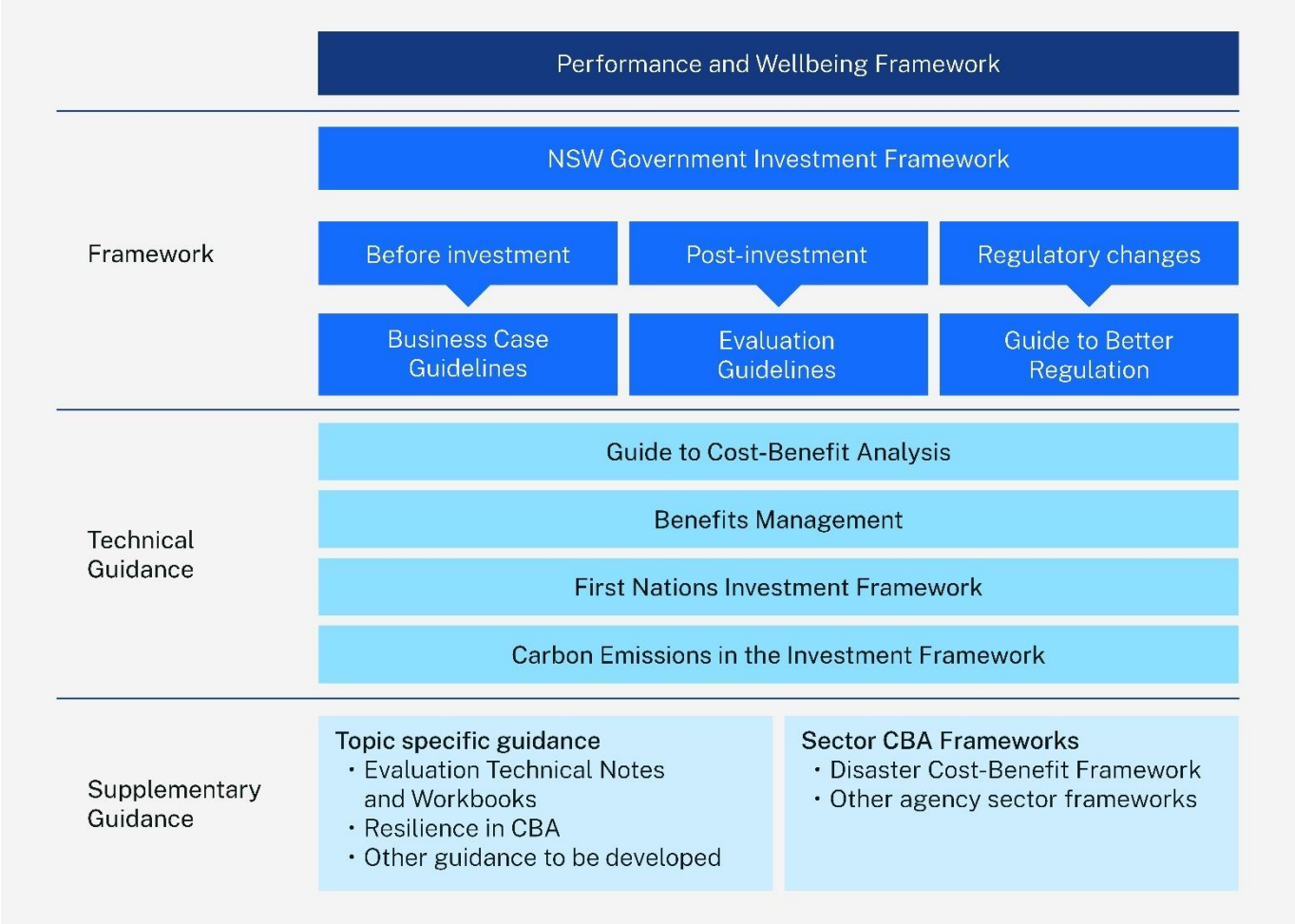
1 About business cases

1.1 NSW Government Investment Framework

The NSW Government Investment Framework ensures a consistent, evidence-informed approach to assessing projects, programs and policies throughout their lifecycle.

Evidence-informed investment serves the community by helping ensure public expenditure represents value for money, aligns with government priorities and can be delivered successfully. This document forms part of the framework and sets requirements and guidance about appraisal to inform an investment decision (see Figure 2).

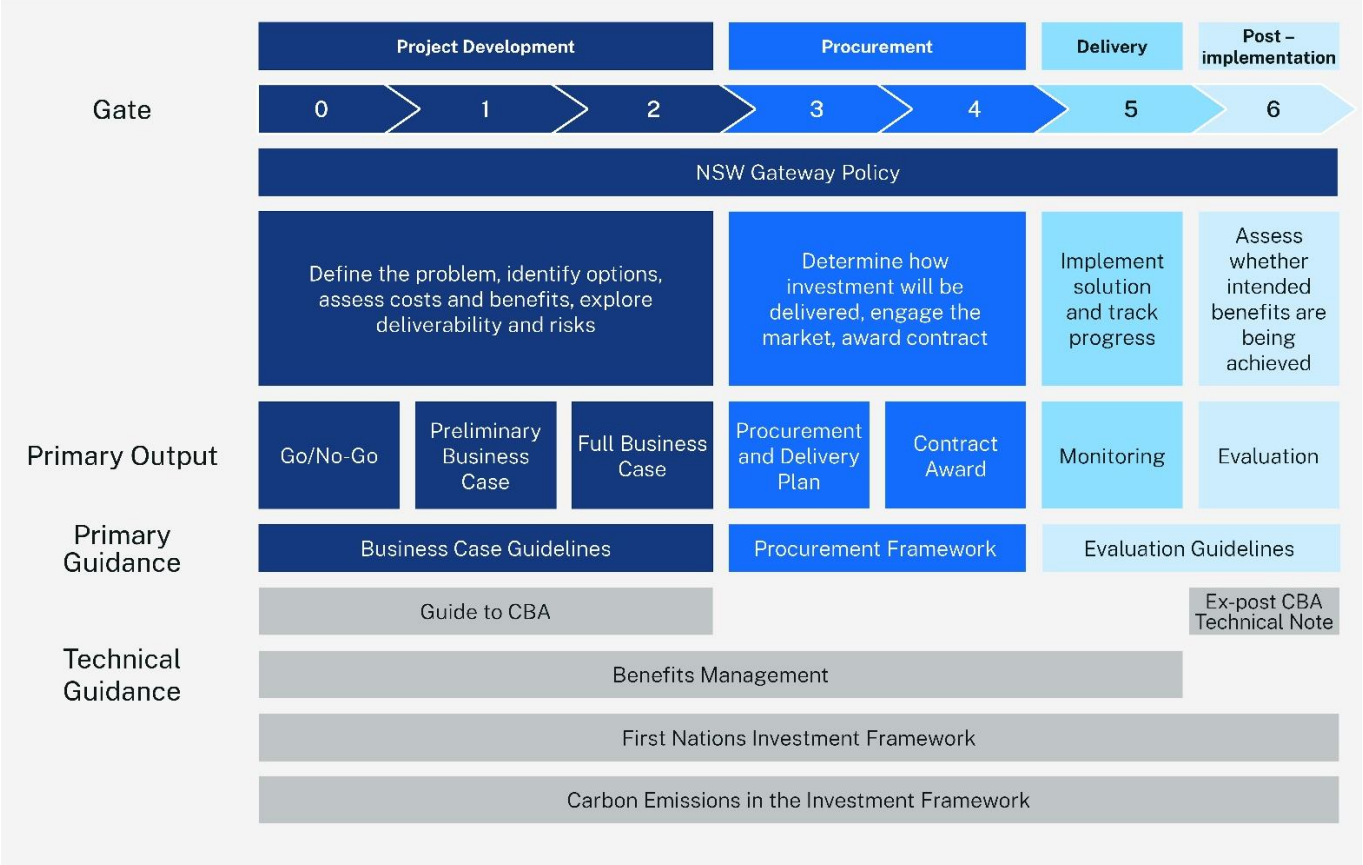
Figure 2: NSW Government Investment Framework



The framework applies from initiation through to delivery and evaluation. It covers four phases across the investment lifecycle: project development, procurement, delivery and post-implementation (see Figure 3).

The Performance and Wellbeing Framework is being developed for the 2025–26 Budget to provide an overarching lens to view the role and performance of government. It will articulate how government performance influences outcomes and strengthen performance reporting and the insights that inform government decision-making.

Figure 3: Overview of the investment lifecycle



More guidance

- NSW Performance and Wellbeing Framework
- Evaluation Guidelines (TPG22-22)
- Guide to Better Regulation (TPP19-01)
- Guide to Cost-Benefit Analysis (TPG23-08)
- Benefits Management Guide (TPG24-31)
- Carbon emissions in the Investment Framework (TPG24-34)
- First Nations Investment Framework (TPG24-28)

1.2 Gateway policy

Gateway provides external assurance to the NSW Government that projects are being effectively developed and delivered. It provides independent, risk-based review that complements business case development for capital, recurrent and digital investments. Feedback and recommendations received from gateway reviews can add value to business cases.

NSW Gateway Policy (TPG22-12) sets the Gateway policy framework and is overseen by NSW Treasury. Gateway coordination agencies design and implement the relevant assurance process:

- Infrastructure NSW manages the Infrastructure Investor Assurance Framework.
- The Department of Customer Service manages the Digital Assurance Framework.
- NSW Treasury manages the Recurrent Expenditure Assurance Framework.

Gateway applies a tiered, risk-based approach to put more scrutiny on proposals that need it most.

Gateway risk tiers

Gateway risk tiers are assigned based on expected total cost and a weighted risk score. Each assurance framework has different criteria (for example, government priority, complexity, agency capability) and financial thresholds that inform tiering decisions.

Agencies self-assess their risk tier, which is reviewed and endorsed by the relevant gateway governance committee. Risk tier may change following this review, or due to changes to risk profile or cost.

In these guidelines, references to gateway risk tier refers to either an agency self-assessed risk tier (if endorsement is yet to take place) or an endorsed risk tier.

Gateway coordination agencies require different levels of assurance depending on risk tier. Generally, tier 1 and tier 2 proposals must complete a gate 1 review (preliminary business case) and a gate 2 review (full business case).

Consult the relevant assurance framework to confirm assurance requirements and self-assess risk tier.

1.3 Purpose of a business case

A business case provides information Cabinet (or other delegated decision-maker) needs to decide whether to fund a proposal. It assesses the extent to which the proposal supports government priorities, provides value for money and can be delivered efficiently and effectively. It identifies costs, benefits and risks to help guide implementation and delivery, and defines success to support evaluation.

Business cases are prepared in other contexts, such as for entities applying for a grant within an established grant program or to pursue a business proposition within a commercial entity.

The requirements, principles and recommendations of these guidelines may assist in developing business cases for other purposes.

1.4 What is a business case?

For these guidelines, a business case is a document prepared to support a government funding decision.

Business cases support other activities, such as evaluation, project management and delivery. Some business case activities, such as procurement and delivery planning, continue after a funding decision has been made.

These guidelines do not impose requirements or govern best practice after a funding decision. Other policies – such as the NSW procurement policy framework, benefits management guide, evaluation guidelines and agency-specific requirements – apply.

Business cases can range from short documents using available information for a small proposal to a much lengthier and more detailed assessment based on stakeholder engagement, primary research and technical studies.

These guidelines set out the minimum requirements and common principles for business cases, suitable for proposals of different costs, risks and stages of development:

- A **go/no-go** is a short document that identifies the problem or opportunity, establishes that addressing the problem or opportunity is a government priority, and supports the decision to invest in preparing a business case.

- A **preliminary business case** tests the case for investment and narrows down options to a shortlist for detailed examination in a full business case. For large or complex projects, it may be used to seek funding to prepare a full business case.
- A **full business case** identifies a preferred option and provides the necessary information for government to make an investment decision. This may be subject to conditions and further approvals on a case-by-case basis.
- A **lean business case** is a combined preliminary and full business case. It supports a government investment decision for proposals with a lower cost and risk profile.

A full business case or lean business case should be developed to a point where it can adequately inform a funding decision, while a go/no-go or preliminary business case are early-stage inputs into a full or lean business case.

A short-form assessment (see section 1.5) may inform a low-risk and low cost funding decision, but isn't a business case.

What's the difference between a lean business case and a full business case?

A lean business case allows for a single, streamlined business case to be completed rather than separate preliminary and full business cases. The mandatory requirements set out in these guidelines for full business cases also apply to lean business cases, but with proportionate reduction in the required detail of analysis, reflecting a lower cost and risk profile. For example, a lean business case may:

- use a multi-criteria analysis in place of CBA to filter the long list of options to a short-list
- include a financial impact statement for the preferred option only
- have less detail in the procurement and management approach.

See Table 2 and the lean business case template for further guidance.

Technical investigations

Technical investigations may be needed to provide sufficient certainty around costs, benefits and risks to support business case development. They provide necessary information but do not form part of the business case itself.

Technical investigations can be costly and time consuming. A guiding principle when deciding how much technical investigations are needed, and at what stage of project development, is whether the information is critical to support an investment decision. Investigations should occur as late as possible in the process, so costs can be avoided if the proposal does not proceed. When seeking funding for business case development, agencies should identify the cost and requirement for technical investigations.

Funding for early works, enabling works or land acquisition should not be bundled with funding for business case development.

Resources

- Go/no-go template
- Lean business case template
- Preliminary and full business case template

1.5 Short-form assessment

Mandatory

Where a business case is not prepared, a short-form assessment must be submitted to NSW Treasury to support:

- recurrent proposals with a total cost at or above $10 million and below $20 million (over the forward estimates)
- capital proposals with a total cost at or above $10 million (over 10 years) that are:
  - not registered under the IIAF ($10 million to $20 million), or
  - rated tier 4 under the IIAF.
- tier 4 digital proposals with a total cost at or above $10 million (over 10 years).

A **short-form assessment** is a short document that applies business case principles and concepts in a simplified format, suitable for low-cost proposals that fall under business case cost and risk thresholds. It includes a case for change, objectives, options, costs, risks and a high-level monitoring and evaluation plan. A CBA is not required but benefits for each option should be identified, and qualitative or quantitative information provided to support their assessment.

Short-form assessments are intended to be completed internally by agencies using readily available information. They provide a consistent and accessible approach to providing evidence through a standardised template to support decision-making for small proposals. They're recommended for proposals of all sizes where a business case is not required, including those valued under $10 million, and are mandatory in the cases set out above. See Table 2 and the short-form assessment template for details of required content.

Resource

- Short-form assessment template

1.6 When is a business case required?

Business case thresholds

Mandatory

Agencies must submit a business case as part of any new policy proposal to NSW Treasury for:

- recurrent proposals with a total cost at or above $20 million over the forward estimates[1]
- capital proposals assessed as tier 3 or higher under the Infrastructure Investment Assurance Framework
- digital proposals assessed as tier 3 or higher under the Digital Assurance Framework.

For proposals that require a business case:

- tier 1 or tier 2 proposals require a preliminary and full business case
- all other proposals require a single stage lean business case.

[1] If a proposal falls below the $20 million threshold over four years but is at or above $50 million over 10 years a business case is also required.

Different thresholds reflect typical risk and funding profiles of different proposal types. Recurrent proposals may be funded on a time limited or ongoing basis, while capital funding is generally one-off but may extend over a long timeframe.

If there's ambiguity – for example, regarding whether a proposal is recurrent or capital in nature – apply the lower threshold.

A business case for proposals below these thresholds may be required by NSW Treasury when considered necessary to support decision-making.

What is total cost?

Total cost for the purposes of applying business case thresholds includes all recurrent and capital expenses regardless of offsetting revenue impacts. It includes:

- cost of project development activities
- procurement costs
- costs of carrying out capital works
- land acquisition costs
- recurrent expenses (such as staffing costs, other service delivery costs, ongoing maintenance).

Some regulatory and policy instruments use a narrower definition of total cost. For example, estimated development cost under the Environmental Planning and Assessment Regulation 2021 excludes lands costs. Estimated total cost under the Infrastructure Investment Assurance Framework excludes recurrent expenditure.

Commonwealth-funded proposals

While the Australian Government notionally bears costs, Commonwealth funding of an proposals may mean less Commonwealth funding is available for other NSW priorities.

For Commonwealth-funded proposals valued at or above $20 million, agencies must provide details of the evidence used to support Commonwealth funding decisions. NSW Treasury may request a business case to understand the impacts on NSW.

Co-funded proposals require a business case to support NSW funding decisions under the same circumstances as other proposals.

All Commonwealth funding agreements are required to comply with Commonwealth — NSW Funding Agreements (TC22/14).

Exemptions

The following are generally exempt from business case requirements, although NSW Treasury may request a business case in some instances:

- accounting adjustments
- parameter and technical adjustments[2]
- proposals for feasibility studies
- bargaining parameter proposals relating to public sector remuneration or conditions, developed in accordance with the Fair Pay and Bargaining Policy 2023.

[2] See Parameter and Technical Adjustments and Measures (TC14/28) for further details.

Other types of proposals

Business cases may be required for a **new grant program or individual grant**. Value for money is a key principle of grants administration and the Grants Administration Guide includes mandatory requirements relating to value for money. In addition, the *Government Sector Finance Act 2018* requires ministers to not approve a grant unless satisfied it achieves value for money. For smaller grants, this can be supported by use of the short-form assessment template.

Unsolicited proposals require a business case where NSW Government funding exceeds the relevant business case threshold. Other unsolicited proposals may also require a business case, for example where there are significant indirect costs. For more information, see Unsolicited Proposals Guide for Submission and Assessment.

Government businesses such as state-owned corporations and public non-financial or financial corporations are subject to the Commercial Policy Framework. Where a business case is required under the Commercial Policy Framework, these guidelines apply. The Major Projects Policy for Government Businesses (TPP18-05) outlines the Cabinet approval process and assurance registration requirements for major projects undertaken by government businesses.

Significant new or amending **regulatory proposals** require a better regulation statement or regulatory impact statement.[3] Non-significant regulatory proposals must demonstrate application of the better regulation principles.

1.7 Fast-track business case and assurance for government capital commitments

A business case may provide important analysis where a pre-existing commitment or decision provides scope for interpretation. For example, a commitment to build a train line may be unspecific as to the precise characteristics of the line, the location of stations, the funding model or delivery schedule. Analysis of options, costs, benefits and risks can be critical to fill in the details of the commitment.

Business cases should not, however, be completed as a compliance exercise to justify existing decisions or clearly scoped commitments.

In limited circumstances it may be appropriate to exempt a proposal from some or all of the requirements outlined in these guidelines. This may be the case where a pre-existing public commitment confirms the government's priority and constrains the scope of options that could meet that priority to such an extent as to make full compliance a poor use of public resources. For example, well-defined election commitments or other public commitments approved by the Premier or Cabinet.

More guidance

- The Fast-Track Business Case and Investment Assurance for Government Capital Commitments (TPG24-30) establishes criteria and a process to seek full or partial exemptions from business case and assurance requirements in limited circumstances.

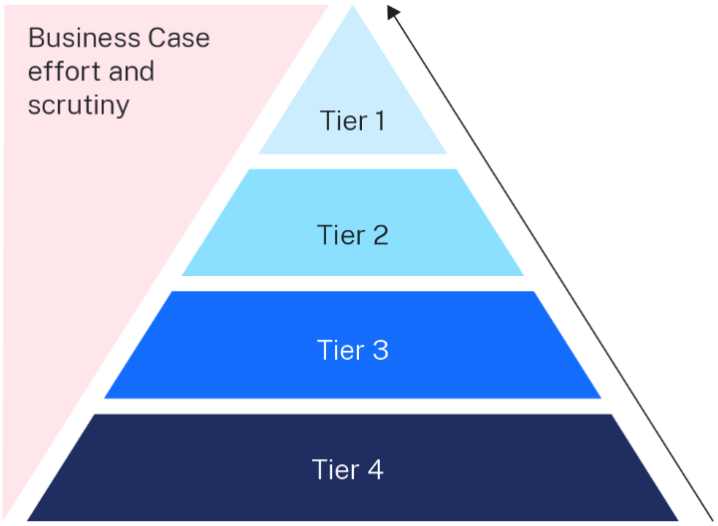
1.8 Level of component development

The level of detail expected to be included in a business case for each component should be proportionate to a proposal's cost, risk and how close it is to an investment decision.

[3] See section 5 of the *Subordinate Legislation Act 1989* and NSW Government Guide to Better Regulation (TPP19-01).

