



WESTERN AUSTRALIA

BUSINESS CASE GUIDELINES



This publication has been produced by the Public Health and Purchasing Group of the Health Department of Western Australia in cooperation and consultation with the Mental, Public and General Health Purchasing Divisions and the Office of Aboriginal Health.

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1. Introduction

These guidelines have been prepared to help providers of health services prepare sound business cases when:

- making decisions about re-investment of funds within health services or programs;
- seeking funding for existing services and programs; or
- seeking funding for additional or new programs, services and projects (hereafter referred to as ‘projects’ for simplicity).

Where the Health Department has indicated its specific intention to purchase health services, this intention will be realised through an open tendering process. The tender process, which will have particular submission requirements, is necessary to comply with Government policy. These guidelines are to be used in all other circumstances.

The reasons for developing and promoting the use of these guidelines are to:

- ensure that providers understand the information required in a business case to enable merit-based assessment;
- develop a consistent approach that enables sound decisions to be made by both the providers and purchasers of health services;
- ensure that the funding submission and approval processes are efficient and transparent; and
- ensure that available funds are allocated in a way that contributes to the achievement of agreed National and State health priorities.

Having worked through the principles and stages set out in the guidelines, a provider can decide to:

- submit a proposal for funding in the current or next financial year;
- delay submitting a proposal until a stronger case can be prepared (for example, through more research);
- submit a proposal for consideration and comment; or
- withdraw the proposal in favour of other more urgent and relevant proposals.

2. Purchasing Intentions

Purchasing Intentions describes the framework that has been developed by the Health Department for purchasing quality health outputs and outcomes. This framework is based on National and State health priorities and strategic directions, and is built more generally on the Government's broader output based management initiatives.

Purchasing Intentions establishes major strategic directions on an annual and triennial basis. These intentions are then articulated in annual purchase plans and health service agreements with individual providers.

Business cases submitted to the Purchasing Divisions of the Health Department should be consistent with the strategic directions in Purchasing Intentions.

Projects that are not within the structure and framework of Purchasing Intentions will only be assessed in exceptional circumstances, for example due to a new or unexpected health issue.

3. What is a business case?

The business case helps to document the decision-making process within organisations. It provides a means by which organisations can determine priorities and ensure support for cost-effective proposals to establish new projects, continue or expand existing services and programs, or to undertake specific one-off projects.

A business case, in the context of health services, is a well-defined argument which demonstrates that a particular program, service or project will result in benefits for the population served by the provider, and that the costs of implementing the project are justified.

Business cases also provide a means of ensuring that decisions made by purchasers are based on a sound understanding of what is being proposed, the competency of the provider to deliver, defined outputs and the relationship between the benefits and costs to be derived.

These business case guidelines will benefit health service providers through:

- assisting all managers and staff within organisations to prepare sound and well documented business cases using a consistent format;
- increasing transparency in the decision-making process at both the provider and purchaser level;
- providing a record of decisions taken and the rationale behind those decisions; and
- promoting a broader, more consultative and collaborative approach to decision-making.

4. Using the business case guidelines

The business case framework set out in these guidelines has three main components:

- establishing the need (Stage 1);
- identifying and comparing alternative options and selecting the preferred option (Stage 2); and
- developing strategies for implementation and evaluation (Stage 3).

These three components are described in detail in sections 5.1 to 5.3.

These business case guidelines assume that funding is being sought for a new project, but can also be used when putting forward a business case related to an existing program, service or project.

In preparing a business case, organisations should aim to provide the level of detail considered appropriate to the particular project. In particular, the same level of documentation is unlikely to be necessary when putting forward a case relating to an existing project, compared with a new one, or when putting forward a case for a project with a relatively small purchase price (ie. less than \$250,000) compared with a large purchase price.

