

# Better Business Cases for Capital Proposals Toolkit: Strategic Assessment

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](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-1315>

# Contents

- How to Prepare a Strategic Assessment.....3**
  - Purpose.....3
  - When to Undertake a Strategic Assessment?.....4
- Strategic Case - Making the Case for Change .....5**
  - Action 1: Ascertain Strategic Fit using ILM .....5

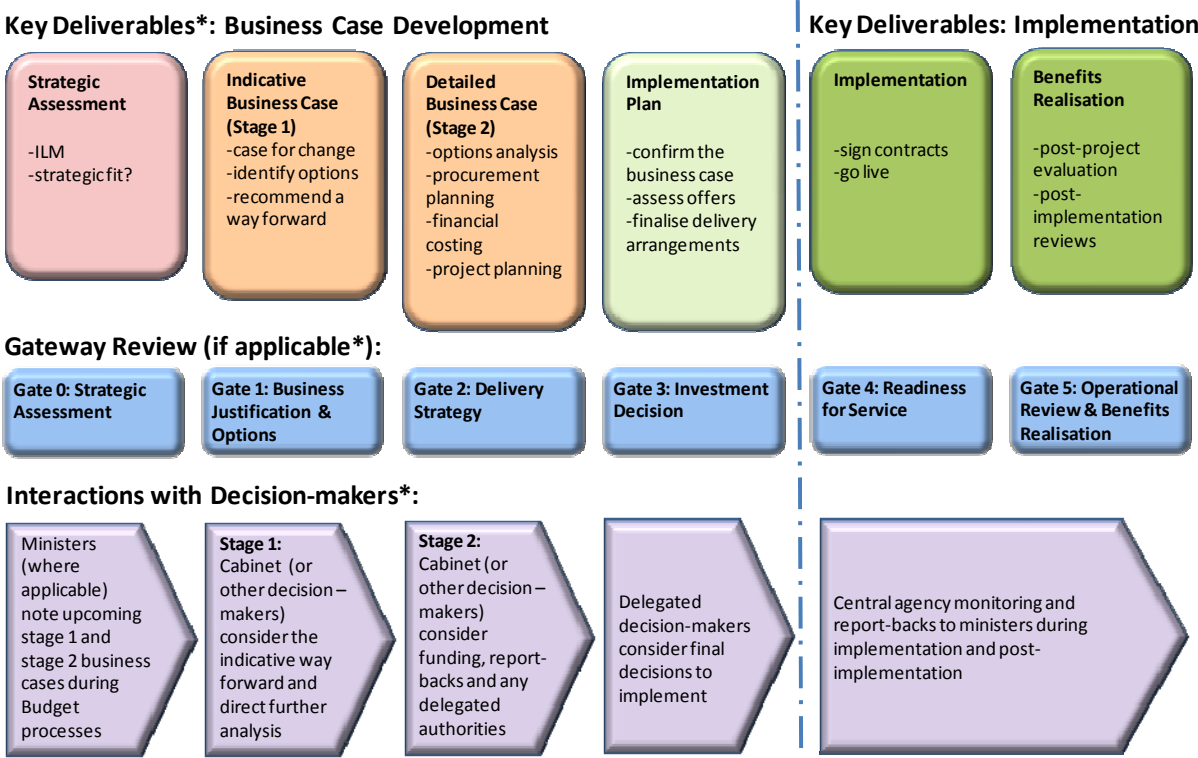


# How to Prepare a Strategic Assessment

## Purpose

1. A major cause of investment failure is that solutions are developed before there is any clear understanding of the problem, or its root causes, the proposed solution is attempting to address. It is common to find a solution ‘seeking a problem’ or solutions that create further problems. This can ultimately lead to investment proposals being approved with limited or no business benefits, little or no support from the business area and the potential to overrun costs and timelines.
2. The purpose of the Strategic Assessment is to translate an investment concept into a robust requirement. The Strategic Assessment highlights the:
  - requirement to meet identified business needs
  - anticipated benefits and timelines
  - alignment with government policy directions, and
  - fit with the department or agency’s strategic priorities.
3. The Strategic Assessment is intended to identify the service requirements necessary to achieve the agreed outcomes from either a proposed programme or project of work. It should provide enough detail for key decision-makers to confidently determine the proposal’s strategic fit and how suitable it is to be developed further. The Strategic Assessment can provide the basis for proceeding to the development of a subsequent Indicative (Stage One) Business Case.

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

4. The Strategic Assessment builds on the development of an Investment Logic Map (ILM), facilitated by an expert ILM facilitator. ILM facilitation is a relatively new and growing area of specialist capability that is being developed in the New Zealand state sector.
5. The State Services Commission and the Treasury intend to provide ongoing support to assist state sector agencies to develop and access this specialist capability.