These guidelines adopt the gateway risk-based tiering system to implement the proportionality principle (see Figure 4) – the expected detail and effort is lowest for tier 4 proposals and highest for tier 1 proposals.

Figure 4: Gateway risk tiers



Assessing the **Investment Case** is the primary focus for all business cases. All business cases must include a case for change, options, CBA and financial analysis. More effort, however, should be made to precisely quantify costs and benefits for tier 1 and tier 2 proposals.

Delivery Feasibility assesses whether value can be delivered in practice, as evidenced through established agency processes, the track record of the delivery agency, or proposal specific analysis and documentation. This assessment should be clear and concise. Where the agency regularly delivers similar proposals the business case should use this to provide evidence of strong existing capability and processes.

A tier 1 proposal will require each component of the business case to be well developed. Depending on the proposal, this may require technical investigations and due diligence to define and cost options and assess risk. If these processes require significant resources, a staged Cabinet approval process could be considered (that is, seeking initial Cabinet endorsement followed by a final approval after investigations are completed).

Project development activities and due diligence continues following an investment decision, although progression will differ for every proposal. For example, depending on the type of proposal, this may include community consultation, detailed project management and procurement planning, planning approval, additional technical studies and due diligence.

Table 2 provides an overview of each component and their expected level of development for different stages and types of business case. This represents a minimum viable product. Additional detail may be required depending on proposal type, risk profile and any sector-specific guidance.

Table 2: How developed should business case components be?

Component			Go/no-go	Preliminary business case	Full business case		Lean business case	Short-form assessment
			Tiers 1 to 3	Tier 1 and 2	Tier 2	Tier 1	Tier 3[e]	Tier 4
Investment case	Case for change		Preliminary	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Options		Conceptual	Preliminary	Comprehensive	Comprehensive	Comprehensive	Comprehensive [d]
	Cost-benefit analysis		Conceptual	Preliminary	Comprehensive	Comprehensive	Comprehensive	Conceptual
	Financial analysis	Financial appraisal	N/A	Preliminary [a]	Comprehensive [a]	Comprehensive [a]	Comprehensive [a]	N/A
		FIS	Conceptual	Preliminary	Comprehensive	Comprehensive	Preferred option only	Preferred option only
	Risk analysis	Risk register, residual risks	Conceptual	Preliminary	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Monitoring and evaluation approach	High-level monitoring and evaluation plan	N/A	N/A	High-level	High-level	High-level	High-level
Delivery feasibility	Procurement approach	Market capability and capacity	Conceptual [b]	Conceptual [b]	High-level	Comprehensive	High-level	N/A
		Delivery model	Conceptual [b]	Conceptual [b]	High-level [c]	Comprehensive	Summary or evidence of previous delivery	N/A
	Management approach	Delivery schedule, governance framework	As relevant to support next stage	As relevant to support next stage	High-level	Comprehensive	Summary or evidence of previous delivery	High-level
		Resourcing and management	As relevant to support next stage	As relevant to support next stage	Summary or evidence of previous delivery	High-level	Summary or evidence of previous delivery	N/A

a Not required if no significant commercial returns or revenues, or financing arrangements outside of government funding, see section 3.4.
b Include details likely to influence a decision to proceed to next stage of proposal development.
c Comprehensive assessment may be required in certain circumstances. See section 4.1.
d Comprehensively define a preferred option and provide high-level explanation why it's preferred over other options.
e Lean business case also applies to recurrent proposals valued over $20 million that do not require assurance registration and Tier 4 recurrent proposals.

Legend	
Conceptual	Limited to key points based on existing information and evidence.
Preliminary	Completed with a basic level of detail and accuracy, that will be refined during the full business case.
High-level	Detailed plans not required. Focus on demonstrating capability and capacity to efficiently and effectively procure, manage and evaluate the proposal.
Comprehensive	Complete. Rigour of analysis not expected to increase following investment decision, but detail may be amended as more evidence comes to light.

1.9 Before starting a business case

Recommendation

Agencies should:

- develop robust internal governance arrangements to review go/no-go documents and ensure development of a business case is warranted
- provide a go/no-go document to your NSW Treasury relationship lead for feedback for tier 1, tier 2 and tier 3 proposals prior to commencing business case development.

Proposals start with a clear mandate, strategy and objectives. Much of the critical thinking and foundations for a good business case happen before commencement. You need to:

1. Appoint a senior responsible officer.
2. Complete a go/no-go document and obtain internal sign-off from the senior responsible officer to commence a business case.
3. Refer to the relevant assurance framework and:
   - complete a gateway risk tier self-assessment
   - register with the gateway coordination agency (if above the relevant threshold)
   - identify required assurance reviews and incorporate them into business case development timelines.
4. Identify key stakeholders and do targeted consultation where appropriate.
5. Scope and plan the business case approach, inputs and decision pathway (for example, Cabinet decision points). For tier 1 and tier 2 proposals, this should be discussed and agreed with your NSW Treasury relationship lead.

A business case should not commence unless it's demonstrated to be a government priority.

Submitting go/no-go documents to the NSW Treasury relationship lead prior to commencing a business case provides an opportunity for early feedback on alignment with government priorities, the current fiscal context and strength of the case for change. This is recommended for tier 1, tier 2 and tier 3 proposals to help agency decision-making about whether to proceed to business case development.

Gate 0 assurance reviews may be required for capital proposals. Following these reviews, Infrastructure NSW provides recommendations on whether the project should proceed to development of a preliminary business case. If a formal gate 0 review has been completed, this will meet the go/no-go stage set out in these guidelines. More details are available in the Infrastructure Investor Assurance Framework.

Tips

- A good go/no-go document concisely establishes why a business case should be developed to address a clearly defined problem or opportunity. It includes a high-level logic model, identifies key risks and stakeholders, identifies a range of strategic responses and provides order of magnitude costs.
- Use the go/no-go template or other resources such as the Infrastructure NSW Gate 0 template.

1.10 How NSW Treasury assesses business cases

Table 3 outlines what NSW Treasury looks for when assessing and advising on business cases. This is intended to improve clarity and promote consistency about what elements of a business case should be prioritised, noting that decisions-makers will use their own criteria and judgement.

A common-sense approach should be applied when considering these criteria. Where both efficiency and equity considerations are relevant, trade-offs and judgement should be applied.

For NSW Treasury, CBA is the best and broadest indicator of a proposal's likely impacts on community welfare. NSW Treasury will balance its advice using all the information in the business case. For example, other relevant factors can include:

- alignment to government strategic priorities
- strength of the logic model
- evidence of significant unquantified benefits
- the rigour to which alternative options have been considered
- provision of resilience to extreme events
- benefits to targeted disadvantaged groups
- stakeholder or community support
- risk, deliverability and commerciality
- consistency with the state fiscal strategy.

NSW Treasury will also evaluate the quality of evidence underpinning key assertions. This should include appropriate recognition of the realities of risks and uncertainties, and consideration of lessons from previous similar initiatives.

Table 3: NSW Treasury assessment framework summary

Criteria	Business case component	What does NSW Treasury look for?
Strategic fit Is there a clear rationale for the proposal that supports current government priorities?	Case for change	• A clear problem and need for timely intervention by the NSW Government. • Addressing the problem directly contributes to government priorities. • A logical linkage between the problem, objectives, options, benefits and costs. • Stakeholders have been engaged, concerns identified, and addressed where relevant.

Criteria	Business case component	What does NSW Treasury look for?
Societal impact Is economic, social, cultural and environmental value demonstrated?	Options Cost-benefit analysis	• A diverse range of realistic options are assessed, including 'minimum viable' and non-build options on an if-not, why-not basis. • Risk and resilience considerations have informed options development. • Evidence the proposal will improve welfare (including CBA result, sensitivity analysis, qualitative benefits, and methodological soundness). • Distributional impacts are presented were relevant. • Material risks are identified, mitigated and communicated.
Affordability Are costs understood and affordable within the current budget context?	Financial analysis	• Whole-of-life costs are understood and reflected. • Consideration of a range of funding options, including non-government sources. • Consideration of options to delay or stage delivery.
Deliverability Can the proposal be effectively and efficiently delivered?	Monitoring and evaluation approach Procurement approach Management approach	• Evidence that the delivery agency has the required capacity and capability to manage delivery. • Evidence that the market has the required capacity and capability to deliver the proposal. • Clear accountability and resourcing for monitoring and evaluation.

1.11 Using the guidelines

Who should prepare a business case?

The evidence and subject matter knowledge required to develop a business case usually sits with the agency submitting the proposal. Agencies should foster internal capability in the development of business cases given their ongoing role importance in decision-making.

The following should generally be completed within government: go/no-go document or short-form assessment, development of a case for change and identification of options. Overall responsibility for managing and delivering a business case should also be within government, including risk management, project management and stakeholder management. Agencies should seek to develop internal capability in CBA, financial analysis, procurement and monitoring and evaluation.

Use of external consultants should be limited to:

- technical business case inputs where capability is not readily available within government, such as engineering designs, quantity surveyor costings, choice modelling surveys
- where capacity within government isn't available to meet urgent government priorities, such as in crises and disasters.

The Economics and Analysis branch within the Premier's Department has expertise in business case and CBA development. They support agencies on a fee-for-service basis but have limited capacity. If you're considering engaging them, email economicsandanalysisbranch@investment.nsw.gov.au.

The Premier's Department is establishing a specialist capability network and concierge to support engagement of internal capability. The network is due to become operational in the first half of 2025.

Who are the guidelines for?

The primary audience for these guidelines are those responsible for developing business cases, including senior executives, project managers and business case practitioners. The guidelines are also relevant to other parties with a role in project development (see Table 4).

Table 4: Roles and responsibilities in project development

Entity	Role	Responsibilities
Portfolios	Senior responsible officer	• Provides a single point of accountability and strategic responsibility for the project. • May change throughout the project lifecycle. • Must be identified at commencement of a project.
	Project sponsor	• Defines problem, objectives and project scope. • Develops the business case. • Secures funding. • Monitoring and evaluation.
	Deliverer	• Procurement and delivery. • May be within the agency or a separate entity with the relevant expertise.
	Asset manager (capital projects)	• Day-to-day operations and maintenance. • May be part of the sponsor or delivery agency or a separate entity. • Should be included in business case development via project governance arrangements.
NSW Treasury	Central agency	• Provides advice to the Treasurer and Cabinet on resource allocation.
Cabinet Office	Central agency	• Provides advice to the Premier for Cabinet.
Gateway coordination agency	Assurance	• Project registration and risk tier assessment. • Co-ordination of gateway reviews and reporting to Cabinet. • Ongoing monitoring of projects.
Cabinet	Investor	• Sets government priorities. • Makes decisions on the allocation of resources through the annual Budget process.

Cross-agency impacts

A proposal that delivers on shared government objectives may affect multiple agencies. For example, a proposal may be managed by multiple agencies, or by a lead agency with support from other agencies as stakeholders or delivery partners.

Agencies should proactively consult in these situations, as there may be benefits from collaboration. Early engagement across government will help to identify resource requirements early on and ensure that cross-agency impacts are accounted for.

General principles of effective project management should apply when developing a cross-agency proposal. Project governance arrangements should be set out early, including reporting arrangements, approvals and planning. Each agency's role in developing the business case should be clearly identified and business case teams should be adequately resourced.

NSW Outcome Networks provide a mechanism to drive reform across government and may present a forum for collaboration and coordination where input from multiple agencies is required.

Supporting resources

These guidelines are supported by a range of tools and templates. These tools and templates have been developed to assist users and may be flexibly applied during business case development.

Resources

- Go/no-go template
- Lean business case template
- Preliminary and full business case template
- Short-form assessment template
- Rapid CBA tool (can be used to generate CBA results, sensitivity analysis and distributional analysis)
- Ex-ante CBA quality assessment tool
- Outcomes values database (to request access, email cee@treasury.nsw.gov.au)

Engaging with NSW Treasury

The relationship lead within Policy and Budget is the primary point of contact in NSW Treasury for agencies and government businesses. The role of the relationship leads includes:

- supporting application and interpretation of NSW Treasury policy and guidelines
- facilitating engagement with specialist teams, such as the Centre for Economic Evidence or the Major Projects division
- ensuring agencies and government businesses receive consistent advice
- receiving business cases completed by agencies and government businesses
- coordinating NSW Treasury's advice to ERC on proposals, which are generally informed by assessment of the business cases.

Integrity and accountability

Business cases rely on assumptions to estimate costs, volumes, growth, benefits and timing. Responsible officers should be comfortable that these assumptions are reasonable, reliable and appropriate to support a government investment decision. The senior responsible officer has ultimate accountability for the business case and the reasonableness of its assumptions.

A range of government agencies and decision-makers rely on business cases. Any work done by external consultants should be done on the expectation of this broad reliance. Disclaimers limiting the use of information to specific agencies aren't appropriate.

Potential conflicts of interest between consultants, agencies and broader government interests need to be identified and managed. This includes any actual or perceived expectations that a consultant be biased towards producing favourable analysis, such as where positive findings may lead to further engagement in the future, either in an advisory capacity or in delivering the proposal.

The appropriate actions and risk management practices will vary with the cost, risk and subject matter of a proposal. The business case templates accompanying these guidelines include an attestation that the senior responsible officer may complete regarding reasonableness of the business case assumptions.

2 Developing a business case

2.1 Program business cases

A program in the context of these guidelines is a collection of related projects to address a common problem, or to realise a common opportunity, delivered in a coordinated manner. Delivering a program may produce greater benefits than by delivering the projects individually.[4]

A project is a set of interrelated tasks to deliver a specified result, service or product. A project is typically characterised by a fixed delivery timeframe, budget or set of resources.

In practice, the key differences between programs and projects are:

- programs focus on the outcomes delivered by multiple projects
- programs often consist of tranches over a longer lifespan
- programs are usually more complex and provide an umbrella under which their underlying projects can be co-ordinated and delivered.

A business case can be completed for a program or for each individual project that makes up the program. These are referred to as program business cases and project business cases respectively.

Program business cases follow the same general principles and requirements as project business cases. There are, however, differences in what information is presented and how it's framed. Appendix A provides further guidance on how to do a program business case and an outline of common types of programs.

Program or individual business case?

Mandatory
• Seek approval from NSW Treasury prior to developing a program business case to support a funding decision (that is, a full or lean program business case).

Program business cases have advantages and challenges relative to project business cases (refer to table 5).

Program business cases often work well for programs made up of a modest number of relatively simple interrelated projects. Generally, the larger and more complex the program, the more challenging a program business case is.

Program business cases can be useful for go/no-go documents and preliminary business cases. They can be used to seek endorsement for the overall program before a full business case is developed for individual projects.

It may be appropriate to develop a full or lean program business case to support a funding decision where:

- There's strong rationale and supporting evidence for seeking funding at the program level. For example:
  - underlying projects are substitutes or complements for each other
  - benefits are contingent upon completion of all the projects
  - the program consists of a suite of similar projects with comparable net benefits.
- It's feasible to rigorously assess the costs and benefits of individual project options as part of a program business case.

[4] As defined by the Infrastructure Australia Assessment Framework.

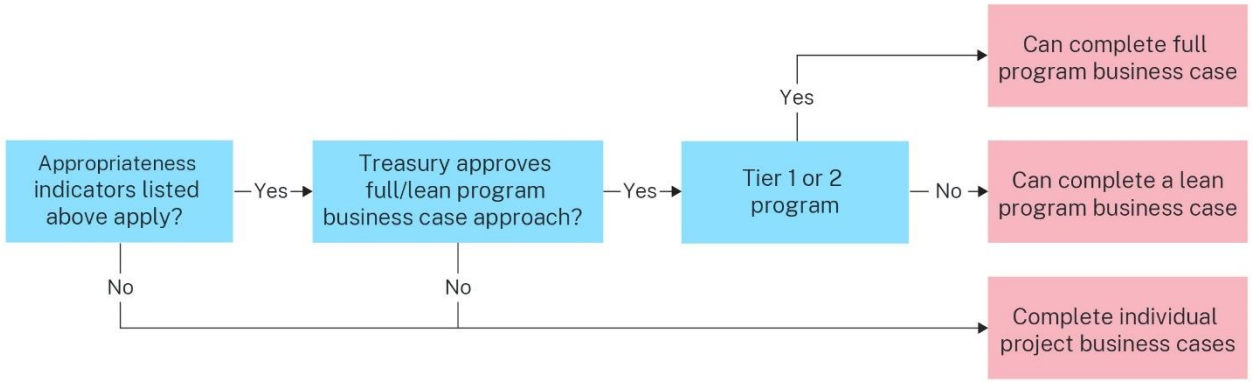
- Aggregation as part of a program business case will not significantly reduce transparency over individual project design or performance.
- Non-welfare enhancing projects are not grouped together with welfare enhancing ones, without demonstrating interdependency.

A program may be made up of small projects, which individually fall below the relevant business case threshold but together require a business case. Completing a program business case to support a funding decision is best practice in this situation.

Table 5: Advantages and challenges of program versus project business cases

Advantages	Challenges
• Supports decision-making based on overarching program level strategy. • Considers coordination of individual proposals and sequencing. • Streamlined business case process. • The net impact of complementary, substitute and dependant projects are assessed (for example, BCRs for key enabling projects may be below 1 when assessed at the project level). • Promotes collaboration between agencies.	• More complex business case development. • Reduced transparency of individual project performance. • May not consider individual components with the same level of rigour as a standalone business case. • Accounting for network benefits, including ensuring that each project is needed to achieve the benefits claimed for the network. • Longer lifespans (for example, 10-year program) increase demand and cost uncertainty.

Figure 5: Program business case process map



Case study: Aboriginal Languages Trust

The Aboriginal Languages Trust Strategic Plan 2022–2027 sets five goals to support the vision that all NSW Aboriginal Languages are strong and healthy. Each goal includes a list of actions (22 in total) and measures for evaluating progress. These cover a broad range of interrelated initiatives, including:

- investing in community designed and led languages activities
- events to connect and build relationships with Aboriginal languages stakeholders
- exploring the establishment of regional languages networks
- establishing a multi-year research agenda
- building sector partnerships to support training and job pathways for Aboriginal sector
- an impact measurement framework to evaluate progress and inform future directions.

The strategic plan was supported by a program business case rather than individual business cases for each goal or action.

This enabled holistic consideration of different options to deliver on the overarching objective of the strategic plan in a coordinated and effective way.

The business case established the case for change at the program level and used CBA to compare options with different combinations and scaling of the identified actions.

2.2 Carbon emissions

NSW has a legislated target to reach net zero emissions by 2050 and interim emissions reduction targets.

Considering carbon emissions throughout a business case can help ensure investments align with climate change priorities and targets, public welfare impacts are understood, lower emissions options are identified, and emissions are effectively managed.

Carbon emissions should be considered during problem definition, base case and option development, valuation of costs and benefits, and risk analysis.

CBA generally only includes impacts on residents of NSW. The full value of emissions arising from manufacturing or transporting materials or products consumed in NSW, regardless of where they occur, must be considered (in addition to emissions occurring in NSW) as part of business case development. This avoids incentives to shift emissions offshore and place local industry at a disadvantage, while not decreasing global emissions.

Resources

- Carbon emissions in the Investment Framework (TPG24-34) sets out requirements and guidance for incorporating emissions into business cases and CBA. It also presents the carbon values that agencies must use when valuing carbon emission impacts in CBAs.
- Refer to the INSW Decarbonising Infrastructure Delivery Policy for further information on managing carbon for infrastructure projects.

2.3 Application of the First Nations Investment Framework

The First Nations Investment Framework (TPG24-28) provides targeted guidance on how to partner with First Nations people and communities when developing and evaluating proposals. It is relevant to both general and First Nations-specific proposals. This may include but is not limited to:

- proposals that influence outcomes for First Nations people or communities, including the priority reforms and socio-economic targets agreed under the National Agreement on Closing the Gap
- proposals that impact on First Nations people's rights and interests in land, water or specific cultural heritage places and objects
- targeted and mainstream programs or services where First Nations people are a priority cohort
- infrastructure projects to be delivered in communities with a significant First Nations population.

The guidance has been developed based on evidence from research and consultation by NSW Treasury and other sources. It emphasises the importance of early and genuine relationships and partnerships with First Nations people and communities.

When developing business cases, this approach can help to ensure that:

- problem statements and objectives are informed by First Nations people and communities
- logic models appropriately represent outcomes sought by First Nations communities
- the role of First Nations cultures as both an input to and outcome of proposals is recognised when developing and assessing options
- legal rights and interests are identified and reflected in the base case and options, particularly for land use, planning and environment and land ownership
- the approach to collecting, analysing and presenting data embeds the principles of Indigenous data governance and Indigenous data sovereignty.

