

Better Business Cases for Capital Proposals Toolkit: Overview

2 July 2010



THE TREASURY
Kaitohutohu Kaupapa Rawa

New Zealand Government

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.

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-1314>

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About this Document

The New Zealand state sector makes significant capital investments in infrastructure and improving public services. There is over \$100 billion worth of assets in the state sector - and a further \$45 billion in the pipeline over the next 10 years.

Many Government strategies, programmes and projects can fail to achieve their objectives and fail to deliver anticipated benefits. This can happen if the key phases of the investment have been inadequately scoped and planned, or the associated risks have not fully been taken into account and managed appropriately.

For example, the Standish Group report¹, "CHAOS Summary 2009," shows that 44% of information technology projects surveyed were late, over budget, or provided less than the required features and functions. The report also shows that 24% of projects are either cancelled prior to completion or delivered and never used.

Given constraints on available resources, we need to use what we've got more efficiently and strive for better value out of every dollar of Government spending.

A vital part of the work of investment is the development and scrutiny of business cases in the state sector. The aim of this guidance is to provide a structured process for informed investment decision-making that will improve the value for money and the impact of investment by the Government.

This guidance is intended to assist those people who develop and sponsor business cases with a staged road-map that:

- enables agencies to better utilise their efforts, through the development of "better prepared" business cases and access to relevant knowledge and expertise
- provides Ministers with early engagement on options, greater assurance that the work has been done, and clear and consistent presentation of information for more fully informed decision-making, and
- assists monitoring agency assessors to understand the stages for the development and analysis of business cases and have easy access to knowledge and expertise to provide effective assurance and second opinion advice.

This guidance is not intended to comprehensively cover all the related aspects of business case development such as OGC GatewayTM review, Public Private Partnerships (PPPs), regulatory impact analysis, Public sector procurement, Treaty requirements, Independent Quality Assurance (IQA), or monitoring processes by central agencies. When considering how to apply this guidance, you should refer to Cabinet Office Circular CO(10) 2² *Capital Asset Management: Expectations* in the first instance, for a more detailed explanation of Cabinet's expectations for the development, approval and monitoring of proposals relating to capital projects. For other rules and expectations, you should refer to the relevant existing guidance.

¹ Refer to the Standish Group web-site at http://www1.standishgroup.com/newsroom/chaos_2009.php

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

In some sectors of Government, the approval of capital proposals is subject to existing statutory requirements or delegations by Cabinet, that mean that specified ministers or other decision-making bodies have approval authority. You should refer to your Treasury vote team, or relevant contacts in the State Services Commission or other monitoring agencies, for clarification on the implications of the expectations set out in CO(10) 2 and this guidance.

While this guidance introduces new business case processes and expectations, you may still find aspects of business case guidance previously promulgated by Treasury, the State Services Commission (SSC) and other Government agencies relevant and useful.

Overview

What is a Business Case?

