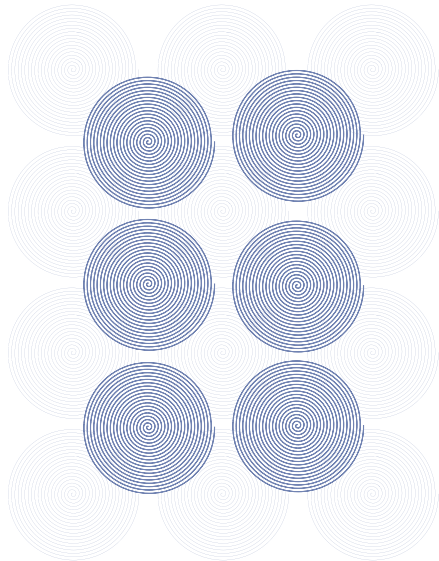


BETTER BUSINESS CASES

FOR CAPITAL PROPOSALS
QUICK REFERENCE GUIDE



This guide provides an overview of expectations, requirements and the process to follow during the development and assessment of business cases for capital proposals.

WHY WE NEED THIS

Focus on better business cases

The Government wants to improve the quality of analysis and decision-making around state sector capital proposals. The new process will assist this through:

- clear rules and expectations
- a scalable standard that ensures the level of effort from agencies matches the scale and type of decision required
- clear guidance, training and support.

Value for stakeholders

- Ministers will have early engagement on options, assurance that appropriate business case preparation has been done, and clear, consistent presentation of information.
- Agency management have early engagement around scoping and with Ministers.
- Agency business case developers will have a clear process they can complete to create fit-for-purpose business cases and have easy access to knowledge and expertise.
- Monitoring agencies will understand the business case development and analysis stages, and will have access to the knowledge and expertise needed to provide effective assurance and second opinion advice.

WHEN DOES IT APPLY

The business case standard applies if a capital proposal requires Cabinet approval.

Cabinet approval is required when the proposal is large (over \$25 million Whole of Life Cost) and high-risk (as determined by the State Services Commission Gateway Unit), or if the proposal is seeking new Crown funding.

All departments and Crown agents must consult with the National Infrastructure Unit (NIU) early in the development of a Public Private Partnership (PPP) proposal. The NIU must be involved in the economic and financial assessment and advice on all PPPs.

All capital proposals requiring Cabinet approval must be developed in accordance with the Treasury business case guidance.

WHO NEEDS TO BE INVOLVED

The **agency** and **monitoring agencies** will engage in the early stages of each business case deliverable. They should agree on the:

- scale and risk of the proposal – using the scalability matrix
- scope and depth of analysis and assurance required.

The Treasury's **National Infrastructure Unit** will provide facilitation between the agency and the monitoring agency/ies. This should involve the Treasury's **Vote Team**, State Services Commission's **Gateway Unit** and/or the relevant monitoring agency early in the process. This helps to avoid unnecessary rework.

Ownership of the capital investment planning process (of which the business case is a key component) sits with the organisation creating the proposal. The organisation should appoint a **Senior Responsible Owner** to oversee its development and implementation. They will be accountable for the development of the business case, delivery of the project and realisation of project benefits. Responsibility for day-to-day management can be delegated to a **Project Manager**.