2.4 Local content in business cases

The NSW Government has committed to reforming its Procurement Policy Framework and practices to support domestic manufacturing and local industry. PBD 2024-02 Increasing opportunities for local suppliers to supply to government requires local market testing to be embedded in procurement plans where the budget is $7.5 million or more, and explanation on an 'if-not-why-not' basis why a local supplier was not selected if available.

Decisions made at the business case stage can have downstream implications for full and fair access to procurement spend for local suppliers. For example:

- choosing materials not available locally
- bundling contracts in a way that precludes local suppliers.
- an international design competition might discourage entries that rely strongly on exclusively foreign made materials.

Identifying and considering these issues early can ensure that local supplier opportunities are not unnecessarily restricted.

CBA may also quantify benefits, such as increased employment opportunities or increased costs of local content options.

Resources

- Technical note: Local content during business cases development (to be developed)

2.5 Early market engagement

Engaging with industry throughout business case development can leverage private sector expertise to:

- identify innovative solutions, including options that would not otherwise be considered
- test market capacity and capability
- identify and mitigate risks, including development of appropriate risk sharing mechanisms
- inform selection of the preferred option, for example, by testing the robustness of key assumptions and costings, constructability and improved risk identification
- inform the proposed procurement approach.

Early market engagement should be undertaken for any proposal where the potential benefits of doing so outweigh the costs. It can commence before a business case begins, commensurate with the proposal type, cost, risk, level of government commitment and confidentiality including Cabinet-in-confidence rules. Market engagement should be open, fair and transparent to avoid participants gaining an unfair advantage in future tenders.

Premier's Memorandum Procurement for large, complex infrastructure projects (M2021-10) requires early market engagement and appropriate early investigations, on an if-not-why-not basis.

Smaller proposals, particularly in fast-evolving industries such as digital, may also benefit from early market engagement.

How to engage

Early market engagement can take a range of forms:

- **Market sounding** floats an idea with the market to get feedback such as:
  - whether problem definition, case for change or requirements are clear
  - feasibility of procurement including market capacity and capability
  - whether a mature or competitive market exists
  - whether costs are accurate and risks have been identified.
- **Concept viability or concept testing** tests viability of solutions with suppliers or asks suppliers to develop solutions to the identified problem or opportunity. This may happen through demos, pitch fest, hackathon, proof of value, proof of concept, minimum viable product, limited implementation, trial, pilot and more. Treating concept viability or testing as the first stage of a multi-staged procurement can protect the ability to implement the preferred solution with the same supplier.
- **Outcome-focused procurement** approaches the market focusing on outcomes rather than a pre-determined solution, usually via a challenge or problem statement. It may also be a multi-stage procurement.
- **Multi-stage procurement** involves one or more concept testing approaches with one or more suppliers before committing to a preferred option. A competitive market approach based on a well-framed problem statement generally ensures the best solution(s) can be uncovered before proceeding with testing and eventually implementation.
- **Horizon scanning** analyses a market's near-term opportunities, developments, threats and drivers. It may involve discussing future market conditions with suppliers or examining wider issues, such as global and domestic political agendas.

Case study: Coffs Harbour bypass and M1 to Raymond Terrace projects

Transport for NSW adopted an early interactive commercial and technical tender process for both projects to better understand industry's concerns around specific project risks and how they could be addressed.

This interactive process afforded tenderers the opportunity to input and request for collaborative risk sharing on a range of specific items such as geotechnical conditions, inclement weather and the rise and fall of material costs.

This has led to a form of collaborative design and construct contract being applied for both projects that incorporate significant risk sharing, particularly on issues like contamination and utilities relocation.

Resources

- Infrastructure Procurement Framework
- buy.nsw Construction page provide further guidance on early market engagement in construction

2.6 Technical investigations and cost estimates

Research or technical investigations may be required to define cost, benefits and risks. These investigations should improve the accuracy of business case analysis but can be time and resource intensive.

Tier 1 and tier 2 proposals need robust evidence underpinning estimates of benefits and costs, and investigations that are sufficient to identify 'show-stopper' risks. The aim is for the business case to provide the evidence and confidence needed to support an investment decision without doing work that could wait, or will not materially alter assessment of costs, benefits and risks.

Appendix B provides further details on common technical investigations and cost estimates across the business case stages.

2.7 Role of evaluation in the investment lifecycle

Evaluation (ex-post) is a systematic and transparent process to assess an initiative's appropriateness, effectiveness, efficiency and social benefits. It's a key tool to improve the design and delivery of proposals. The Evaluation Guidelines (TPG22-22) set out evaluation requirements that apply to NSW Government agencies.

Summary of evaluation requirements

The Evaluation Guidelines (TPG22-22) require that:

- initiatives resourced by the NSW Government be regularly examined to assess their achievement of intended outcomes and net social benefit
- all proposals seeking government resources include evidence to support proposal design and appraisal and plan for evaluation
  - New proposals must identify the evidence that informed development and assessment of the proposal.
  - Ongoing initiatives must identify when last evaluated, the findings and recommendations, and agency response.
- a high-level monitoring and evaluation plan (under a monitoring and evaluation or benefits management framework), including resourcing requirements, be included in all proposals seeking an investment of $10 million and above (see section 3.6).

See the Evaluation Guidelines (TPG22-22) and associated workbooks and technical notes for further details.

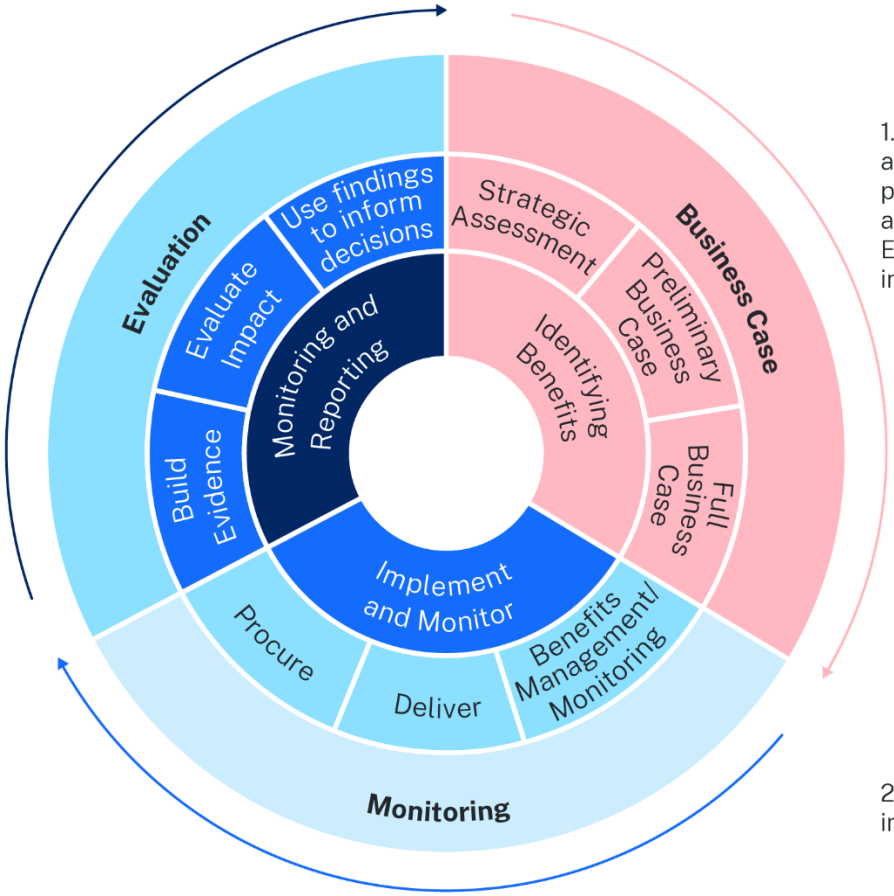
When should business cases have an enhanced focus on evaluation?

Planning for evaluation as part of a business case helps build the evidence base for future investment decisions. This is especially important in situations where a strong case exists to fund a proposal, even without a business case supported by robust evidence.

These guidelines take a pragmatic approach in these situations by placing a greater emphasis on ex-post evaluation. In particular:

- Emergency or other time critical situations, such as disaster response, require fast decision-making. This can make it impracticable to complete all components of a full business case in detail. Evaluation in these situations can ensure that evidence is available to inform future time critical proposals.
- For small pilot initiatives, or small recurrent initiatives with limited evidence, the cost and time of collecting data to complete a CBA may be disproportionate. In this situation, agencies should consider seeking funding for a shorter period, with a subsequent evaluation to provide further evidence to support a future funding decision (see Figure 6). For example, an initiative for a new prisoner rehabilitation program that costs $8 million per year could be funded for two years with a short-form proposal assessment, including a high-level monitoring and evaluation plan. Subject to findings of the evaluation, a business case could then be prepared to seek ongoing funding.

Figure 6: Investment lifecycle



When is ex-post CBA required?

Mandatory
Where an emergency proposal has been unable to meet business case requirements due to insufficient time for detailed analysis, it must at a minimum be supported by a short-form assessment that includes: • a high-level monitoring and evaluation plan • plans for an ex-post CBA • resourcing and a responsible party for completing ex-post evaluation.

An ex-post CBA provides evidence of net social benefits and value for money. The Evaluation Guidelines recommend ex-post CBA for proposals with a total cost at or above $50 million, or for pilot initiatives. An ex-post CBA should also be completed where the ex-ante evidence base was limited.

2.8 Resilience

Resilience affects how a proposal impacts community welfare and its costs, risks and benefits.

Building resilience reduces or avoids the costs of stressors and shocks. For example, governments and commuters incur repair costs and longer travel times when a road is damage by floods. These costs could be reduced or avoided if the road was located away from flood zones or had improved culverts and drainage.

Building resilience can also have broader benefits. For example, a road that is more resilient to flooding might last longer and be able to accommodate heavier vehicles.

Considering resilience can make a business case better by ensuring the right options are identified, risks are identified and managed, and costs, benefits and risks are accurately reflected in the CBA and financial analysis.

What do we mean by resilience, stressors and shocks?[5]

Resilience refers to the ability of a system to resist, absorb, accommodate, recover, transform and thrive in a timely, effective manner in response to the effects of shocks and stressors to enable positive economic, social and environmental outcomes. For example, a resilient railway network will recover quickly after a track incident or delay, while a resilient hospital can deal with the effects of a pandemic or other major health event.

Shocks refer to sudden acute events with a damaging impact, such as cyber-attacks, extreme storms or flooding.

Stressors refer to chronic long-term or cyclical trends that undermine systems and increase their exposure and vulnerability over time such as increasing temperature or ageing population.

Table 6: Example stressors and shocks

Shocks	Stressors
• disease pandemic • cyber attack • bushfires • extreme weather events (including extreme heat, storm events, flooding) • water crisis (such as water pollution event hindering potable supply) • financial institution or system failure • war • terrorist attacks • power outages • significant institutional changes	• demographic changes • breakdown of social cohesion and social exclusion • coastal erosion, including sea level rise and tidal inundation • climatic shifts (such as higher temperatures or changed rainfall patterns) • housing affordability • species extinction • loss of vegetation

All types and sizes of proposals can be impacted by stresses and shocks and benefit from consideration of resilience:

- Consider resilience at each stage of the business case process.
- Focus on stressors and shocks that are material to the proposal and keep analysis proportionate to the size and scale of the proposal.
- Collaborate with experts.
- Consider redesigning options — or developing new options — to increase resilience.

[5] Definitions adopted, and table adapted from Infrastructure Australia.

- Benefits and costs from stressors and shocks should be clearly identified and included in the set of costs and benefits quantified where material to final results.

Challenges of considering resilience include:

- The frequency and impact of stressors and shocks is uncertain.
- Climate change has reduced the reliability of historical data in anticipating the frequency and impacts of some stressors and shocks.
- Stressors and shocks can be multiple and overlapping, creating interacting, compounding and cascading impacts.

Climate change

Climate change has already impacted NSW and is expected to continue to pose new, and exacerbate existing, stressors and shocks. For example:

- Increased frequency, duration and severity of some natural hazards. Even small changes in average climate can have significant impacts.
- Exacerbating other existing environmental risks. For example, coastal inundation may exacerbate the impacts of existing soil contamination as contaminates could be mobilised and redistributed to adjoining waterways.
- Impacts on the demand for government services. For example, increased frequency of heatwaves may impact the public demand for health services or the need for greater temperature control in schools and other government buildings.

Resources

- Technical note: Resilience in business cases

2.9 Common planning assumptions

Mandatory

Projections included in business cases must incorporate all relevant aspects of the Common Planning Assumptions.

The NSW Common Planning Assumptions are the agreed values for parameters that support projections in proposals, plans and strategies. They ensure consistency between government agencies in planning for key services and infrastructure. They are publicly available and regularly updated. Metrics included in the Common Planning Assumptions include:

- standard projections and forecasts, and approved targets for population, housing and employment
- assumptions for economic growth, industry sector growth, fertility, mortality, migration and infrastructure (to inform projections)
- assumptions for land use, derived from regional and district plans and infrastructure assumptions (to inform scenario planning).

The Common Planning Assumptions Group (CPAG) is an inter-agency group that oversees development of the Common Planning Assumptions and endorses them before approval is sought from the Board of Secretaries or Cabinet as appropriate. Proposed updates are also reviewed by CPAG for endorsement.

Resources

- Common Planning Assumptions datasets, reports and tools are available on the NSW Treasury website.
- The CPAG Secretariat can be reached at cpagsecretariat@treasury.nsw.gov.au

2.10 Annual Budget process

Business cases should be considered for funding as part of the annual Budget process. The process generally involves establishing criteria for the types of proposals that should be brought forward, followed by submission of proposals, consistent with Budget guidelines. Proposals must include a business case or short-form assessment as relevant.

2.11 Impact assessments

Impact assessments sit alongside business cases in supporting decision-makers and advisors when assessing a proposal.

Completing impact assessments alongside a business case ensures these impacts are identified early, can be incorporated into options development and assessment, and presented to decision-makers as part of distributional analysis where relevant. Impact assessments provide an opportunity to consider how a proposal can be adjusted where potential negative impacts are identified.

Gender impact assessments

New policy proposals require a gender impact assessment, unless exempt, as required by the Gender Impact Assessment Policy (TPG23-27). These assessments identify how women, men and gender-diverse people may experience impacts of a proposal differently.

First Nations impact assessments

First Nations impact assessments are mandatory for proposals that are First Nations specific or have a significant or disproportionate impact on First Nations people or communities. Responses on how policies have been designed in partnership with First Nations stakeholders will be collected and assessed.

More guidance

- Gender Impact Assessment Policy (TPG23-27)
- First Nations Impact Assessment Policy (TPG24-26)

2.12 Updating a business case

Business cases may be updated for several reasons. For example:

- Decision-makers may ask for another option to be developed and brought back for a decision. This could arise from decision-makers making variations to a recommended option.
- Delays between the development of a business case and consideration by Cabinet may need updates to reflect changing costs, demand or new evidence that has emerged.
- Significant scope changes or cost escalation during the delivery phase may require additional funding requests.

When a business case is updated, all components should be revisited and updated in a balanced manner. For example, if a business case is being updated to consider a lower cost option, analysis of the benefits should be revised commensurate with the logic model and revised scope, and new evidence on the feasibility (or otherwise) of implementation included.

Business cases are developed to inform an investment decision. An agency may use a business case as a project management resource. NSW Treasury does not require a business case to be updated following an investment decision, unless there's a new funding request that requires a new policy proposal.

3 Investment case

Purpose

Establish the rationale for government action, and the reasons for recommending a specific option(s) for consideration.

Key questions:

- Is there a clear problem or opportunity?
- Does the problem require timely government intervention?
- Does addressing the problem directly contribute to government priorities?
- Are the objectives and the logic linking the proposal to its intended benefits clear?
- Do stakeholders support the proposal?
- Has a diverse range of options been considered, including:
  - incorporation of risk and resilience considerations?
  - a minimum viable product and non-build options on an if-not-why-not basis?
  - a range of funding options?
  - options to delay or stage delivery?
- Will the proposal improve welfare, as evidenced by CBA result, qualitative benefits, sensitivity analysis, soundness of the method and underlying assumptions and evidence?
- Who will the proposal disproportionately affect, for example, people of a particular gender, First Nations people, specific locations?
- Are material risks and uncertainties identified and mitigated, and residual risks communicated?
- Are whole-of-life costs understood and reflected?
- Is there clear accountability and resourcing for monitoring and evaluation?

3.1 Case for change

Purpose	Establish what the proposal sets out to achieve, how it supports government priorities and the chain of logic that leads to success.
Mandatory requirements	**Preliminary and full business case:** identify the problem including its magnitude and urgency, explain why government action is needed, define the objectives, link the problem to the strategic context, and explain how the proposal will address stakeholder concerns. Include a logic model, with increasing level of detail, at each stage.

Identify the problem

A clearly defined and concise problem statement sets the foundation for a strong business case. A problem may also be an opportunity. Problem statements should be outcome focused and not linked to a specific solution (see Table 7). It should leave scope for lateral thinking and novel solutions. A well-defined problem creates the context for the best solutions to be found.

A problem statement **too broad** lacks focus, making it challenging to derive specific objectives. A problem statement **too narrow** will limit the scope of options and direct considerations in a specific direction.

Table 7: Examples problem statements

Good problem statement	Poor problem statement (**Why**)
Problem: Inefficient appliances create a barrier to reducing emissions.	NSW has an emission target that needs to be met. (**Too broad.**)
Problem: High rates of smoking among young people are creating poor future health outcomes.	Young people are not sufficiently supported to make decisions for their health. (**Too narrow.**)
Problem: People are unable to find affordable homes that are close to transportation, infrastructures and social amenities.	Local planning and zoning restrictions are preventing people from finding affordable homes close to transport, infrastructure and social amenities. (**Too narrow.**)
Problem: The proportion of patients receiving timely treatments in emergency departments is declining.	Hospital processes are not streamlined, resulting in inefficient treatment commencement times for emergency department patients. (**Too narrow.**)
Problem: Projected student numbers exceed the current capacity of the school catchment at 'X location'.	Current schools at 'X location' cannot accommodate projected student numbers due to a shortage of school infrastructures. (**Too narrow.**)
Problem: Classrooms that are unable to adapt to extreme weather conditions experience reduced learning outcomes.	A lack of investment in 'smart' air cooling systems and electrical infrastructure are reducing learning outcomes. (**Too narrow.**)
Opportunity: New dam safety regulations require capital upgrades at 'X dam', creating an opportunity for cost-effective functionality enhancements.	New dam safety regulations require capital upgrades at 'X dam', creating an opportunity increase dam height for more storage capacity. (**Too narrow.**)

Identify and explain the causes and effects of the problem from the perspective of the agency, government, business or community.

- **Causes** give rise to the need, problem or opportunity. For example, road congestion may be driven by population growth.
- **Effects** are impacts created by the problem or opportunity. For example, road congestion will increase travel time and decrease leisure time and productivity.

Examine the importance and urgency of the problem, with supporting quantitative or qualitative information. For example:

- **Importance:** How many people or businesses are affected? How much land is affected? What is the extent of the impact? What are the costs associated with the problem? If not addressed, will the problem become urgent or more costly?

- **Urgency:** Why does the problem need to be addressed now? What are the consequences of waiting? How rapidly may the problem get worse?

Include a short description of the consequences of a business-as-usual scenario (the base case). This supports assessment of the urgency of action and potential magnitude of benefits if the problem or opportunity is addressed compared to the base case.

Capital proposals and asset management plans

The Asset Management Policy (TPP19-07) requires agencies to set objectives and outcomes for their asset base and how these will be delivered.

Agency asset management policies, strategic asset management plans and asset management plans are submitted annually to NSW Treasury and Infrastructure NSW. These provide evidence about capital investment needs, which should inform development of capital business cases.

Capital proposals should reference relevant asset management plans and how they will be supported by the proposal.

Tips

- Aim for two to three pages that clearly explain why the proposal is being put forward.
- Use evidence to help make a compelling case but detailed data analysis or background information is not needed.

Reason for government action

Describe why the NSW Government is best placed to address the problem compared to doing nothing, market forces or other levels of government.