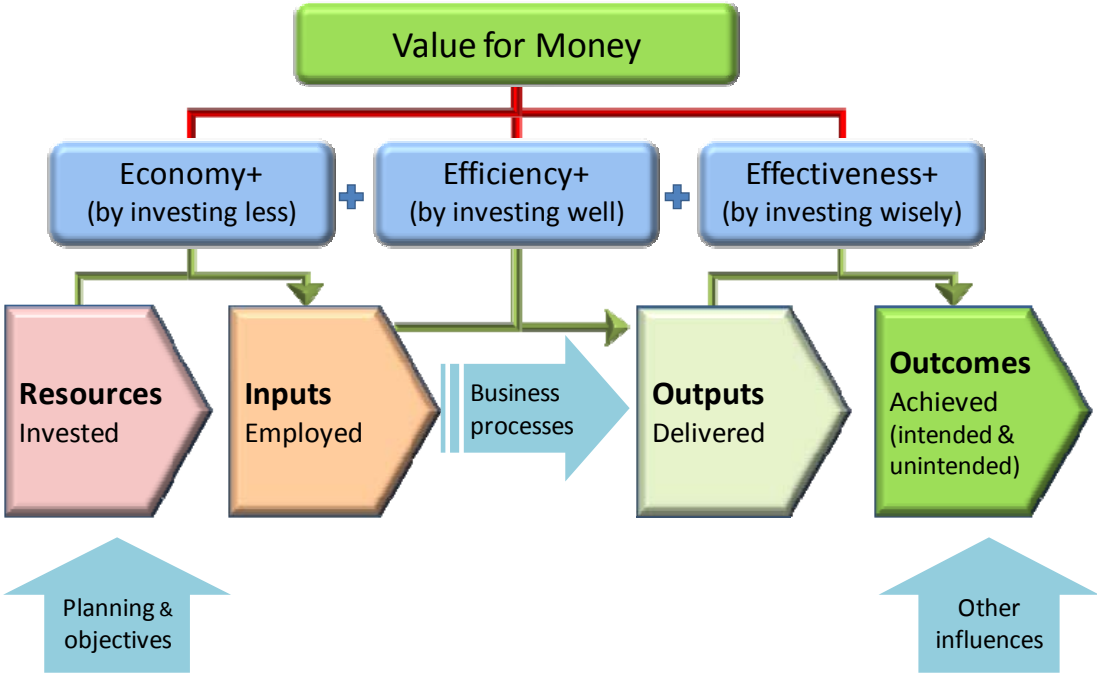
1. A business case is a planning and decision making tool. It is the articulation of a compelling case for investment. However, a business case is not just a vehicle for gaining approval for funding. A robust business case should provide:
 - an explicit and systematic basis for decision-making
 - clear accountability for the use of public resources
 - an effective communication tool for engaging stakeholders
 - assurance to funding agencies, suppliers, and other partners by demonstrating affordability and achievability, and
 - a robust plan for post-implementation review including the management of risks and the delivery of expected benefits on time and within budget.

Maximising Value for Money

2. The Government is a major user of New Zealand's available resources and consequently needs to ensure that investment proposals maximise value for money to the economy and society.
3. Value for money measures the relationship between outcomes achieved and the underlying resources used by Government to achieve these outcomes. Value for money is one way of measuring state sector performance at a high level. If a better outcome is achieved for a given cost or if the same outcome is achieved for a lower cost, then value for money can be expected to improve.
4. Maximising value for money means maximising the three E's:
 - i. **effectiveness**, by investing wisely. This means increasing the impact of a specified set of outputs (goods and services) on the community. Impact refers to the achievement of desired outcomes (ie achieving results).
 - ii. **efficiency**, by investing well. This means optimising the quantity and quality of outputs produced from a given level of human, financial or other input.
 - iii. **economy**, by investing less. This means minimising the resource cost of the inputs required by the organisation.
5. Effectiveness relates outputs to outcomes. An impact evaluation may demonstrate the effectiveness of a new policy programme in achieving desired outcomes, for example, by determining the proportion of recipients of work subsidies who transferred to paid employment.
6. Maximising effectiveness depends on the outcomes desired which can, in turn, depend on the perspective taken. Assessment of value may vary between a national economy perspective, an all-of Government perspective, an organisational perspective or from the perspective of individuals or communities.

- 7. Efficiency relates inputs to outputs and demonstrates how well an organisation makes use of its inputs to deliver goods and services. Improvements in technical efficiency (or productivity) can occur if an organisation delivers more outputs of a minimum quality standard without a corresponding increase in the level of inputs.
- 8. Economy reflects the cost of acquiring inputs such as staff, premises or supplies. An organisation can improve its economy if it acquires a given quantity of consumables of a minimum specified quality standard (sufficient to meet needs) at a lower overall cost.

Figure 1: Value for money is increased by investing smarter to maximise the three E's



Source: The Treasury

The Five Case Philosophy

9. The Five Case model was developed³ in the United Kingdom (UK) as a framework for decision-making for capital investment proposals. The model helps to ensure that each of the key aspects of a robust investment proposal is explicitly and systematically addressed as part of the business case development process. The model can enable ministers, stakeholders, officials and/or managers to ascertain that an investment proposal:
 - i. is supported by a robust case for change – the ‘**strategic case**’
 - ii. maximises value for money – the ‘**economic case**’
 - iii. is commercially viable – the ‘**commercial case**’
 - iv. is financially affordable – the ‘**financial case**’
 - v. is achievable – the ‘**management case**’.
10. The five cases are **not** discrete business case deliverables. The five cases are embedded in the analysis and provide an organising structure for each business case.
11. The Five Case model is the standard recommended by the UK Office of Government Commerce (OGC) for the preparation of business cases and is used extensively within UK government departments and agencies.
12. The UK Five Case model has been adopted by the New Zealand Government as the basis for developing business cases for specific investment proposals, with effect from 1 August 2010.

