

# Business Case Guide

For Sport and Recreation Facilities

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Government of South Australia  
Office for Recreation and Sport

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## Introduction


The Office for Recreation and Sport (the Office) provides facility planning and funding support to Councils and sport and recreation organisations for the development of facilities. The Office also coordinates the maintenance and development of State sporting facilities on behalf of the Minister for Recreation and Sport.

This resource has been developed by the Office to support project proponents, in particular Councils and sporting organisations, to understand and develop business cases for new and improved sporting facilities. The process is primarily aimed at projects in excess of \$1million, although small scale but complex projects should also consider undertaking at least an outline business case.

The Office has reviewed recent facility proposals and consulted with other State Government agencies and Regional Development Australia (Adelaide Region) to identify the strengths and weaknesses of recent business cases and funding applications for major recreation and sport facilities. The following is a summary of the main issues identified.

Business cases often fail to demonstrate:

- How a project aligns with key State, Federal and Local Government economic and strategic directions
- The problem or opportunity that is being addressed and the options that have been explored, before arriving at a preferred solution
- How the ongoing sustainable operation of a facility is to be addressed
- A clear understanding of the priorities of funding bodies
- How facilities can generate additional use and value, not just for sporting use



Additionally, proponents should consider that:

- There is difficulty quantifying the range of benefits generated from recreation and sport facilities (e.g. health, wellbeing, and social cohesion) within business cases
- Preliminary strategic planning is required to identify, problems and opportunities being addressed and to support options and preferred solutions
- Projects that support multiple uses and needs (e.g. sporting use and community use) tend to attract greater levels of funding support


## **Why a business case**

A business case is an important step in planning, promoting and funding new or redeveloped sport and recreation facilities. The process of developing a business case will help your organisation to:

- Define the problem or opportunity being addressed
- Evaluate the financial, social, economic and environmental impacts of a project
- Gain support and secure resources from within your organisation
- Gain support from external stakeholders
- Link the problem or opportunity solution to key strategic outcomes
- Improve the likelihood of being successful in obtaining funding

A business case will help external stakeholders and funding bodies, including the State Government to understand:

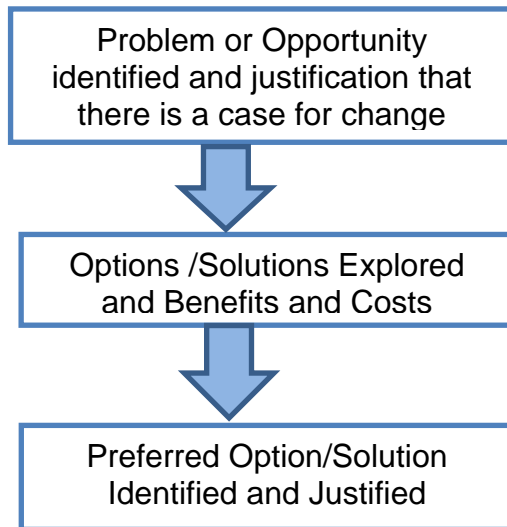
- The problem or opportunity being addressed
- How the project aligns with Government strategic priorities/plans,
- Why the project represents 'public value', including:
  - What will be achieved and for whom
  - The broad and sustained support for the project

- 
- The capacity of your organisation to implement the project and achieve the desired outcomes
  - Understand the financial, social, economic and environmental impacts of a project
  - Evaluate the relative merit of a project for potential grant funding, including 'value for money'
  - Have confidence that appropriate investigations have occurred to explore all options and arrive at a preferred solution

Business cases usually measure the possible options against a base case or a 'do nothing' scenario. In this way the business case also provides decision makers with information about the political, economic and social consequences of **not** addressing a problem or opportunity.

### **What is a business case**

In simple terms a business case comprehensively outlines the response to an identified problem or opportunity. The business case identifies the problem or opportunity and determines the case for change, it then explores and evaluates the options and ultimately recommends a preferred outcome for funding.