Reasons for NSW Government action are:

- **Improving resource allocation:** Market failure occurs where private markets for goods or services do not maximise NSW residents' welfare (common examples below). If supply of a good or service is too low or creates unintended consequences, NSW Government can act directly or incentivise private markets.
- **Distributional priorities or other government objectives:** NSW Government may seek to pursue distributional objectives by changing the distribution of rights or resources, or to achieve stated government priorities such as election commitments.
- **Maintenance and efficiency improvements for core government activity**: For example, refurbishment or upkeep of government buildings and improvements to government systems or processes.

Market failure

Market failure can arise from the nature of the market, the nature of the good or service, or the availability of information. Activities that are exclusively or substantially government functions can also be characterised as correcting a market failure. Examples include establishing better asset maintenance practices within government, simplifying systems for people to pay tax or improving the ability of the courts to hear cases.

Types of market failure include:

- **Market power** occurs where firms or group of firms have sufficient market share to adversely influence market outcomes such as the price and supply of goods and services.
- **Public goods** are those that people cannot be prevented from consuming (non-excludable) or where consumption by one person does not reduce the quantity to be consumed by others

(non-rivalrous), such as clean air. Government may provide public goods directly, incentivise private provision or encourage co-ordination.

- **Externalities** result in over- or under-provision, relative to the socially optimum outcome. They occur where actions have spillover effects on third parties. For example, education creates positive spillovers from a more skilled and engaged workforce, while a new airport may create negative spillovers through more noise for some residents.
- **Information asymmetry** occurs when some parties have different or better information. This prevents informed decisions, resulting in sub-optimal outcomes. Government can address information asymmetry through incentives or regulation (e.g. information disclosure requirements for the NSW Government fuel check app).
- **Information failure** occurs when parties fail to discover or communicate information that may facilitate a more efficient outcome. Government responses may include publicly provided information services or information campaigns.

For more information on market failure, see the Market Failure Guide.

Objectives

Objectives guide options development and provide the basis for determining and evaluating the success of the intervention. Objectives must:

- be stated in terms of the desired outcomes
- be well-defined
- be measurable (if possible) or subject to verification
- limited in number.

Tip

- Objectives drive your business case. Take the time to get them right and develop a shared understanding with stakeholders about what the proposal is seeking to achieve.

Good objectives will clearly link to the defined problem, support identification of a diverse range of options, and provide clarity and focus. They shouldn't be closely tied to a particular solution (for example, building a specific piece of infrastructure) or describe an output rather than a resolution of the problem (for example, increased patronage of a facility).

Example: Objectives

Problem statement

Semi-urgent and non-urgent patients account for a high proportion of all emergency department presentations. Many of these have non-emergency care needs and can be safely and more efficiently treated in alternative care settings, alleviating pressure and wait times in emergency departments. However, access to alternative care is inconsistent and challenging.

Objective

Offer advice, referrals and care for patients needing urgent care to prevent unnecessary emergency department presentations.

Benefits

- reduced emergency department demand
- enhanced patient experience
- enhanced equity of accessing care.

Strategic context

Explain how the proposal will contribute to or otherwise affect government priorities and commitments, as evidenced by:

- previous Cabinet decisions
- Cabinet approved public statements expressing policy intent, for example, strategic planning documents
- regulatory and legislative requirements
- election commitments, as confirmed post-election
- national or international commitments and agreements
- other relevant government priorities.

Strategic context should also identify other state or Commonwealth initiatives. Consider interdependencies, duplication and opportunities for synergies.

Sometimes a proposal impacts government priorities that aren't its primary focus. Where relevant, the business case should also consider these. For example, a proposed new road consistent with the infrastructure strategy may disrupt local businesses during construction or make it more difficult to meet carbon emissions targets. All these priorities and potential conflicts should be identified, and assessed in the business case.

Tip

- Do not list all related policies and strategies. Pick the most relevant priorities only.

Logic model

A logic model conceptualises causal links that demonstrate how a proposal is intended to work. It defines inputs, activities, and outputs, linked to outcomes, projected benefits, and strategic priorities.

Logic models build a shared understanding of how the options will solve the identified problem. They're also used for planning, communication, project management and evaluation. Benefits identified in the logic model should be consistent with:

- the CBA
- monitoring arrangements
- the evaluation plan.

Logic models should have detail appropriate to the proposal cost and risk and be progressed and refined at each stage of the business case (see section 3.1). A full business case should include separate logic models for each shortlisted option. For a preliminary business case, where possible, visualise different outcomes intended by different options (for example, if option B delivers a subset of the outcomes of option A).

Tips

- Program business cases may develop an overarching logic model that summarises the key components of the program (see section 2.1). Large projects within the program may benefit from a separate logic model, tailored to the specifics of each project.
- For templates and examples of logic models, see Evaluation Workbook 1.

Figure 5: Progression of the logic model throughout business case stages

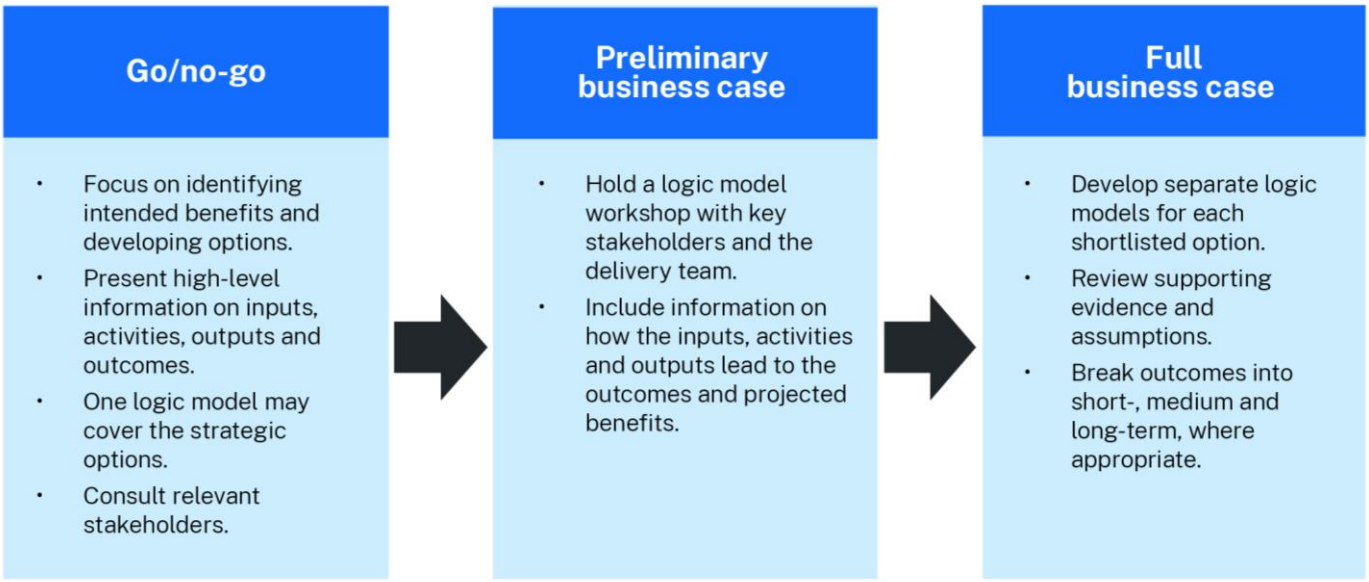
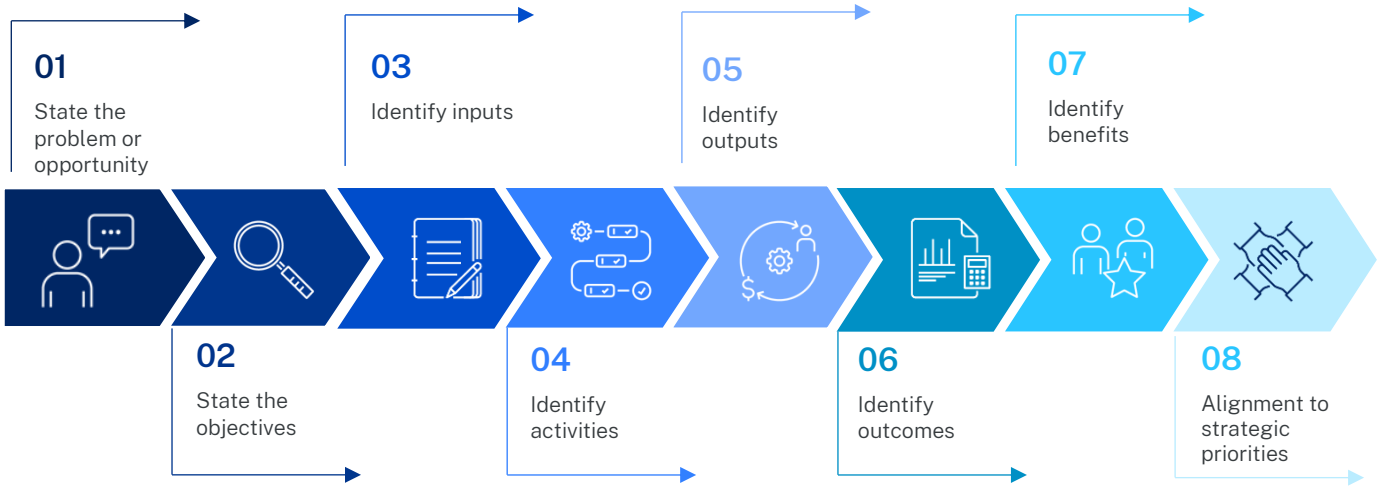


Figure 6: Components of a logic model for a full business case[6]



Stakeholder engagement

Stakeholders are individuals or groups that can influence, are affected by or have an interest in the proposal. They may include government agencies, industry, unions, non-government organisations, peak bodies, local councils, regulatory authorities, local communities (including First Nations communities), and users or customers of the service.

Effective stakeholder engagement improves the development of a business case by:

- testing and developing the problem definition and objectives
- gathering information to inform the identification and assessment of options
- ensuring proposals reflect stakeholder concerns and needs
- helping to manage expectations
- identifying risks and options for their management
- ensuring proposals are not duplicating existing initiatives
- creating and maintaining support that can assist with implementation.

[6] Proposals can adopt a logic model in a different format to suit the nature of the project or program.

Discovery for digital proposals

Stakeholder engagement is part of the discovery phase for digital proposals. The discovery phase is about understanding who will use the service, the challenges they face and how and what motivates their behaviour.

Discovery enables provides observations and evidence to support development of better solutions. This can stop proposals (for example, no user need is established) or avoid costly fixes down the track.

For more information, see the Discovery phase on the Digital NSW website.

Meaningful, appropriately targeted stakeholder engagement should inform each stage of business case development. Stakeholder engagement activities should also include feedback or endorsement by relevant portfolio or inter-agency committees and working groups to ensure alignment.

Characteristics of meaningful stakeholder engagement[7]

- **Transparent:** Disclose information about all aspects of the proposal and identify the elements stakeholders are impacted by or can influence.
- **Timely:** Provide enough time to adequately provide and consider feedback.
- **Inclusive:** Provide equal opportunity for all interested parties to engage and ensure engagement is fit for purpose, including accommodating diverse needs.
- **Collaborative:** Meaningfully draw on local and expert knowledge.
- **Accountable:** Reflect how engagement has informed decisions and report back on how feedback was used.

These guidelines do not prescribe specific stakeholder engagement requirements. Each approach should be tailored and proportionate to the proposal type, cost, risk and stage. For example, it will be appropriate to delay some types of stakeholder engagement under after government has committed to a proposal to maintain confidentiality or to manage expectations. In other cases, stakeholder engagement will have taken place before commencement of a business case. Also consider agency specific stakeholder engagement procedures.

A detailed stakeholder engagement plan does not need to be submitted with a business case. But a good business case will identify how it responds to stakeholder concerns and how stakeholder issues will be managed through development and delivery.

[7] Adapted from Infrastructure Australia's Assessment Framework 2021

3.2 Options

Purpose	Identify a range of realistic options that meet the proposal's objectives.
Mandatory requirements	**Preliminary business case:** assess a base case and a longlist of realistic options. **Full business case:** assess a base case and a shortlist of at least two realistic options. Include a minimum viable product and non-build option (capital proposals only) on an if-not-why-not basis. Provide a transparent explanation of how shortlisted options were identified in a preliminary business case and how a preferred option was identified in the full business case. Detailed design, technical specifications or planning consent materials, beyond those required to develop a reasonable estimate of costs, are not required. Options, scope or design for wider works, such as future corridor or network expansions, should not be included. Analysis of future network impacts should be limited to what's needed to identify a need for future options or expansions.

Specify the base case

A base case is the business-as-usual or status quo option. It may include a 'do minimum' level of investment, for example where there are existing commitments or unavoidable maintenance, or a 'do nothing' scenario. Comparing options to a base case enables an understanding of the expected incremental benefits of each option.

Incorrect specification of the base case may lead to benefits being over- or under-stated. The base case should consider:

- long term trends such as population growth or climate change
- impacts of existing government policies or policy changes that are committed and funded
- realistic and reasonable mitigating actions that would be expected to occur, such as reallocation of resources to support minor improvements or adaptive actions to prevent failures.

More guidance

- See section 2.2 of the CBA Guide.

Identify options

Proponents should think broadly and consider a diverse range of options that meet the project objectives (see Table 8). Biases such as groupthink, confirmation bias, anchoring or framing can contribute to insufficient or narrow option identification. Use neutral language, draw on evidence including evaluation of previous initiatives and engage with stakeholders for alternative perspectives.

Each option should:

- meet the proposal objectives
- be technically feasible (based on available information)
- be realistic when considered against available resources
- be designed to optimise public value (social, economic, cultural and environmental)
- consider dependences and synergies with other projects
- be defined at a level appropriate for the stage of the business case, including details on scope, risks, costs, benefits and dependencies
- where relevant, be informed by stakeholder engagement, industry leading practices, expert advice, review of academic literature and technological advancements, evaluation of previous similar projects and early market engagement.

The number of options and level of detail will vary with the size, risk and complexity of the proposal. A small proposal to extend an existing service may have only two or three feasible options. A large proposal to protect a town from flood damage could have a range of build and non-build options such as improved early warning systems, improved emergency response, mitigation infrastructure, or zoning changes.

A go/no-go document should identify a range of high-level options or classes of options (strategic options).

Tip

- One of most common flaws in business cases is the presentation of narrow or unrealistic options. Proposals with business cases that do not present a range of realistic options are less likely to be approved.

A **minimum viable** option that meets project objectives at the lowest acceptable standard and feasible cost must be considered on an if-not-why-not basis. A minimum viable option may be a non-build option, such as demand management, improved operations, regulatory changes, improved asset management practices or enhanced efficiency through use of technology.

Capital proposals must consider **non-build** options on an if-not-why-not basis. Where a full business case does not include minimum viable or non-build options, it must explain why these options were not further considered.

Capital proposals should consider the Digital Connectivity Principles Policy[8]. The principles aim to ensure infrastructure is built with required levels of connectivity to support community, government and emergency services.

More guidance

- Digital Connectivity Principles Policy
- Digital Connectivity Principles Guidance

[8] These are mandated by DCS-2024-01 Digital Connectivity Principles Policy for NSW government-funded infrastructure projects.

Table 8: Options framework[9]

Key dimensions	Description
Scope What is the proposal delivering and what does that cover?	Consider the problem (or opportunity) service requirements and strategic context. Examples include: • minimum viable option • different service levels • build or non-build • different geographies, target groups or service levels • addition to an existing product or service versus new • asset maintenance versus new builds.
Service solution How will the proposal be delivered?	Consider best practice and market capacity, driven by available technologies. For example: • changing an asset, system or behaviour • maintain, update or deliver a new system, product or service.
Service delivery Who will deliver?	Consider resources, competencies and capabilities – both internal and external. Will the proposal be delivered: • in-house, either by the agency or another delivery agency within government • outsourced (local, national, international, mainstream or specialises provider) • public–private partnership.
Service implementation When will it be delivered?	Consider dependencies between outputs, disruption impacts, economies of scale, benefit realisation and risk management. Examples include: • piloting • a single stage (a big bang) • phasing (tranches) • modular delivery.
Funding Who will provide funding?	Consider the availability and opportunity cost of public funding, value for money and project characteristics. Projects are typically funded by public funds, potentially supplemented by user charges (cost recovery) where appropriate. In some circumstances, business cases may consider other sources of funds including: • private capital (including borrowing or within a public–private partnership or other delivery arrangement) • philanthropy and not-for-profit entities • Australian government funding. For more guidance, see section 3.4.

[9] Adapted from the Guide To Developing The Project Business Case.

Real options

Real options provide flexibility to change scope or timing, or even abandon an initiative once uncertainties become clearer. Thinking about real options is valuable for any proposal and is particularly valuable:

- For long-lived infrastructure. For example, a business case for a new road could include an option to set aside adjoining land to widen the road if required to meet demand in the future.
- Where there is a high degree of uncertainty. For example, water infrastructure where uncertainty in future rainfall and climate projections impacts viability of the investment.
- Where some or all of the investment can be delayed.
- Where more information about benefits (though never complete certainty) becomes available over time.

Program business cases can explore real options through packages of options that may be implemented over time.

Table 9. Types of real options

Type	Examples
Timing options	Delaying a proposal or staging parts of the investment until there is more certainty around key assumptions. This may also include an option that allows investment to be deferred without giving up the right to invest in the project.
Staging options	Undertaking a proposal in stages as new information becomes more certain (such as demand forecasts or population growth). For example, building the foundations now that allow the ability to expand or reduce capacity in the future. Staging a project may also allow for earlier commencement to guard against higher costs later on (for example, early land acquisition).
Switching options	Switching inputs or outputs to suit changes in demand and supply. In cases where prices or demand changes, the proposal has the flexibility to change the mix of inputs used to produce the same output.
Abandon options	An option to abandon allows proponents to exit the project during delivery for a pre-determined price on the basis that the poor results of the prototype indicate likely project failure.
Design option	Designing a proposal in a way that increases flexibility to respond to future service needs.
Piloting	This may involve creating a digital proof of concept prior to committing to a preferred option.

More guidance

- See CBA Guide Appendix 4.4.

Assess options

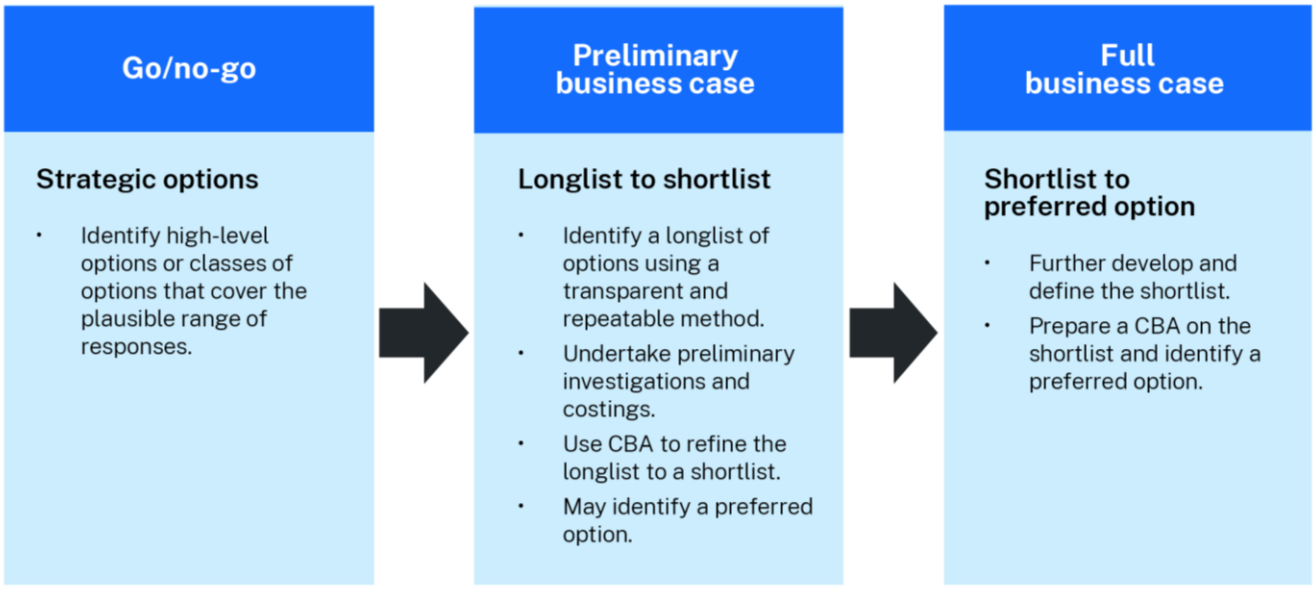
Business case analysis underpins the selection of a shortlist of options in a preliminary business case and preferred option in a full business case as outlined in

Figure 7.