When and How should this Toolkit be Used?

Mandatory for all capital proposals that require Cabinet approval

13. This business case guidance is mandatory for all capital expenditure, lease and asset disposal proposals undertaken by Government departments or Crown entities that require Cabinet approval as set out in Cabinet Office Circular CO(10) 2⁴ *Capital Asset Management: Expectations*, as set out in table 1 below.

Two stage approval required unless small and lower risk

14. 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 as outlined in Table 1 above. 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.

³ Refer to “Making Sense of Public Sector Investments” (2001) by Courtney A Smith and Joe Flanagan.

⁴ Refer to the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>.

- **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, an Expression of Interest (EOI) typically may be sought and/or a Request for Proposal (RFP) may be issued once approval is granted.

Table 1: Capital expenditure, lease and asset disposal proposals that require Cabinet approval

Type of proposal/organisation	All Departments	Crown Agents	Other Crown entities
All proposals that require new Crown funding	✓	✓	✓
All proposals to dispose of assets held on the Crown account that have significant policy implications	✓	✓	✓
All PPP proposals, even if funded from baselines and balance sheets	✓	✓	
All departmental capital expenditure or lease proposals with a whole of life cost (WOLC) over \$25 million, even if funded from baselines and balance sheets	✓		
All high risk departmental proposals, irrespective of the scale and funding source	✓		
All proposals to dispose of departmental assets with a carrying value of \$25 million or more	✓		

15. 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) 6⁶, it is intended that such projects will be considered as part of the Budget process.

⁵ The Crown may have obligations under the Public Works Act 1981 that agencies may have to work through before considering asset disposal.

⁶ Refer to the Cabinet Office web-site at <http://www.dPMC.govt.nz/cabinet/index.htm>.

Post-implementation monitoring

- 16. Unless otherwise agreed by Cabinet, departments and Crown agents that seek Cabinet approval for proposals that are both large (i.e. over \$25 million WOLC) and high risk (as determined by the SSC Gateway Unit) must report back to Cabinet on the actual level of benefits achieved compared with those outlined in the Cabinet-approved proposal.
- 17. Monitoring may include regular progress meetings with the sponsor and project team throughout the lifecycle of the project, Independent Quality Assurance (IQA) of the business case prior to approval, Quantitative Risk Analysis (QRA) of cost estimates and quality assurance of, and comment on, any Cabinet submission for approval. These need factoring into development plans.

For other capital proposals requiring approval by the responsible Minister

- 18. This guidance is also mandatory for all capital expenditure, lease and asset disposal proposals that require approval by the responsible Minister as set out below.

Table 2: Capital expenditure, lease and asset disposal proposals that require approval of the responsible Minister

Type of proposal/organisation	All Departments	Crown Agents and other Crown entities
All proposals to dispose of assets held on the Crown account that have non-significant policy implications	✓	✓
All proposals to dispose of departmental assets with a carrying value of between \$15 million and \$25 million	✓	
All departmental capital expenditure or lease proposals with a whole of life cost (WOLC) of between \$15 million and \$25 million	✓	

For all other departmental capital proposals requiring approval by the chief executive

- 19. Even where the approval of Cabinet or the responsible Minister is not required, there is an expectation that Departmental chief executives must adopt and apply this business case guidance to all capital proposals.

Sector-based requirements for other major non-Departmental capital proposals

- 20. Where Cabinet approval is not required for a non-Departmental capital proposal, the use of this business guide will depend on the expectations set by the responsible Minister from time to time. Even if the use of this guidance is not required, it is

considered that it should be applied as good practice within the State sector for major capital investment proposals.

