

RIGHT-SIZED BUSINESS CASE GUIDANCE

A technical paper prepared for the Investment Decision-Making Framework Review

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Waka Kotahi has developed guidance on preparing a right-sized business case, based on the level of risk, uncertainty and complexity involved. This guides the point of entry discussions, so the level of effort needed to complete a business case is clear at the outset and the right pathway is chosen.

A short-form business case – known as a ‘Single-Stage Business Case Lite’ – can be used for non-complex activities where the whole-of-life cost is less than \$15M.

An exemplar business case will help with the preparation of different types of business cases.

PURPOSE

The purpose of this paper is to:

- explain the principle of a right-sized business case
- explain a right-sized business case and pathway
- explain what is the Single-Stage Business Case Lite
- define the criteria for using the Single-Stage Business Case Lite
- outline the increase in threshold for simplified procedures and external peer reviews.

WHAT IS A RIGHT-SIZED BUSINESS CASE?

A business case is right-sized if it has been developed with an appropriate level of effort based on the investment's risk, complexity and uncertainty. Right-sizing the business case to ensure an appropriate level of effort is not just considered during the point of entry (PoE), but throughout an investment's business case pathway.

The diagram below illustrates how risk, complexity and uncertainty profiles influence the right-sizing of business cases.



There are two distinct elements in right-sizing a business case: the business case pathway and level of analysis and evidence. These elements have been described in more detail under the sections 'Key components of a right-sized business case' and 'Right-sizing throughout the business case pathway'.

WHY IS RIGHT-SIZING A BUSINESS CASE IMPORTANT?

Right-sizing a business case is important to enable a good investment decision, to ensure that resources are not over- or under-expended in its development, and to have greater confidence in the time required to develop a business case through to an investment decision.

Approved Organisations, Waka Kotahi and stakeholders have identified that the 'level of effort' required to develop a business case isn't always clear. This has led to some business cases having too much detail, thus requiring more time and money to cover all the bases. There are also examples where some aspects of the business case are not sufficiently covered, requiring

additional work at the end of the process, or an investment decision is made subject to conditions that need to be fulfilled.

Business cases currently cost between 1-30% of the total project implementation costs, or, on average, \$500K to \$2M, and can take up to two years to complete. Right-sizing business cases puts the focus correctly on scoping business cases through the PoE to save time and money by omitting unnecessary business case phases and ensuring business case developers do not develop unnecessary evidence and analysis to support a business case.

Cost is not the only measure for right-sizing. Risk and complexity form a major component (alongside things like uncertainty and previous or related works) in right-sizing the business cases we require to support investment requests.

The primary place to ensure the right-sizing of the business case pathway is at the PoE, where there is the opportunity to agree the level of effort required for a given project. The aim is to consider a specific range of factors to gain enough clarity over the likely risks, uncertainties and complexities involved, to be able to 'right-size' the effort appropriately, and to decide on a business case pathway.

Right-sizing is also considered in a management case of a programme business case or an indicative business case when scoping a subsequent business case.

WORKING WITH WAKA KOTAHI NZ TRANSPORT AGENCY

It is important to note that a PoE does not require additional investigation and analysis to be undertaken. The PoE is primarily a conversation to understand why there is a perceived need for investment and to help in identifying the appropriate pathway to develop the business case, including things to focus on or not to spend much time on.

The concepts below do require judgement to be applied; therefore, it is important for you to seek a discussion with Waka Kotahi to help in completing your PoE. The right-sized business case approach is about ensuring we have a robust understanding about why a problem needs to be investigated and the most effective business case pathway for achieving this.

You can contact the Strategic Cases Team at StrategicCase@nzta.govt.nz, or your Investment Advisor to discuss your PoE.

KEY COMPONENTS OF A RIGHT-SIZED BUSINESS CASE

Risk, uncertainty and complexity are closely related and have many interdependencies. Previous or related works can also help inform the building of the case for investment. When attempting to understand the level of effort that will be needed to develop a business case through to implementation, it is usually helpful to focus on its unique aspects.

The following definitions set out the intended meaning of these terms, which apply throughout the guidance.

Level of effort

Business cases can sometimes be over-engineered, leading to a significant cost and time burden for all involved. Based on the likely risk, uncertainty and complexity expected in the investment, and previous or related works, we need to right-size our level of effort.

The term 'level of effort' is used to mean both the:

1. **Business case pathway:** The number and nature of phases that are likely to be needed to proceed through the business case pathway.

For example:

- Straightforward and low-cost projects could proceed as a Single-Stage Business (SSBC) Lite.
- Complex problems could proceed as a programme business case to explore strategic alternatives and options to address the problems.
- Potential benefits of addressing a problem may need to be explored through a strategic case to determine the need for investment from a local and national perspective, and to ensure it gives effect to the current Government Policy Statement on Land Transport (GPS).

