

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

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**THE TREASURY**  
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- The Five Case Model is the best practice standard recommended by the 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 business case guidance at [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) adopted in this guidance. Refer to [www.dtf.vic.gov.au/investmentmanagement](http://www.dtf.vic.gov.au/investmentmanagement). This 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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# The Indicative Business Case

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## Purpose

1. The purpose of the Indicative Business Case is to:
  - confirm the case for change and the need for investment<sup>1</sup>
  - recommend an indicative or preferred way forward for further development of the investment proposal, supported by a limited number of short-listed options for further analysis
  - seek the early approval of decision-makers to develop the Detailed Business Case, based on a preferred way forward
  - provide an early opportunity for the organisation and key stakeholders to influence the direction of the investment proposal
  - provide a basis for better decision making by seeking early agreement about key issues, and
  - avoid too much effort being put into developing investment proposals and options that should not proceed.
2. It is important that the recommendations for the preferred way forward are not confused with those for the preferred option, which emerge from the analysis undertaken in the Detailed Business Case.

## When should an Indicative Business Case be Prepared?

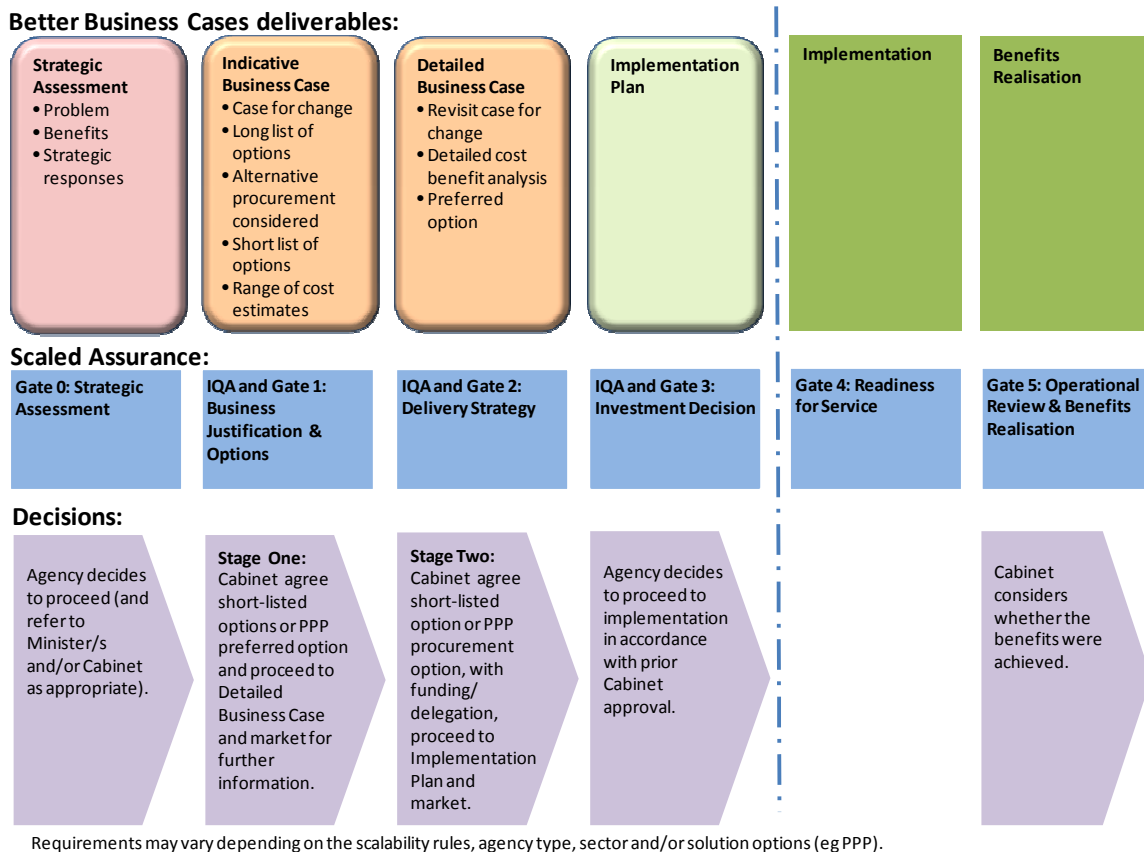
3. An Indicative Business Case is required as part of the two-stage approval process for all investment proposals that require Cabinet approval.<sup>2</sup>
  - **Stage 1:** Consideration of the Indicative Business Case, which confirms the case for change, recommends a preferred way forward and seeks early approval from Ministers to further develop the investment proposal. Apart from those proposals that are likely to result in an alternative procurement, a Request for Information (RFI) may be issued once approval is granted.
  - **Stage 2:** Consideration of the Detailed Business Case, which sets out the basis for a recommended option that maximises value for money and seeks approval from Ministers to finalise the arrangements for successful implementation. Approval at this stage may be given subject to certain constraints or conditions. Apart from proposals that are likely to result in an alternative procurement, a Request for Proposal (RFP) may be issued once approval is granted.

