

# Better Business Cases for Capital Proposals Toolkit: Indicative Business Case

2 July 2010



**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

New Zealand Government

## Acknowledgements

This document was created using material provided by HM Treasury and the State of Victoria Department of Treasury. Accordingly, ownership of any copyright in the information contained in this document belongs to the original copyright owner.

Other than as provided by the applicable copyright laws in each jurisdiction, permission to copy, distribute, adapt or otherwise use the information contained in this document, must be sought from the original copyright owner. The New Zealand Treasury wishes to acknowledge that the following documents were used and adapted for the purpose of creating this document:

- 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](http://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](http://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.

The New Zealand Treasury also wishes to acknowledge the assistance of the following agencies who contributed to the adaptation of the material provided by HM Treasury and the State of Victoria Department of Treasury to suit the New Zealand State Sector: Department of Internal Affairs, Department of Labour, Housing New Zealand Corporation, Inland Revenue Department, Ministry of Education, Ministry of Health, New Zealand Defence Force, State Services Commission and Tertiary Education Commission.

ISBN 978-0-478-35063-0 (Online)

### Internet

The URL for this document on the Treasury's National Infrastructure Unit website at 16 August 2010 is <http://www.infrastructure.govt.nz/publications/betterbusinesscases>  
The Persistent URL for this document is <http://purl.oclc.org/nzt/g-1312>

# Contents

- How to Prepare an Indicative (Stage One) Business Case..... 3**
  - Purpose..... 3
  - When to Prepare an Indicative (Stage One) Business Case? ..... 3
- The Strategic Case – Making the Case for Change ..... 6**
  - Action 2: Agree Strategic Context..... 6
  - Action 3: Determine Investment Objectives, Existing Arrangements and Business Needs..... 7
  - Action 4: Determine Potential Business Scope and Key Service Requirements ..... 9
  - Action 5: Determine Benefits, Risks, Constraints and Dependencies..... 10
- Economic Case – Part 1: Exploring the Preferred Way Forward ..... 13**
  - Action 6: Agree Critical Success Factors ..... 13
  - Action 7: Identify the Long List Options and Undertake Initial Options Assessment..... 14
- Commercial, Financial and Management Cases (Outline)..... 18**
  - Action 8: Recommended Preferred Way Forward ..... 18
  - The Commissioner’s Statement..... 19



# How to Prepare an Indicative (Stage One) Business Case

## Purpose

1. The purpose of the Indicative (Stage One) Business Case is to:
  - confirm the case for change and the need for investment
  - recommend an indicative or preferred way forward for further development of the proposal, and
  - seek the early approval of decision-makers to continue development of the Detailed (Stage Two) Business Case, based on the preferred way forward.
2. The Indicative Business Case can:
  - provide an early opportunity for the organisation and key external stakeholders to consider the investment proposal at a high level and influence its direction
  - provide a basis for better decision making by seeking early agreement about key issues for the options, and
  - prevent too much effort being put into the development of proposals or options which should not proceed.
3. It is important that the recommendation for the 'preferred way forward' is not confused with the recommendation for the 'preferred option', which emerges from the more detailed options analysis undertaken as part of the Detailed Business Case.