Engage early with SSC Gateway Unit and monitoring agencies

21. It is important to contact your Treasury vote team, or relevant contacts in the SSC or other monitoring agencies at an early stage in the business case development process to determine how and when to apply the business case processes detailed in this guide.
22. Early engagement with The Treasury is also recommended if the proposal is likely to involve regulatory implications that will lead to advice to Cabinet. A Preliminary Impact and Risk Assessment (PIRA) may be required to be developed, in the first instance⁷.
23. Early engagement with The Treasury is also recommended if the proposal is likely to involve a Public Private Partnership (PPP) solution, as this may result in specific process steps that may vary from this guidance⁸.
24. Early engagement is essential with the SSC Gateway Unit⁹. Departments and Crown agents must perform an initial Risk Profile Assessment (RPA) for all projects where failure to deliver within the expected functionality, cost and timelines would expose Government to significant fiscal or ownership risks. The RPA for any medium or high risk project must be forwarded to the Gateway Unit as early as possible to ensure high risk projects receive the full set of Gateway reviews. The Gateway Unit will review the RPA and determine a final risk rating.
25. Note that there can be a significant lead time from the first contact with the Gateway Unit to commencement of a Gateway review. This should be taken into account in planning and scheduling when preparing the business case as well as the subsequent development and implementation of the project.

The Business Case Development Process

26. The business case development process detailed in this guidance is based on the UK Treasury business case toolkit¹⁰ and the Five Case model. The UK process has been modified by The Treasury to fit within the New Zealand Government context by:
 - integrating the State of Victoria Department of Treasury and Finance Investment Logic Mapping process (where applicable)
 - integrating the two stage Cabinet approval process (where applicable¹¹)
 - aligning the key deliverables with the six gates of the OGC GatewayTM review process (where this applies)

⁷ Refer to the Treasury web-site at <http://www.treasury.govt.nz/publications/guidance/regulatory>

⁸ Refer to the Treasury PPP guidance at <http://www.infrastructure.govt.nz/publications/pppguidance>

⁹ Refer to the Gateway web-site at <http://www.ssc.govt.nz/gateway>

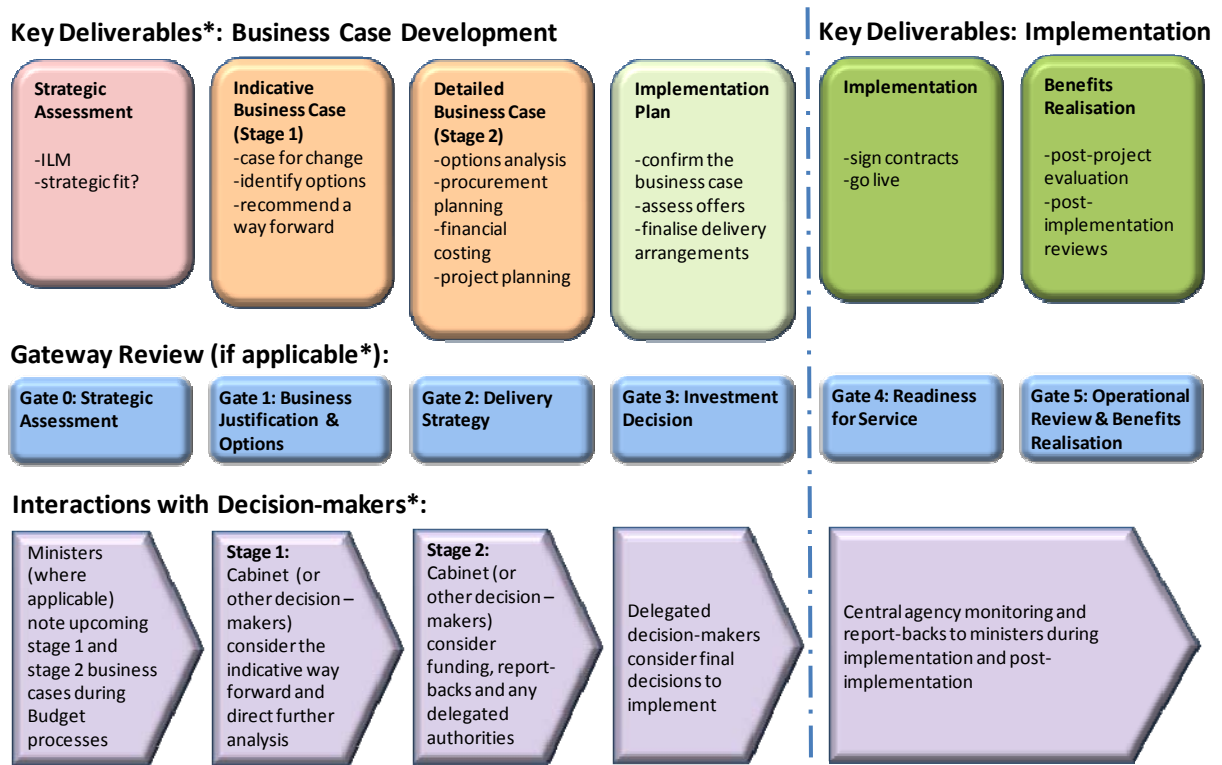
¹⁰ Refer to the UK Treasury business case resources at http://www.hm-treasury.gov.uk/data_greenbook_business.htm