The following are examples of problems or opportunities that could form the basis of a business case for Recreation and Sport facilities:

- 'There is an under supply of indoor sports centres in the region and an inability to respond to a demonstrated community demand, that can't be met by other facilities'
- 'The clubrooms are run down and no longer able to support the existing and the projected growth of multiple clubs on site'
- 'There is a lack of facilities to support pathways in our sport; athletes have no choice but to move interstate in order to improve'
- 'A lack of physical activity occurring in Adelaide is leading to increased health service costs'
- 'The contemporary requirements of our sport have changed and facilities are no longer 'fit for purpose''
- 'There is the potential for a new facility to attract significant major events and contribute to the local economy'



## The business case process

The Office supports a three stage process for business case development:

1. **Point of Entry Statement** – (POES)
2. **Outline Business Case** (OBC) - An early/part business case
3. **A Full Business Case** – Building on the OBC once it has been approved (see Diagram 1 - Business Case Pathway)

### Point of Entry Statement (POES)


From the outset it is important to have a recorded and agreed summary of the scope of the business case, including the problem or opportunity being addressed, the options that will be investigated, the extent of consultation required and the project methodology.

A POES is particularly important if there are multiple key partners, for example, a Council and sporting association jointly developing a facility.

A POES could be the result of a key stakeholder workshop or meeting; to help foster agreement and support for the project, including from executives and elected members. The statement need only be one or two pages and provides a reference point for the business case process.

### 5.1 Outline Business Case (OBC)

The OBC provides the justification to proceed to further analysis of a problem or opportunity through a full business case. The OBC can also provide the basis for an 'in principle' funding and delivery commitment from within your organisation.



The structure of an OBC is similar to the full business case however it contains less detail as it provides:

- A near completed identification of the problem or opportunity, the strategic significance and the case for change
- Preliminary analysis of options, costs, benefits and timeframes

For the OBC preliminary analysis of costs can be drawn from comparative pricing from other recent projects and/or quotes.

If you anticipate seeking State Government funding for your recreation and sport facility it is advisable to discuss your POES and OBC with the Office for Recreation and Sport and seek advice regarding the options that will be explored in a full business case.

## **5.2 The Full Business Case (FBC):**

A FBC is required to proceed with the delivery of a project and is a requirement for seeking State Government funding for major facilities through grant funding programs, Cabinet or the State budget process. It provides a finalised substantiation of the preferred solution.

The following outlines the key components of a FBC. The accompanying Business Case Template provides further detail about the information required. The level of detail required for a business case will depend on the complexity, value and risk of the project. It may also be appropriate to bundle a number of small projects together for a single business case.



## Key Components of a Full Business Case

### Executive Summary

The Executive Summary is the opportunity to grab the reader's attention and pitch the importance of a proposal by briefly outlining:

- The problem or opportunity and the strategic importance of this to the sport and recreation sector, Local Government, State Government and the community
- The options explored and preferred option with rationale
- What the project aims to achieve and for whom
- Who authorises and supports the project
- The proponent's capacity to deliver
- Key risks and risk management strategies

