



## VSA Investment Fund Business Case Guidelines

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### ***Purpose of the Business Case***

Project proponents who have been short listed to proceed to Stage 2 in the VSA Investment Fund (VSA IF) are required to prepare a Business Case using the template that accompanies these guidelines. The Business Case must clearly articulate the project's objectives and provide sound justification for the investment based on the estimated costs, risks and ability of the consortium partners to deliver tangible economic, social and environmental benefits.

The Business Case provides a framework for the planning, management and a more detailed scoping of the project than the Expression of Interest, in the form of a truncated business plan. In developing the Business Case, applicants need to ensure that all partners in the consortium are actively involved in the planning of the project and that each member makes firm commitments to allocate appropriate resources for the duration of the project.

### ***What should a Business Case contain?***

The Business Case should provide details of the project's core 'value proposition' and the spillover benefits to be delivered. The value proposition is the development of a proposed solution to a problem and/or the further development or demonstration of a new product/service/process to benefit a targeted customer or end-user base.

The Business Case should clearly articulate information relating to areas such as planning, implementation, investment, market analysis, governance, intellectual property and management arrangements. The applicant must clearly set out the major outcomes which the consortium aims to achieve by the project's conclusion. In addition, either a sound case for the project's viability beyond VSA funding, including a proposed investment attraction strategy, or an exit strategy must be provided.

The Business Case needs to define the benefits to nominated stakeholders and how it is underpinned by a clear management and implementation strategy.

Applications must be submitted using the pro forma *Business Case Application Form* and the accompanying budget template *Business Case Budget Template*. This application form contains the following sections:

- Executive Summary (section 4)
- The Opportunity (section 5)
- Governance and Intellectual Property Management (section 6)
- Project Implementation (section 7)
- Benefits to Victoria and Performance Measures / New Jobs Created (section 8)
- Risk Management (section 9)
- Post Funding Project Plan (section 10)
- Project Funding and Budget (section 11)
- Independent Referees (section 12)
- Declarations (section 13)
- Attachments (section 14)

Information against each section **must not exceed** the word limits specified in the pro forma. In some instances, where supplementary information is considered important to address the requirements of the selection criteria, you may provide this information as attachments. Further information in this regard is given below.

## ***Closing date for applications***

**Applications must be received by 3.30 pm, Wednesday 10 June 2009.**

Business Cases must be emailed to [vsa@diird.vic.gov.au](mailto:vsa@diird.vic.gov.au) with the subject line **VSA Investment Fund: Business Case**. Applications must be in PDF format (except the Excel budget template) and all necessary documentation must be included as attachments in the email.

## ***Executive Summary (section 4)***

The Executive Summary should provide a brief *high level overview* of the project outlining the purpose, major inputs (resources and capabilities), key activities, major deliverables and overall benefits of the project.

### ***Indicative issues to be considered include:***

- Outline the key vision and objectives of the project (science, technical and commercial).
- What is the market/industry opportunity of the project?
- A brief description of the value proposition.
- Purpose for which VSA grant funds will be used.
- What does the consortium plan to deliver and why is it best positioned to do so?
- What are the project's objective measures of success?

## ***The Opportunity (section 5)***

This section should outline how the project will enhance and/or leverage Victoria's science and technology capabilities to support a clearly defined industry/market sector. Proponents must clearly justify the market (or end-user) need for the project. While a detailed external market analysis is not required at this stage, evidence of market research and/or consultation with end-users performed either by the consortium or a credible industry stakeholder will be highly regarded and can be provided as an attachment.

### ***Indicative issues to be considered include:***

- Describe the opportunity to be captured or problem to be solved and detail its relevance and priority to Victoria.
- Outline the science and technology underpinning the project and how it will be used to meet the market opportunity.
- What are the consortium's potential market barriers or threats and what are the strategies to circumvent these barriers?
- Detail the new and/or existing markets (both domestic and international) targeted by this project. What are the key market segments? You should refer to the size, historical and emerging trends, and current services/offers.
- Detail the specific outcomes that will be achieved. What final products, services and/or processes will the project deliver? What are the short term (3 – 5 years) and what are the longer term outcomes?
- Are you aware of and how will this project operate against existing and potential scientific and commercial competitors in Australia? What is the consortium's competitive advantage?
- Is there any impedance to the project's establishment or operational phases, for example, through obtaining planning permits, purchasing licences or compliance with regulations?

- Describe the pathway to market and/or strategies to access end users. For example, proposed licensing, selling, distribution, partnering arrangements, pricing and profit strategy, advertising and promotion.