¹¹ Refer to CO(10) 2 *Capital Asset Management: Expectations*

- co-ordinating with existing Treasury guidance for PPPs, Cost Benefit Analysis and Regulatory Impact Analysis
- integrating accepted good practice project management methodologies, and
- ensuring benefits realisation is reviewed for projects (where applicable).

27. The business case development process sets out up to 35 actions for the development of up to four key deliverables; the Strategic Assessment, the Indicative (Stage 1) Business Case, the Detailed (Stage 2) Business Case, the Implementation Plan and subsequent monitoring. Refer to figures 2 and 3 below.

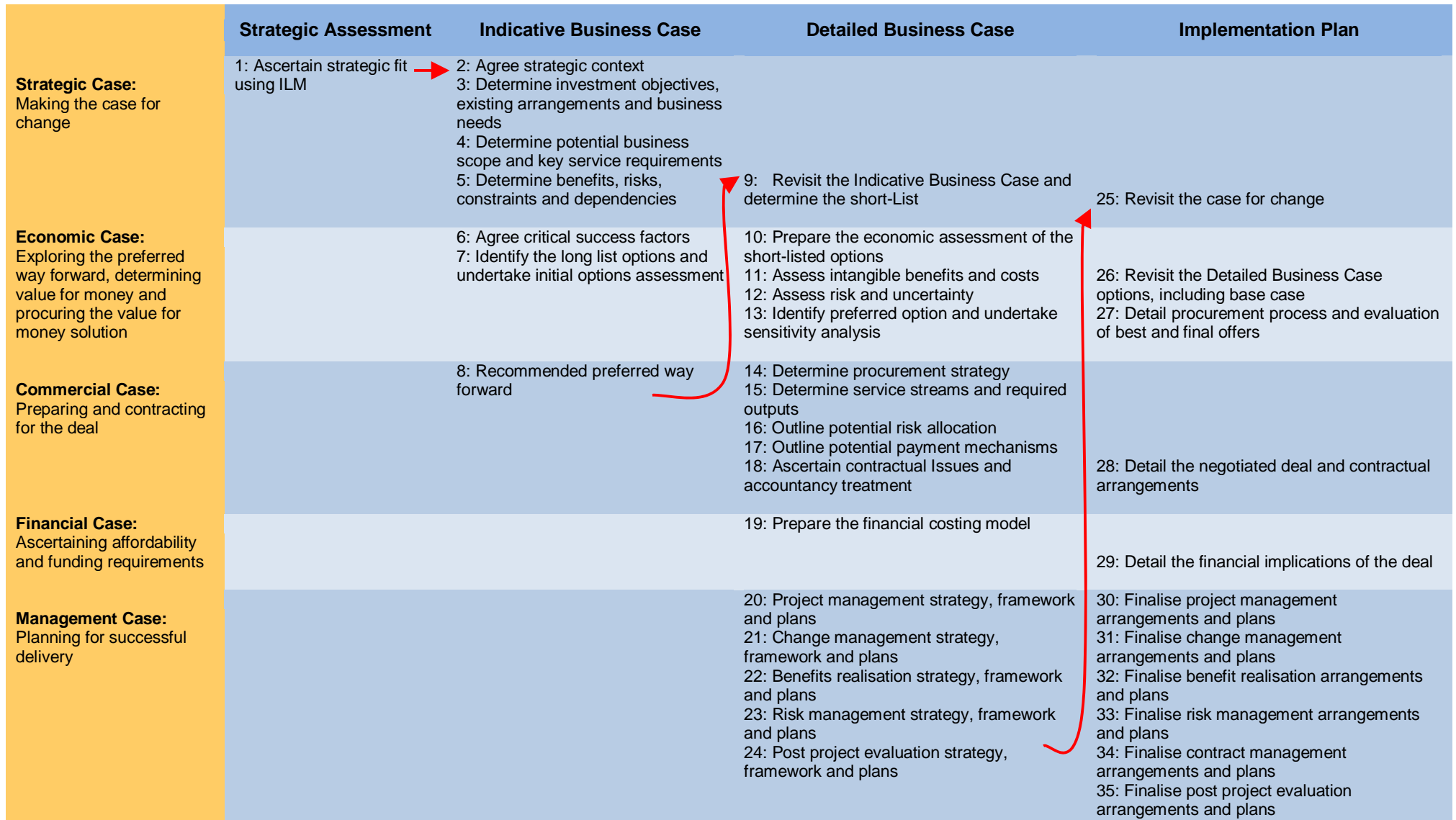
Figure 2: The business case development process for a large, high risk capital proposal, assuming a two-stage Cabinet approval process applies and post-implementation monitoring by central agency officials