## When to Undertake a Strategic Assessment?

6. A Strategic Assessment (based on the ILM) is required to be completed for capital proposals that require either Cabinet or responsible Minister approval in terms of Cabinet Office circular CO(10) 2, and are either large (i.e. over \$25 million WOLC) or high risk (based on the New Zealand Gateway Risk Profile Assessment (RPA) methodology).
7. The Strategic Assessment should be completed prior to commencing development of the Indicative (Stage One) Business Case.
8. While there is no formal requirement for the Strategic Assessment to be presented to ministers separately as part of the two stage approval process, the ILM is a useful communication tool for articulating the strategic case at both project and programme levels to internal and external decision-makers.
9. A Strategic Assessment/ILM is not required for capital proposals that are small and lower risk. Refer to the scalability matrix<sup>1</sup> and contact your Treasury Vote team or monitoring agency for clarification and guidance on whether or not a Strategic Assessment is required.
10. The capital proposal may also be subject to Gateway review<sup>2</sup>. If so, preparing the Strategic Assessment will assist to inform the Gate 0 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 a risk Profile Assessment (RPA) is provided as early as possible to the Gateway Unit and ensure there is sufficient lead time to enable the arrangement of Gate 0 (Strategic Assessment) and Gate 1 (Business Justification and Options) reviews, if these are required.

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<sup>1</sup> Refer to the Overview booklet.

<sup>2</sup> Refer to the Gateway Review web-site at <http://www.ssc.govt.nz/gateway>

# Strategic Case - Making the Case for Change

## Action 1: Ascertain Strategic Fit using ILM

11. Developing a capital proposal follows from the strategic planning and review processes that departments and agencies normally use when considering how they will deliver the outcomes Government requires. This can refer to strategic policy decisions by Cabinet, the Statement of Intent and other strategic business planning, including capital asset management, HR, IT or other capability management plans.
12. The three key aspects of the Strategic Assessment are:
  - i. Identifying the service need
  - ii. Scoping the service need, and
  - iii. Identifying key stakeholders.
13. The starting point for a Strategic Assessment is to identify the core reasons that underpin the service needs that achieve agreed Government outcomes, or contribute towards achieving them. This should take into account whole-of Government policy frameworks and priorities.
14. Considering the service need:
  - clarifies the nature of the service requirement and any essential changes to it
  - gives preliminary measures and perspectives on how important the need is
  - provides advice on how the service need aligns with Government and organisational strategic objectives and priorities, and
  - broadly identifies any key relationships or interdependencies with other Government services in delivering outputs.
15. The Strategic Assessment should also be broad enough to accommodate any changes to definitions of service levels or requirements, since these may be refined while the proposal is being developed.

## The Investment Logic Map (ILM)

16. The reasons for investing (investment drivers) should also be identified. The State of Victoria Department of Treasury and Finance Investment Logic Map (ILM) - Problem Definition Workshop approach should be used to help identify the key drivers for the investment proposal.
17. One of the primary reasons that investments fail is that the basic logic for the investment was either not understood or not shared by all those who needed to know. Often this is because the investors themselves were not clear about what was driving the investment decision or what benefits the investment could be expected to deliver.

18. The State of Victoria Department of Treasury and Finance Investment Management Standard provides a set of tools, including the Investment Logic Map (ILM). ILM can help business case developers and Senior Responsible Owners (SROs) clearly define and validate the identified business need (the problem) and the benefits that the solution is expected to deliver. The tool can also help to scope likely solutions.
19. The basic questions that need to be answered when shaping and selecting investments are typically:
  - 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?
20. Through a series of three two-hour workshops with investors, sponsors, business and project managers, these decision-makers can quickly gauge their level of understanding of a potential investment against each of these questions. This will then inform any judgements they might make. Most importantly, as part of these workshops, benefits and workable key performance indicators (KPIs) are developed and owners made responsible for their delivery.
21. The three outputs of the workshops are the:
  - Investment Logic Map (ILM)
  - Investment Concept Brief, and
  - Benefit Management Plan.
22. In a single page, the ILM depicts the problems that an investment needs to address, the high-level interventions that will be required to respond to the problem, and the benefits that any investment will be required to produce. Based in the identified interventions and benefits, it then defines the likely best solution, defined as the changes required and any assets needed.
23. The ILM provides a clear understanding of why an investment is being considered (the problem) and some idea as to what the solution might be. It then becomes one of the key foundation documents for the capital proposal. Refer to the example at the end of this booklet.
24. Before making any judgement about the relative merit of an investment, investors need a better understanding of the likely best solution and its associated costs, risks, timelines and critical dependencies. The need for the service should be scoped in broad terms at this early stage. This will establish the nature of potential solutions for the need.
25. Shaping solutions at an early stage will help to avoid investments that duplicate infrastructure, miss opportunities to align solutions with broader policies and strategies and fail to take advantage of new thinking and technologies.

26. Based on the agreed broad solution definition, the likely timeframe, risks, dependencies and costs can be identified and a simple two-page Investment Concept Brief completed.
27. The Benefit Management Plan helps identify the benefits, assigns measurable key performance indicators (KPIs) and associated benchmarks and makes one person (the SRO) accountable for delivering those benefits.
28. The workshop participants select the most suitable KPIs for each benefit, using 'MAM' criteria<sup>3</sup>:
  - meaningful (direct relationship between the KPI and the targeted benefit)
  - attributable (KPI and its target value directly attributable to the proposed investment), and
  - measurable (has an existing baseline; is cost-effective to measure progress).