Three to six options are recommended for the longlist, but this can vary depending on the proposal. Shortlisted options should be taken from the longlist. Changes in priorities or strategic environment can result in changes to full business case options. Full business cases or lean business cases must include a base case and at least two realistic options. Where business cases are prepared for purposes other than funding decisions, for example, for projects within grant programs, it may be appropriate to assess only one realistic option.

Filtering or ranking of options should apply a transparent and repeatable method documented in the business case.

Figure 7: Options filtering process



Multi-criteria analysis

Multi-criteria analysis (MCA) provides a way to assess options. It's not a replacement for a CBA in preliminary, full or lean business cases, but can be suitable for sorting strategic options into a longlist of options to be assessed by CBA in a preliminary business case, or a longlist of options to a shortlist of options to be assessed by CBA in a lean business case.

MCA entails identifying criteria, assigning weights to them and scoring options on how well they perform. Take care to ensure you provide clear evidence to support your criteria. The typical result of an MCA is a list with ranking based on scores in scenarios where the assessment criteria are weighted and unweighted.

MCA results should always be subject to sensitivity analysis on criteria weights including an unweighted or equally weighted scenario, due to the potential for bias in setting criteria weights. Common issues to be aware of when structuring an MCA include:

- **Bias:** The configuration of outcomes, criteria, weights and scoring that make up the MCA are inherently subjective. This opens the analysis to unconscious or advocacy bias. There may be bias towards benefits that can be monetised because they seem more credible.
- **Misleading values:** The units used in MCA have no real value. They are only used for ranking purposes and should never be otherwise referenced. Some criteria are scored on a binary basis (for example, yes or no).
- **Irrelevance:** Only address criteria and outcomes that are most relevant and important to the proposal. Every criteria and weight must be justifiable.
- **Inconsistency**: There is a risk that MCA can filter out viable options that should be subject to CBA or retain options that should not.
- **Discounting:** MCA does not discount costs and benefits in different time periods. Timing can be relevant when choosing options.

- **Lack of documentation:** The MCA process should be transparent, including rationale and supporting evidence behind MCA design decisions.

Refer to the guide to multi-criteria analysis by Infrastructure Australia for more guidance on MCA.

3.3 Cost-benefit analysis

Purpose	Assess the costs and benefits of a range of options on the welfare of the people of NSW.
Mandatory requirements	**Preliminary and full business case:** include a CBA that meets the requirements of the Guide to CBA. A CBA prepared for a preliminary business case will be less detailed and may include greater reliance on assumptions and less accurate costings compared to a full business case.

What is CBA?

CBA offers a structure for assessing capacity to improve net welfare, compared to the required investment. It includes qualitative and quantitative analysis, considers social, cultural and environmental costs and benefits, and uses market and non-market valuation methods.

Outcomes that can be attributed to the proposal are compared with a base case – the business-as-usual scenario – and realistic alternative options. The benefits and costs of options are measured, valued and assessed to determine the preferred approach.

CBA can incorporate uncertainty through sensitivity tests or 'Monte Carlo analysis' to examine how the distribution of results might change under different scenarios or assumptions.

CBA is a core part of a business case and the preferred method of economic evaluation in NSW. The CBA Guide (TPG23-08) provides detailed guidance and mandatory requirements to support CBAs.

Assumptions must be reasonable, evidence based and clearly documented. The strength of underlying evidence, soundness of the method, and reasonableness of assumptions are important factors in Treasury's assessment and advice on business cases.

Mandatory features of a CBA[10]

- Define the problem or opportunity that the proposal is attempting to address clearly and concisely, and how it will work.
- Define a base case and present CBA results relative to the base case.
- Assess at least two realistic options in addition to the base case.
- Estimate benefit-cost ratio (BCR) and net present value (NPV) results for the NSW referent group for each option.
- Use the central social discount rate (5%) to produce the central BCR and NPV results.
- Undertake sensitivity analysis on the BCR and NPV results for key risks and for the social discount rate sensitivities set in the Guide (3% and 7% real).
- Provide a distributional analysis of the proposal. This can be quantitative, qualitative or a combination of both.
- Include an executive summary.

[10] Established by the CBA Guide.

How does CBA fit into a business case?

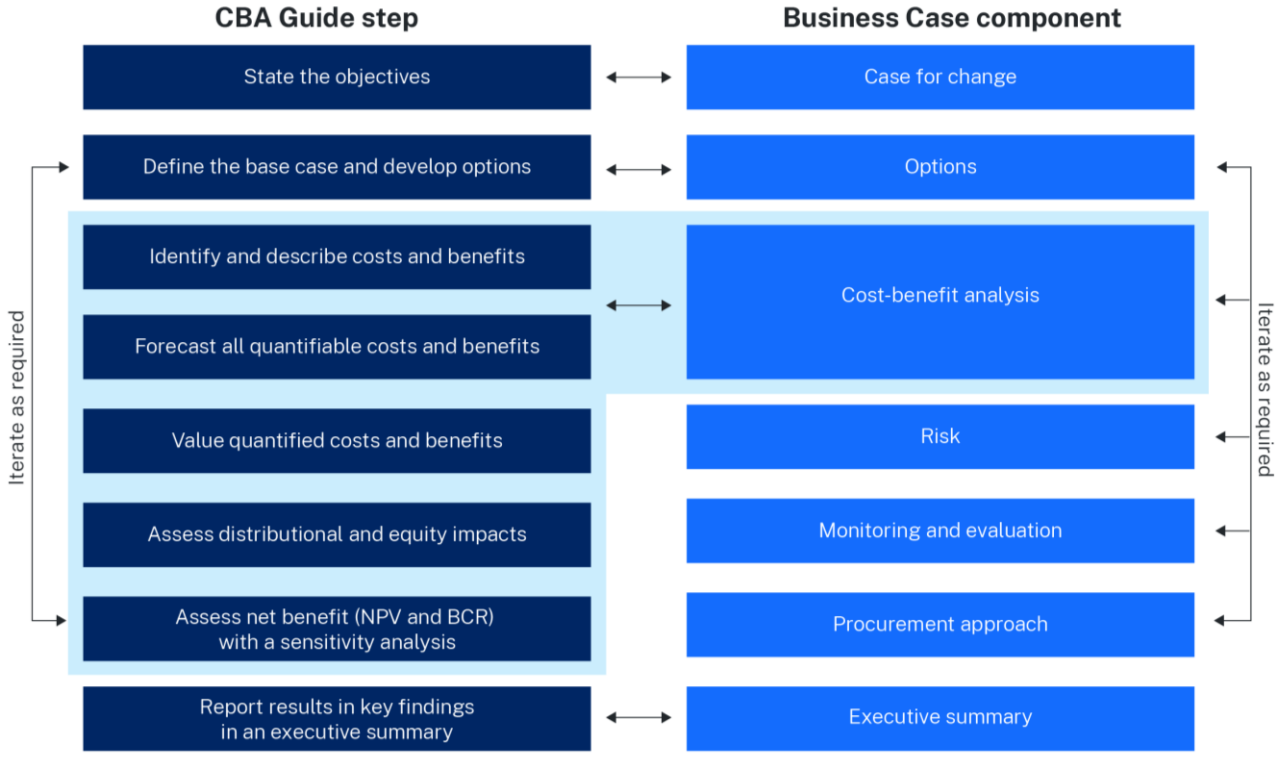
A formal CBA is not necessary at the go/no-go stage, but analysis should:

- identify benefits and beneficiaries in line with the logic model
- provide rough estimates of the number of people, businesses or assets affected
- describe the change beneficiaries would experience relative to the base case
- provide order of magnitude estimates of costs (for example, based on similar past projects).

Development of a CBA should be integrated with the broader business case development and will involve iteration and feedback (see Figure 8). Rarely, major proposals may need repeated analyses to develop and refine options. For example:

- new options that deliver greater value for money may be identified
- development of the procurement approach may identify additional costs to be incorporated into the CBA
- distributional analysis may reveal a need to target options to certain groups.

Figure 8: Integration of CBA with the business case process



Tips

- CBA includes an assessment of qualitative costs, benefits and dis-benefits that are difficult to quantify.[11] Where quantification is challenging, quantify benefits where possible, and identify and qualitatively rank remaining benefits.
- The rapid CBA tool can be used to generate key CBA results from quantity and price data without the need for a bespoke model.
- The Outcomes Values Database provides quality assured parameters for use in CBA. To request access, email cee@treasury.nsw.gov.au

[11] For example, p31 of the CBA guide provides that impacts that cannot be quantified should still be accounted for qualitatively.

Distributional analysis

Headline CBA measures of BCR and NPV aggregate results for the NSW community. Aggregate results will not show us which groups within the community are made better or worse as a result of the proposal. Understanding the impact of specific groups can be important information for decision-makers, for example:

- A proposal to increase childcare subsidies may, depending on policy design, result in larger benefits going to women (through increased economic participation), low-income groups (depending on how subsidies are targeted), children (through increased future earnings) or childcare providers (if subsidies provide scope to increase prices).
- A proposal to build a new cultural centre may require certain features to be accessible to people with disabilities, or to facilitate access to culturally and linguistically diverse groups.
- A new road can lead to overall travel time savings, while increasing travel time for some people.

A population can be divided into different groups or cohorts based on geography, income, wealth, economic participation, cultural, immigration, demographics and many other factors. Cohort selection should be based on the context of the proposal, and what may be of interest to decision-makers.

Distributional considerations may shape how a problem is defined, how objectives are framed and how options are developed. Thinking about distribution early, before formal economic analysis, can ensure a business case aligns with any distributional priorities. For example:

- policy statements or commitments by government that identify a cohort as being of particular interest, such as Closing the Gap commitments
- ensuring similar impacts on people in similar circumstances (horizontal equity)
- addressing disadvantage.

How impacts are distributed can have broader economic impacts that may influence a CBA. For example, income level and marginal utility may affect the extent to which a subsidy brings about a change in behaviour.

Appendix A5.2 of the CBA Guide provides guidance on how to prepare a distributional analysis. Table 10 provides an overview of how to incorporate distributional consideration across the business case stages.

Table 10: Distributional considerations throughout a business case

Business case component	Questions to consider
Case for change	Does the problem disproportionately affect a particular group? Is the cohort identified as a priority for government intervention?
Options development	Do some options have disproportionate impacts on particular groups? Do the distributional impacts of options support or detract from the proposal objectives?
Assessing options	Has the potential for differential impact on different groups been considered when shortlisting or recommending options?

Presenting and applying CBA results

A sound CBA will address a well-defined objective, assess a comprehensive range of competing alternatives, consider major costs, benefits and disbenefits, and be based on credible valuations.

The resulting BCR or NPV can be a useful input to decision-making but does not override the importance of judgement based on the consideration of a broad range of other factors, as outlined in section 1.10.

Economic analysis supports critical thinking and places difficult choices in the open, using frameworks that comprehensively display costs and benefits. Technical and value judgements should be explicit throughout the business case. Decision-makers' primary concern may not be addressed by economic analysis.

A CBA may be reported as a standalone document or integrated with the business case. Either way, it should provide a clear summary of:

- central BCR and NPV results for the shortlist of options, including a breakdown of the value attributed to each key cost and benefit category
- significant costs and benefits that could not be quantified and an estimate of their impact
- key issues with the method or assumptions that could impact the reliability of results
- sensitivity analysis to assess the robustness of the BCR and NPV results
- key risks that could impact benefits realisation or deliverability
- distributional impacts of interest to decision-makers.

Tip

- Use the example reporting format in the business case templates to help present and interpret CBA results.

Alternative to CBA

Cost-effectiveness analysis (CEA) is a method of comparing different options that target the same outcomes. CBA is preferred to cost-effectiveness analysis as it allows comparison of different outcomes across policy areas.

CEA may be used in place of CBA in limited circumstances. It may be considered where:

- Government has already determined the target outcome and there's minimal risk of unintended disbenefits. This can include:
  - meeting a minimum legislative requirement at the lowest cost
  - maintenance programs
  - expanding an existing service to meet demand, where supported by evaluation evidence.
- It's impracticable to monetise the main benefits with a reasonable degree of confidence, subject to agreement with NSW Treasury on a case-by-case basis.

Regardless of the above, CEA cannot be used in place of CBA for proposals that are tier 1 or tier 2, valued at or above $100 million, or where Treasury has requested a CBA.

Table 11 provides a comparison of CEA and CBA. Costs will generally be more readily quantifiable than benefits. The cost of resources for a proposal should always be quantified and is required for financial analysis and funding decisions.

Table 11: Comparison of CBA and CEA

Criteria	CBA	CEA
Resource costs	• Costs quantified and monetised.	
Benefit estimation	• **Quantify** and **monetise** benefits where possible. • Where benefits cannot be quantified, identify and qualitatively rank.	• Major benefits **quantified** in the same units across options but not practicably monetised due to data or budgetary limitations, **and** • Major benefits taken as given or is equivalent across options.
Number of outcomes assessed	• One or more outcomes.	• One outcome only, which has been clearly determined by government.
Options	• Vary by cost or benefit type.	• Vary by monetary cost but provide the same major benefit type, and minor benefits are immaterial or are quantifiable to the extent they differ, **or** • Vary by cost and relate primarily to 1 specific and measurable output that has been formally adopted as government policy.

3.4 Financial analysis

Purpose	Estimate financial impacts of the proposal on the finances of the entity undertaking the policy and the government as a whole.
Mandatory requirements	**Preliminary and full business case:** • identify the financial impacts of all assessed options • include a financial appraisal for all shortlisted options (where relevant) • include a financial impact statement (FIS).

Financial analysis examines the affordability of a proposal, and the implications of any proposed financing and funding arrangements. It involves using analysis of financial impacts to prepare two assessments:

- **Financial appraisal** examines the financial viability of a proposal. It uses discounted cash flow analysis to calculate the NPV and assess impacts to the state.
- **FIS** provides a view of how the proposal will affect key financial measures for both the whole-of-government budget and the relevant entity.

A financial appraisal and a FIS provide different information to decision-makers (see Table 12).

Table 12: Differences between financial appraisal and FIS

Financial appraisal *Are the options financially viable?*	FIS *What are the impacts on the budget?*
• Provides details on periodic cash flows for the analysis period (often 20 to 30 years but may be shorter for some proposals).	• Identifies recurrent expenses, capital expenses and impacts on government revenue on an accrual basis. • Shows aggregate impacts the Budget forward estimates and planning years. This may differ from the total cost of the proposal.
• Expressed in discounted NPV terms.	• Nominal (undiscounted) impacts over the life of the project.
• Varies in complexity as necessary for the proposal.	• Presented in the standard templates used for Cabinet submissions.
• Prepared where funding structure or commercial viability are relevant considerations.	• Prepared for all business cases and funding requests.

Tip

- Financial analysis may require iteration with the procurement approach, to ensure the financial analysis reflects the proposed delivery model.

Financial appraisal

Financial appraisal assesses the affordability and fundability of the project. It's relevant to any proposal with commercial elements, financing arrangements, expectation of revenues or change to government cashflow. Examples include proposals involving asset construction, purchase, lease or sale, or financed through grants, borrowings, project revenues, supplier finance or a combination of these mechanisms.

A financial appraisal calculates the net financial value (positive or negative) of a proposal through an analysis of revenues and expenses in nominal terms (accounting for cost escalation and inflation). It supports decision-makers by examining the commercial viability of an option, or the implications of using different funding or delivery models that may have accounting treatments or financing implications but may not substantively alter the net economic costs and benefits of a proposal.

This differs from a CBA, which quantifies, in monetary terms, economic, social, cultural and environmental impacts within NSW.

A financial appraisal is required for:

- capital proposals from government businesses
- capital proposals that are tier 1
- general government agency proposals that involve a financing decision (including public–private partnerships), will generate significant revenues or are otherwise expected to require a valuation of cash inflows.
- other types of projects as requested by NSW Treasury.

For clarity, a financial appraisal is generally not required where:

- no significant commercial returns or revenues are expected
- there are no financing arrangements outside of ordinary general government funding (for example, the proposal does not involve taking on debt specifically tied to the project).

A financial appraisal analyses the cashflow and financial impact of a project incorporating depreciation, taxation, exchange rates, risk and the time value of money.

Five steps of preparing a financial appraisal

1. **Identifying and measuring cash flows:** Incremental costs and revenues should be identified as nominal cash flows.
2. **Discounting cash flows:** Net cash flows should be discounted at an appropriate discount rate reflective of the risk of the proposal (see Appendix C for guidance on rates).
3. **Calculating NPV:** The present value of net cash flows can compare the revenues and costs.
4. **Sensitivity analysis:** NPV will reflect numerous assumptions, which should be tested. These include market, operating, financial and timing risks.
5. **Independent review:** An internal reviewer should be satisfied with the financial appraisal. An external expert may be required for more complex proposals.

The financial appraisal may provide information about the financial sustainability of the entity or proposal, and should be reviewed by senior management and, in the case of government businesses, by the Board.

Guidance on preparing a financial appraisal, including the relevant discount rate for a net present value calculation, is provided in Appendix C.

Funding and financing

Funding and financing sources include:

- General government funding, drawn primarily from state tax receipts and general Commonwealth funding.
- Commonwealth funding where a proposal interacts with Commonwealth assets or initiatives. Major infrastructure proposals and other proposals of national significance may be eligible to apply for Commonwealth funding under national agreements or similar arrangements. Smaller proposals may also attract Commonwealth funding, for example through Commonwealth grant programs.
- Debt financing, where funds are borrowed from lenders such as banks and commercial finance companies and government programs. This can be secured or unsecured and may include bonds.
- Equity financing, where capital is raised by offering an ownership stake in the project.
- Private contributions and partnership arrangements where a proposal interacts with areas where the non-government sector is active. Examples may include partnering with not-for-profit entities to supply public assets or social services or, seeking philanthropic contributions.
- Cost recovery arrangements, where a proposal has a clearly defined group of beneficiaries, and where it aligns with policy objectives and is economically and administratively efficient. Examples of activities that may be cost recoverable include regulatory activities, access to public assets, and provision of goods or services.

Funding and financing arrangements may alter the net financial impact and affordability to government. Funding and financing options should be considered during options identification (see Table 8). Such arrangements, including public–private partnerships (see Table 15), should be clearly set out in the financial analysis and be reflected in financial appraisal and financial impact statement.

Financial impact statement

The FIS demonstrates how each option will impact key financial measures on both the entity's budget and the whole-of-government budget in the future. It's a key input into the budgeting process and, unlike the financial appraisal, is required for all business cases and funding requests.

The FIS is a standardised output required for all Cabinet submissions and must follow the template for Cabinet submissions provided by the Cabinet Office. It should be accompanied by justification and evidence for any critical assumptions and methods used to identify and estimate costs where these are not already covered in the CBA.

FIS should be completed on an escalated basis using the inflation numbers included in the economic parameters published in the most recent Budget or Half Year Review. This is a departure from CBA which presents real values.

An eliminated FIS should be prepared along with an uneliminated FIS where there are intragovernmental transfers between agencies. Eliminated data excludes intergovernmental transfers.

The FIS should reflect the best available estimates of:

- capital expenditure and operating expenses required to meet the projected level of demand, while optimising efficiency
- revenue (if applicable) based on the approved forward budget
- depreciation
- impact on the budget result, net lending and net debt.

The financial analysis – and by extension the FIS – must consider projected budget expense growth, efficiency gains, and revenue from user charging, taxation, and other sources of income or internal redistributions.

Where applicable, agencies must consult with other agencies to determine any sector-wide financial impacts. For joint agency proposals, each agency should complete a separate FIS. The lead agency should then aggregate the financial impacts of all relevant agencies and adjust for any overall financial impacts at the whole-of-government level.

A full business case for a tier 1 or tier 2 proposal must include a FIS for each option. A lean business case must include a FIS for the preferred option.

A go/no-go does not require a FIS but should identify the order of magnitude of costs based on benchmarks or previous initiatives.

More guidance

- Options that are recommended by the full business case and have a large government funding requirement or material interaction with financial market risks (including foreign exchange, interest rate and commodity risks) must be reported to NSW Treasury and TCorp, and be appropriately managed in line with NSW Government Financial Risk Management Policy (TPG21-14).
- Major proposals should include any expected financial impacts relating to bid costs, as set out in the NSW Government Bid Cost Contribution Policy.