* 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

Figure 3: The business case development “road-map”



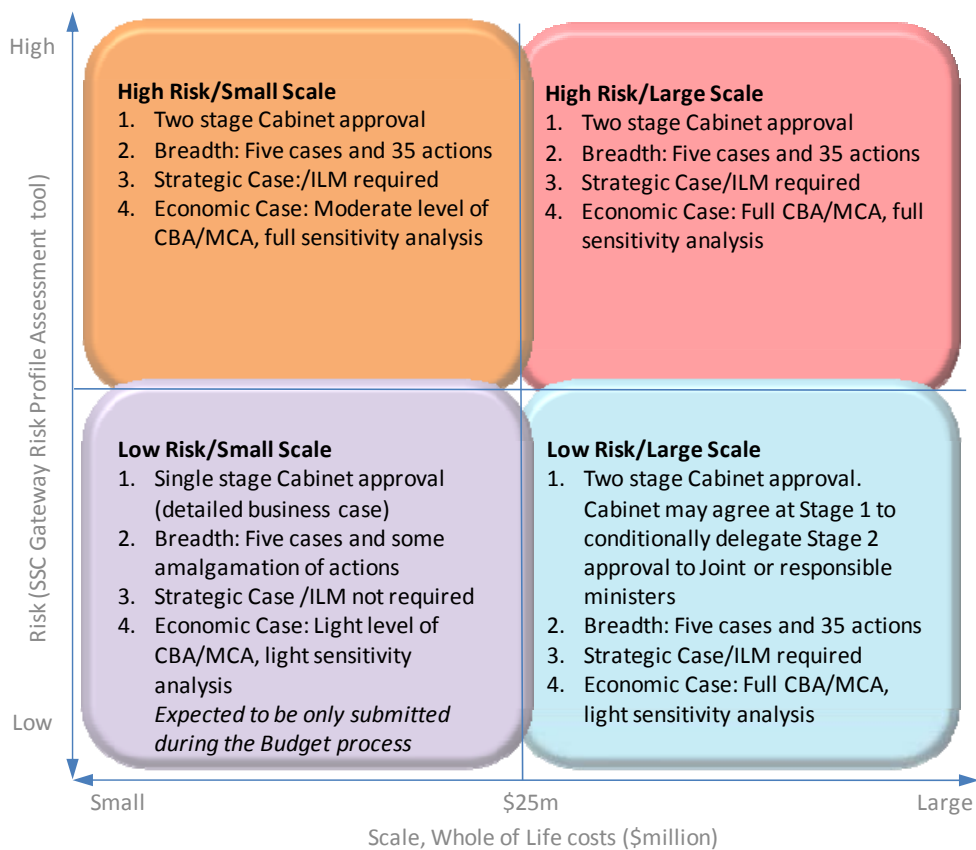
Source: HM Treasury

28. For capital proposals that do not require a two-stage Cabinet approval and central agency monitoring, variations to the standard process may be applicable.
29. The process is iterative. As each of the key documents is developed, previous actions are revisited to either verify or to update and revise the earlier analysis.