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<sup>1</sup> Building on the either the Strategic Assessment or the Programme Business Case, where these are required.

<sup>2</sup> Refer to the Better Business Cases Overview booklet (available at the Treasury web-site at <http://www.infrastructure.govt.nz/publications/betterbusinesscases>) and Cabinet Office circular CO(10) 2 *Capital Asset Management in Departments and Crown Entities: Expectations* (from the DPMC web-site at <http://www.dPMC.govt.nz/cabinet/circulars/>) for further detail on proposals that require Cabinet approval.

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



## Single stage business case

4. A single stage business case Cabinet approval process may be permitted for investment proposals that are assessed as low risk and small scale. The Indicative Business Case and the Detailed Business Case requirements are typically combined into a single and simpler business case that encompasses actions two to 24, but with less depth of analysis<sup>3</sup>. Refer to the Better Business Cases Scalability Matrix<sup>4</sup> and contact your Treasury Vote team and/or monitoring agency for clarification on whether or not a single stage Cabinet approval process is appropriate, and the level of analytical effort required.

## Gateway reviews

5. High risk capital proposals may also be subject to SSC Gateway review. Gateway applies to all high risk capital programmes or projects undertaken by departments or Crown agents, irrespective of scale or funding source. Gateway provides independent external peer reviews at key decision points. If the capital proposal is subject to Gateway review, the Indicative Business Case will assist to inform the Gate 1 (Business Justification and Options) review.<sup>5</sup>

<sup>3</sup> A Strategic Assessment is not normally required. A fit for purpose level of analysis may be agreed that may not require an ILM, detailed cost-benefit analysis or quantitative risk analysis.

<sup>4</sup> Refer to the Better Business Cases Overview booklet at available at <http://www.infrastructure.govt.nz/publications/betterbusinesscases>

<sup>5</sup> Refer to the SSC Gateway Review web-site at <http://www.ssc.govt.nz/gateway>

# The Strategic Case – Making the Case for Change

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6. The purpose of the strategic case is to outline the strategic context for the investment proposal and to make a robust case for change. The strategic case considers:
  - strategic context
  - investment objectives, existing arrangements and business needs
  - potential business scope and key service requirements, and
  - benefits, risks, constraints and dependencies.

## Action 2: Strategic Context

7. The strategic context provides an overview of the sponsoring organisation and the 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 organisational business strategies.

### Organisational overview

8. Provide a brief profile of the organisation, together with a statement of what it is seeking to achieve and evidence of the nature and level of resources currently at its disposal.
9. The key areas of focus include:
  - What are the main outcomes, impacts and objectives that the organisation is trying to achieve and why?
  - What is the nature and scope of the organisations activities and services (outputs), key stakeholders and customers (including the public)?
  - What resources are available to the organisation, including existing financial and funding arrangements, organisational structure and staffing, and how does it intend to manage this capability over time?
  - What is the current environment in which the organisation operates, including how it intends to respond to changes and possible risks?
10. It is expected that much of this information will be available in existing strategic planning documents, including the latest Statement of Intent, annual reports and other reporting to Ministers. Any recent and significant changes should be noted.
11. The expectation is that a brief summary is provided rather than repeating the content of readily available documents.