## When to Prepare an Indicative (Stage One) Business Case?

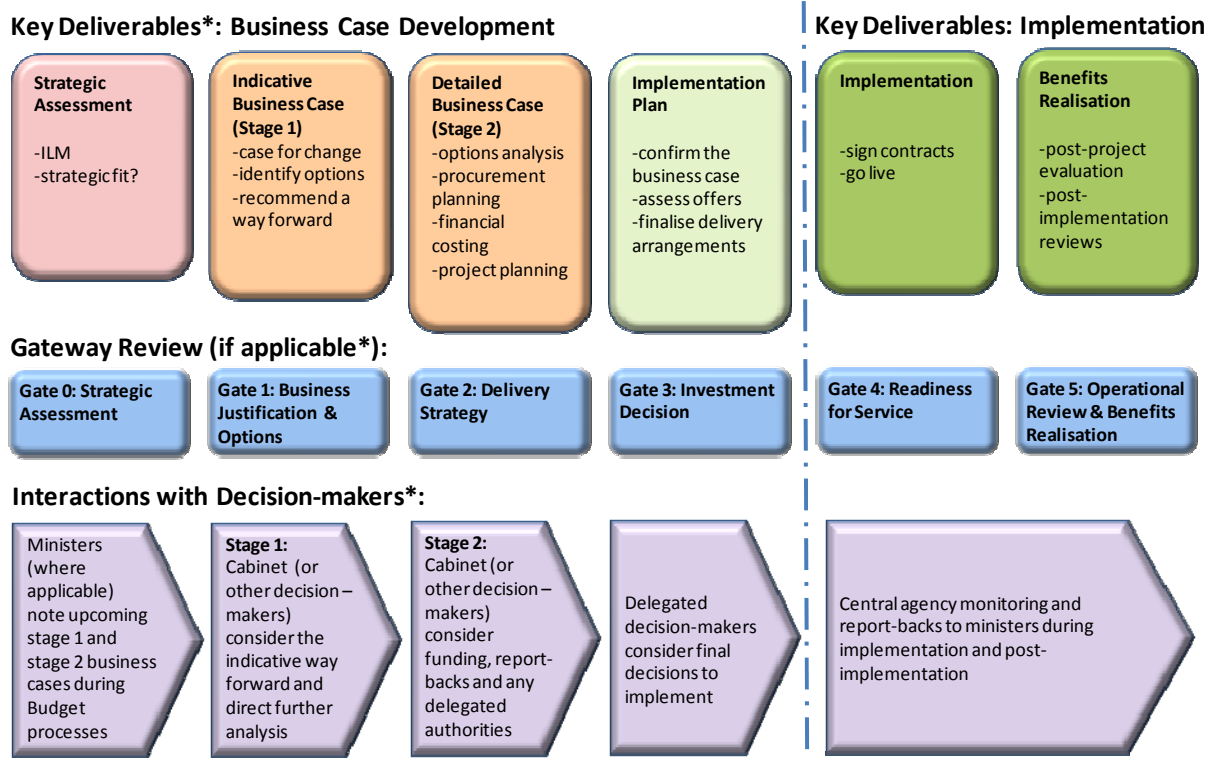
4. Unless otherwise agreed by the Treasury and monitoring department (if applicable), a two-stage approval process must be followed for all capital proposals that require Cabinet approval<sup>1</sup>. The two stage process consists of:
  - **Stage 1:** Consideration of the Indicative Business Case, which confirms the case for change and the need for investment, considers possible options, recommends an indicative or preferred way forward for further development of the proposal, and seeks the early approval of decision-makers to further develop the proposal. A Request for Information (RFI) may be issued once approval is granted.

---

<sup>1</sup> Refer to the Overview booklet and Cabinet Office circular CO(10) 2 for further detail on proposals that require Cabinet approval.

- **Stage 2:** Consideration of the Detailed Business Case, which sets out the basis for a recommended course of action that maximises value for money, and seeks approval from decision-makers to develop and finalise the arrangements for successful implementation. Approval at this stage may be given subject to certain constraints or conditions. For proposals other than PPPs, a Request for Proposal (RFP) may be issued once approval is granted.

**Figure 1:** A two stage business case development process



\* Requirements for Gateway reviews, ILM, depth of analysis, decision-making authority, central agency monitoring, etc may vary depending on the scalability rules, agency type, sector and/or solution options (eg PPP).

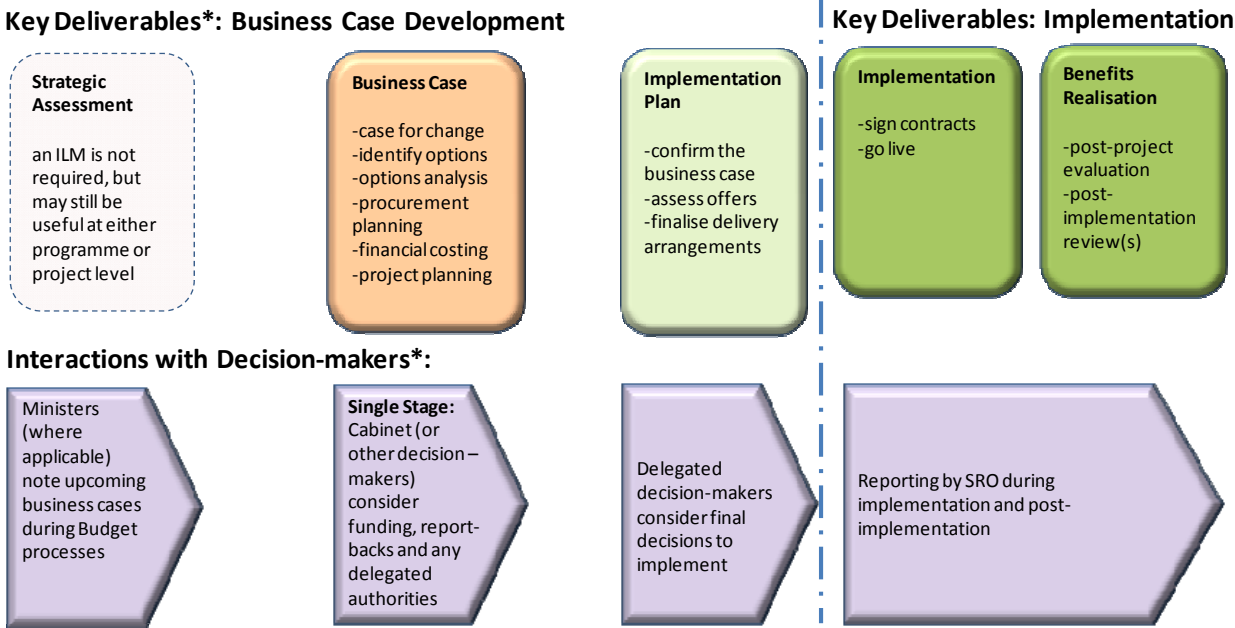
Source: The Treasury, OGC Gateway™, HM Treasury