3.5 Risk analysis

Purpose	Ensure that decision-makers can carefully consider the risks associated with a proposal, by identifying, assessing, and appropriately responding to risks.
Mandatory requirements	**Preliminary and full business case**: identify, assess, quantify and consider how to mitigate key risks. Provide a clear and concise summary of key risks.

Identification and analysis of risks helps shape options, objectives, analysis and benefits realisation. It also helps decision-makers to understand implications of investing or not.

Risk categories include:

- **Increased costs** caused by higher construction costs (for example, higher steel prices), delivery delays, financial market changes and others. These risks can often be quantified, shared with external contractors or hedged.
- **Benefits not being delivered.** For example, if actual usage of a new train line is lower than forecast benefits will be reduced. These risks can usually be quantified.
- **External risks**, such as policy change, climate, disasters or technological disruption. These risks are often unpredictable and can increase costs, lower benefits or both. Where material, these risks should be quantified to the extent possible.
- **Management and governance,** such as legal risk, compliance risk, key person risk, asset security risk, counterparty risk and sensitive-information risk.
- **Flow-on impacts** result from the proposal but do not directly impact it, such as displacement and reputational risk. Generally, these risks cannot be shared.

Risk is closely related to the impact of stressors and shocks. See section 2.8 and Technical Note: Resilience in business cases for guidance on identifying, assessing and responding to these types of risks.

Appendix D includes a summary of common business case risks.

Consider risk throughout business case development

How to consider risks

- Identify key risks (refer below for characteristics of key risks). Identification should consider the external environment, such as policy, operational, cultural, social, political, environmental and legal facts, and the internal delivery environment, such as organisation capabilities and culture.
- Identify how these risks could impact the expected costs and benefits.
- Assess the risk according to its consequence and likelihood and assign a risk rating. Where the risk consequence and likelihood can be quantified a risk value should be assigned.
- Assess if the risk is outside the risk tolerance (refer below).
- Consider what actions (if any) are needed to mitigate the risk. This could be by lowering the consequence associated with the risk, lowering the likelihood of the risk or avoiding the risk entirely.
- Residual risk is what remains after mitigation. Identify residual risks and:
  - Highlight key residual risks, and how they will be managed, in the executive summary.

- Reflect in central estimate of costs and benefits (generally calculated as expected values) and contingency allowance.
- Show how changes in assumptions, or parameters, associated with key risks, impact results.

For detailed guidance on identifying, analysing, treating and evaluating risks, refer to the relevant risk management framework and the Risk Management Toolkit.

The go/no-go document should focus on showstopper risks decision-makers should be able to consider when deciding whether to proceed with a business case.

The preliminary and full business cases should focus on key risks that:

- are beyond risk tolerance
- may materially affect benefits or costs (financial or economic)
- may result in intended benefits not being delivered
- are otherwise of interest to decision-makers (for example, significant reputational risks).

A full business case should review and update risks identified in the preliminary business case.

Risk tolerance

Risk tolerance refers to the readiness to bear risk and depends on several factors including (but not limited to):

- the cost of removing or alleviating the residual risk
- the nature of the asset or service
- legal and public sector obligations
- the type of consequences from the risk (for example, reputation, finances, safety, service delivery)
- internal and external stakeholders, their perceptions of risk and how much risk they're prepared for the delivery agency to accept.

For guidance on determining the delivery agency's tolerance for risk, refer to the Risk Management Toolkit.

Multi-staged procurement or iterative delivery with well-governed decision points between stages can improve risk management by deliberately revisiting risk as solution understanding improves or as options narrow.

Consider redesigning option – or developing new options – to avoid or reduce risk where:

- risks are outside of the risk tolerance
- the benefit of avoiding or mitigating risk outweighs the expected cost of the risk.

Risk identification and management continues following an investment decision, in accordance with an established risk management plan (see Appendix E).

Documenting risks

Summarise key risks as part of preliminary and full business cases. This may be a summary of a more detailed risk register that sits outside the business case.

Ensure risks are proposal specific. Where a generic risk is included, identify the specific risk posed to the project. For example, the generic risk 'aging population' is identified as 'decreasing demand due to the aging population'.

A separate risk summary is not required for each option, but where risk levels or treatment differs across options it should be clearly documented.

Highlight any key residual risks and how they will be managed in the executive summary.

Quantifying risks

The central estimate of project costs and benefits should incorporate a range of possible outcomes that reflect residual risks that are expected to occur (for example, variation in demand for the asset or service and input costs such as materials or labour).

The central estimate of project costs should also include a contingency allowance reflecting residual risks that may or may not eventuate. For example, planning approval conditions, geotechnical investigations or design development issues. Refer to Appendix B for guidance on cost estimates.

The central estimate of costs and benefits will not reflect the distribution of possible outcomes. For example, the central estimate for CBA (based on expected values) will not differentiate between a risk of large consequence with a small likelihood and a risk of small consequence with a large likelihood.

Sensitivity analysis can show how changes in assumptions, or parameters, associated with key risks, impact results. The CBA Guide outlines methods to show how such variations impact on the assessment, including:

- simple parameter testing
- expected net present value
- Monte Carlo analysis, and
- scenario planning.

Scenario planning is used to understand sources of risk and consequences where risks cannot be assigned probabilities.

Appendix 4 of the CBA Guide provides further guidance on expected values and sensitivity analysis.

3.6 Monitoring and evaluation approach

Purpose	Ensure that resourcing, accountability and data collection arrangements are in place to support evaluation.
Mandatory requirements	**Full business case:** include a high-level plan for monitoring and evaluation scaled to the size, priority and risk of the initiative. This may be under a monitoring and evaluation framework or a benefits management framework.

What is monitoring and evaluation?

Monitoring and evaluation supports the development of evidence on what policies and service delivery models work. It's a tool to inform evidence-based decision-making. It can:

- improve design and delivery of both ongoing and new initiatives
- inform investment decision-making
- improve the delivery of outcomes and benefits from initiatives.

Evaluation is a systematic and transparent process of assessing the appropriateness, efficiency, effectiveness and net social benefits of a project or program. It can be undertaken while an initiative is underway or when it's completed. There are three types of evaluation that may be applied depending on the nature, size, risk and priority of the initiative:

- **Process evaluation** examines initiative implementation and delivery. It focuses on the inputs, activities and outputs of an initiative.
- **Outcome evaluation** examines if, to what extent and how an initiative is leading to intended outcomes.
- **Economic evaluation** assesses the net social benefit of an initiative.

Monitoring processes are a necessary support for subsequent evaluation. They can be designed to report on performance and inform ongoing improvement.

Why plan for monitoring and evaluation in the business case?

Planning for monitoring and evaluation during business case development ensures that resourcing, accountability, data collection and governance arrangements are in place to support evaluation and continuous improvement.

A monitoring and evaluation plan:

- guides the design, steps, methods and procedures for data collection and evaluation
- identifies risks in monitoring and evaluating an initiative project or program
- establishes the resources required and accountability for monitoring and evaluation
- establishes how findings will be reported and used.

Monitoring and evaluation or benefits management?

Business cases may adopt a monitoring and evaluation framework or a benefits management framework:

- A **monitoring and evaluation framework** is mainly used to monitor outcomes of projects or programs. It's more suitable for initiatives that have benefits that are difficult to quantify or measure, or where monitoring will support an experimental or quasi-experimental evaluation.
- **A benefits management framework** is used to continuously monitor benefits and optimise their realisation. It's more suitable for initiatives where benefits are well-defined, measurable and require continuous monitoring and adjustment to optimise.

Whichever approach is chosen should inform evaluation. Table 13 provides an overview of monitoring and evaluation, compared to benefits management. A high-level plan must be included in the business case and be further developed following an investment decision.

Table 13: Monitoring and evaluation plan vs benefits management plan

	Benefits management framework	Monitoring and evaluation framework
Similarities	• Summarises the initiative and theory of change with a logic model. • Sets baselines, targets and processes to achieve and measure targets. • Plans for data collection, specifying key assumptions. • Identifies and manages risks to achieving outcomes and benefits. • Requires clear governance arrangements. • Establishes review and reporting schedules.	
Key differences	• Baseline figures used to measure incremental increases in outcomes. • Relies on trend and variation analysis of benefit measures. • The scope extends throughout the lifecycle of an initiative. • Uses quantifiable metrics and KPIs to measure benefits realisation. • May extend into operations to monitor whether benefits are sustained. • Data collection is more targeted for measuring specific benefits.	• A realistic counterfactual compares what would have happened without the initiative. • Statistical and econometric methods to determine causality and attribution. • Broader assessment of effectiveness and efficiency. • Can include quantitative and qualitative data collection such as interviews. • Outputs monitored at milestones or at a point in time after completion. • Suited for quasi-experimental or experimental evaluation.

Resources

- Evaluation Guidelines (TPG22-22) and supplementary workbooks and resources.
- Benefits Management Guide (TPG24-31) and templates.
- Business case templates for what to include in a high-level monitoring and evaluation plan.

4 Delivery feasibility

Purpose

Establish how the preferred option will deliver on its objectives and provide confidence to decision-makers that the proposal will be delivered efficiently and effectively.

Key questions:

- Is there evidence that the market has the required capability and capacity to deliver the proposal?
- Is there evidence that the delivery agency has the required capability and capacity to manage delivery?
- Are governance arrangements and a delivery schedule in place?

4.1 Procurement approach

Purpose	Provide decision-makers with confidence that assets and services required for completion of the proposal (and delivery of its benefits) can be procured within the cost, and timeframes specified by the business case.
Mandatory requirements	**Full business case:** assess market capability and capacity to deliver the project, consider the delivery model and how risk will be shared between government and the private sector. Tailor details to the proposal type, cost and risk. For example, a tier 1 infrastructure proposal must specify a delivery model, while a grant program will require fewer details.

Document the scope of the preferred option

Outline the requirements for the procurement. That is, what's required from the procurement to support delivery. For example, the type of asset or service, delivery timelines and any other relevant specifications (for example, low-emissions materials or culturally appropriate service delivery).

Provide enough detail to support an assessment of market capability and risks. For high-value, high-risk (tier 1) capital proposals, this may require a level of design and technical specifications. For other proposals, it may be appropriate to develop detailed technical specifications following funding approval.

Assess market capacity and capability to deliver

Use the key questions set out in Table 14 to consider if potential suppliers have the necessary capability and capacity. Provide more detail where there's a high risk of supply-side constraints.

Indicators of high risk include:

- large, complex or unique proposals
- previous supply-side constraints when procuring similar products or services
- the delivery agency has not previously procured similar products or services
- the industry is emerging
- the industry is operating above or close to capacity, supported by evidence such as rising prices.

Early market engagement helps with assessing market capacity and capability. It is required for

large, complex infrastructure procurements on an if-not-why-not basis (see section 2.5).[12]

For digital proposals, market capacity and capability can be assessed through desktop analysis for mature markets. For less mature or fast-evolving markets, it can be assessed through market engagement and refined at each stage of a multi-stage procurement (see section 2.5)

Table 14: Assessing market capability and capacity.

Area	Key questions
Market capability	• What suppliers could deliver the proposal? Are they local or international? Do they have required cultural or place-based knowledge? • What is their previous experience delivering similar assets or services? • Is delivery of the proposal technically feasible? • Where can suppliers add the most value? • What is the supplier's preferred allocation of risk and delivery model? • Can suppliers meet NSW Government policies and requirements?
Market capacity	• Is the industry operating at full capacity? Or subject to labour shortages? • What feedback has been received from early market engagement? • What is the state and national pipeline of major infrastructure projects? Resources: • The NSW Infrastructure Pipeline provides a forward view of infrastructure valued at or above $50 million. • The Infrastructure Australia Market capacity report analyses the market's capacity to deliver Australia's public infrastructure pipeline.

Risk allocation and sharing

Tier 1 and tier 2 proposals should document the proposed approach to optimise the allocation and sharing of risks between government and the private sector. Other proposals may outline the approach taken for previous similar initiatives where risk was successfully allocated or shared with the private sector.

In general, risks should be allocated to the party best able to manage them. Transferring risk to the private sector can generate incentives to provide timely, cost-effective and innovative solutions. The government will be better placed to manage other risks.

Examples of risks to consider include latent conditions such as site contamination or cultural heritage, geotechnical risk, planning approval, or integration risks.

Delivery model

Outline the proposed delivery model in the full business case:

- Tier 1 proposals must outline the delivery model.
- Tier 2 proposals must either outline the delivery model or delivery model used for similar initiatives successfully delivered by the agency.
- Other proposals must outline the delivery model, delivery model used for similar initiatives successfully delivered by the agency or how it will be determined.

Delivery model choice can support value for money and achievement of the proposal's objectives.

[12] Requirement set by Premier's Memorandum Procurement for Large, Complex Infrastructure Projects M2021-10.

A summary of common delivery models is provided in Table 15 and further explanation can be found in the NSW Government Procurement Methods Guidelines.

Table 15: Common delivery models

Delivery model	Description
Early contractor involvement	Delivery agency develops a functional brief. Contractors bid a fixed price to develop schematic, solution architecture or detailed designs to be owned by the delivery agency.
Delivery partner	The delivery partner supplements or replaces the delivery agency's internal project management capabilities. The delivery partner manages procurement of contractors but contractors are engaged by the delivery agency.
Managing contractor	Delivery agency develops a concept design or solution architecture and procures a managing contractor to: • design the project with agency input • manage the design process, with responsibility for final design and constructability, and project delivery • award subcontracts.
Construct or implement only	Delivery agency engages a contractor for construction or implementation based on a detailed scope and complete design documentation (prepared to a construction or implementation ready standard). Delivery agency retains all the risk for design and construction or implementation documentation.
Design and construct or Design and implement	Delivery agency prepares a schematic or solution design. A contractor is then engaged to complete the detailed design and construct the project or implement the solution. Contractor is responsible and assumes risk for construction or implementation.
Incentivised target cost	Includes: • a development phase where the contractor develops a target outturn cost • a delivery phase where the contractor proceeds on an open-book basis and the delivery agency reimburses the contractor for actual incurred costs plus a percentage for corporate overhead and profit.
Alliance	Delivery agency and non-owner participants, comprising the contractor, designer and other contracted parties work together to design and construct a project. Risks are jointly managed and contract decisions are unanimously agreed through transparent decision-making processes.
Public-private partnership (PPP)	A long-term arrangement between the public and private sector for the development, delivery, operations, maintenance and financing of service enabling public infrastructure. The NSW Public Private Partnership Guidelines (TPG22-21) require qualitative suitability assessments for public private partnerships in some cases.
Outcome-focused procurement	Approaches the market focusing on outcomes rather than a pre-determined solution (usually via a challenge or problem statement). It's most useful for projects where the preferred solution is not known or there are several possible solutions. It can drive innovation and keep pace with fast evolving markets. May take a multi-stage approach (refer below).

Delivery model	Description
Multi-staged procurement	A procurement approach which involves one or more testing approaches (for example, through a proof of concept) before committing fully to buying or implementing at scale. It can help furnish a range of options that can be taken through a structured evaluation and testing process to narrow options, gather evidence for a preliminary business case and choose a preferred option before the full business case.

Potential delivery models should be assessed against criteria using MCA or other robust methods. Criteria may include (not exhaustive):

- **Project value.** Models such as delivery partner are only appropriate for large projects, such as projects over $250 million.
- **Project scope and duration.** Some delivery models are more effective when project scope is uncertain, there's limited opportunity to bundle services together or long-term service requirements cannot be specified.
- **Price certainty.** More flexible or relationship-based models (delivery partner, managing contractor, incentivised target cost or alliance) may be preferable where there's price uncertainty. Price certainty is preferable where possible.
- **Precedent.** What models have recent Australian projects with similar features used?
- **Novelty.** Is this unlike anything we have tried before?
- **Innovation.** Some delivery models may better facilitate opportunities for innovation.
- **Risk allocation.** How does the delivery model impact risk allocated between the public and private sector?
- **Delivery model cost.** Delivery models may have different whole-of-life costs.
- **Market appetite and capacity.** Some delivery models may attract more bidders or be more appropriate for the current market conditions, facilitating greater competition and value for money.
- **Emissions.** Some delivery models may better facilitate opportunities to reduce carbon emissions.

Tier 1 and tier 2 proposals where the delivery agency does not have a track record of successfully delivering similar projects, should outline the method and rationale for selecting the proposed delivery model.

NSW Treasury Major Projects division

The NSW Treasury Major Projects Division (MPD) provides commercial and financial advice on major infrastructure, energy transition, precinct development and capital projects from project development through to procurement and delivery. The division partners with and engages with the private sector in performing its role to achieve an effective interface between NSW Government and the private sector. Consult with MPD as early as possible for when developing a business case for a major capital proposal (tier 1 or tier 2)by emailing mpd@treasury.nsw.gov.au.

How does the procurement approach impact the investment case?

The procurement approach will generally focus on the preferred option identified in the investment case and therefore is often undertaken after the investment case is substantially completed.

Iteration between the investment case and procurement approach is often needed, especially for large and complex proposals, so that analysis of benefits, costs and risks reflects the procurement

approach.

Table 16: Overview of interdependencies between the procurement approach and investment case

Procurement approach	Impact on investment case
Market capacity and capability	• Where market capacity or capability is a concern consider: — reviewing project options — revising cost estimates upwards — including supply side risks and actions to mitigate risks (if any) in the risk analysis — revising delivery timelines.
Risk sharing	• The risk analysis should reflect the approach to allocating delivery risks between government and the private sector. • Impacts of allocating risks to other parties (including financial risks) should be reflected in the financial analysis. This may include additional costs for insurance, hedges or increased procurement costs.
Delivery model	• The financial analysis should reflect the delivery model. For example, a PPP will result in additional costs and changes in the level and timing of existing costs. See section 5 of the NSW Public–Private Partnership Guidelines (TPG22-21) for guidance.
Bid costs	• Include bid cost contributions in financial analysis for capital projects valued at or above $100 million. Refer to the NSW Government Bid Cost Contributions Policy (2018) for guidance.

More guidance

- NSW Government Procurement Policy Framework (2022)
- Aboriginal Procurement Policy
- Small and Medium Enterprise and Regional Procurement Policy
- NSW Public Private Partnership Policy and Guidelines (TPG22-21)
- Framework for Establishing Effective Project Procurement (2021)
- Procurement Method Guidelines (NSW Construction Leadership Group)
- M2021-10 Procurement for Large, Complex Infrastructure Projects (nsw.gov.au)
- Bid Cost Contribution Policy (2018)

4.2 Management approach

Purpose	Provide decision-makers with confidence that the agency will deliver and implement the proposal efficiently and effectively.
Mandatory requirements	**Preliminary business case**: provide an overview of the governance framework in place to support full business case development and consider compliance issues that may significantly impact project viability. **Full business case:** demonstrate that the agency has sufficient resources and capability, major compliance issues have been identified and will be met, and governance arrangements and a delivery schedule are in place.

Governance

A preliminary business case must include an overview of the governance framework to support full business case development. This must be updated in the full business case to reflect delivery governance arrangements. This should include central agency representation for tier 1 proposals or other high-priority initiatives.

Governance underpins a proposal from inception to operation and benefits realisation. It supports options selection and assessment, risk management, stakeholder management and probity. Governance issues are a key focus and commonly observed in gateway reviews.

Effective governance arrangements should:

- include a senior responsible officer with sufficient experience and authority
- provide clarity on roles, responsibilities and accountabilities
- involve participants with appropriate skills and authority
- include mechanisms for stakeholder input, including partnership on First Nations targeted initiatives
- include appropriate decision-making input from the deliverer, asset owner, operator and maintainer (where relevant and including all assets delivered through the project)
- be supported by a regular and agreed system of progress and evaluation
- support resolution of differences in opinions
- be continually reviewed across the project's lifecycle.

Signs of weak governance include governance group membership that is excessively large, absence of appropriate skills, meetings that operate as status updates rather than forums for discussion and decision-making, or project teams that lack sufficient support, capability and resourcing.

An independent internal audit process can provide objective assurance and advice to management and regulatory bodies, about governance, risk management and initiative progress. The process encourages effective action from the management team and improved accountability to stakeholders.

Tip

- Do not provide a long governance framework. A succinct overview of governance roles and responsibilities in a chart or table, along with a description of any unusual arrangements is sufficient.

Table 17 provides an overview of typical governance roles and responsibilities.