### Alignment to existing strategies

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

13. 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.
14. 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.
15. 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.

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

16. 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 or issues in addressing the above business gap (business needs).
17. Analysing a proposal in this way can help to provide a more compelling case for investment, as opposed to asserting that it is simply “a good thing to do”.
18. This section should build on the previous Investment Logic Map (ILM) analysis undertaken in the Strategic Assessment.<sup>6</sup> The ILM provides an initial assessment, at a high-level programme or project level, of the:
  - problems or issues driving the need for investment, and
  - high-level strategic interventions that respond to the identified problems.

#### **Setting key investment objectives**

19. Define the objectives for the proposed investment in terms of the desired outcomes and ‘what the organisation wants to achieve’. Procuring an asset or service is not an investment objective in itself.

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<sup>6</sup> A Strategic Assessment is generally not required for investment proposals that are low risk and small, with Whole of Life Costs (WOLC) less than \$25 million.

20. 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 (specific, measurable, achievable, relevant, and time-bound) to help facilitate the assessment of possible options and provide the foundation for post-implementation review and evaluation.
21. 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.
22. 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.
23. Where a Strategic Assessment has been undertaken and an Investment Logic Map developed, the strategic interventions identified as part of the process can provide a useful starting point for specifying the investment objectives.
24. As the investment objectives form key criteria for evaluating the long list options, significant effort is justified to ensure that the set of agreed investment objectives are concise yet robust. This can be achieved by an iterative process, revisiting and refining the objective definitions as subsequent assessment is undertaken. This may also need revisiting the ILM developed as part of the Strategic Assessment.

## Documenting existing arrangements

25. Summarise the status quo, within the parameters of the scope determined by the investment objectives. That is, describe the existing arrangements and explain how services are currently organised<sup>7</sup>, provided and supplied. Include details about stakeholders, customers, turnover, and asset availability, utilisation and condition.
26. The purpose is to provide a snapshot of where the organisation is now. This will form the basis for specifying the “base case” or “do nothing” option.

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<sup>7</sup> This may be based on the organisation overview summary in action two.

## Specifying business needs

27. 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.
28. The analysis should take into account 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.
29. This analysis can highlight any problems, difficulties and inadequacies associated with the status quo. It should also confirm and build upon the high-level problems or issues first identified in the Investment Logic Map.

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

30. Identify the potential scope of the proposal and the services required to satisfy the identified business needs and gaps.

### Establishing key service requirements

31. Identify the required services and rank by decreasing relevance compared to the investment objectives. The purpose is to ensure that the investment is driven by the service requirements, and not vice versa.
32. In practice, it is useful to rank potential service requirements in terms of a continuum of business needs, ranging from core, minimum requirements that describe the 'must haves', to those requirements that are clearly 'out of scope'. Desirable requirements are those things that could be considered if they represented good marginal value for money. Optional requirements may be included in the proposal provided if they can be added at low marginal cost.

### Defining potential business scope

33. Specify the scope of the proposal from the perspective of key stakeholders and users, typically in terms of affected business areas and functionality.
34. This step is important as it effectively sets out the boundaries, or limitations, of the proposal. Clearly specifying the business scope ensures that the proposal focuses on those key service requirements that meet the investment objectives. This process can identify and discard service needs that are clearly aspirational, meet the needs of only a small portion of users, result in excess capacity or capability, or that are clearly out of scope and unlikely to provide value for money.

35. 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 appropriate, innovative solutions.