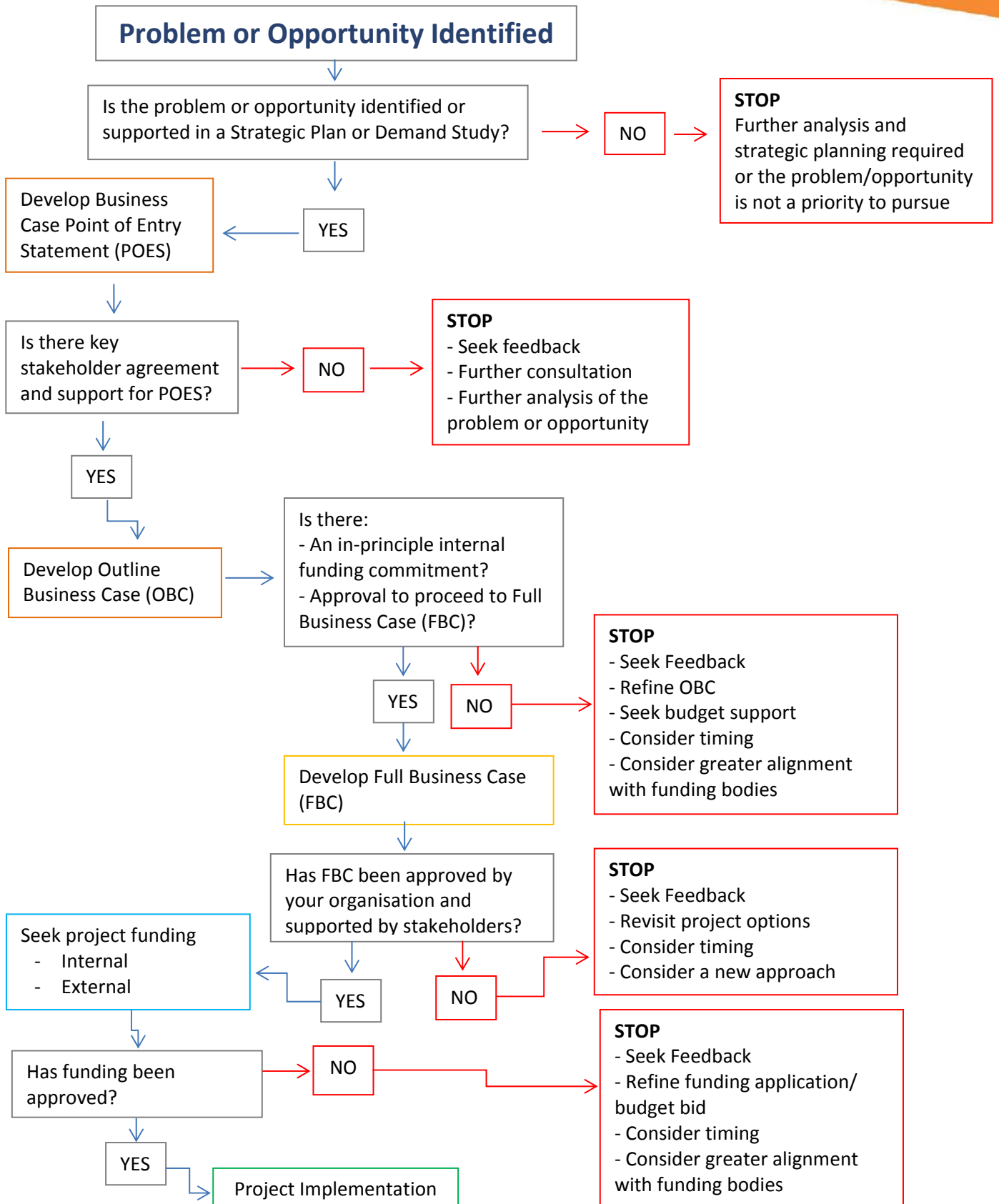
### Case for Change, Strategic Priority and Long List of Options


The purpose of this section is to demonstrate the evidence base and strategic imperative for change and to develop a list of options that are worthy of further assessment. This section should be supported by evidence from a variety of sources including demand and supply analysis, strategic plans, ABS data, participation data and trends.

The following should be considered:

- The consequence of not addressing the problem or opportunity (do nothing scenario)
- Identification of a base case or do minimum option
- The 'public value' of each option (see section 2)
- Most appropriate timing for addressing the problem or opportunity
- A list of all the options explored and a preliminary assessment of the costs, benefits and risks associated with each option

## Business Case Pathway





For addressing Recreation and Sport problems and opportunities, options to consider could include the following:

- Do nothing
- A facility renovation, upgrade or extension
- Non-investment options such as more efficient use of an existing facility (scheduling/management)
- A new facility
- Shared use of school facilities
- Amalgamation or consolidation of facilities

Preliminary assessment criteria to evaluate the long list of options can be determined (workshopped) with key stakeholders and may include:

- The extent to which the option addresses the problem or opportunity
- The strategic alignment of the option
- Risks associated with the option
- A list of costs and benefits of the option and a preliminary assessment of the costs and benefits
- Feasibility and value for money
- Consultation outcomes
- Consideration of trends statistics and relevant data

Based on the preliminary assessment of options, choose the options (short list of at least three) for further assessment.

## **Assessment of Options (Short List)**

The purpose of this section is to provide evidence based assessment of a short list of options and conclude with a judgement regarding the preferred option.

Major projects will require the support of professional economic or accounting advice for this evaluation. The Office can assist regarding the appropriate level of detail required and the appropriate tools and research available.

The assessment should include:

### **6.4 Financial Evaluation**

This evaluation includes a list and description of all financial costs and benefits including capital (all design, construction and fit out costs) and operating costs and benefits (including maintenance, management, replacement costs and income including fees and rebates) for the life of the project (usually 25-30 years).


Concept design drawings and a quantity surveyor's report of cost breakdown is required to verify the capital cost of the project options for a FBC. Operation costs also need to be modelled over the life of the facility.