## ***Governance and Intellectual Property Management (section 6)***

This section should detail why the consortium is best positioned to deliver the project outcomes. It will typically contain an overview of the governance and management arrangements for the project and summarise how the consortium members will cooperatively work on the project.

Applicants are also required to articulate their consortium's current scientific and management strengths. Focus should be on the disclosure of key personnel and their associated capabilities and how they will function cooperatively to deliver the technical and commercial project outcomes.

This section should also provide a brief overview of the intellectual property (IP) management strategy. Clear and workable arrangements must be in place regarding the allocation of rights to new IP between consortium members. A distinction should be made between pre-existing IP of consortium members and IP generated from the funded project. Where necessary, project proponents should ensure that they have engaged personnel with appropriate expertise in the development of the IP management strategy.

### ***Indicative issues to be considered include:***

- Governance Structure
  - Describe the proposed governance structure. Is it new or existing; an unincorporated or incorporated joint venture?
  - How will the governance structure facilitate collaboration between the project partners?
  - How will the collaboration allow for new entrants?
  - Is the collaborative structure intended to continue post VSA funding?
  - Describe how assets and revenue streams will be managed under the proposed governance arrangements.
  - How will the governance structure ensure the delivery of the stated project outcomes?
- Management Team
  - Who are the key members in the management structure and what are their respective roles and credentials?
  - Where will the project's activities be located? How will different consortium partners access services, facilities and equipment?
  - Identify the key external stakeholders and relationship to the project's activities and outcomes.
  - How will the management team report on the project's status when communicating with internal and external stakeholders?
- Intellectual Property (IP) Arrangements
  - What IP is likely to be generated from the project?
  - How will ownership of IP be negotiated within the proposed governance structure?
  - Who is responsible for both the operational and strategic management of IP?
  - What arrangements will be in place for the identification, review and protection of IP?
  - How will generated IP be shared amongst consortium members?
  - What are the arrangements between the consortium members with respect to rights to the proceeds of commercialisation of IP generated by the project?
  - What arrangements are in place regarding ownership and control of IP developed by employees, third parties using the facilities and students involved in the projects?

## **Project Implementation (section 7)**

This section requires an outline of the strategy for implementation of the project aimed at proactively managing project outputs and outcomes. The plan should express a clear and credible pathway to achieving each core project activity, and refer to how the governance and management capabilities will facilitate delivery. The project proponents should identify key commercial and technical milestones and their predicted timings. In doing so, it should be clear how resources will be allocated to realise each outcome, and detail should be given to the associated management and scientific personnel instrumental to the project's success.

In addressing this requirement, applicants should outline the key milestones in the format of the table given below and supply a Gantt chart to depict activity timelines and dependencies. Examples of milestones and performances measures that proponents **may** want to consider are provided in the table (p. 5).

### **Indicative issues to be considered include:**

- Project Strategy
  - Who are the key technical and management personnel involved and what are their credentials in delivering technical and commercial projects? Or how will you obtain the necessary personnel?
  - How will the project access the necessary facilities and resources to meet the objectives of the project?
  - What is the consortium's proposed path to market and strategy to ensure market uptake?
  - What technology transfer strategies are in place? What is the consortium's commercialisation strategy for IP? What resources and capabilities will be dedicated to commercialisation/market adoption/technology transfer activities?
  
- Implementation Workplan
  - What are the key activities, responsibilities and key technical and commercial milestones of the project? What are their predicted timings?
  - How does each activity align with the project objectives?
  - What are the major predicted outputs and outcomes for the project and their timings?
  - What resources and capabilities will be dedicated to the implementation plan? How will resources be allocated to achieve each milestone?

Time	Milestone	Performance Measure	Responsible Organisation	Key personnel (name, position, organisation)	
FY 2009-10	Q2	Employment of new staff	Appointment of key staff to project by anticipated date.	Company XYZ	Interim CEO
		Marketing/communication	Date when marketing plan completed and implemented		
	Q3	Administration	Key reporting dates to funding bodies	Research organisation ABC	
		Technical Activities	Dates for successful demonstration of technology; no./type of products developed from new technology.		
	Q4	Collaborations	No. of new businesses/groups assisted by consortium		
	Utilisation/access	Documented use of and access to the facility/equipment by consortium members and external users.			
FY 2010-11	Q1	Funding leveraged	No. of contracts secured; amount of new investment in project.		
		Commercialisation opportunities	Commercialisation opportunities investigated; patents filed/granted; product sales/no. of customers		
	Q2				
	Q3				
	Q4				
FY 2011-12	Q1				
	Q2				
	Q3				
	Q4				