5. A single stage approval process is permitted for proposals that seek new Crown funding that are assessed as low risk and small. Consistent with CO (09) 6<sup>2</sup>, it is intended that such projects will be considered as part of the Budget process. Refer to the scalability matrix<sup>3</sup> and contact your Treasury Vote team or monitoring agency for clarification and guidance on whether or not a two stage approval process is required.

<sup>2</sup> Refer to the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>.

<sup>3</sup> Refer to the Overview booklet.

**Figure 2:** Example of business case development process for a single stage approval.



\* Requirements for Gateway reviews, ILM, depth of analysis, decision-making authority, central agency monitoring, etc may vary depending on the scalability rules, agency type, sector and/or solution options (eg PPP).

Source: The Treasury, HM Treasury

- The capital proposal may also be subject to Gateway review<sup>4</sup>. If so, preparing the Indicative Business Case will assist to inform the Gate 1 (Business Justification and Options) review. Early engagement is essential with the SSC Gateway Unit for capital proposals that are likely to require Gateway reviews. This will help to ensure there is sufficient lead time to enable the arrangement of reviews, if these are required.

<sup>4</sup> Refer to the Gateway Review web-site at <http://www.ssc.govt.nz/gateway>

# ***The Strategic Case – Making the Case for Change***

7. This part of the business case describes the organisation in which the proposed investment will take place and identifies the investment objectives from the key strategic drivers.

## **Action 2: Agree Strategic Context**

8. Where a Strategic Assessment has been undertaken, the Investment Logic Map, Investment Concept Brief and Benefit Management Plan documents can be revisited and used to meet many of the requirements of the Strategic Case actions two to five.
9. The purpose of this action is to provide an overview of the department or agency and the specific impact, outcomes or objectives that the organisation is seeking to achieve or contribute to through its operations. It also should demonstrate alignment of the proposed investment with Government's priorities and goals, policy decisions, other multi-agency programmes (if relevant) and linkages with other parts of the organisation's strategic business plans or projects.

### **Organisational overview**

10. Provide a brief profile of the organisation, together with a statement of what it is seeking to achieve and the nature and level of resources currently at its disposal.
11. The key areas of interest include:
  - what the main outcomes, impacts and objectives that the organisation is trying to achieve and why
  - the nature and scope of the organisation's activities and services (outputs), key stakeholders and customers (including the public)
  - available resources, including existing financial and funding arrangements, organisational structure, staff, and how it intends to manage this capability over time, and
  - the current environment in which the organisation operates, how it intends to respond to changes and possible risks.
12. It is expected that much of this information will be available from the latest available Statement of Intent and annual reports, updated for any recent changes. The expectation is that a brief summary is provided rather than repeating the content of the other publicly available documents.

### **Existing business strategies**

13. Explain how the proposed investment fits within, supports and promotes the agreed strategy and work programme of which the proposal is an integral part.

14. All relevant strategies should be referenced including those at international, national, regional and local levels. Alignment of the investment with Government priorities and policy decisions should be demonstrated. In particular where an investment is intended to contribute to shared outcomes across multiple organisations, or where outcomes contribute to other related projects or programmes, these linkages and inter-dependencies should be clearly demonstrated.
15. How will the proposal help to achieve the business goals, strategic aims and plans of the organisation? The proposed investment should contribute to, and be consistent with strategic business planning.
16. Much of this information should be available from existing documentation and should highlight the high level policy aims (strategic aims) and business goals of the organisation, which can then be used as the basis for determining the specific investment objectives below.

### **Identify Key Stakeholders**

17. Identifying and consulting with those key stakeholders who are required for the success of the project is important for successfully scoping and delivering major investment proposals.
18. If a stakeholder analysis has already been undertaken as part of a Strategic Assessment, then this can be revisited and incorporated. If not, refer to the Strategic Assessment guidance.

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

19. A robust case for change requires a thorough understanding of:
  - what the organisation is seeking to achieve (the investment objectives)
  - what is currently happening (existing arrangements), and
  - problems in addressing the business gap (business needs).
20. Analysing a proposal in this way helps to provide a more compelling case for investment, as opposed to it simply being 'a good thing to do'.

### **Investment objectives**

21. This defines the objectives for the proposed investment in terms of the desired outcomes and 'where the organisation wants to be'.
22. Where a Strategic Assessment has been undertaken and an Investment Logic Map developed, the Interventions part of the map provides a starting point for designing your investment objectives.