Scalability of Business Case Development Effort

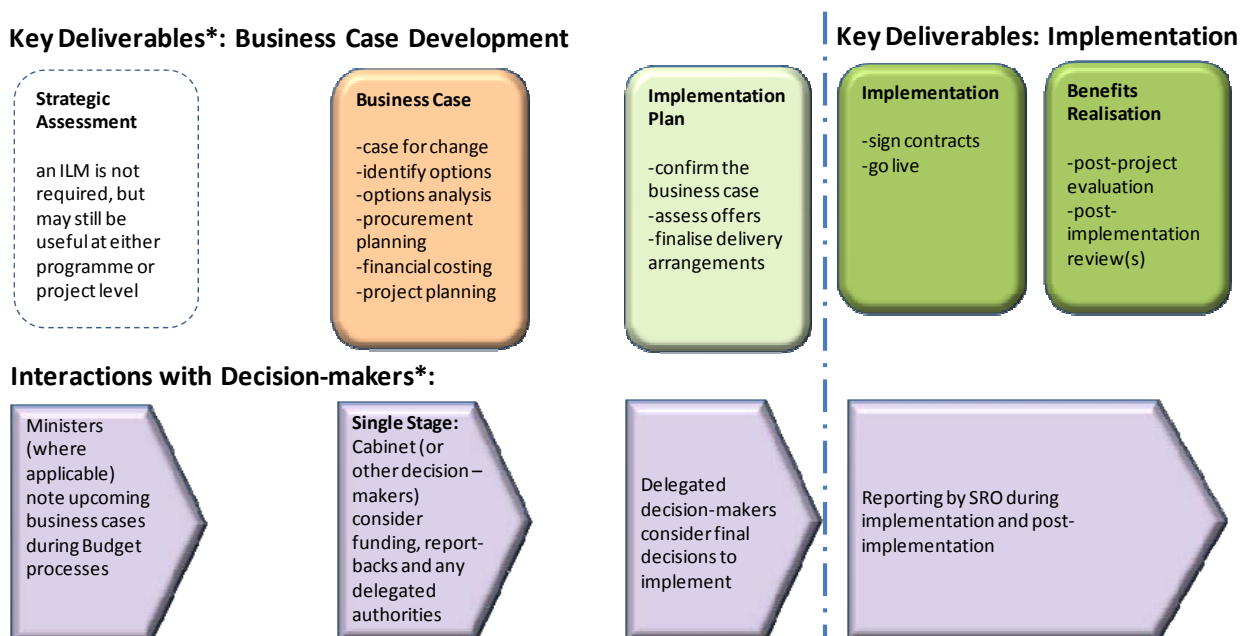
30. Not all capital proposals require two stage approval by Cabinet or central agency monitoring. The business case development process in this guidance is intended to be scalable, to ensure that the level of effort is fit for purpose and matches the scale and type of decision required.
31. Scalability is not just a factor of size. A smaller proposal can still expose the Government to risk, either due to implementation risks or its impacts on other programmes or services. Large scale in this context means that whole of life costs (WOLC) exceed \$25 million. High risk is either determined by the SSC Gateway Unit, based on their moderation of the Risk Profile Assessment (RPA) tool rating, or assigned by the responsible Minister.
32. For example, a fit for purpose business case can be developed and a single stage approval process may be applied for capital proposals that require Cabinet approval, yet are low risk and relatively small. Refer to the scalability matrix in figure 4 below as a guide.
33. For example, depending on any other applicable overriding statutory or ministerial requirements, a fit for purpose business case may:
 - i. not require the development of a Strategic Assessment/ Investment Logic Map (ILM) in action 1, if the proposal is both low risk and small
 - ii. entail less analytical effort for each of the actions, and for options and sensitivity analysis in particular
 - iii. combine the Detailed Business Case and Indicative Business Case requirements into a single Business Case, if a single-stage approval process is appropriate, and
 - iv. entail less post-implementation monitoring effort, with reporting requirements to internal management rather than to external agencies.