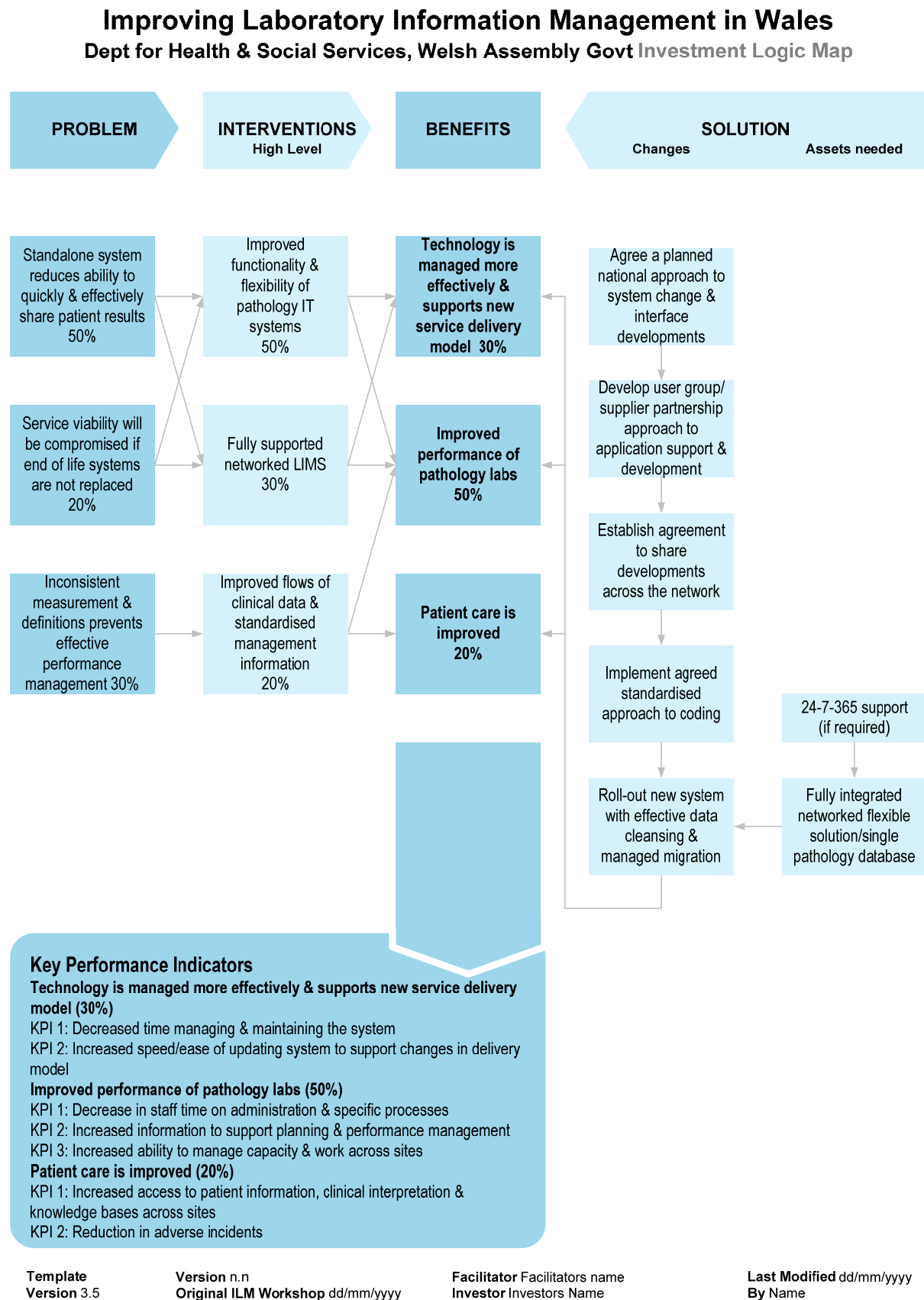
### Identifying key stakeholders

29. Identifying and consulting with key stakeholders is important for successfully scoping and delivering major capital proposals. You should develop a consultation and communication strategy as part of the indicative business case.
30. Key stakeholders will differ between proposals and may include senior management, ministers, central agencies, other departments and state sector agencies, non-government organisations, community groups, special interest groups, service providers, potential investors and users.
31. For each stakeholder group, detail:
  - each stakeholder's relationship to the investment proposal
  - their degree of influence over a successful outcome (low/high)
  - their current interest in the proposals success (low/high)
  - consultation already undertaken
  - expected synergies/benefits from the proposal
  - issues and their potential impact on the success of the proposal
  - actions/response needed which may include, for example, addressing specific stakeholder concerns by altering proposal specifications or increased communication
  - timing of any required actions, and
  - key responsibility – who will take responsibility for the actions surrounding an individual stakeholder.

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<sup>3</sup> Note that the Victorian Strategic Assessment guide refers to MAM 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)

**Figure 2: Example Investment Logic Map**



Source: State of Victoria Department of Treasury and Finance