

Small Towns Water Quality Fund

Business Case Guidelines

Introduction

This document provides guidance to applicants in developing a Business Case for consideration by the Small Towns Water Quality Fund (The Fund). The Fund is a \$20 million Government commitment to provide a secure source of investment in the sustainable management of Victoria's water resources.

The Business Case provides the basis for approving funding for a project from the Fund. The Department of Sustainability and Environment (DSE) coordinates a technical assessment of all Business Cases before they are considered by the Fund. The STWQF Project Office recommends projects for funding.

The Business Case must include all information required for an independent assessment. The level of detail in individual Business Cases will vary depending on the size, risk and complexity of the project. Some of the issues in the guidelines may be of little relevance to some projects and need only be noted.

During the assessment process, the STWQF Project Office may request applicants to:

- Provide further information for clarification or
- Provide new information or
- Submit a revised project proposal

Small Towns Water Quality Fund

Business Case Guidelines

1. Executive Summary

The executive summary is a stand-alone companion document to the main body of the Business Case. It provides an outline of the project and the business concept, a summary analysis of the options and alternatives considered and details of the preferred option. Text, graphics, and tables of critical numbers should be used to present the key arguments and findings to decision-makers.

Project Description

2. Project objectives, scope and critical success factors

This section needs to clearly outline the nature and objectives of the project.

The following should be addressed:

- Clear statement of project objectives, scope and outcomes
- Summary of the project's alignment with policy
- Key performance indicators and/or measures relating to the project, indicating how performance in meeting the project objectives will be measured
- Critical success factors for each of the project objectives
- Details of investment sought (may be in a table), including:
 - Total cost of the project
 - Investment by the applicant
 - Details of any contribution by other project partners and the nature of that contribution. (Contributions may include funding or in-kind support)
 - Investment sought from the STWQF

Strategic Fit

3. Alignment with strategic objectives

This section should outline how the project delivers against Government policy outcomes and, in particular, address the following:

- How the project contributes to the STWQ Fund objectives
- The degree to which the project aligns to Government priorities including the policy agenda detailed in the White Paper, "*Our Water Our Future*"

Small Towns Water Quality Fund

Business Case Guidelines

4. Critical assumptions or constraints

Statements of critical assumptions or constraints for the project need to be explicitly documented. This section should detail:

- Any known or emerging constraints directly impacting on the proposed initiative including regulatory and policy issues
- Information on the sensitivity of assumptions needs to be provided, including the potential impact of significant variations in key assumptions on the choice between options and the project viability

5. Innovation

This section should describe innovative aspects of the project including:

- How the project supports innovative approaches or technological efficiencies to achieve long-term sustainable water management
- What measures are in place to encourage the innovation to be adopted by the market and rolled out without further Government investment
- Demonstration of how the project will promote an industry culture of innovation (e.g. possible collaboration or knowledge exchange)

6. Significance

The Business Case should describe the magnitude of the project in relation to its Regional, State-wide or National significance.

Assessment of significance should be evidence based (e.g. inclusion as a priority in a Regional Catchment Strategy).

7. Core business

The applicant needs to demonstrate how the project will contribute to activities beyond the core business that the applicant is funded, or for which it raises revenue to fund its activities.

8. Summary of feedback on the Registration of Interest

If a Registration of Interest (RoI) application was previously submitted to the STWQ Fund, please provide a summary of the feedback on the RoI and how it has been incorporated in this Business Case.

Small Towns Water Quality Fund

Business Case Guidelines

Stakeholders and Beneficiaries

9. Stakeholder identification

Key stakeholders need to be identified:

- Provide a summary of the nature of relevant stakeholder relationships and the potential impact of the project
- Present the wider implications of the project, including the impact on any other projects which are dependent on this project or should be jointly considered to give optimal outcomes
- The clients who are the intended end users of the services proposed need to be identified and, where appropriate, information should be provided on the forecast demand and any charging policies to recover costs (either in full or in part)
- What consultation processes have/will be used to identify, assess and mitigate any stakeholder concerns
- What evidence is there of stakeholder support for the project? Please attach any supporting documentation

Options Analysis

10. Summary of options

The Business Case is aimed at demonstrating why Government should invest in a particular project. Key to this is an understanding of the different options associated with a proposal.

Generally two or three options should be included, which cover the two options most likely to deliver the desired outcomes, and the 'do nothing' option. This enables the consideration of the implications of different options (e.g. implications of not proceeding with the project).

This should be supported by a cost-benefit analysis to assist comparison of the options (see following sections).