Figure 4: Scalability matrix for proposals seeking Cabinet approval, based on size and risk



Source: The Treasury

Figure 5: Example of business case development process for a less intense, fit for purpose, business case



* 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

34. Where Cabinet approval is not mandatory, the references to Cabinet above can be replaced by the relevant decision-making body. For example, this could be joint ministers, the responsible Minister, governance boards or councils, or senior management¹².
35. The above expectations on both fit for purpose and approval process should be clarified with either the Treasury vote team, SSC Gateway Unit or the relevant monitoring agency at an early stage of the process. Early engagement is recommended to avoid unnecessary rework at a later stage of the business case development process.
36. Early engagement is also necessary to agree if a higher level of granularity of fit for purpose is required than indicated in the Scalability Matrix thresholds above. For example, less effort may be assessed as being appropriate by the Treasury vote team or relevant monitoring agency for proposals that are either low risk rather than medium risk, or have anticipated Whole of Life Costs of \$5 million rather than \$15 million (say).

The Role of the Senior Responsible Owner

37. The ownership of the investment planning process (for which the business case represents the key component) resides within the organisation. In the case of significant capital projects, the organisation should appoint a Senior Responsible Owner (SRO) to oversee the development and implementation of the capital proposal.
38. The SRO has overall accountability for the business case development process, delivery of the project and ultimately the realisation of project benefits. The SRO should have the authority to make decisions affecting the progress of the project. Responsibility for the day-to-day management of a project can be delegated to a Project Manager.

Use of external specialist or technical skills

39. The business case development approach outlined in this guidance will require the SRO to bring together a range of specialist capabilities and skills at different stages of the business case development.
40. Specialist or technical skills may be required during the process including for the Strategic Assessment (an expert ILM facilitator is needed), options assessment and evaluation, quantitative risk analysis and sensitivity testing, change management, and benefits realisation. Project planning should indicate how and when this expertise will be acquired along with expected costs.
41. Where specialist or technical skills are not easily available within the organisation, particularly for significant, complex or innovative proposals, it may be necessary to seek external advice and support.
42. Accountability for the direction and the production of business cases should not be outsourced to external consultants. However, external consultants may be considered where the necessary skills and resources are not available in-house.

¹² Refer to CO(10) 2 *Capital Asset Management: Expectations for requirements*, or other overriding statutory or ministerial requirements (if applicable).

43. The Treasury intends to provide ongoing support to assist state sector agencies to develop and access specialist capability. For external advice and support, contact the National Infrastructure Unit by email to betterbusinesscases@treasury.govt.nz.

OGC Gateway™ Review

44. OGC Gateway™ reviews¹³ deliver a strategic-level peer review of the project, in which independent practitioners from outside the programme/project use their experience and expertise to examine progress and make recommendations to improve the likelihood of success. They are used to provide a valuable additional perspective on the issues facing the internal team, and an external challenge to the robustness of plans and processes.
45. The OGC Gateway™ review process provides support to the SRO in the discharge of their responsibilities to achieve their business aims, by helping the SRO to ensure:
- the best available skills and experience are deployed on the programme or project
 - all the stakeholders covered by the programme or project fully understand the programme/project status and the issues involved
 - there is assurance that the programme or project can progress to the next stage of development or implementation and that any procurement is well managed in order to provide value for money on a whole life basis
 - achievement of more realistic time and cost targets for the programme or project
 - improvement of knowledge and skills among government staff through participation in reviews, and
 - provision of advice and guidance to programme and project teams by fellow practitioners.
46. The Gateway methodology was developed in 2001 by the UK's Office of Government Commerce. It was adopted by the State of Victoria Department of Treasury and Finance in 2003. Gateway has subsequently been adopted by the Australian Federal Government and in other states.
47. The New Zealand Cabinet agreed to implement Gateway in late 2007. In New Zealand, Gateway is part of Treasury's Capital Asset Management (CAM) regime and is administered by the State Services Commission (SSC).

Note that Cabinet has directed that all high risk capital programmes and projects in departments and Crown Agents, initiated after 1 January 2008, are to receive a full set of Gateway reviews. Further details of when to contact SSC, how project risk is assessed and, engagement and disclosure responsibilities, can be found at the Gateway Unit web-site.

¹³ Refer to the SSC Gateway web-site at <http://www.ssc.govt.nz/gateway>