**Table 1:** Example of the ranking of key service requirements and scope assessment for a hypothetical polytechnic campus development

Service Requirements (in decreasing order of relevance compared to the investment objectives)	Scope Assessment			
	Core	Desirable (if value for money)	Optional (if low marginal cost)	Discarded
Trade workshop redevelopment	Must have	x	x	x
One-stop shop student services	Must have	x	x	x
Staff learning centre	Must have	x	x	x
Technology-ready learning spaces	Must have	x	x	x
Flexible and collaborative learning spaces	Must have	x	x	x
Applied research projects	x	Desirable	x	x
Gym/sports and recreation centre	x	x	Nice to have	x
Conference facilities	x	x	x	Out of scope

**Action 5: Benefits, Risks, Constraints and Dependencies**

36. Assuming that the required services are to be delivered, identify the key benefits, risks, dependencies and constraints associated with the investment proposal. With the key investment objectives, this analysis will help inform the development of feasible options and the criteria used to assess these options.

**Identifying expected benefits**

37. Benefits are considered to be improvements in welfare realised by the organisation, individuals or the wider society as a consequence of the proposed investment. Unless otherwise agreed with the Treasury vote team, all significant benefits should be identified from a national economy perspective rather than just those that are realised directly by the organisation, stakeholders or users.

38. This analysis should build on the output of the Investment Logic Map (ILM) process undertaken in the previous Strategic Assessment<sup>8</sup>. The ILM process identified key benefits and benefit KPIs. These can provide a useful starting point and should be revisited.

<sup>8</sup> Note that a Strategic Assessment is not generally required for investment proposals that are low risk and small (with WOLC less than \$25 million).

39. The benefits should then be characterised by whether or not they are direct or indirect, monetary or non-monetary and quantitative or qualitative<sup>9</sup>. The categorisation of monetary and intangible benefits can be revisited and will inform the later economic analysis of options in the Detailed Business Case.
40. This should also identify the main categories of the beneficiaries of the proposal, both those affected directly by the investment and those affected indirectly elsewhere in the wider economy. This recognises that sometimes those investing the most financially might not always be the main beneficiaries.

**Table 2:** Examples of different types of monetary benefits

Monetary Benefit Examples	Beneficiary	Direct or indirect?
Efficiency gains [due to better utilisation of staff and facilities, reduced consumables, reduced maintenance costs and energy savings]	Organisation	Direct
Increased revenues or avoided costs [due to costs transferred to users or other parties, reduced risk of revenue loss]	Organisation	Direct
Higher incomes [due to skills or qualifications acquired]	Users	Indirect
Reduced user costs [due to time savings by users of web-based systems or reduced travelling times]	Users	Direct

**Table 3:** Examples of different types of non-monetary or intangible benefits

Non-monetary or Intangible Benefit Examples	Beneficiary	Quantitative or Qualitative?
Increase in staff skills [greater staff satisfaction resulting in lower turnover]	Organisation	Quantitative
Improved user outcomes [improved health outcomes resulting in higher QALYs – Quality of Life Years]	Users	Quantitative
Improved national security [improved capability to respond to contingent events]	Public	Qualitative
Improved community awareness [of smoking risks]	Public	Qualitative
Improved participation [in health food and exercise programmes]	Users	Quantitative

<sup>9</sup> Refer to the Treasury Cost Benefit Analysis Primer at <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis>

## Identifying the main risks

41. A risk is a contingency that can potentially impact on the achievement of investment objectives, by either reducing (a threat) or increasing (an opportunity) the net benefits associated with an investment proposal. The level of risk is a function of the probability of the contingent event occurring and its likely impact.
42. There is always likely to be some difference between what is expected and what eventually happens, because of biases inherent in the assessment and the risks and uncertainties that materialise during the design, build, and operational phases of a project. As a result, risk management strategies should be adopted for the assessment and implementation of proposals. This is because things can always go better than expected ('upside risk') as well as worse ('downside risk').
43. The main risks associated with the proposal should be identified and assessed. The emphasis should be on the 20% of risks which are likely to account for 80% of the total risk. Risks first identified as part of the Strategic Assessment can be revisited and updated.
44. The aim of this process is to consider risks that might create, enhance, prevent, degrade, accelerate or delay the achievement of the investment objectives of the proposal.
45. Detail the sources of risk, the likely impact (high, medium or low), estimated probability of occurrence (high, medium or low) and relevant factors including possible changes in circumstances, causes and potential consequences. This analysis will be revisited in the Detailed Business Case and based on the preferred option.
46. It is important to develop a risk register from the very beginning of the business case development process.<sup>10</sup>
47. The risk register should be updated regularly and used on a consistent basis for:
  - identifying the main risks (in the strategic case)
  - quantifying and assessing significant risks that impact on net benefits (in the economic case)
  - apportioning and transferring service risks (in the commercial case), and
  - mitigating and managing risks over the life cycle of the project (in the management case).
48. For further detail, refer to the joint Australian New Zealand Standard AS/NZS ISO 31000:2009 "Risk management - principles and guidelines" available from Standards NZ.<sup>11</sup>