23. The investment objectives must clearly relate to the underlying policies, strategies and business plans of the organisation. Investment objectives may be strategic (business related), operational (management related) or job (task) related. They should also be SMART<sup>5</sup> (specific, measurable, achievable, relevant, and time-constrained) to help facilitate the generation of options and provide the foundation for post-implementation review and evaluation.
24. The investment objectives should:
- be outcome-focused and distinguishable from the means of provision
  - focus on what needs to be achieved rather than the potential solution
  - not be so narrowly defined that they preclude important options, and
  - not be so broadly defined that they cause unnecessary work at the options analysis stage.
25. In practice, investment objectives may be to:
- provide future cost savings in the provision of an existing service
  - improve business effectiveness and service quality
  - improve efficiencies in the delivery of services
  - meet statutory requirements and obligations
  - meet policy changes, and/or
  - deliver new business and operational targets.
26. Procuring an asset or service is not an investment objective. It is what an organisation is seeking to achieve in terms of measurable returns on the investment that is important.
27. The setting of a robust set of investment objectives is an iterative process. They may need to be revisited as subsequent assessment may alter them.

### Existing arrangements

28. The purpose is to provide a snapshot of where the department or agency is now and consequently forms the basis for the “base case” or “do nothing” option.
29. Within the parameters of the scope determined by the investment objectives, summarise the status quo. That is, describe existing arrangements and explain how services are currently organised<sup>6</sup>, provided and supplied. Include details about stakeholders, customers, turnover, and asset availability, utilisation and condition.

---

<sup>5</sup> Note that the ILM guidance uses MAM criteria rather than SMART. Refer to [http://www.lifecycleguidance.dtf.vic.gov.au/subsection.php?section\\_ID=1&subsection\\_ID=2](http://www.lifecycleguidance.dtf.vic.gov.au/subsection.php?section_ID=1&subsection_ID=2)

<sup>6</sup> This may duplicate some of the organisation level summary in action two.

## Business needs

30. Describe the 'business gap', the difference between where the organisation wants to be, as described by the investment objectives, and where the organisation is now, described by the existing arrangements for the service. This should highlight any problems, difficulties and inadequacies associated with the status quo.
31. This analysis should take into account existing and future changes in the demand for services. In most cases, it will be necessary to include:
  - confirmation of the continued need for business operations, including supporting evidence
  - projections of the nature and level of demand for future services (including customer demographics)
  - deficiencies in current provision, and
  - a summary of requirements, clearly distinguishing between the current and future.

## Action 4: Determine Potential Business Scope and Key Service Requirements

32. Highlight the potential scope of the proposal and the services required to satisfy the identified business needs and gaps. Where a Strategic Assessment has been undertaken and an ILM developed, the scope and service needs (or requirements) can be revisited and incorporated.

### Potential business scope

33. Ascertain the scope of the proposal from the standpoint of the business, in terms of affected business areas, functionality and organisation.
34. This is important as it effectively sets out the boundaries, or limitations, of the proposal. Only options within this scope will be assessed within the economic case. If the scope is left open or vague at this stage, this may lead to 'scope creep,' and either additional costs or unintended benefits on implementation. Conversely, if the scope is too narrow, it may limit the consideration of innovative solutions.

### Service requirements

35. Within the above scope, highlight the required services. This forms the basis of the 'statement of needs' (SON) or 'statement of service requirements' (SSR).
36. In practice, it is useful to consider potential scope and the associated service requirements in terms of a continuum of business needs, ranging from a 'core' (minimum requirement) to 'core plus desirable' (intermediate requirement), to 'core plus desirable plus optional' (maximum requirement). 'Core' denotes the 'must haves'. 'Desirable' equates the things that could be considered on a cost/benefit basis. 'Optional' represents the things that may be acceptable if they were at low marginal cost.

**Table 1:** Summary of business need requirements.

	Business Need Requirements		
	Minimum (ie, 'core' or 'must haves')	Intermediate (including desirable)	Maximum (including optional)
Potential Business Scope	X	X	X
Key Service Requirements	X	X	X

## Action 5: Determine Benefits, Risks, Constraints and Dependencies

37. Assuming that the required services are put in place, identify the key benefits, risks, dependencies and constraints associated with the investment proposal. With the key investment objectives, these aspects provide a basis for the later selection and evaluation of options.
38. Where a Strategic Assessment has been undertaken and the ILM developed, these can be revisited and incorporated into the following analysis.

### Main benefits criteria

39. The benefits criteria should be developed by the parties most directly affected by the proposal, usually the main stakeholders and users of the proposed services. Benefits can be direct or indirect, monetary or non-monetary and either quantitative or qualitative (or non-quantifiable)<sup>7</sup>.