2. **Level of analysis and evidence:** Specific steps to ensure risk, uncertainty and complexity are adequately handled within a business case.

For example, an investment that has multiple stakeholders, funding partners and/or interested parties will likely carry much higher requirements for engagement and consultation. Decisions may come under considerable scrutiny, and potentially be contested. In such cases, resources will need to be allocated to developing the business case to a greater level of detail (eg investigating the work through more detail or more phases) that allows for more frequent stakeholder engagement.

Risk

Risk can be defined as a combination of the likelihood and the severity of a potential variance from expected conditions. When considering the level of effort and business case pathway, risk is focused on the risks that may impact on realisation of benefits and lifetime costs. A business case needs to recognise that project delivery risks will be managed during the design and delivery of the project.

Uncertainty

Uncertainty is used in reference to events or changes in conditions that can impact the success of an investment. Uncertainties could be made up of:

- external factors that lie outside the project team's ability to influence
- events that cause a different future state to that which the business case anticipated
- changes in investment need or the perceived significance of the problem.

An important aspect to note about risk and uncertainty is that they can be either positive or negative. For example, a positive risk might indicate an investment is likely to significantly over-deliver on the benefits being targeted. In such a case, a decision may be needed as to whether the response and/or solution could be scaled back, and resources invested elsewhere.

Complexity

Complexity is simply 'how much effort is required to complete the investment proposal?'. Complexity can arise from multiple sources such as technical difficulty, level of public interest leading to greater requirements for engagement, conflicting stakeholder views, etc. Complexity can change throughout the business case pathway due to external factors or as investigation is undertaken.

Previous or related works

Previous or related works refers to existing information from previous business case phases or related transport plans/studies that would help inform the building of the case for investment. Any previous works identified should be reviewed to ensure this information remains up to date and relevant to the current project's problem statements. Previous or related works could come in the

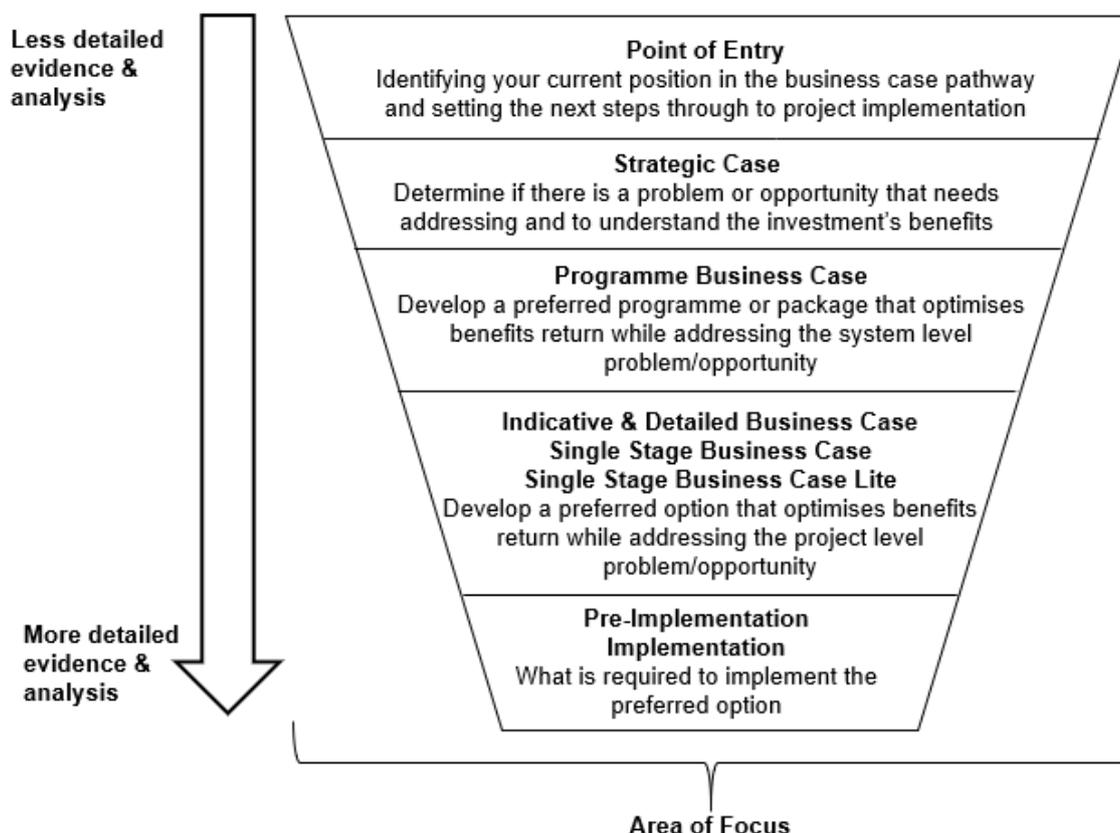
form of prior business cases, scheme assessment report, study, an activity management plan (AMP), a strategic plan or other analysis.