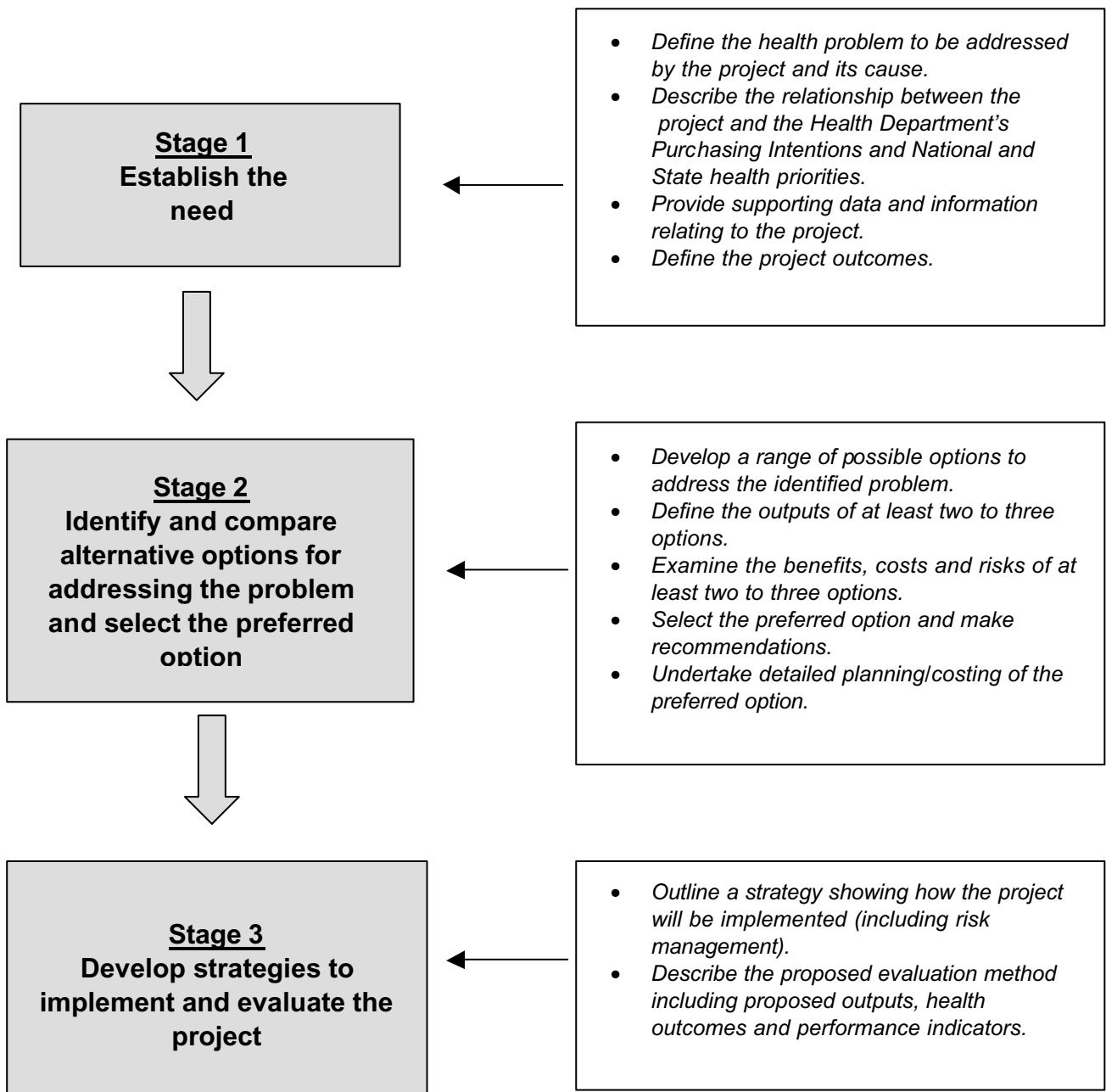
The most important aspect of the documentation is that it is detailed enough to enable sound judgments to be made by other people about the relative merit of what is being proposed.

Larger projects with a purchase price in excess of \$250,000 require a more detailed business case submission. A wider range of options should be developed and the analysis of benefits, costs and risk should be more rigorous.

5. Preparing the Business Case

Figure 1 represents the three stages of preparing a business case described in the next section of these guidelines.