### **6.5 Economic, Social and Environmental Evaluation**

This evaluation normally includes Benefit Cost Analysis, or where this is not possible Cost Effectiveness Analysis (where benefits and costs cannot be measured in monetary units).

These consider, describe and evaluate which costs and benefits for each option are:

- Measurable in monetary units (e.g visitor spending, health cost savings, increased tourism income)

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- Measurable in other units (e.g. participation numbers, increased hours of use, light spill, noise traffic or another acceptable scoring method (see appendix 1 and 2 for examples), and
  - Which elements cannot be measured and only described in words (e.g. amenity, comfort and culture)

For recreation and sport facilities the following benefits and costs should be considered:

- Employment benefits
- Health benefits or health cost savings
- Wellbeing benefits
- Productivity benefits
- Tourism benefits
- Community building, inclusion and cohesion benefits
- Travel cost savings
- Volunteering
- Injury costs
- Environmental impact costs

The measurement of costs and benefits should be evidence based and the rationale and calculations included in an appendix to the business case. 'Benefit cost ratios', 'net present value', 'net present costs', 'discounted cash flow' and 'sensitivity testing' are economic tools frequently used to help evaluate and compare options and require economic or accounting expertise. Benefit, cost analysis and 'discounted cash flow calculations are derived from all of the costs and benefits that can be measured in monetary units from the financial, economic, social and environmental analysis.

Based on the above assessment, a conclusion is drawn about the preferred solution.

## 6.6 Stakeholder Consultation

Outline the type of consultation and outcomes that have occurred in the process of identifying the problem and options, and arriving at a preferred solution.

Outline who is affected by the proposal and how they are affected. This should include identifying any potential unintended positive or negative consequences. Outline how the project will improve the client experience and how it will increase, or decrease justice and fairness.


## 6.7 Preferred Solution Details

This section provides the opportunity for a more detailed description of the preferred solution. Additionally it focuses on the budget impacts and includes management plans for the preferred solution, including:

- A risk management plan (see appendix 3)
- An implementation/procurement plan
- A post implementation review/plan
  - A communication strategy

## 6.8 Tips

- Write the business case in plain English and be concise so that it is understood by a broad range of readers
- Keep technical terminology and jargon to a minimum in the main document
- Associated detailed analysis and supportive rational should be presented in appendices (e.g. demand drivers and forecasts, relevant standards, legislation and policy, and stakeholder engagement)

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- Where practical make use of relevant diagrams, charts tables and photos to help communicate the analysis

## 6.9 Focus on:

- The problem or opportunity being addressed
- The priority for your organisation and for government
- The 'public value' of the proposal including:
  - What will be achieved and for whom
  - The broad and sustained support for the project
  - The capacity of your organisation to implement the project and achieve the desired outcomes
- More information - <http://bettertogether.sa.gov.au/public-value>
- Support demonstrated from major strategic plans
- Evidence based options analysis
- The preferred option and the rationale for considering this as 'value for money'

## Appendix 1 – Non Monitised Assessment Rating Levels - Example Evaluation Measures

<b>Rating Level</b>	<b>Description</b>
<b>Large –ve</b>	Major negative impacts with serious, long term and possibly irreversible effects leading to serious damage, degradation or deterioration of the physical, economic or social environment. Require a major re-scope of concept, design, location, justification, or require major commitment to extensive management strategies to mitigate the effect.
<b>Moderate –ve</b>	Moderate negative impact. Impacts may be short, medium or long term and most likely respond to management actions
<b>Slight –ve</b>	Minimal negative impact - probably short term, able to be managed or mitigated, and does not cause substantial detrimental effects. May be confined to a small area.
<b>Neutral</b>	Neutral – no discernible or predicted positive or negative impact.
<b>Slight +ve</b>	Minimal positive impact, possibly only lasting over the short term. May be confined to a limited area.
<b>Moderate +ve</b>	Moderate positive impact – possibly of short, medium or longer term duration. Positive outcome may be in terms of new opportunities, and outcomes of enhancement or improvement.
<b>Large +ve</b>	Major positive impacts resulting in substantial and long term improvements or enhancements of the existing environment.