This section should address:

- The present situation, including current water consumption and discharge, service delivery performance, condition and performance and utilisation of existing infrastructure
- The impact of the choice of option on related water services and assets
- Details of capacity for variations to the design and/or life of the project, such as whether there are interim or staged implementation solutions available

Small Towns Water Quality Fund

Business Case Guidelines

- Provide information on the delivery options and whether they are feasible and realistic
- Provide a clear recommendation for the preferred option, outlining the reasons for the recommendation

Partnership Victoria delivery options should be used as a guide. (See Partnerships Victoria website on www.partnerships.vic.gov.au).

11. Social analysis

This section should include an analysis of social issues. Social analysis is undertaken to ensure that social issues arising from a proposed investment are clearly identified and accounted for in the decision process.

Issues identified in this analysis should be stated clearly in the Business Case so that they are transparent to decision-makers and inform them of any policy implications, employment opportunities or community reactions to the proposed initiative.

This section should address:

- Identify the nature and extent of the public and private benefits and dis-benefits attributable to the project, such as employment opportunities
- How is the level of investment of Fund commensurate with the public good outcomes for the proposal?

12. Economic and financial analyses

This section is to include detailed analysis of the economic costs and benefits of the options under consideration and an analysis of the relative financial costs and benefits.

The economic and financial analyses should use discounted cash flows in calculating the net costs and benefits of a project.

- All assumptions are to be transparent
- Information on full lifecycle costs including recurrent costs is to be included
- All the overall costs and benefits should be quantified where possible, including social and environmental costs and benefits
- A suitable discount rate should be applied to the net cash flows. (For example 5.2% per cent real post-tax). The Use of Discount Rate in *Partnerships Victoria Process: Technical Note (July 2003)* sets out the relationship between project risk and discount rate

The source of cost and performance information used as a basis for the analysis and its likely accuracy needs to be acknowledged. This would include whether revenue and cost information have been constructed using accepted methods and techniques

Small Towns Water Quality Fund

Business Case Guidelines

prescribed by the agency, and/or accepted industry practice. In the event that estimates are used, the basis of those estimates needs to be disclosed.

An economic assessment may incorporate qualitative measures where it is not feasible to quantify a benefit or cost in dollar terms.

Costs required for continued or additional funding (for a new phase, new module, or as a result of increased costs) are a low priority for investment for the Fund.

This section should:

- Determine the costs and quantifiable risks of a project from government's perspective
- Demonstrate the level of cost recovery expected
- Provide evidence that any ongoing costs will be funded through other mechanisms and do not pose a risk to the long-term viability of the project

More detailed guidance can be found in sources such as Chapters 6, 7 and 8 of the *Investment Evaluation Policy and Guidelines*.

13. Risk analysis and management

The Business Case must identify all material risks associated with the project, an indication as to who is positioned to bear those risks, and a proposed means to manage risk.

Where appropriate strategies can be devised to manage the risks, they should be documented and included in the Business Case.

To assist in identifying the various risks inherent in a project, the following categories of risk might be considered:

- Change in law/policy
- Commercial
- Commissioning
- Construction
- Contractual
- Economic
- Environmental
- Financial
- Management
- Obsolescence
- Operational /technological
- Organisational
- Political

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

Small Towns Water Quality Fund

Business Case Guidelines

Project Implementation

14. Implementation and timing

As part of the Business Case, applicants need to ensure that they have relevant procedures in place to support project delivery.

This section should:

- Detail the implementation plan for the project, including the performance measures and milestones
- If applicable, outline the procurement strategy for the project
- Details the implementation issues, particularly those cases where:
 - There is a physical site involved – in the event that a site is not already held, details of the site acquisition strategy will be required, including details of how this might impact on timing, sequencing and costs of the proposed initiative
 - Consideration of planning requirements and specific environmental requirements is required (for example planning permits)
- Detail any existing or proposed processes for project monitoring and reporting in particular, the ability to track milestones and measure project outcomes against objectives
- Detail any existing or proposed processes for evaluation of the project

Budget analysis and funding strategy

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

15. Governance Arrangements

This section provides an overview of formal governance and management structure of the body being funded and provides summary explanation of how the members will work collaboratively together on the project.

- Describe any project governance arrangements that will be in place to oversight this project. How will the governance structure ensure the success of the investment project?
- Detail who the key organisational players/groups are and what their respective roles, responsibilities and reporting relationships will be
- Include management capability of key personnel involved in the project

Small Towns Water Quality Fund

Business Case Guidelines

16. Communication

If applicable, outline the strategy to address marketing and communication.

17. Supporting documents

Key supporting documentation should accompany the Business Case as appendices.

18. Sign-off

Applicants and the persons authorised for certifying accuracy and completeness of the Business Case are required to sign off the Business Case. Where there are multiple applicants, sign offs will be required by all the applicants.