**Table 2:** Examples of different types of benefits<sup>8</sup>

Benefit Types	Example
Direct, monetary and quantitative	Operating cost reduction
Non-monetary and quantitative	Lower number of customer complaints, reduction in the number of road accidents, increased percentage of government departments on the internet
Non-monetary and qualitative	Increase in staff skills
Indirect, quantitative and qualitative	Improvement in the education, security and health status of New Zealanders

40. The framework below gives an indication of the likely nature of the benefits criteria for different types of investment objectives:

<sup>7</sup> Optimism bias also needs to be allowed for at this stage. Refer to action 12 for more details on allowing for risks and uncertainty.

<sup>8</sup> Refer to the Treasury CBA Primer, Section 2.3.1., at <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis>

**Table 3:** Investment framework

Type of Investment Objective	Relative Value	Relative Timescale	Benefits Criteria	Main Beneficiaries
Strategic (business related)	High	Long-term	Qualitative Indirect and direct Non-monetary	within the organisation (direct) and those elsewhere in the state sector (indirect)
Operational (management related)	Medium	Medium-term	Qualitative and quantitative Direct Monetary and non-monetary	
Job (task related)	Low	Short-term	Quantitative Direct Monetary and non-monetary	

41. The benefits, both direct and indirect to the organisation, should be identified for each investment objective against the relevant benefits criteria. This categorisation helps to:
- pin-point the main beneficiaries of the proposal – both those within the organisation (direct) and those elsewhere in the state sector (indirect). This recognises that occasionally those investing the most financially might not always be the main beneficiaries, and
  - ascertain whether the benefits are monetary, quantifiable but not in monetary terms, or qualitative (ie, non-quantifiable). This categorisation is useful for the later options analysis to be undertaken in actions seven and ten.

**Main risks**

42. The main risks associated with the proposal and risks management strategies should be identified. Identify the sources of risk, areas of impacts, events (including changes in circumstances) and their causes and potential consequences. The aim of this process is to generate a list of risks that might create, enhance, prevent, degrade, accelerate or delay the achievement of the investment objectives of the proposal. The emphasis should be on the 20% of risks which will account for 80% of the total risk.
43. There are a number of techniques which may be used to identify risks and these techniques can be applied to any type of proposal. Three commonly used methods are:
- i. structured review meetings – these involve the project team and encourage participation and ownership of the risks by key personnel
  - ii. risk audit interviews – these are conducted by experienced managers and/or advisers, with all those involved in the project with experience of risk, and
  - iii. brainstorming workshops – these include all members of the project team and encourage imaginative ideas.

44. Refer to the joint Australian New Zealand Standard AS/NZS ISO 31000:2009 “Risk management - principles and guidelines”.<sup>9</sup>

## Constraints

45. The parameters within which the investment must be delivered should be considered. This may include constraints set as part of either Government policy directions or any financial or fiscal affordability constraints. Constraints imposed on the proposal must be managed from the outset.

## Dependencies

46. Any actions or developments required of others should be considered if the ultimate success of the proposal is dependent upon them. This could entail the successful delivery of the outputs associated with other projects within the same overall programme.
47. A useful technique for populating this part of the strategic case is to tabulate, for each investment objective, as follows:

**Table 4:** Summary table

Investment Objective Number:	<1>
Investment objective	<What the organisation is seeking to achieve?>
Existing arrangement	<The status quo?>
Business need	<The problems associated with the status quo?>
Potential scope	<What needs to be put in place to overcome these problems?>
Potential benefits	<The benefits that would accrue as a result?>
Potential risks	<The potential risks which might arise?>
Potential constraints	<The limitations faced?>
Potential dependencies	<The things that must be in place and/or managed elsewhere?>

<sup>9</sup> AS/NZS ISO 31000:2009 “Risk management – principles and guidelines” is available at the Standards NZ web-site at <http://www.standards.co.nz/services/publications/default.htm>.

# Economic Case – Part 1: Exploring the Preferred Way Forward

48. Having determined the strategic context for the investment proposal and established a robust case for change, this part of the planning process focuses on the main options available for delivering the required services.
49. The objective is to develop an indicative or preferred way forward to use as the basis for seeking initial approval from decision-makers. This initial approval can shape the development of the Detailed (Stage Two) Business Case and prevent too much effort being put into the development of proposals or options which should not proceed.

## Action 6: Agree Critical Success Factors

50. Critical Success Factors are defined as the attributes essential to successful delivery of the proposal. Critical Success Factors will differ depending on the nature of the proposal, both in content and relative importance. The key point is that they must be crucial (not desirable) and set at a level which does not exclude important options.
51. Each of the available options should be assessed against the Critical Success Factors, the investment objectives and the benefits criteria.

