

# STRATEGIC BUSINESS CASE

## Key lessons learnt

A robust Strategic Business Case supports investment decision making. It should articulate a clear definition of the service need, ensuring that any investment decision addresses the underlying 'root causes' of the problem/s, the service needs impacts on the community, focussing on benefits that will be realised when the service need is effectively addressed.

The Strategic Business Case should provide decision makers with the information needed to consider whether to further progress the proposal.

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## Introduction

The Strategic Business Case (SBC) is the first of two documents in the planning stage of the project life cycle. It follows the Initiation/Justification or Needs Confirmation document, from which original approval to commit material resources to project development is derived. The SBC is also referred to as a Needs or Strategic Analysis. Its purpose and place in the project lifecycle is to:

- ▶ Assess whether the proposal is aligned with Government and the agency's strategic plans.
- ▶ Demonstrate the best value means of servicing community needs. The Strategic Review occurs after a service need has been identified (but prior to developing a detailed project definition in a business case).
- ▶ Develop preliminary justification for procurement.

## Key considerations

The SBC needs to identify whether there is a need to commit more resources to complete a FBC.

The SBC informs the early elements of Project Definition, a critical requirement for inclusion in a Final Business Case (FBC). The FBC, when approved, completes the planning phase of the project. Funding approval is dependent on consideration of the FBC.

## Needs analysis

The SBC is a Needs Analysis, not a Project Definition (PD). It therefore should square back directly to the needs confirmation, including approval documents. Such confirmation should include as a minimum a clear non-

technical statement of the outputs, in terms of function and performance, that the proposal is expected to deliver. Box 2 contains a brief example of a hypothetical output specification based on function and performance.

### New Harbour Crossing (Hypothetical ca 1909)

1. The Transport masterplan deriving from the NSW Strategic Plan has identified a need for a harbour crossing linking the lower North Shore with the CBD.
2. The structure or structures that will form the crossing shall have a design life of 150 years and will be capable of:
  - a. Carrying high capacity road and rail public transport;
  - b. Interconnecting seamlessly with existing public transport networks;
  - c. Meeting road transport demand over the longer term at no worse a congestion level than service level D;
  - d. Etc...

## Options analysis

Options analysis should be based on current data. Options must be derived directly from the functional and performance elements of the output specification approved at project initiation/justification stage. A brief case study is in Box 3.

### Strategic Business Case- Parramatta Light Rail Project

In the initial strategic business case, the proponent had proposed a preferred option that carried a light rail alignment on a street configuration that was clearly unworkable. This led to a considerable amount of re-work and unnecessary delay.

Two lessons:

- ▶ An apparent option is not an option if it does not satisfy the output specification.
- ▶ Development of a preferred option into a proposed option should be part of the FBC, not SBC.

## Risk

In the analysis of options, high-level consideration of risk will get the development of a FBC off to a better start. Each option might be considered in terms of major third party interventions or reliance that may be necessary. A brief case study is given below.

### Sydney and South East Light Rail

*“In the final business case, TfNSW noted third party agreements needed to be in place to mitigate the risk of scope creep. Before the two main contracts were awarded, internal and external reviews repeatedly drew attention to the need to finalise agreements with stakeholders such as utility providers and local councils to complete the project’s design and scope of works.*

*However, we found TfNSW did not finalise agreements with 12 key stakeholders before starting the tender process for the main works PPP contract on 7 March 2014. It told bidders it would finalise the agreements and update the scope of works halfway through the request for proposal (RFP) consultation period. This had not happened when tenders closed on 11 July 2014.*

*It also signed the contract for the early works package, noting the risk of scope creep and the cost increases that might occur due to issues that had not been finalised. TfNSW was responsible for resolving any scope uncertainty to get the best outcome from a competitive RFP process. It did not meet this responsibility. As a result, we cannot assess the extent to which bidders may have included risk-pricing in their bids to compensate for this uncertainty...”*

NSW Auditor General Performance Audit 30 Nov 2016

## Comment

The Auditor General refers to shortcomings in the FBC, the point being that detailed risk assessment properly belongs in the FBC.

That is correct, however, consider the light rail project, where a George Street alignment was an option that satisfied functional and performance criteria. The analysis should have discovered and noted a potentially high probability of risk associated with third parties and their assets. This requirement should have been particularly compelling given recent and highly apposite precedents in Edinburgh, Scotland and Gold Coast, Queensland. Not only was there a known high probability of significant third party risk, consequences from some or all of these risks materialising were likely to be extreme. The SBC should have specifically stated that George Street was a high-risk option in respect of third parties.

In public sector capital investment projects, it should always be acknowledged that the government is the risk taker of last resort. Where disputes occur (the usual experience), delay is a frequent outcome. A consequence is that benefits claimed to be provided by the investment are delayed and therefore there is loss of value and reputational damage to the State. This situation prevails no matter how favourable dispute proceedings are to the State.

## Source material

At initiation/project need, source material for capital investment proposals should be drawn from State strategic plans, District and other plans of the Greater Sydney Commission and from Cluster master plans, such as the Long Term Transport Master Plan.

At needs analysis, the development of options through the needs analysis should remain consistent with the strategic source material described above. Throughout the process of developing options, objective evidence is required to support analysis of all options. Such evidence might be drawn from one or more of:

- ▶ In the case of a public transport proposal, origin/destination evidence derived from OPAL metadata.
- ▶ Modelling data drawn from one or more of:
  - STM
  - SMPM
  - PTPM
  - Operational models.
- ▶ Simulations. (for example, for a rail proposal on the metropolitan heavy rail network, use Sydney Trains' network control system to simulate the options for the proposal in real time).
- ▶ Reports and publications, where relevant.

### Note:

As regards traffic modelling, some care should be taken to avoid absolute conclusions from model outputs. For an SBC, observed data should be the basis upon which an investment need or other intervention is required. Options analysis during the construction of the SBC should be built upon opportunities and constraints as key elements of any modelling.

## Notes on BCA (For SBC use principally)

In 2012, the Norwegian Government (Department of Finance) commissioned an expert review of its cost-benefit analysis framework. The Review Committee devoted a discrete chapter to transport titled "Net wider impacts of transportation projects". Some features of this work include:

- ▶ Wider impacts or simply redistribution?
- ▶ Productivity and geographic concentration.
- ▶ Labour supply increase in the presence of distorting taxes.
- ▶ Land use and transportation.

It is suggested that SBC proponents consider the potential value of this Norwegian work, especially in respect of productivity, which is a much more useful consideration than travel time savings.

### ▶ About the author:

Jock Murray is a former Director General (Secretary) of the Department of Transport. Until recently he was an executive consultant at the leading engineering consultancy GHD Pty Ltd, where he was Project Director for the master planning of Sydney's new international airport. He was involved with the master planning for the Beijing 2008 and London 2012 Olympic Games. He is a Fellow of both the Chartered Institute of Logistics and Transport and the Australian Institute of Company Directors. He is a graduate of The Royal Military College, Duntroon, The Royal Military College of Science in the UK, Deakin University, and of The Australian Management College, Mt Eliza