Figure 1 Stages in preparing a business case



5.1 Establishing the need

5.1.1 *Define the problem and its cause*

- Describe an identified unmet need or demand for a new project, the improvement of an existing project or its extension.
- Try to identify the *cause* of the problem rather than the *symptom*, (eg. the cause – ‘inadequate provision of community care for elderly people’, instead of its symptom – ‘not enough residential care’).
- Identify and define the target population or clients of the project.

5.1.2 *Describe the relationship to the Health Department’s Purchasing Intentions and National and State health priorities*

- Describe the relationship of the project to current Health Department Purchasing Intentions.
- Indicate the importance of addressing the problem in relation to National and State health priorities.

5.1.3 *Provide supporting data and information*

- Provide data on the target population, demand and current relevant supply.
- State how need and demand were determined.
- Indicate and substantiate how critical, urgent or important it is to satisfy unmet need and demand.
- Document the links to the organisation’s overall business plan.
- Identify why this need or demand is not able to be met within the existing service provision framework or by other agencies.
- If appropriate, provide evidence on any current service provided which addresses the problem. Discuss its efficiency and effectiveness, and whether or not it is able to meet the need or demand.

- Identify which stakeholders have been consulted, their broad views of the project, and what support there is from within and outside the organisation. Indicate the proposed role of these stakeholders in the project.
- Identify the links with other health service initiatives, programs or services including the relationship, where applicable, to the local hospital; continuing care; community health; public, mental or Aboriginal health programs.

5.1.4 Define the project outcomes

- Define the project outcome(s) by setting out clearly what the project is attempting to achieve.
- Define the overall health outcome(s) of the project with reference to the Health Department's Purchasing Intentions.
- A project outcome is defined as the effect or impact on a community of an output or set of outputs purchased from the project. Outcomes can be health or project (process) based.

5.2 Identifying and comparing alternative options and selecting the preferred option

5.2.1 Develop a range of options

- Describe the alternative approaches or options that have been considered to address the identified problem.
- For projects with a purchase price less than \$250,000 three options are usually adequate. For projects with a purchase price in excess of \$250,000 a more extensive range of options should be detailed.
- Seek the opinions of a wide range of stakeholders to identify an option or options not previously thought about.
- Keep referring back to the project outcomes as they represent what you are trying to achieve.
- Always include a 'do nothing' or 'minimum change' option to serve as a benchmark against which other options can be compared. In this context, a 'do nothing' option is a baseline option for comparison that involves continuing exactly as present. A 'minimum change' option is an alternative baseline options that only involves undertaking essential minor changes to the existing option.

5.2.2 Define the outputs of at least two to three options

- Define the outputs of at least two to three options and state how they will be measured.
- Outputs are the goods and services produced by the provider for the community.
- The number of options selected to analyze in more detail should be appropriate to the project. For projects with a purchase price in excess of \$250,000 a wider range of options should be considered in detail.

Outputs include the following measurements:

- Quantity measures describe outputs in terms of how much or how many, and require a unit of measurement to be defined. Quantity may reflect a single output or a number of discrete deliverables within an output (ie. volume, level of supply, unit of measure).
- Quality measures usually reflect service standards based on customer needs. Dimensions of quality include accuracy, completeness, accessibility, continuity and customer acceptability of the output. These are pre-negotiated prescribed standards.
- Timeliness measures provide parameters for how often or within what time frame outputs will be produced (eg. delivery, deadline or service response time).
- Cost measures reflect the full accrual cost to a provider of producing each output. Cost measures should include the unit cost for each of the units or deliverables identified in the output quantity measures.

5.2.3 Examine the benefits, costs and risks of at least two to three options

- For those options where outputs have been defined a benefit, cost and risk analysis should be undertaken. The rigour of this analysis and documentation detail should be appropriate to the project. In particular, a more rigorous and detailed examination of benefits, costs and risks should be undertaken for projects with a purchase price in excess of \$250,000.