There may be situations where work was done but needs to be updated before it can be used to support the investment.

Right-sizing the business case to ensure an appropriate level of effort is not just considered during the PoE, but throughout an investment’s business case pathway. While the level of effort is based on risk, complexity, uncertainty and previous or related works, it is also important to note that information and evidence requirements change as the investment moves through the business case pathway. For example:

- **Programme Business Case (PBC):** Supports the decision to investigate further a programme or package of work that optimises return on benefits. It provides an early opportunity for the organisation and key stakeholders to influence the direction of the preferred investment programme, and to avoid the organisation putting too much effort into developing investment proposals and options that should not proceed.
- **Single-Stage Business Case (SSBC):** Supports the decision to invest in a preferred option that optimises return on benefits and seeks approval from decision makers to finalise the arrangements for successful implementation of the project.

The PBC is focused on analysis at a systems level to determine the preferred programme of work. The SSBC, on the other hand, provides the detailed analysis for individual projects within the preferred programme or stand-alone activity to help determine the preferred option. In the diagram below we have further explained how information and evidence requirements and the areas of focus change from the PoE through to project implementation.



SINGLE-STAGE BUSINESS CASE LITE VERSUS SINGLE-STAGE BUSINESS CASE

The SSBC Lite simplifies business case development for low risk and low complexity investments. The key changes for this format are:

- Use of tables and directing comments/questions to focus responses to the key information needed by Waka Kotahi. This is similar to the approach taken for Standard Safety Interventions in the Safe Network Programme.
- Standardised sensitivity analysis.
- Economic evaluation is based on the simplified procedures in the Monetised Benefits and Costs Manual (MBCM).
- SSBC Lite does not require Multi-Criteria Analysis (MCA) to be completed. The SSBC Lite is used for investments with a small number of potential options; therefore, these options are analysed using the Appraisal Summary Table (AST) only.
- Benefits management plan is included with the stated benefits in the strategic case.
- Commercial case is reduced to a brief paragraph outlining that the activity is using standard procurement procedures from an approved procurement strategy.

The SSBC Lite is not appropriate for all investments where the cost is below the funding threshold. The criteria for using the SSBC Lite are outlined in section 'Criteria for using the Single-Stage Business Case Lite'.

CRITERIA FOR USING THE SINGLE-STAGE BUSINESS CASE LITE

The following criteria need to be met for the SSBC Lite pathway to be used:

- The proposed investment has been assessed as low risk and low complexity from an endorsed PoE, and
- The proposed investment has an estimated whole of life cost less than \$15M, or
- For public transport services, there is an undiscounted funding gap in the first three years of less than \$15M.

Complex investment proposals are not suited to the SSBC Lite as they have risks and complexities that are better explored through a full Single-Stage Business Case or an Indicative/Detailed Business Case. Examples of when the SSBC Lite would not be appropriate include:

- **Multiple activities:** The investment proposal includes multiple activities, thus increasing the amount and complexity of optioneering work to identify the preferred option. If the whole-of-life costs for the investment proposal are below the agreed investment threshold, it may still be appropriate to use the appropriate simplified procedure(s) for the economic evaluation.
- **Longlist optioneering:** The proposed investment has a significant number of options and will need to use MCA to determine its shortlist options. The SSBC Lite is only suitable for investments with a small number of potential options as only the AST is used for options analysis.
- **Activity involves Māori land:** Where an investment may impact Māori/iwi land, this can have significant lead time or may result in the preferred alignment needing to change. This is a significant complexity for the investment that will need to be considered as part of the management case.

- **Non-standard procurement:** Most low risk and low complexity investments will take a standard procurement approach. Treasury has outlined that when this occurs a commercial case is not required. The SSBC Lite identifies that an approved procurement strategy exists, and that the procurement strategy will be applied for the investment being considered.

ANALYSIS OF ACTIVITIES IN 2018–21 NATIONAL LAND TRANSPORT PROGRAMME(NLTP)

Table 1: National Land Transport Programme (2018–21) by activity cost

Activity Cost	Number of Projects Included in the NLTP	% of total cumulative NLTP activities	Funding included in the 18-21 NLTP	% of total cumulative funding included in the NLTP	Total Project Costs
<1M	1209	63%	\$ 693,890,508	10%	\$ 1,104,217,885
1-2M	119	69%	\$ 87,537,800	11%	\$ 167,985,247
2-5M	216	80%	\$ 399,001,578	17%	\$ 691,682,014
5-10M	130	87%	\$ 496,013,312	24%	\$ 927,300,408
10-15M	68	91%	\$ 458,588,953	31%	\$ 808,470,503
15-30M	75	95%	\$ 723,610,889	41%	\$ 1,589,837,013
30-50M	39	97%	\$ 592,354,934	49%	\$ 1,454,765,008
50-100M	30	98%	\$ 709,478,196	60%	\$ 2,028,476,431
>100M	36	100%	\$ 2,828,026,691	100%	\$ 15,345,825,541
Total	1922		\$ 6,988,502,861		\$ 24,118,560,050

Note: Existing LCLR projects have been estimated by dividing the total LCLR spend by \$1M.