Related Guidance

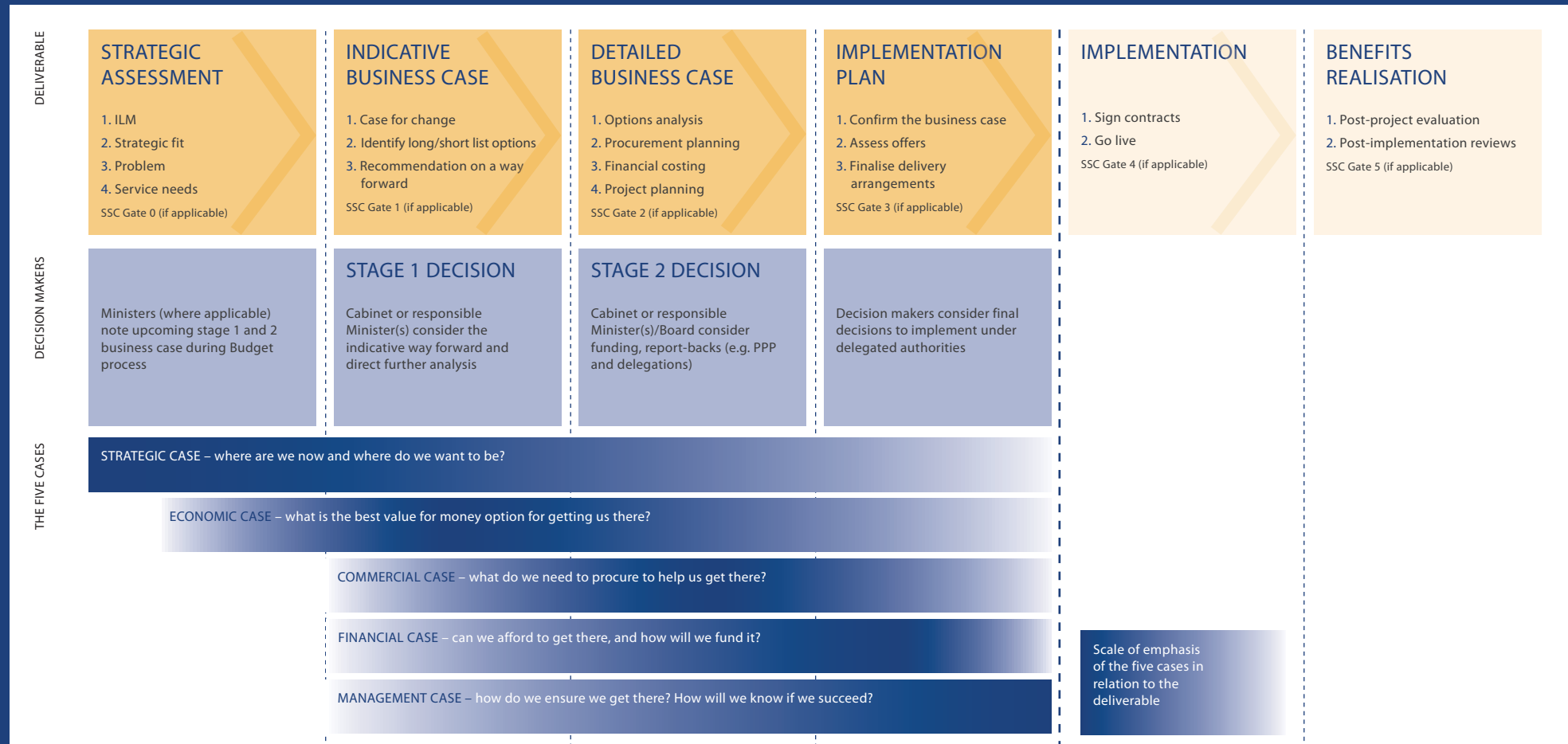
The Business Cases Toolkit guidance (found on the National Infrastructure Unit website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/>) provides links to related guidance such as gateway reviews, public-private partnerships, regulatory impact analysis, public sector procurement, Treaty requirements, independent quality assurance and the central agency monitoring process.

THE BUSINESS CASE DEVELOPMENT PROCESS

The business case development process is designed to produce deliverables that inform the decision making for capital proposals and provide an organising structure for each deliverable. It ensures that the following key aspects of a robust proposal are embedded in the analysis:

1. The strategic case – It is supported by a robust case for change.
2. The economic case – It maximises value for money.
3. The commercial case – It is commercially viable.
4. The financial case – It is financially affordable.
5. The management case – It is achievable.

The diagram below shows the deliverables that inform each decision during the business case development process, the incremental level of effort for each deliverable, the emphasis of the five cases for each deliverable (as shown by shading) and how each deliverable relates to the State Services Commission Gateway™ Review Process. Early in the process it is critical that the agency and monitoring agency engage to agree on the scale and risk of the proposal – this should be informed by the scalability matrix. They should also agree the scope and depth of analysis and assurance required.



STRATEGIC ASSESSMENT

The Strategic Case – Making the Case for Change

Action 1: Ascertain Strategic Fit

Capability and information required

- Strategic context and business need
- Investment Logic Mapping
- Business requirements identification/analysis
- Benefits identification and realisation planning

This deliverable asks basic questions when shaping and selecting investments

- What is the problem?
- What is the best strategic response to the problem?
- What benefits does any investment need to deliver?
- What is the preferred solution?

An Investment logic Map (ILM) can help business case developers and Senior Responsible Owners (SROs) define and validate the business need (the problem) and benefits the solution is expected to deliver. It also helps scope likely solutions.