**Table 5:** Critical success factors based on the five case model

Illustrative Key Critical Success Factors	Broad Description
Strategic fit and business needs (strategic case)	How well the option: <ul style="list-style-type: none"> <li>• meets agreed investment objectives, related business needs and service requirements</li> <li>• provides for business continuity of essential services</li> <li>• aligns with other strategies, programmes and projects.</li> </ul>
Potential value for money (economic case)	How well the option: <ul style="list-style-type: none"> <li>• maximises the return on the required investment (benefits optimisation) in terms of economy, efficiency and effectiveness</li> <li>• minimises associated risks.</li> </ul>
Provider capacity and capability (commercial case)	How well the option: <ul style="list-style-type: none"> <li>• matches the ability of the service providers to deliver the required level of services and business functionality</li> <li>• appeals to potential service providers.</li> </ul>
Potential affordability (financial case)	How well the option: <ul style="list-style-type: none"> <li>• meets the sourcing policy of the organisation and likely availability of funding</li> <li>• matches other funding constraints.</li> </ul>
Potential achievability (management case)	How well the option: <ul style="list-style-type: none"> <li>• is likely to be delivered in view of the organisation’s ability to assimilate, adapt and respond to the required level of change</li> <li>• matches the level of available skills which are required for successful delivery.</li> </ul>

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

52. The purpose of this action is to identify as wide a range as possible of options that meet the investment objectives, potential scope and benefits criteria identified above. Each of the long list options is assessed against the investment objectives and critical success factors to determine the preferred way forward and short-list.
53. Where a Strategic Assessment has been undertaken and an Investment Logic Map developed, this analysis should be revisited and incorporated.

### Identifying long list options

54. The department or agency needs to consider all realistic options for meeting the service need. A 'long list' of around a dozen options should ideally be considered. This can involve a number of dimensions—physical or non-physical, scale and scope, timing, location, staging and procurement options, and a base case option.
55. A base case option must be included and will act as the baseline for determining relative value for money. This may either be the 'status quo', 'do nothing' or 'do minimum', depending on which is the most realistic option in the circumstances. Refer to action three – existing arrangements.
56. Some options that may be considered include<sup>10</sup>:
  - i. Scale and scope options:
    - Scale: Consider whether it is more efficient to develop assets now to meet expected capacity needs into the future or to incorporate flexibility to allow expansion to meet anticipated growth (or contraction where service demand may fall) .
    - Scope: This is an area that can change during a project. The scope of the proposed investment should be clearly specified to decision-makers, but the options analysis phase provides an opportunity to explore where the boundaries of a project might be set. Options might have some aspects which could be included in or left out of the scope, for example.
    - Integration: Options might include addressing the needs of multiple agencies, integrating these into a joint approach. For example, where multiple agencies provide similar services, shared services arrangements can improve efficiency and outcomes.
  - ii. Timing options:
    - Windows of opportunity: Some investment proposals (for example, development of a particular housing area) may require action to meet a specific window of opportunity. For example, development of a Commonwealth Games Village.

---

<sup>10</sup> For further detail on options identification and generation, refer to the Victorian Department of Treasury and Finance Lifecycle Guidance at <http://www.lifecycleguidance.dtf.vic.gov.au/> and the UK Treasury Green Book at [http://www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm).

- Immediate or delayed timing of the investment may be an option: a major new facility may be needed to meet future demand, but existing facilities may be able to cope for a few more years. The cost or saving from delaying the project could be significant, given market factors at the time.

### iii. Staging options:

- Can the project be broken into smaller components or stages, or is it more economical to build in one step?
- Should the first stage include preliminary works for subsequent stages?

### iv. Location options:

- Consider a range of locations: Service requirements may dictate location, but where there is no predetermined location, a range of options can be examined. These may allow consolidation and inter-agency co-location.
- Disposal of existing assets where required should be included in the analysis when considering new locations or 'joined-up' government opportunities.

### v. Service solution options:

- Existing asset options: Consider whether existing assets held by the department or another government body can be used. This may involve renewing, replacing or reconfiguring existing assets.
- Non-asset options: Service needs may be met without creating additional assets, for example by reconfiguring the means of service delivery, developing policy changes or initiatives to manage demand more effectively, changing service delivery requirements or making better use of existing assets.
- Additional asset-based options: Investment may be made in additional or enhanced assets to deliver a new output, or additional service lines in an existing output.

### vi. Procurement options:

- The department or agency may have a standard procurement approach for particular projects, for example using a preferred provider list. If so, the options analysis may simply test the appropriateness of this method in the proposal circumstance. However, different procurement options are suited to different project characteristics and it is appropriate to consider different methods.
- A range of methods, including: lump-sum or fixed-price contracts, design and construct, construction management, and partnership arrangements. A blend of methodologies might be used for different aspects of the proposal<sup>11</sup>.
- Initial consideration of the potential for a PPP option must also be considered. Refer to action 10 and The Treasury guidance on PPPs.

---

<sup>11</sup> Refer to the Treasury PPP guide at <http://www.infrastructure.govt.nz/publications/pppguidance>.