The analysis in Table 1 highlights that:

- the updated low cost low risk threshold of \$2M covers 69% of improvement activities representing 11% of expenditure.

At the \$15M threshold, the SSBC Lite would have coverage across about 400 projects, which make up 22% of NLTP-funded activities, capturing \$1,354M of the National Land Transport Fund (NLTF), making up 20% of NLTP expenditure.

Note: The \$15M threshold is based on whole-of-life cost to ensure compliance with Cabinet Circular CO (19) 6 (refer to section 'Treasury Consideration' for more information). As the analysis above was solely on the implementation cost basis, some of the projects may not be eligible for the SSBC Lite pathway.

EXCEEDING THE SINGLE-STAGE BUSINESS CASE LITE THRESHOLD

Point of Entry

If the proposed investment's estimated whole-of-life cost – or for Public Transport investments, the undiscounted funding gap for the first three years – is close to the SSBC Lite threshold, then consideration should be given by the Approved Organisation, and its Investment Advisor, to the likelihood of the investment exceeding the established threshold.

If there is a high probability that the investment proposal will exceed the threshold, then the development of a full Single-Stage Business Case should be endorsed at Point of Entry.

Business case development

If it is identified that the proposed investment's estimated whole-of-life cost – or for Public Transport investments, the undiscounted funding gap for the first three years – will exceed the threshold, Waka Kotahi will exercise its discretion to either require the additional elements of a full SSBC or

waive that requirement considering the risk involved. Consideration will be given in the review of delegated authorities to enable an investment advisor to exercise that discretion where the whole-of-life cost is not more than 20% above the threshold. Approval to exceed the SSBC Lite threshold by more than 20% is at the discretion of Waka Kotahi and will require endorsement from the Delegations Committee and approval from the Chief Financial Officer.

Implementation phase

Any Approved Organisation whose proposed investment is expected to exceed their allocated funding, whether through increased costs or a change of scope, must apply for and obtain approval from Waka Kotahi for the increase in cost or change of scope. Any Approved Organisation that commits to or commences a new investment prior to funding approval from Waka Kotahi, or commits expenditure on an activity in excess of the funding approval, does so at its own risk.

USE OF SIMPLIFIED PROCEDURES

Simplified procedures are contained in the MBCM to provide a simple way to calculate a benefit cost ratio (BCR) or net present value (NPV). From 1 July 2020, simplified procedures can be used for investments with whole-of-life costs less than \$15M, or, for public transport services, where there is an undiscounted funding gap in the first three years of less than \$15M. Alignment between the simplified procedures and the SSBC Lite makes it simple for those using the template. With the same threshold, the simplified procedures and the template can be used together.

All simplified procedures assume that implementation or 'construction' of the activity will occur in year 1 and that the activity will be in operation or 'service' in year 2. Evaluation periods of 40 years for most infrastructure-related investments and 'up to 40 years' for service-oriented and some infrastructure-related investments.

If the investment proposal does not meet the above assumptions, along with any other assumptions set out in the first section of the relevant simplified procedure, then the MBCM 'full procedures' will be required for the completing the economic evaluation. In these instances, the SSBC Lite template can still be used if the investment meets the criteria for use.

EXTERNAL PEER REVIEW

The purpose of the external peer review is to reduce the risks that projects either do not deliver on the outcomes forecast in the funding application, or they fail to deliver the outcomes at the level of efficiency and effectiveness stated in the application.

Waka Kotahi requires an external peer review of business cases with whole-of life-costs exceeding \$15M. Previously the threshold was \$5M or if the business case involves a significant level of risk. From 1 July 2020, the sole criterion for a requirement for an external peer review is the whole-of-life cost.

The scope of an external peer review is outlined in the Waka Kotahi Planning & Investment Knowledge Base <https://www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/2018-21-nltp-investment-assessment-framework-iaf/peer-review-of-proposals/#scope-of-improvement-activity-peer-review>

Approved organisations and Waka Kotahi are encouraged to internally review a business case, whether above or below the threshold for external peer review. An external peer review may be undertaken for a business case that involves significant risk, but there is no requirement to do so.