Table 17: Governance roles and responsibilities

Role	Responsibilities
Senior responsible officer	• Single point of accountability for ensuring the project is delivered effectively and the investment realises the expected benefits. • Must be identified at commencement of a project.
Project sponsor	• Defines problem, objectives and project scope. • Develops the business case. • Secures funding. • Undertakes monitoring and evaluation.
Steering committee	• Provides strategic guidance. • Provide oversight of risk management, including responding to escalated risks. • Approves changes to project scope, budget or timelines. • Endorses key project deliverables and documentation. • Provides central agency oversight (where relevant). Membership should include: • senior responsible officer (chair) • project director • deliverer, asset owner or operations manager (where relevant) • key stakeholders (where relevant, for example partnerships with First Nations people and communities) • representatives from central agencies (tier 1 proposals and other high-priority proposals only).
Project control group (where relevant - larger projects only)	• Reports to the steering committee. • Includes the project manager and representatives from key stakeholders. • Monitors the project closely to ensure it stays on time and to budget and that the key deliverables in the project brief are met. • Advises and mitigates high-level risks. • Ensures the project resources needed are available.
Project director	• Provide support, advice and guidance to the project manager and project team. • Ensure sufficient resources, skills and support for successful project development and delivery.
Project manager	• Provides day-to-day project management. • Manages project timeline and budget. • Manages assurance and reporting processes.
Project team	• Delivers the proposals under the guidance of the project manager.

Role	Responsibilities
Probity advisor (where relevant)	• Ensure a fair, transparent, defensible and robust process is followed. • May be required depending on the scale, complexity and sensitivity of the proposal or the procurement method to be adopted.
Procurement advisor (where relevant)	• Advises on the most effective procurement approach to achieve the project outcome. • Ensure compliance with government obligations around responsible use of funds, fairness and transparency.
Stakeholder advisory groups (where relevant)	• Provide a forum for stakeholder input. • Provide advice on stakeholder requirements and issues. • Facilitate partnership with stakeholders (where relevant).
Reference groups (where relevant)	• Provide specialist input or quality assurance.

Delivery schedule

Include a delivery schedule in the full business case to establish proposal milestones and delivery timeframes. Level of detail should be proportionate to the size and risk of the proposal.

A delivery schedule should outline:

- key milestones and timeframes associated with each stage of implementation
- key dependencies
- independent assurance requirements
- key decision points.

Timeframes should:

- Be realistic and based on the advice of relevant experts and comparisons to similar projects.
- Align with timing of costs and benefits included in the economic and financial analysis.

Major risks to project timelines should be identified and contingencies built in as appropriate. Capital proposals often underestimate the time required to respond to public submissions as part of the planning approval process, or the time to rescope in response to budget constraints.

If a real options approach is being applied, high-level timeframes for alternative real options should also be provided.

Tip

- Provide a Gantt chart or milestone table with detail appropriate to the delivery risk. A detailed delivery schedule is not required.

Resources and capability

The full business case must include an assessment of delivery agency capacity and capability to efficiently and effectively deliver the proposal, as well as resourcing impacts on other agencies.

Identify key activities

Identify activities required for delivery and implementation:

- managing the procurement process
- administering relevant contracts
- risk, stakeholder and change management
- monitoring and evaluation
- operating, maintaining and repairing assets or services
- ongoing project governance
- administrative and support services
- frontline service delivery.

Undertake assessment

Assess if the agency (or other potential delivery agencies) has the capacity and capability to undertake these activities. Identify any gaps and how they will be met. For example, recruitment of additional expertise or allocating delivery responsibility to another agency.

More detail is needed where risk of insufficient capacity and capability to deliver is higher. Reference to a successful track record is sufficient for an agency that regularly delivers similar initiatives. Indicators of higher risk include:

- delivery agency does not have a track record of successfully delivering similar initiatives
- delivery and implementation require significant agency resources (generally tier 1 infrastructure initiatives or recurrent initiatives requiring service delivery)
- significant resourcing impacts on other agencies
- unique delivery approaches that have not been tested.

Compliance issues

The full business case should demonstrate that major compliance issues have been identified and will be met. Earlier consideration is recommended where issues may significantly impact project viability.

Identify state and Commonwealth legal, regulatory, financial or policy requirements that may significantly impact the proposal and how compliance will be achieved. The focus is on identifying 'show stoppers' that would severely impact proposal viability or deliverability, rather than a comprehensive assessment of all compliance issues. This will vary by proposal type. A tier 1 infrastructure proposal will need to consider issues such as heritage, biodiversity and planning pathway, while a digital proposal may focus on how cyber security requirements will be met.

Tip

- Compliance issues such as planning, biodiversity and heritage can have major implications for proposal costs, benefits and deliverability. Early consideration as part of risk analysis will improve a business case.

Examples of legal and regulatory compliance issues to consider

- Are biodiversity offsets likely to be required under the *Biodiversity Conservation Act 2016*? If yes, have provisional costings been incorporated into the project options?
- Will items of local, state, national, or world heritage be impacted under the *Heritage Act 1977 (NSW)* or *Environment Protection and Biodiversity Conservation Act (1999) (Cth)*?
- What is the planning pathway under the *Environmental Planning and Assessment Act 1979*?
- Will Aboriginal cultural heritage be impacted (*National Parks and Wildlife Act 1974*)?
- Will Aboriginal land rights be impacted (*Aboriginal Land Rights Act 1983*)?
- Will the *Land Acquisition (Just Terms Compensation) Act 1991* apply?
- What operational, service delivery or accessibility standards need to be met?
- Are there relevant environmental strategies or targets? For example, the NSW Health Resource Efficiency Strategy and local health district plans.
- What ethical requirements should be met under the *Code of Ethics and Conduct for NSW Government Sector Employees*?

Management arrangements and documentation

Robust management arrangements underpin delivery of an initiative. Documentation of these arrangements can be completed after a funding decision. They don't need to be included in a business case unless required to inform a funding decision.

Management arrangements should be tailored to the proposal type, size and risk but may include:

- project management plan
- change management plan
- risk management plan
- cost management plan
- stakeholder management
- asset ownership and management plan.

Appendix E provides an overview of each of the above.

Appendix A Program business cases

Program business cases follow the same general principles and requirements as project business cases. There are some differences in what information is presented and how it's framed.

The guidance in this Appendix is generally not applicable to grant programs because the underlying projects are often not known at the business case stage.

A.1 Types of programs

Infrastructure Australia's Guide to program appraisals outlines three non-exhaustive program types.

Linear programs

A linear program involves a series of similar connected projects, staged to address a shared problem or realise a shared opportunity. Some key features of linear programs are:

- single planning and delivery agency
- projects interface with each other
- all projects are required to be implemented to achieve the program outcome
- project sequencing is critical to success
- similar benefits for each project (for example, travel-time savings along a corridor).

A package of upgrades to a single motorway is an example of a linear program:

- Each individual upgrade plays a part in achieving the main program objective of reducing travel time.
- Upgrades completed in isolation may result in bottlenecks with little overall benefit to motorists.
- Staging and sequencing is necessary to manage construction complexity and to reduce the impact of the initiative on motorists during construction.

Interrelated programs

Some problems or opportunities are geographically broad and require coordinated projects spread across large areas, such as a city or regional area. These problems or opportunities can be addressed or realised through interrelated programs. Typical key features include:

- single agency or asset type
- projects are physically independent
- if one or more projects are not delivered, the program outcome is only partially achieved but this may not undermine the overall success of the program
- projects can be delivered independently, either concurrently or at different times, depending on implementation and procurement strategies.

A package of measures to upgrade air-conditioning in schools across NSW is an example of an interrelated program.

Place-based programs

A place-based program involves a series of projects focused on meeting the needs of a particular community or geographical place over the long term. It takes a cross-sectoral view of the interrelated infrastructure and amenity needs of a place, and identifies how and when these should be delivered.

Typical key features of a place-based program are:

- multiple agencies and asset types
- the delivery of infrastructure and services across sectors is sequenced, coordinated and integrated
- each project contributes to the program outcome, including some core projects that are critical for overall program success
- may be underpinned by the construction of an anchor institution (for example, a new building on a university campus might be the catalyst for new transport facilities such as a pedestrian bridge or cycle way).

A package of new infrastructure and recurrent services to support population growth in a specific area is an example of a place-based program.

Place-based programs are susceptible to the program business case challenges outlined in section A.3 and section 2.1, most notably gold plating and grouping poor-performing projects in with high-performing projects.

A.2 Holistic thinking

Each business case component should be presented at the program level. For instance:

- The case for change should outline the strategic case for the whole program, rather than the strategic case for each proposal separately.
- The CBA and financial analysis will present the NPV, BCR and FIS for each program option, rather than for each of the underlying projects.
- Outline the proposed approach to project coordination, sequencing and governance (a program may have its own governance structure independent of each project).
- Consider opportunities for increased efficiency and effectiveness through joint delivery.

Program business cases often consider a high-level problem or opportunity (that is, provision of infrastructure and services to meet new demand created by a rezoning) or a broad set of interlinked problems or opportunities (for example, the need to install or upgrade air conditioning in schools across the state).

This supports the development and assessment of a broad suite of options which may span multiple agencies, types of infrastructure and non-infrastructure solutions.

Holistic thinking may also create efficiencies in the business case process. For instance, full project business cases completed for individual projects may leverage off program level analysis included in a program business case. For example:

- Project level logic models may leverage the program level logic model.
- The delivery and management approach for a project may reflect the delivery and management approach of the whole program. In some cases, additional analysis on the procurement and management approach in a preliminary program business case can create efficiencies at the full business case stage.

Case study: Princes Highway upgrade program

The Princes Highway transport corridor is the spine that connects communities along the NSW South Coast. Transport for NSW established the Princes Highway upgrade program to progressively upgrade the highway between Nowra and the Victorian border to improve road safety, lift transport network efficiency and support resilient and thriving communities.

A preliminary program business case was completed, that, for the program as a whole:

- identified and analysed the problem, benefits and risks for the whole program
- assessed the alignment of the program with government priorities

- presented the incremental impact of the program through CBA and financial analysis
- outlined the approach to managing and delivering the program
- sought funding to development individual business cases to seek funding for projects within the program.

Advantages of the program approach included:

- supporting consideration of broader corridor development needs and systemic issues (for example, safety upgrades or freight productivity upgrades) and reduced the amount of redundant or repeat work
- helping to alleviate community concerns around a perceived inequity of investment being focussed on the most populous regions
- efficiencies at the full business case stage by setting management and delivery mechanisms
- ability to capture interactions between projects and avoid difficulties attributing benefits to individual projects at the preliminary business case stage.

Cost estimation was the most significant challenge of undertaking the preliminary business case at the program level. Given the scale of the program, inputs to costs such as design, environmental and other technical studies were not mature.

A.3 Development and assessment of options

Program options may be combinations of various projects, rather than options for each individual project. For example, option A of a package of new infrastructure and services to support population growth includes upgrades to a road and option B does not. This departs from the standard optioneering approach, which would consider options to meet the problem or opportunity driving the road upgrade, and various design approaches (for example, a low-carbon build).

Interaction between projects should be considered in options development and appraisal. Projects may interact as substitutes or complements, or they may be independent (see Table 18).

Program options should include initiatives that a program's underlying projects depend on – known as enabling initiatives – but must not include poor-performing projects not required for overall program success.

When developing and assessing program options, you should:

- consider a range of approaches for each project
- identify projects that are gold plated
- identify projects that do not add value
- understand and quantify interactions between projects that make up each option
- articulate what each program option involves.

Table 18: Project interactions

Relationship	Definition
Substitutes	The net benefits of undertaking both project A and project B are lower than the net benefit of undertaking project A by itself, plus the net benefit of undertaking project B by itself. For example, project A has a net benefit of $100 million and project B $200 million if undertaken alone. The net benefit if both are undertaken is $250 million.

Complements	The net benefits of undertaking both project A and B are higher than if the projects were done individually. For example, project A has a net benefit of $100 million and project B $200 million if undertaken alone. The net benefit if both are undertaken is $400 million. Consider: • **Network effects:** Where a project gains additional value as more people use the product or service. • **Economies of scale:** Saving in costs gained by an increased level of production. • **Economies of scope:** Savings gained by producing two or more distinct goods, when the cost of doing so is less than of producing each separately.
Dependent	The net benefits of undertaking project A are wholly or significantly dependent on project B proceeding, often referred to as 'enabling' infrastructure. For example, power upgrades to support new rail or utilities to support a new hospital.
Independent	The net benefits of undertaking both project A and project B are equal to the net benefit of undertaking proposal A by itself, plus the net benefit of undertaking proposal B by itself. For example, project A has a net benefit of $100 million and project B $200 million. The net benefit if both are undertaken is $300 million.

A.4 Rigour of analysis

The level of detail expected to be included in a program business case for each component should be proportionate to the cost, risk and nature of the program. This will depend on underlying projects as well as program level factors (for example, project sequencing).

Linkages from inputs, activities and outputs to program outcomes and benefits should be clear. In some cases, for example for large relatively district individual projects within a program, individual project logic models may be needed in addition to a program level logic model.

The program business case should:

- document how each underlying project individually contributes to program outcomes
- explain the interaction between underlying projects
- provide separate estimated costs for each underlying project.

A.5 Evaluation

The monitoring and evaluation plan should specify if monitoring and evaluation will be undertaken at the program or project level.

Generally, where projects work towards shared outcomes monitoring and evaluation can be undertaken at the program level.

For guidance, refer to Evaluation workbook VIII.

Appendix B Technical investigations and cost estimates

B.1 Technical investigations

Table 19 provides an overview of the types of investigations that may be required for a full business case, depending on the type and context of the proposal.

Table 19: Common technical investigations

Area	Potential investigations or inputs
Design and costing	• preliminary engineering or architectural design • quantity surveyor cost estimates
Service need and benefits	• demand analysis • stated or revealed preference survey • traffic modelling
Planning and environment	• preliminary planning pathway assessment • preliminary geotechnical investigations • heritage assessment • Aboriginal cultural heritage assessment • biodiversity • sustainability
Compliance	• legal and regulatory analysis
Commercial	• market sounding report

B.2 Cost types

A robust cost estimate helps to minimise cost overruns that impact proposal delivery. The cost estimate used in a business case should reflect the expected total costs of the proposal, a contingency allowance and cost escalation. In brief:

- Estimated project cost seeks to fully capture **total expected costs**. It should reflect risks that are expected to occur (variations in inputs such as wages, consultants and materials). There may be uncertainty about what changes will happen.
- A **contingency allowance** reflects risks that are possible but may or may not eventuate. This includes risks included in the summary of key risks documented in the business case. Examples include planning approval conditions, geotechnical investigations or design development issues. Costs to account for these risks should be reflected in funding requirements and calculated using probabilistic or deterministic estimates as appropriate and practicable. Contingency costs are for contingencies alone. Projects tracking on or below budget should not be re-scoped to absorb continency costs.
- **Cost escalation** reflects expected changes in real costs. Economic analysis is undertaken using real expected values, but funding requirements will reflect expected changes in nominal capital costs, including where categories of cost are expected to change at different rates.

Probabilistic cost estimates

Larger capital proposals should use probabilistic cost estimates. These are based on a probability distribution and describe the likelihood that a value will not be exceeded. Cost estimates are usually presented at:

- P50: a 50% probability that the estimate won't be exceeded, or median of the cost distribution
- P90: a 90% probability that the estimate won't be exceeded
- the expected value or mean of the distribution.

The expected value should be used for the central scenario in CBA. Other estimates should be presented either as sensitivities or as a probabilistic distribution.

Be mindful that optimism bias is common during business case cost estimation.

Optimism bias

Optimism bias is a cognitive bias that results is systematic underestimation the likelihood of negative risks eventuating. It also occurs when assessing opportunities, leading to overstated benefits. This can lead to insufficient mitigation strategies and cost overruns.

The impact of optimism bias can be mitigated by:

- being aware of it
- seeking independent peer review
- using the best data available to assess risks
- testing risk outcomes through sensitivity analysis in CBA.

More guidance

- The Infrastructure NSW Cost Control Framework provides guidance on cost control and risk management for capital projects.

B.3 Level of design and cost accuracy

Preparation of robust, appropriate cost estimates are facilitated by:

- culture of revision supported by senior management
- continuous contingency reduction through re-estimation and documentation of cost baselines at each stage of the investment lifecycle
- analysis of average expected risk and the spread and shape of the probability distribution to support clear communication on potential cost risks.

Risk of underestimating costs is increased with:

- **Overreliance on escalation indices.** Trailing indices such as the Producer Price Index (PPI) or the Consumer Price Index (CPI) may not be an appropriate indicator of future price movements.
- **Inappropriate scoping of options.** If options are underscoped costs will also be underestimated.
- **Inappropriate use of benchmarks.** Relying on benchmarks from previous projects without translating to the current project context.
- **Narrow cost definition.** Costings should reflect capital and recurrent whole-of-life costs. These may include land acquisition, biodiversity, overhead costs, operating expenses, maintenance, disruption and depreciation.

- **Real relative price changes.** Labour and capital input costs will increase over time. Ensuring that the relative cost ratio between inputs is periodically updated through proper escalation can reduce the risk of underestimating costs.
- **Changing timelines.** Outturn risks increase the likelihood of cost overruns when projects don't meet deadlines or key milestones. This can be better accounted for by subjecting outturn risk to probabilistic distribution based on the variance of outturn parameters.

Table 20 provides an overview of the typical progression of design and costing as a business case develops. The accuracy of estimates and data sources should improve, and reliance on assumptions decrease, as the business case progresses. The degree of detail on design and scope definition should not exceed that required for the stage of the proposal or to inform an investment decision. This can lead to unnecessary delays and cost, and an inflexible approach to delivery that thwarts input from the market.

Table 20: Key considerations for level of design and cost estimates

Stage	Key considerations
Go/no-go	• Order of magnitude estimates may reflect benchmarked costs from previous projects, to be further refined as the project develops. • Reflects limited data and project definition.
Preliminary business case	• Larger capital projects may be supported by a strategic level design. • Smaller, low-risk projects may rely on benchmarked cost estimates. • Appropriate for in use shortlisting options.
Full business case	• Usually based on concept level design (where relevant) with a moderate confidence level. • Should be based on a good understanding of the current and future market and sufficient understanding of the project risk profile. • Quality may be improved by independent peer review. • Appropriate for use in an investment decision.

Appendix C Financial appraisal

C.1 Financial appraisal steps

Step 1: Identify and measure the cash flows

Incremental costs, revenues and risks should be identified and measured as nominal cash flows in the period they occur. Typical cash flows are identified in Table 21.

Cash flows should be estimated on a before and – where relevant – after-tax basis over an initiative's economic life. Financial impacts should be excluded if they would have occurred regardless of whether the proposal was implemented.

For assets that have an economic life beyond the term of the financial analysis, the appraisal term can be restricted to 20 years. An estimate of the asset's residual value at the end of year 20 should be included in the appraisal to represent the asset's remaining service potential. It is not mandatory for financial appraisals to be limited to 20 years. The term does not need to be the same as that of the CBA.

The approach used to estimate residual (or terminal) asset values should be clearly specified. Special care needs to be taken to ensure this calculation accurately values assets at the end of the appraisal term.

Periodic cash flows should be estimated using intervals no longer than one year. Yearly, six-monthly, quarterly or monthly may be chosen as practical and relevant.

All assumptions made and sources of data for cash flows should be evidence based and clearly specified.

Table 21: Typical flows in financial appraisal

Inflows	Outflows
• operating revenues • subsidies from external parties • operational cost savings in other areas • surplus asset sales • residual values at end of appraisal term	• capital and operating costs (including overheads attributable to the proposal) • taxes and equivalents • operating lease payments • worker redundancy payments • existing contract termination payments • revenue from existing operations that will cease

Step 2: Discount cash flows

Net cash flows should be discounted at a rate reflective of the risk inherent in an initiative.

An appropriate weighted average cost of capital (WACC) should be used as the discount rate for calculating the NPV of cash flows. This represents the expected financial market rate of return that investors would require in order to supply debt and equity capital for investment in a similar asset.

A WACC can be difficult to accurately estimate. The effort expended on estimating a WACC should depend on:

- **The size of the initiative.** The general principle of business cases being proportional to the proposal applies.
- **Sensitivity to WACC.** In many cases, the overall insights produced by financial analysis don't vary significantly with relatively small changes to the WACC.

For entities subject to the Commercial Policy and for PPP or major projects, the discount rate should be determined in consultation with NSW Treasury.

Other entities may apply the Independent Pricing and Regulatory Tribunal (IPART) nominal post-tax WACC. This is updated every six months and can be found on the Market Updates section on the IPART website. Sensitivity testing around these values can reveal the materiality of WACC estimates to the financial appraisal. The WACC can be further investigated where it materially affects the viability of the initiative.