## **Benefits to Victoria and Performance Measures (section 8)**

In justifying the Government's commitment to funding, applicants should outline the economic, social and/or environmental benefits of their project to Victoria. This should include both immediate and prospective benefits, as well as any potential spillovers, whether direct or indirect. Importantly, applicants should clearly substantiate the additionality of these benefits and outline how they contribute to establishing a competitive advantage for Victoria. In assessing the public benefits of the project, applicants should also disclose the anticipated private returns to the lead and partner organisations and provide a qualitative description (or quantitative estimate if possible) of the ratio of public to private rate of return of the project.

Applicants are also asked to provide key performance indicators associated with the identified benefits. This should include the number of full-time equivalent (FTE) jobs created, the anticipated extent of skills development, number of new saleable products, etc.

### **Indicative issues to be considered include:**

- Describe how the project will deliver benefits that enhance Victoria's existing industry base.
- Describe how the project will deliver benefits that enhance Victoria's existing science and technology base.
- Outline the benefits the project will deliver to the lead organisation and to other consortium partners.
- Describe the economic, social and/or environmental benefits that the project will deliver to Victoria and how these will be evaluated over time.
  - For sustainability benefits provide a quantitative estimate of benefits where appropriate, e.g. reduction of greenhouse gas emissions intensity compared with 'business as usual'.
- What measures will be used to assess the success of activities (outputs and outcomes)?
- What plans are proposed to ensure the economic benefit is retained in Victoria?
- Number of new jobs created (supply in section 8b of the form)
- Quantification, if possible, of other potential benefits. For example:
  - Expansion of existing or creation of new networks.
  - Percentage increase in efficiency.
  - Number of new products.
  - Number of new value adding operations.
  - Potential skills development.
  - Potential community engagement and awareness of science and technology development etc.

## **Risk Management (section 9)**

Proponents are required to identify actual and potential risks that may impact on the project's delivery. In addressing risks, applicants should develop strategies for mitigating or managing those risks.

### **Indicative issues to be considered include:**

- What specific factors or events could impact on the consortium's ability to deliver the project outcomes? These should include both technical and commercial risks. For example:
  - Financial issues.
  - Operational issues (staff, accessibility to facilities, compliance).
  - Governance issues.
  - Lack of demand or competitive risks.
  - Failure to demonstrate benefits to stakeholders.
- What are the probabilities of these risks occurring?
- What are the consequences of these specific factors/events?
- Are the risks under the direct control of the consortium and can they be influenced?

- What specific actions will be taken to control, influence, manage or mitigate the identified risks? Who will be responsible for these actions?
- What will be the costs associated with risk mitigation?
- How will you avoid financial pitfalls?

### **Post Funding Project Plan (section 10)**

Applicants are required to demonstrate that the governance structure and project implementation plan will provide either a mechanism for the project to become self sufficient, if appropriate, or an exit strategy to dissolve the consortium once the project has been completed.

#### **Indicative issues to be considered may include:**

- When will the project become self-sustaining and what is the strategy for securing future funding or investment (public or private) **beyond** the scope of the existing grant? What are the anticipated future revenue streams?
- What exit strategy is envisaged for the consortium once the project has been satisfactorily completed? What role will individual partners play in the exit strategy?
- What are the arrangements between consortium members regarding ownership and control of IP at the conclusion of VSA grant funding?

### **Justification of Funding and Budget (section 11b)**

Applicants are required to justify both the rationale for Government investment in their project and the requested amount of funding. Proponents should demonstrate that there is a clear gap in funding from other sources and should indicate the alternative investment avenues explored.

In the supplementary attachment *Business Case Budget Template*, proponents are required to detail the relative funding commitments from each partner organisation. Disclosure and justification of the costing methodology of in-kind contributions **must** be included in the application. **Letters of support** from partner organisations **may** also be attached. Applicants are also reminded that in-kind contributions intended to meet the matching of funds requirement are eligible only for resources committed from the start date of the project. In kind contributions in the form of pre-existing IP are not valid.

In the template, applicants must also estimate the expenditure details of all Victorian Government and consortium funds over the (up to) three year lifetime of the grant. VSA grant payments will be made in instalments, with the final payment **no later than** 30 June 2012. The budget supplied should provide an initial indication of the timing of requested grant instalments. Applicants are reminded that eligible expenditure includes salaries, administration and project management costs, facility and equipment access costs, operational expenses, project outgoings, maintenance costs and other project expenses. The use of VSA funds for the substitution of existing operational and/or staffing costs is not permitted.