57. If options with regulatory impacts are being considered, a Preliminary Impact and Risk Assessment (PIRA) may be required. Refer to the Treasury Regulatory Impact Analysis Handbook<sup>12</sup> and contact The Treasury for further advice.
58. Impractical options may sometimes be ruled out early for valid legal, financial or political reasons (ie, constraints). In such cases, undue time, effort and expense should not be expended on assessing these options.
59. The long-list options can be generated by a facilitated workshop process, comprised of senior managers (for business inputs), stakeholders and customers (for user inputs) and specialists (for technical inputs). This can involve:
  - consulting widely with practitioners and experts to gather information relevant to the objectives and scope of the problem
  - analysing the data to understand significant dependencies, priorities, incentives and other drivers
  - considering past experience, identify best practice solutions, including international examples, if appropriate
  - considering the full range of issues likely to affect the objectives
  - identifying the full range of types or scales of policy interventions that may be used to meet the objectives, and
  - developing and considering radical options. These may not become part of the formal appraisal but can be helpful to test the parameters of feasible solutions. The brainstorming workshops can help to generate such a range of ideas.

### **Initial assessment of the long list options**

60. The next step is to assess the most viable options to meet the identified service need. This assessment should identify the advantages and disadvantages of each option and examine critically the risks and benefits to government of each of them.
61. The following options framework provides a simple and straightforward approach to the identification and assessment of a long list options for investment. In the United Kingdom, the approach has proven to be particularly useful as a means of engaging senior management on the preferred way forward, prior to the more thorough financial and economic analyses to be undertaken in the Detailed (Stage Two) Business Case.
62. The following table sets out an approach for identifying options for the long-list, using five possible dimensions.

---

<sup>12</sup> Refer to the Treasury web-site at <http://www.treasury.govt.nz/publications/guidance/regulatory/impactanalysis>

**Table 6:** Dimensions of scope

<b>Dimension</b>	<b>Potential long-list options can be created using all viable combinations of the five dimensions</b>
<i>Scale, scope and location</i>	In relation to the proposal, <b>what</b> levels of coverage are possible? For example, by levels of functionality, geographic coverage, population/user base, organisation, etc.
<i>Service solution</i>	<b>How</b> can services be provided? For example, potential solutions and answers, use of technologies, etc.
<i>Service delivery</i>	<b>Who</b> can deliver the services? For example, in-house, out-sourced, PPP, etc.
<i>Timing and staging</i>	<b>When</b> can services be delivered? For example, big bang, phased, modular delivery, etc.
<i>Procurement</i>	<b>How</b> can it be funded? For example, capital or operating, private or public finance (see action 14 for PPPs), Crown funded or fee recovery, etc.

63. Assess how well each of the viable long list options generated above meets the evaluation criteria (investment objectives and critical success factors). Decide if each option should be disregarded immediately or carried forward, either as the preferred option or a possibility for consideration. Record the results in tabular form. Refer to the worked example at the end of this booklet.
64. It is essential to be objective and even-handed when considering options in the long list. For each of the long-list options that is either preferred or possible in the above analysis, it is important to document the following:

**Table 7:** Summary by long-list option

<b>Option &lt;1.2&gt;</b>	<b>Rationale</b>
<i>Description:</i>	Full details of the option under consideration – this may be with reference to a category of choice under investigation within the options framework.
<i>Main advantages:</i>	In relation to the investment objectives, benefits criteria and critical success factors for the proposal.
<i>Main disadvantages:</i>	As for advantages above.
<i>Conclusions:</i>	Overall assessment, indicating whether the option is the preferred (or indicative) way forward, or should be carried forward for further assessment in the short list; or discounted and discarded.

# **Commercial, Financial and Management Cases (Outline)**

65. This part develops a recommendation to decision-makers for a preferred or indicative way forward for initial approval, based on the initial assessment of the long-list options. In practice, this will result in a signalled 'direction of travel' for the delivery of the investment, supported by a 'short list' of attractive options, for further assessment in the Detailed (Stage Two) Business Case.

## **Action 8: Recommended Preferred Way Forward**

### **Short-listed options**

66. At least three short-listed options should be recommended for further assessment in the Detailed Business Case. The short list should include a base case option - either the 'do nothing'/status quo or 'do minimum' option which then provides the benchmark for considering relative value for money. The short list should also include choices of more or less ambitious options or a PPP arrangement, if these are viable options.

### **Indicative costs and delivery arrangements**

67. Indicative costs for each of the above short-listed options should be provided. Importantly, the indicative costs should also make allowance for optimism bias. Refer to further details on allowing for risk and uncertainty in the guidance for action 12.

### **Using the options framework to generate the short list**

68. The results of the initial assessment of the long list may be used to help generate the short list options and summarised.
69. For example, a composite reference proposal could be constructed by combining the preferred choices in each of the five dimensions. That is, by amalgamating option i) for implementation, option ii) for both scoping and funding, and so on.
70. The reference proposal becomes the recommended preferred way forward, as it is predicated upon the best assessment, at least at this initial stage, of the possible scope, service solution, method of service delivery, implementation and funding, following analysis of the available options in each category of choice. Moreover, it has been arrived at logically and systematically.