Refer to the Strategic Assessment booklet on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/strategic-assessment/> for more information

INDICATIVE BUSINESS CASE

The Strategic Case – Making the Case for Change

Action 2: Agree Strategic Context

Action 3: Determine Investment Objectives, Existing Arrangements and Business Needs

Action 4: Determine Potential Business Scope and Key Service Requirements

Action 5: Determine Benefits, Risks, Constraints and Dependencies

Economic Case – Part 1: Exploring the Preferred Way Forward

Action 6: Agree Critical Success Factors

Action 7: Identify the Long List Options and Undertake Initial Options Assessment

Capability and information required

- Initial options analysis

Commercial, Financial and Management Cases (Outline)

Action 8: Recommended Preferred Way Forward

Refer to the Indicative Business Case booklet on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/indicative-case/> for more information

DETAILED BUSINESS CASE

Strategic Case (Revisit) and Economic Case

Action 9: Revisit the Indicative Business Case and Determine the Short list

Action 10: Prepare the Economic Assessment of the Short listed Options

Action 11: Assess Intangible Benefits and Costs

Action 12: Assess Risk and Uncertainty

Action 13: Identify the Preferred Option and Undertake Sensitivity Analysis

Capability and information required

- Options analysis (e.g. Economic CBA)

Commercial Case - Preparing for the Potential Deal

Action 14: Determine Procurement Strategy

Action 15: Determine Service Streams and Required Outputs

Action 16: Outline Potential Risk Allocation

Action 17: Outline Potential Payment Mechanisms

Action 18: Ascertain Contractual Issues and Accountancy Treatment

Capability and information required

- Procurement strategy
- Capability and readiness assessment
- Benefits identification and realisation planning

Financial Case – Ascertain Affordability and Funding Requirements

Action 19: Prepare Financial Costing Model

Capability and information required

- Financial modelling

Management Case – Planning for Successful Delivery

Action 20: Project Management Plans

Action 21: Change Management Plans

Action 22: Benefits Realisation Plans

Action 23: Risk Management Plans

Action 24: Post Project Evaluation Plans

The Commissioner's Statement

Refer to the Detailed Business Case booklet on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/detailed-business/> for more information

IMPLEMENTATION PLAN

Strategic and Economic Cases – Procuring the Value for Money Solution

Action 25: Revisit the Case for Change

Action 26: Revisit the Detailed Business Case Options, Including Base Case

Action 27: Detail Procurement Process and Evaluation of Best and Final Offers

Capability and information required

- As for detailed business case

Commercial and Financial Cases – Contracting for the Deal

Action 28: Detail the Negotiated Deal and Contractual Arrangements

Action 29: Detail the Financial Implications of the Deal

Capability and information required

- As for detailed business case
- Contract management

Management Case – Ensuring Successful Delivery

Action 30: Finalise Project Management Plans

Action 31: Finalise Change Management Plans

Action 32: Finalise Benefit Realisation Plans

Action 33: Finalise Risk Management Plans

Action 34: Finalise Contract Management Plans

Action 35: Finalise Post Project Evaluation Plans

The Commissioner's Statement

Capability and information required

- Change Management
- Benefits Realisation
- Post project evaluation plan

Refer to the Implementation Plan booklet on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/implementation/> for more information

SCALABILITY MATRIX

	Small	Large
High	<p>HIGH RISK SMALL SCALE</p> <ol style="list-style-type: none"> 1. Two-stage cabinet approval 2. Breadth: Five cases and 35 actions 3. Strategic Case: ILM required 4. Economic Case: Moderate level of CBA/MCA, full sensitivity analysis 	<p>HIGH RISK LARGE SCALE</p> <ol style="list-style-type: none"> 1. Two-stage Cabinet approval 2. Breadth: Five cases and 35 actions 3. Strategic Case: ILM required 4. Economic Case: Full CBA, full sensitivity analysis
Low	<p>LOW RISK SMALL SCALE</p> <ol style="list-style-type: none"> 1. Single-stage Cabinet approval (detailed business case) 2. Breadth: Five cases and amalgamation of actions 3. Strategic Case not required 4. Economic Case: Light level of CBA, light sensitivity analysis <i>Expected to only be submitted during Budget process</i> 	<p>LOW RISK LARGE SCALE</p> <ol style="list-style-type: none"> 1. Two-stage Cabinet approval. Cabinet may agree to Stage 1 to conditionally delegate Stage 2 approval to Joint or responsible Ministers 2. Breadth: Five cases and 35 actions 3. Strategic Case: ILM required 4. Economic Case: Full CBA/MCA, light sensitivity analysis

Refer to Cabinet Paper (on PSI for State sector only) and Cabinet Office Circular on the Cabinet Office website: <http://www.dpmc.govt.nz/cabinet/>
Refer to Business Cases Toolkit guidance on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/>

WHAT IS EXPECTED

Cabinet engagement

If a proposal requires Cabinet approval:

- Cabinet should be engaged in the decision-making process as early as practicable
- a two-stage approval process must be followed – unless otherwise agreed by the monitoring agency and Treasury.

The two-stage process consists of:

- stage 1: Consideration of the indicative business case (IBC)
- stage 2: Consideration of the detailed business case (DBC).

All proposals requiring Cabinet approval must reveal the strategic, economic, financial, commercial and management rationale.

If the proposal is large (over \$25 million Whole of Life Cost) and high-risk (as determined by the State Services Commission Gateway Unit), the agency must report back to Cabinet on the level of benefits achieved compared

with those outlined in the Cabinet-approved proposal – unless otherwise agreed by Cabinet.