Examination of benefits, costs and risks involves the following:

- Identify between five and 10 benefits related to the proposed project and outcomes. These could be health- or service- related and include aspects such as quantity of output provided, quality of output, project effectiveness, project reach, timeliness, accessibility and acceptability to the local community.
- Provide a detailed cost breakdown of over at least the first three years. Costs are generally broken down into recurrent expenditure (eg. salaries, on-costs, consumables,

etc.) and capital expenditure (eg. equipment, property, etc.). Income such as fees or charges must be included separately as a negative value.

- Determine costs according to defined outputs, preferably on a unit cost basis.
- Include information about other sources of funding that have been obtained, considered or investigated such as Commonwealth, local government, other State agencies or the private sector.
- Identify any known or potential risks such as those relating to political, ethical, financial, industrial or human resource issues and discuss how these will be managed. The probability and potential impact of any risks should also be identified.
- Where capital works or minor works are involved, considerations such as asset rationalisation, disposal and/or replacement strategies debt management should be addressed.

5.2.4 Select the preferred option and make recommendations

- Provide a summary of the expected benefits, costs and risks of each option.
- Based on a comparison of benefits, costs and risks select the preferred option.
- Summarise the basis on which the preferred option was chosen and given the highest priority. Include reference to the achievement of the intended outcomes and outputs, broad cost considerations and feasibility of implementation.

5.2.5 Undertake detailed planning/costing of the preferred option

- The following aspects will typically need to be addressed:
 - location;
 - functional content;
 - capital requirements, including site changes and acquisition;
 - staffing requirements;
 - three to five year cost breakdown
 - effect on existing/complementary services;
 - anticipated effect on patient/client activity;
 - effect on accessibility;
 - ‘social’ implications;
 - transitional implications related to phasing and timing of any changes; and
 - broad operational policies.

5.3 Developing strategies for implementation and evaluation

5.3.1 *Outline an implementation strategy (including risk management)*

- Document the organisation's capacity (in human resource and other relevant terms) to undertake the proposed project.
- Describe briefly the proposed implementation strategy including:
 - who will be held accountable;
 - how the option will be implemented;
 - project milestones and key dates;
 - what resources are required: human, physical and other;
 - what skills are required; and
 - what internal and external support is required and available.
- Describe briefly the proposed strategy for identifying, analysing and controlling known or potential risks.
- Indicate, where appropriate, compliance with Government purchasing and tendering requirements and other relevant policies and procedures.
- In some cases it will be necessary and appropriate to conduct a post-implementation review. This could be done as part of an interim evaluation within three, six or 12 months.

5.3.2 *Describe the proposed evaluation method*

- Briefly outline how the project, once implemented, will be evaluated and by whom and when.
- Identify the methods and processes proposed for measuring the resulting outputs, project outcomes and, if possible, health outcomes.
- Develop measures to monitor the progress and performance of the project. Indicate how these relate to the organisation's and Health Department's key performance indicators. Performance indicators relate to achieving outputs and outcomes and are usually expressed as a unit, index or ratio. Performance indicators measure both the effectiveness and efficiency of the project.

5.3.3 *References*

- List all references referred to in the submission.

6. Completing and submitting the business case

Your business case should be written in plain English with minimum jargon. The business case should be pitched at an intelligent reader who:

- does not have an intimate knowledge of the subject area of the proposal; and
- needs to independently reach a conclusion from the business case about the selection of the preferred option and whether the expenditure is justified.

The level of detail and documentation in your business case should be appropriate to the particular project and enable sound judgments to be made by other people about the relative merit of what is being proposed.

Business cases should be forwarded to the General Manager of the relevant Purchasing Division within the Health Department.

7. Business case checklist

When preparing a submission, providers of health services should address each of the stages outlined above in the business case guidelines, and in particular ensure that the following points have been addressed:

- definition of the problem and cause;
- relationship of the project to the Health Department's Purchasing Intentions and National and State health priorities;
- supporting data and information including a record of consultation with key stakeholders and the relationship to the organisation's business plan;
- definition of project outcomes including identification of target groups;
- identification of alternative options including definition of outputs;
- assessments of benefits, costs and risks of each option;
- selection of the preferred option and provision of detailed planning/costing information; and
- provision of strategies and a framework for the implementation and evaluation of the project.