### **Brief outline of the commercial, financial and management cases**

71. For each short-list option, provide a brief overview of the commercial, financial and management arrangements likely to be required for successful delivery.
72. Commercial case:
- an assessment of the likely attractiveness of the proposal to potential service providers (including allowing for any Public Private Partnership arrangements).

73. Financial case:

- a statement of the delivery agency's current financial situation
- resources available for the proposal, including an assessment of the delivery agency's ability to provide ongoing support
- any capital and revenue constraints, and
- statements of strategic (or in principle) support from the stakeholders.

74. Management case:

- a listing of who is involved in the proposal, both inside and outside of the organisation, including users, commissioners and other key stakeholders
- achievability of the proposal, taking into account the organisation's readiness and resources
- how the project is to be governed and managed
- other key managerial considerations, including: change management, training, evaluation and timetable, and
- nature of further work needed to develop management proposals.

### **The Commissioner's Statement**

75. A commissioner's letter should be provided by an appropriate and senior individual within the organisation (typically the chief executive), be included as an annex to the Indicative Business Case and should:

- demonstrate that the commissioner has been actively involved in developing the investment proposal through its various stages
- confirm acceptance of the strategic aims and investment objectives of the investment proposal, its functional content, size and services
- confirm that the financial costs of the proposal can be contained within the agreed and available budget and a willingness and ability to pay for the services at the specified price level
- state the margins of leeway beyond which support must be revalidated, and
- demonstrate that suitable contingency arrangements are in place to work with the service providers to address any current or unforeseen affordability pressures.

**Table 8:** Example long-list option identification and assessment:

Reference to	Scoping Options				Service Solution Options				Service Delivery Options				Implementation Options			
	SCO1	SCO2	SCO3	SCO4	SOL1	SOL2	SOL3	SOL4	SDO1	SDO2	SDO3	SDO4	IMP1	IMP2	IMP3	IMP4
Description of option	<i>Do Nothing</i>	<i>Minimum</i>	<i>Intermediate</i>	<i>Maximum</i>	<i>Discrete</i>	<i>Integrated Regionally</i>	<i>Integrated Nationally</i>	<i>Regional and National Network</i>	<i>In house</i>	<i>Partially managed (led by [MINISTRY])</i>	<i>Partially managed (led by commercial supplier)</i>	<i>Fully outsourced to commercial suppliers</i>	<i>Phased nationally by discipline</i>	<i>System phased by site</i>	<i>System phased by region</i>	<i>National implementation</i>
<b>Investment Objectives</b>																
Full supported network MIMS available for implementation by X	No	No	Yes	Yes	No	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Support improved clinical data and management information flows	No	No	Yes	Yes	No	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Improve the functionality and flexibility of the Pathology IT system to meet current and future needs	No	Partial	Yes	Yes	No	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Critical Success Factors</b>																
Business Need	No	No	Yes	Yes	No	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Strategic Fit	No	No	Yes	Yes	No	Partial	Yes	Yes	Yes	Yes	Yes	Partial	Yes	Yes	Yes	Yes
Benefits Optimisation	No	No	Yes	Yes	No	Partial	Yes	Yes	Yes	Partial	Yes	Partial	Yes	Yes	Yes	Yes
Potential Achievability	Partial	Yes	Yes	Partial	Partial	Yes	Yes	No	Partial	Partial	Yes	Partial	No	Yes	No	No
Supply-side capability and capability	Partial	Yes	Yes	Partial	Yes	Yes	Yes	Partial	Partial	Partial	Yes	Partial	Yes	Yes	Yes	Yes
Potential Affordability	No	No	Yes	Partial	Partial	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes
Summary	Continued for VFM	Discounted	Preferred	Possible	Discounted	Possible	Preferred	Discounted	Discounted	Possible	Preferred	Discounted	Discounted	Preferred	Discounted	Discounted
<b>Options progressed to the shortlist</b> <i>As the CSFs are crucial (not desirable) any options that had a CSF scoring a "No" are discounted</i>																
<b>Option Title</b>																
<b>Option 0 Do Nothing</b>	SCO1 Do Nothing															
<b>Option 1 Intermediate Scope - Regional</b>	SCO3 Intermediate				SOL2 Integrated Regionally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
<b>Option 2 Intermediate Scope - National</b>	SCO3 Intermediate				SOL3 Integrated Nationally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
<b>Option 3 Maximum Scope - Regional Integration</b>	SCO4 Maximum				SOL2 Integrated Regionally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
<b>Option 4 Maximum Scope - National Integration</b>	SCO4 Maximum				SOL3 Integrated Nationally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
	<p>* A capability analysis of the [MINISTRY] will be conducted to see if SDO4 Partially managed (led by [MINISTRY]) is a possibility. Based on present incomplete information this does not appear to be a viable option.</p>															