There is discretion for central and monitoring departments, in consultation with the agency sponsoring the proposal, to determine the timing of engagement with Cabinet and the depth of analysis required

Use of the business case development process

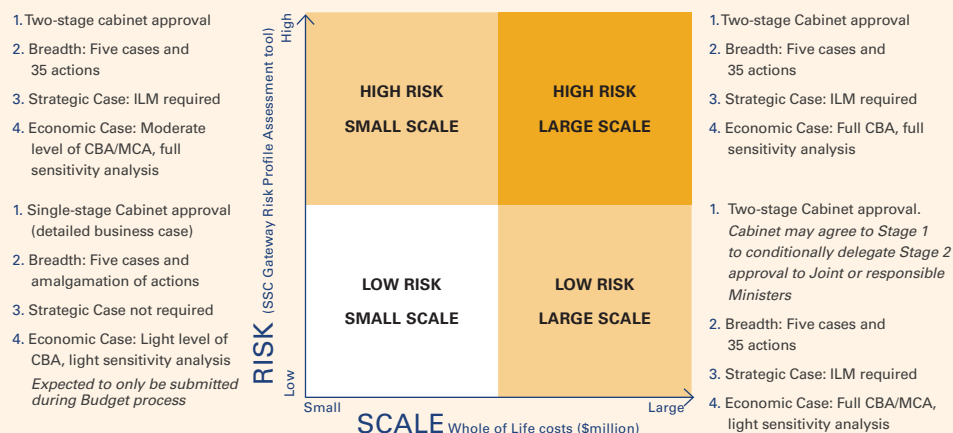
Departmental chief executives must apply the Treasury business case development process (outlined on the reverse of this brochure) to all capital proposals that need Cabinet approval or approval of the responsible Minister. Even where Cabinet approval is not required, there is an expectation that the process is adopted as good practice by departments and Crown entities, especially Crown agents.

Scalability

The business case development process is scalable to ensure that the level of effort is fit for purpose and matches the scale and type of decision required. This scalability is dependant on the project size and risk.

The following Scalability Matrix diagram identifies the areas of discretion. It is designed to inform facilitated negotiations between the agency and the monitoring agencies.

SCALABILITY MATRIX



Refer to Cabinet Paper (on PSI for State sector only) and Cabinet Office Circular on the Cabinet Office website: <http://www.dpmc.govt.nz/cabinet/>
Refer to Business Cases Toolkit guidance on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/>

WHERE TO GO FOR MORE INFORMATION

The National Infrastructure Unit provides ongoing support to State sector agencies during the business case development process to ensure that momentum is maintained and a self-sustaining system is achieved.

It will:

- monitor and periodically update the Better Business Cases Toolkit (guidance)
- review, develop and deliver learning programmes and awareness seminars
- manage and facilitate the face-to-face and online communities of practice
- support the State Services Commission's facilitation of Investment Logic Mapping
- provide facilitation between agencies and monitoring agencies on the scope and depth of analysis and assurance of business cases.

The following toolkit information is available on the NIU website <http://www.infrastructure.govt.nz/publications/betterbusinesscases/>

- Cabinet Office Circular
- Business Case Overview booklet
- Strategic Assessment booklet
- Indicative Business Case booklet
- Detailed Business Case booklet
- Implementation Plan booklet.

All of the above and the following is available on the PSI website <https://psi.govt.nz/cam/library/forms/betterbusinesscases.aspx> (State sector only)

- Online introductory module
- Cabinet paper
- Business case examples.

The Better Business Cases Community of Practice provides State sector agencies with an opportunity to engage with peers and exchange information and experiences.

If you're interested in learning more about the community, email:

betterbusinesscases@treasury.govt.nz.

The following will also be provided periodically to State sector agencies:

- awareness seminar for project owners, sponsors and managers
- face-to-face community of practice for business case developers and project managers
- face-to-face learning programmes for business case developers and monitoring agency assessors
- options analysis programmes for business case developers and monitoring agency assessors.

Acknowledgements

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- The Five Case model is the standard recommended by the UK Office of Government Commerce, HM Treasury, for the preparation of business cases. Refer to 'Making Sense of Public Sector Investments' (2001) by Courtney A Smith and Joe Flanagan and the following website: www.hm-treasury.gov.uk/data_greenbook_business.htm
- The State of Victoria Department of Treasury and Finance Investment Management Standard provides a set of tools, including the Investment Logic Map (ILM). Refer to the following website: www.dtf.vic.gov.au/investmentmanagement. The material is reproduced with permission and that copyright belongs to the State of Victoria. The State of Victoria is released from any liability associated with the subsequent use of the intellectual property associated with the material.

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