#### **Indicative issues to be considered may include:**

- How will the Government funds and partner contributions be used to deliver project outcomes?
- Provide justification for the budget and the amount of funding requested from the Government.
- What is the rationale for Government to invest in the project? Why are other funding sources not appropriate?
- What impact will Government funding have on the timing and scope of the project and the consortium's competitive advantage?
- If funding of equipment or refurbishment of facilities is being requested, provide justification. Is the equipment essential to the delivery of project outcomes? Can the

- equipment not be accessed or leased elsewhere? Provide details of the proposed access policy to external parties.
- The lead organisation's financial viability. Business Cases are to be supported by financial information, where applicable, to allow a financial risk assessment to be completed.

A financial risk assessment applies only to non-exempt organisations. An exempt organisation is a federal or state government department, a statutory authority, a local government authority, a university or publicly funded research institution.

A financial risk assessment of the lead organisation (unless exempt) and of substantial contributors (unless exempt), will be conducted by the Victorian Government. Organisations contributing 20% cash or more to the total value of the project are deemed to be substantial contributors. Supporting financial information should include financial reports for the past 3 years, and where the latest report is more than 6 months old, a copy of the latest management accounts for the current financial year.

## ***Guidelines for the Budget Template***

The *Business Case Budget Template* is in Excel format and contains three tables across two worksheets. The VSA funding requested from the Victorian Government must align with the budget set out in the Expression of Interest.

### **Table 1: Total Contributions from All Parties**

Applicants are required to detail all cash and in-kind contributions from **each** partner organisation (including the lead organisation) across the three financial years 2009-10, 2010-11 and 2011-12 of the project. Contributions presented in aggregate across the consortium will **not** be accepted.

### **Table 2: Description of In-Kind Contributions**

In-kind contributions from **each** organisation are to be itemised separately across the three financial years. A description of the contribution must be given as well as the methodology used to determine the monetary value of the contribution. In particular, there must be transparency in multiplier formulae applied against salaries.

### **Table 3: Proposed Project Budget**

Applicants are required to provide the forecast project expenditure for each year of the project. Where arrangements are yet to be finalised, for example, employment of key staff or subcontractors, please indicate with TBC and include estimates on the cost.

Table 3 is divided into nine categories:

- Direct Labour Costs: Details of personnel engaged directly on the project, their role, organisation and an estimated annual time commitment on the project are required. The salaries quoted should include on-costs.
- Subcontracts: Details of any sub-contracted services, their duration and annual cost should be provided.
- Project Administration and Management: allows for the quantification of any projected business planning, marketing, evaluation, legal and auditing services. Applicants should indicate the estimated time dedicated to these activities.
- Equipment and Machinery: Details of purchasing are required including the year of purchase and the annual depreciation rate used in the projections.

- Leasing of Equipment, Facilities and Software: Applicants are required to indicate any costs associated with the leasing of infrastructure and facilities, and the percentage time that they will be utilised on the project.
- Operation and Maintenance Costs: All expendable materials and supplies required to deliver the project outcomes should be itemised, in addition to estimates of equipment maintenance and repair costs over the three years.
- Travel Costs: Travel costs for collaborative purposes, conferences, skills development or marketing should be given.
- Other Expenses: Applicants are required to disclose any further expenses that are not included in the above.
- Additional Project Outgoings: Applicants may either list additional costs such as utilities, insurance, levies, etc. that are essential for the project's completion individually in the budget or by amalgamating these costs into an overhead cost as a percentage of either the direct labour costs or the total budget. If a percentage figure is preferred, this percentage should be indicated and justified.

## Assessment

An Independent Assessment Panel (IAP) will be appointed to assess all Business Cases. The IAP may seek the advice of nominated referees and/or independent experts to further inform the selection process. The IAP may also request an interview with applicants to assist the decision making process. The IAP will make recommendations to the Minister for Innovation for the in-principle approval of funding for selected projects subject to the satisfactory completion of a detailed business plan.

Unsuccessful Business Case applicants will be informed of the outcome of their proposal in writing including feedback on their proposals.

## Timelines

The indicative timetable is:

Activity	Date
Closing date for receipt of Business Cases	10 June 2009
Evaluation of Business Cases by Independent Assessment Panel completed	Late July 2009
Minister gives in-principle approval of funding and invites the preparation of business plans.	August 2009
Submission of business plans and finalisation of funding agreements.	Late September 2009
Minister announces successful projects.	October 2009