Source: Derived from Sinclair Knight Merz (2003, for Planning SA): *Project Appraisal Tool for Land Use-Transport Projects*



## Appendix 2 - Non Monetised Assessment Confidence Rating Levels – Example Evaluation Ratings

<b>Confidence Level</b>	<b>Description</b>
<b>Very Low (VL)</b>	Best guess of professional assessing outside their area of expertise, gut feel, no relevant studies or data. Not suitable basis for “rating” greater than “slight +ve” or less than “slight –ve”
<b>Low (L)</b>	Professional judgment within area of expertise. However, no relevant studies or data available. Not suitable for score greater than “slight +ve” or less than “slight –ve”
<b>Medium (M)</b>	Some background information, but either dated, lacking appropriate detail or accuracy to form the basis for a firm assessment. Not suitable for a score greater than “moderate +ve” or less than “moderate –ve”
<b>High (H)</b>	Substantial information – perhaps patchy in parts (date, accuracy, detail?) – but sufficient to provide an accurate assessment with a fair degree of confidence.
<b>Very High (VH)</b>	Recent, relevant and accurate studies with appropriate detail and analysis to form a rigorous and defensible basis for the assessment. Assessment has a very high degree of confidence.

Source: Derived from Sinclair Knight Merz (2003, for Planning SA): *Project Appraisal Tool for Land Use-Transport Projects*

## Appendix 3 – Risk Matrix

Note: Judgment is required to assess the consequences and likelihood of a risk (both before and after effective risk mitigation action)

### Step 1 - Identify Project Risk and Impacts

Consequence Rating	Step 1 - Identify Project Risk and Impacts	
	Risks	Impacts
Critical (Worst Case Scenarios)	<ul style="list-style-type: none"> <li>Significant impact on critical organisational objectives</li> <li>Impact cannot be managed within existing resources and threatens survival of organisation</li> </ul>	<ul style="list-style-type: none"> <li>Significant or critical community infrastructure assets are destroyed</li> <li>Significant or critical community infrastructure assets are unusable for months</li> </ul>
Major	<ul style="list-style-type: none"> <li>Major impact on critical objectives</li> <li>Impact requires long term significant management and organisational resources to respond</li> </ul>	<ul style="list-style-type: none"> <li>Non-critical community infrastructure assets are destroyed</li> <li>Significant or critical assets are unusable for weeks</li> </ul>
Moderate	<ul style="list-style-type: none"> <li>Minor impact to critical objectives</li> <li>Impact requires management and resources from key areas of business to respond</li> </ul>	<ul style="list-style-type: none"> <li>A range of assets, including some significant assets are unusable for weeks</li> </ul>
Minor	<ul style="list-style-type: none"> <li>Negligible impact on critical objectives, major impact on organisational objectives</li> <li>Impact requires additional internal management effort or redirection of resources to respond</li> </ul>	<ul style="list-style-type: none"> <li>A number of assets unusable but can be replaced within acceptable timeframes</li> </ul>
Insignificant	<ul style="list-style-type: none"> <li>Negligible impact on critical objectives, Minor impact on organisational objectives.</li> <li>Impact can be managed through routine activities</li> </ul>	<ul style="list-style-type: none"> <li>Assets receive minimal damage or are only temporarily unavailable</li> </ul>

### Step 2 – Likelihood Ratings and Risk Levels

Rare	Unlikely	Possible	Likely	Almost Certain
Less than once in 10 years	About once in 10 years	About once in 3 years	About once a year	Several times a year
Negligible likelihood	Likelihood low but not negligible	Likelihood less than 50/50	As likely as not to happen (50/50)	More than likely to happen
High	High	High	Extreme	Extreme
Medium	Medium	High	High	Extreme
Low	Medium	Medium	Medium	High
Low	Low	Medium	Medium	Medium
Low	Low	Low	Low	Medium

### STEP 3 – Risk Level Context and Mitigation Action Required

Extreme	Intolerable	Consequences would threaten the survival of the activity but also organisation(s)– requires prompt action from executive management (EM)
High	Intolerable/Tolerable	Consequences would threaten the survival or continued effective operation of a key business area/service or portion of organisation(s). EM must be able to demonstrate that So Far As is Reasonable Practicable principles have been applied if risk level is to be tolerated .
Medium	Tolerable	Consequences would threaten an activity – existing controls must be effective and possibly additional mitigation action effectively implemented – action may be managed below EM.
Low	Acceptable	Risk is managed by current practices and procedures – consequences are dealt with by routine operations – monitor routine practices and procedures for effectiveness – maintain regime of continuous improvement.