Larger entities competing against larger private sector businesses in well-established markets may seek to estimate their own WACC. This involves establishing the capital assets used to provide the service and setting an internal rate of return to the asset base (below). This would be expected to be at least as high as a bank lending rate.

Formula for calculating pre-tax WACC

$$WACC = R^d \times \frac{D}{V} + R^e \times \frac{1-D}{V}$$

- V is the market value of capital assets used to provide the service (debt plus equity).
- D is the value of debt.
- R^d is cost of debt. Refers to the marginal rate payable on debt of comparable risk and duration. Can be estimated using bank lending rates or corporate bond yields (depending on whether a private sector business in the market would have access to the bond market).
- R^e is cost of equity. Refers to the expected or required rate of return on a risk free asset plus a premium reflecting the risk of the business. Can be determined by using the capital asset pricing model (CAPM), or by benchmarking similar businesses (depending on data availability).

The project cash flows should be discounted to the present day – that is, to the time the investment decision is being made – regardless of the actual starting date for the project. Calculations must recognise that capital expenditure costs may not be entirely incurred at the commencement of a project and are usually incurred over a period.

Step 3: Calculate net present value

The NPV is calculated by subtracting cash outflows from cash inflows for each relevant period (typically a year, or a quarter) to arrive at a net cash flow. Net cash flows for each period are then discounted to the present day and summed to arrive at the overall NPV.

NPV will be greater than zero if total discounted inflows are greater than the discounted outflows, while a negative NPV implies state financial contributions will likely be required.

When comparing multiple proposals, the one with the highest NPV is preferable from a financial perspective, noting that an economic appraisal may point in the opposite direction.

Step 4: Sensitivity analysis

Financial appraisals are based on a range of assumptions, which should be subject to sensitivity testing.

Sensitivity analysis shows the impact on the NPV of each option when assumptions or parameters are adjusted, to reflect key risks and uncertainties. Risk categories to consider include:

- alternative discount rates
- market risk
- completion risk (on time, on budget)
- operating risk
- cost risk.

Step 5: Independent review

A financial appraisal should be subjected to a structured internal – but independent – review. The reviewer should be satisfied with:

- range and feasibility of the financing options considered
- completeness of the list of costs and their valuation
- adequacy of the sensitivity analysis and the impact on NPV
- the implications and representation of risks for financial impacts
- forecast project impacts and timing
- net cashflow position
- rate at which post tax cash flows have been discounted
- identification of the parties responsible for project implementation and for monitoring project execution and results.

C.2 Common issues in financial appraisal

Table 22: Differences between CBA and financial appraisal

Component	CBA	Financial appraisal
Focus	Estimates economic, social, cultural and environmental costs and benefits, relative to the base case	Demonstrate affordability and funding implications for preferred options
Perspective	NSW	Whole of government or the entity considering proposals
Basis for valuation	Reflects opportunity cost of resources used	Reflects observed financial values from the market
Recognised flows	Benefits and costs reflected in real terms	Cost and revenue flows reflected in nominal terms
Costs	Excluded: • financing costs (for example, the payment of interest and dividends) • taxes (in most cases) • depreciation • amortisation on the fiscal position	Included: • interest expenses • taxes • revenues generated • government expense and revenue impacts
Discount rates	**Real discount rates:** reflects long-term social opportunity cost of capital (that is, for society collectively, including public and private sectors).	**Weighted average cost of capital:** reflects the expected rate of financial return an investor would require for investment in a similar asset.

Component	CBA	Financial appraisal
Capital expenditure	Capital expenditure is recognised as a resource cost at the time it is incurred	Gross capital expenditure (separating government and non-government contributions) over the life of the project for taxation and other purposes

Estimating cash flows for financial appraisals

Inflation

All cash flows should be estimated in nominal terms, thus including inflationary escalations for unit costs. Judgement is required in choosing the escalation rate and the reasons for deciding on the applied rate should be clearly disclosed in the appraisal.

Long-term projects

While it might be impractical to estimate all cash flows for the entire life of a very long-term project (for example, beyond 20 years) it might be possible to forecast an annuity stream representing the net cash flow. Uncertainty regarding the annuity estimate can be reflected in the discount rate adopted, with a higher discount rate applied in situations of greater uncertainty.

Option valuation

An option arising from a proposed project can have a real value to the sponsoring entity. That value may be reflected in the financial appraisal. Types of options might include:

- options to expand the project or extend its life
- options to abandon the project.

Residual value

A residual value should be estimated whenever an asset's life is:

- longer than the life of the proposed project and there is an intention to dispose of the asset
- longer than the appraisal period.

Estimating residual values can be challenging. Possible approaches include:

- observation of a traded market, for example assets of a similar age in second-hand markets
- professional residual valuations
- where the assets life is greater than 20 years, valuation of the asset as an annuity stream for the full life of the project.

Financing

Proposals should be assessed initially on a standalone basis before financing strategies are considered.

If, having established that a proposed project has a positive NPV, it is determined that it could be financed through operating leases (rather than financed internally), the operating leases should be evaluated as cash outflows. They must be compared to an outright purchase alternative.

Consideration also must be given to renewal or purchase rights where they prevail.

Tax considerations

Apply the prevailing Australian corporate tax rate (or tax equivalent payment) where this affects cash flows. Project cash flows should include the tax impacts of depreciation because these benefits are not reflected in the post-tax WACC formula.

The effects of dividend imputation should be considered for competitive neutrality reasons where relevant. Imputation effects can be handled through adjustments to the cost of capital formula.

Table 23: Exclusions from financial appraisal

Examples of items to be excluded	Rationale
Interest from general government borrowing	By using a post-tax WACC, government entities will capture project interest expense (and associated tax benefits) in the project's discount rate. To avoid double counting, therefore, interest impacts should not be included in project cash flows.
Accounting depreciation, economic multiplier effects and sunk costs	These factors do not impact on a proposed project's viability.

Appendix D Common risk types

Table 24 includes generic risks commonly considered in business cases. Refer to the relevant risk management framework for a more detailed list of risk types applicable to the agency.

Table 24: Risks commonly considered in business cases

Risk type	Description
Risks that increase costs	
Planning	Risk that planning approval cannot be obtained, or if obtained, imposes greater than anticipated restrictions, or higher costs.
Build	Risk that the construction of physical assets is not completed on time, to budget or to specification.
Latent conditions	Risks arising from physical conditions that could not have been reasonably anticipated by a contractor at the time of tendering.
Geotechnical	Risks that arise from movement in the ground during and following excavation that impact construction.
Due diligence	Risk that the quality of initial due diligence (for example, preliminary site investigation) will impact on the likelihood of unforeseen problems occurring.
Biodiversity risk	Risk of major negative impacts on the natural environment leading to reductions in biodiversity.
Environmental	Risk that the project has a major impact on its adjacent area.
Procurement	Missing out on the best suppliers or solutions due to poorly framed or overly restrictive requirements, market approaches or evaluation criteria.
Maintenance	Risk that the costs of keeping the assets in good condition vary from budget.
Scope	Risk that the scope of a proposal unintentionally expands beyond initial objectives, without adequate planning.
Supplier	Risk that a critical supplier is unable or unwilling to deliver, leading to significant disruption.
Health and safety	Risks from failure to implement a safe working environment for staff.
Outturn	Risk that the contingency does not correctly account for all scenarios that may delay the project or cause in increase in total cost.
Market capacity	Risk that the market for a product critical to the project is unable to meet demand.
Schedule	Risk of failing to meet schedule plans, causing the proposal implementation to take longer than expected.
Financial risk (subset of risks that increase costs)	
Interest rate	Risk that a change in interest rates leads directly to a change in future cash flows.

Risk type	Description
Debt management (re-financing)	Risk that a government entity is unable to raise debt, either to re-finance existing debt, or to issue new debt.
Foreign exchange	Risk that a change in currency exchange rates leads to a change in costs or revenues.
Commodity price	Risk that a movement in the price of a commodity leads to a change in costs or revenues.
Risks that reduce benefits or that intended outcomes aren't delivered	
Design	Risk that the project design cannot deliver the services to the required quality or service standards.
Demand (volume)	Risk that the demand for a service doesn't match the projected levels.
Intervention	Risk that a human or social service doesn't deliver expected outcomes.
Technology	Risk that changes in technology result in services being provided using sub-optimal technical solutions.
Integration	Risk a technology, process, information, departments or organisation fails to integrate.
Funding	Risk that the funding is reduced, or not available, leading to delays and reductions in scope. This may be government or private funding, or revenue for service charging a fee.
Residual value	Risk relating to the uncertainty of the values of physical assets at the end of the contract period.
Competition	Risk that the intervention displaces the private sector, reduces competition, or favours some providers.
Deadweight	Risk that the intervention was not required and did not improve welfare. This may typically be because of the difficulty of effective targeting.
Distribution	Risk that benefits do not flow to the intended cohort.
Rent seeking	Risk that benefits flow to interest groups rather than broader society.
Operational	Risk that operating costs vary from budget and that performance standards slip, or that a service cannot be provided.
External risks	
Policy	Risk of changes in policy direction leading to unforeseen change. Includes changes in NSW or Australian Government policy and changes in governments.
Technological disruption	Risk of new techniques emerging that transform the way things are done, such as affordable internet and data sharing.
Disaster	Risk of natural or human disasters, such as floods, bushfires, terrorism and pandemics.

Risk type	Description
Climate	Risk of negative impacts from hazards and climate.
Cascade	Risk that previous decisions or impacts of risks will flow-on to other components, making implementation more difficult.
Management and governance risks	
Sensitive information	Risk arising from inadequate safeguards, tracking and restriction of access to sensitive information.
Asset security	Risk that custody of cash and assets is inadequate leading to loss, theft, fraud, corruption or mismanagement.
Compliance	Risk that regulations are not appropriately applied, leading to legal issues.
Audit	Risk of financial statements being materially misstated.
Key person	Risk of heavy reliance on an individual critical to implementation.
Contract	Risk contracts entered into are not fit for purpose or will cease to be fit for purpose across operational, financial, legal, performance, market and reputational domains.
Probity	Risk of engagement or procurement processes being perceived as biased, unfair or indefensible.
Counter party	Risk the party engaged in the transaction does not deliver on its part of the deal (or does not deliver to a suitable standard) and defaults on contractual obligations.
Flow on impacts	
Reputational	Risk of undermining stakeholder or public perception, such as adverse publicity concerning an operational problem.
Public objection	Risk of major impacts that have a strong likelihood of public objection.

Appendix E Good practice project and program management

E.1 Project management plan

Project management is a structured framework for defining and implementing change. Project management plans are used to control and track the progress and delivery of the project and resulting outcomes. It describes how, when and by whom a specific project, milestone or set of targets will be achieved. It's the detailed analysis of how identified project targets, milestones, deliverables and products will be delivered to timescales, costs and quality.

The project management plan may build on the governance framework and delivery schedule included in the full business case. It typically includes:

- the deliverables or products to be produced
- the activities required to deliver them
- the resources and time needed for all activities and any need for people with specific capabilities and competencies
- the dependencies between activities and associated constraints
- when activities will occur
- the points at which progress will be monitored, controlled and reviewed.

E.2 Change management

Change management strategy

The main purpose of the change management strategy is to assess the potential impact of the proposed change on the culture, systems, processes and people working within the organisation.

There are various management strategies for implementing change. The choice of strategy will depend upon the degree and pace of change required.

Change management plan

The change management plan should set out the communication and developmental deliverables (for example, training products) required for the implementation phase. These plans should indicate how relevant personnel within the organisation, including human resources and staff representatives, have been involved and contributed to date.

More guidance

- Information Management Framework

E.3 Risk management

Risks are considered throughout the business case process (refer to section 3.5). Once a preferred option has been selected, risk management processes specific to that option need to be established to inform the implementation process.

A robust plan to continuously manage project risks should be developed as part of the agency's enterprise risk management (ERM) framework to avoid silos.

The process of managing project risk involves:

- outlining project risks and how these will be addressed, managed and mitigated within the agency's existing ERM framework
- outlining the methods to ensure that relevant risks are identified, risk mitigation actions to be taken and risk management controls implemented
- updating reviewed risk registers regularly as part of future project management board or risk management board meetings.

The risk management plan should build on the approach to managing risk used throughout the business case process (refer to section 3.5).

More guidance

- Risk Management Toolkit
- Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08)

E.4 Cost management plan

A cost control plan describes how project expenses will be measured and monitored to ensure the project stays within the budget constraints while meeting its objectives. This is particularly important for infrastructure initiatives.

More guidance

- INSW Cost Control Framework for the Infrastructure Program

E.5 Stakeholder management plan

The stakeholder management plan identifies the needs and concerns of key groups impacted by the proposal and outlines how they will be managed. A stakeholder management plan will generally:

- identify stakeholders and assess the influence and impacts
- outline previous engagement and known stakeholder concerns
- establish a plan for engagement of stakeholders, including method, timing and communication strategies.

E.6 Asset management plan

An asset management plan describes the operating context, governance, scope and range of asset management activities and responsibilities to ensure agreed service levels or outputs are met. Asset management plans should be developed in consultation with asset owners (for assets held both inside and outside the delivery agency).

More guidance

- Asset Management Policy for the NSW Public Sector (TPP19-07)

Definitions

Term	Definition
base case	The scenario against which proposals are compared, and which shows baseline projections of costs and benefits without the project or program.
benefit	An increase in welfare associated with an initiative's outcomes (including economic, social, environmental or cultural outcomes). Benefits need to be first be understood as changes in condition (outcomes). In CBA, benefits are a measure of the value of the outcomes of a proposal to the NSW community. They may be monetary or non-monetary (methods exist to monetise non-market benefits).
benefit-cost ratio (BCR)	The ratio of the present value of total benefits to the present value of total costs. In NSW this is calculated as the ratio of the present value of benefits (less dis-benefits) to the present value of project costs.
benefits management	A process of identifying, organising, managing and measuring benefits so that intended benefits are achieved. It's a continuous process running through the whole life of the initiative.
business case	Document that supports decision-making and public accountability. It provides information about a problem, case for change, project viability and deliverability.
Cabinet	Lead decision-making body of executive government, including subcommittees that may exist from time to time, such as the Expenditure Review Committee (ERC).
capital proposal	Proposal that primarily consists of infrastructure, equipment, property developments, or operational technology that is a component of a capital project.
cost	Direct and indirect, monetary and non-monetary costs of implementing an initiative.
cost-benefit analysis (CBA)	An appraisal and evaluation technique that estimates the costs and benefits of a project or program in monetary terms.
cost effectiveness analysis (CEA)	A form of economic evaluation that compares the costs of different options to achieve a given outcome.
discount rate	The rate used to convert future streams of costs and benefits into today's dollar value (present value).
distributional analysis	Distributional analysis disaggregates the overall impacts of each option in a CBA to indicate which groups bear costs or receive benefits.
evaluation	A systematic and transparent process that can be used to assess the appropriateness, efficiency, effectiveness or net social benefits of an initiative.
financial appraisal	Appraisal of the cash flows of a project or a program to provide sufficient evidence to understand the financial and budget impacts on the entity.

Term	Definition
full business case	Identifies a preferred option and supports a government investment decision. Includes comprehensive economic, commercial, management and financial analysis. This would include high-level plan for monitoring and evaluation.
gateway	Gateway provides an external, independent project assurance process through a tiered, risk-based approach. It provides a view of the current progress of a project or program and assurance that it can proceed successfully to the next stage if any critical recommendations are addressed. NSW gateway policy (TPG22-12) establishes the gateway process. Infrastructure, digital and recurrent proposals have separate frameworks overseen by their respective gateway coordination agency.
gateway coordination agency (GCA)	GCAs are responsible for development, maintenance and monitoring of a GCA framework, coordination of gateway reviews and reporting on performance. Infrastructure NSW is the GCA for capital proposals. The Department of Customer Service is the GCA for digital proposals and NSW Treasury is the GCA for recurrent proposals.
go/no-go	A succinct document prepared by an agency before starting a business case that establishes the problem and supports a decision to spend time and resources preparing a business case.
high-level	Accessible and easily understandable summary of complex, lower-level information.
initiative	This guide collectively refers to projects, programs, policies and regulations that government has decided to progress as initiatives.
digital proposal	Proposals that primarily consist of information and communications technology, digital investments, and operational technology that isn't a component of a capital project and subject to assurance under the Digital Assurance Framework.
lean business case	A combined preliminary and full business case prepared for a tier 3 proposal. Lean business case also applies to recurrent proposals valued at or above $20 million that do not require assurance registration and tier 4 recurrent proposals. A lean business case includes each of the business case components but with some reduction in detail, proportionate to reduced proposal cost and risk.
market failure	A situation where the market fails to supply a socially optimal level of a good or service.
material	Of sufficient magnitude to potentially influence a decision.
multi-criteria analysis (MCA)	MCA entails identifying criteria, assigning weights to them and then scoring options on how well they perform against each weighted criteria. The sum of the weighted scores is used to rank each option against others.
net present value (NPV)	The difference between the present value of benefits and present value of costs.

Term	Definition
preliminary business case	A business case that identifies and assesses options using preliminary information or assumptions about costs and benefits. It is used for large or higher-risk projects to test and refine options prior to expending time and resources on a full business case.
preliminary CBA	A less detailed form of CBA with principles still based on welfare economics. It can be a useful tool to apply in certain circumstances.
problem	In a business case, a 'problem' may also be a need or opportunity that the proposal is attempting to address. Problems should be clear and concise, expressed as statements linked to the outcome.
program	A collection of related projects to address a common problem or realise a common opportunity, delivered in a coordinated manner.
project	The planned set of interrelated tasks to deliver a specified result, service or product to address the business case objectives. Typically characterised by a fixed period for delivery, with a specified budget or set of predetermined resources.
proposal	A proposal refers to a project, program, policy or regulation being considered to solve an identified problem. Proposals are assessed through business cases. Where government decides to invest in or pursue a proposal, it becomes an initiative.
short-form assessment	A brief document prepared by an agency to support an investment decision for smaller, low risk proposals. It follows the general principles of a business case, including setting out a case for change, options, risks, costs and identification of benefits. It's required for proposals valued at or above $10 million that don't require a business case.
recurrent proposal	A proposal that is predominantly neither capital nor digital expenditure. This can include grants, new policies or services, renewal, re-tender or outsourcing of an existing policy or service, material changes to an existing policy, service or operating model, establishment of a new entity or unit within an entity, development of a strategy or research program, enhancement or extension of agency capability, or response to a regulatory or legislative change.
referent group	Households, businesses, governments, non-government organisations and natural assets in a specified community for which the impact of government decisions or actions are measured. For the Business Case Guidelines, the referent group is NSW.
resilience	The ability of a system to resist, absorb, accommodate, recover, transform and thrive in a timely, effective manner in response to the effects of shocks and stressors to enable positive economic, social and environmental outcomes.
risk tier	Projects are classified into tiers (ranging from tier 1 to tier 5) following a risk assessment based on total cost, criteria and weightings outlined in the relevant assurance framework. Projects identified as high-profile, high-risk (HPHR) tier 1 projects attract the highest level of scrutiny in the gateway

Term	Definition
	process. In these guidelines, risk tier refers to either an agency's self-assessed risk tier or, if available, endorsed risk tier.
social discount rate	Rate used in economic appraisal and evaluation to recognise that resources allocated to one proposal have other potential uses which are forgone. This reflects the fact that resources are scarce and there are many competing uses of resources. The central social discount rate is set at 5% by the CBA Guide.
total cost	Reflects the impacts of all recurrent and capital expenses. The intent is to describe the size of the funding request regardless of the intended purpose of those funds or offsetting revenue impacts.
weighted average cost of capital (WACC)	Discount rate used in financial appraisal. WACC is the entity's cost of capital which is the rate the entity is expected to pay on average to all its security holders to finance its assets.

Acronyms

Term	Definition
BCR	benefit-cost ratio
CBA	cost-benefit analysis
CBA Guide	NSW Government Guide to cost-benefit analysis (TPG23-08)
CEA	cost-effectiveness analysis
CPAG	Common Planning Assumptions Group
DAF	Digital Assurance Framework
ERC	Cabinet Standing Committee on Expenditure (Expenditure Review Committee)
FIS	financial impact statement
GCA	gateway coordination agency
IIAF	Infrastructure Investor Assurance Framework
MCA	multi-criteria analysis
NPV	net present value
PPP	public–private partnership
WACC	weighted average cost of capital

52 Martin Place
Sydney NSW 2000

GPO Box 5469
Sydney NSW 2001

W: treasury.nsw.gov.au

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