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<sup>10</sup> Refer to action 23 of the management case.

<sup>11</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>

**Table 4:** Example of the initial risk assessment for a hypothetical proposal

Risk Event	Impact (H/M/L)	Probability (H/M/L)	Risk Management Approach
<b>Demand for services less than forecast</b>	High	High	Accept this risk and allow for variability in revenue projections.
<b>Efficiency gains are not realised</b>	High	Med	Manage by monitoring benefits realisation and by planning for contingencies.
<b>Lack of community support</b>	High	Medium/ Low	Mitigate this risk by early communication, via local news media.
<b>Organisation lacks capability to implement</b>	High/ Medium	Medium/ Low	Remove this risk by investing in appropriate capability during implementation.
<b>Change management</b>	High	High	Mitigate this risk by managing staff expectations and providing development opportunities.
<b>Project over-budget or over-time</b>	Medium	Med/high	Mitigate by negotiating risk-sharing arrangements with contracted service providers.

## Optimism bias

49. The most familiar form of risk to investment objectives is that the estimated future costs arising from the given proposal are overly conservative, the benefits are overly optimistic, or both. The early analysis may not fully reflect the possibility of cost-overruns, short-falls in demand or implementation timing delays. This is termed optimism bias.
50. There is a demonstrated, systematic, tendency for individuals to exhibit optimism bias when preparing spending proposals. The effects of optimism bias can be mitigated by making explicit adjustments to key assumptions and variables, for example by increasing proposal cost estimates, reducing projected benefits, or by assuming benefits are delayed.
51. The amount of optimism bias typically depends on the nature of the investment proposal and the accuracy of the estimates for proposal costs and benefits. As the business case development proceeds and estimates are refined, the level of optimism bias can be expected to reduce and incorporated as a contingency in the contracted project.
52. A 2002 review by Mott McDonald of the optimism bias inherent in a sample of large UK projects resulted in the following indicative table of percentage adjustments. These adjustments are based on estimates at the Detailed Business case stage.<sup>12</sup>

<sup>12</sup> Refer to the HM Treasury Green Book supplementary guide at [http://www.hm-treasury.gov.uk/data\\_greenbook\\_supguidance.htm](http://www.hm-treasury.gov.uk/data_greenbook_supguidance.htm)

**Table 5:** HM Treasury (UK) optimism bias adjustments by project type

Project Type	Optimism Bias (%) (for a Detailed Business Case)			
	Works Duration		Capital Expenditure	
	Upper	Lower	Upper	Lower
<b>Standard Buildings</b>	4%	1%	24%	2%
<b>Non-standard Buildings</b>	39%	2%	51%	4%
<b>Standard Civil Engineering</b>	20%	1%	44%	3%
<b>Non-standard Civil Engineering</b>	25%	3%	66%	6%
<b>Equipment/ Development</b>	54%	10%	200%	10%
<b>Outsourcing (operating expenditure)</b>	n/a	n/a	41%	0%

53. In the absence of more appropriate estimates of the level of bias, the above adjustments can be taken into account when estimating costs and benefits. Note that since optimism bias reduces over time, higher adjustments may be appropriate in the Indicative Business case compared to the Detailed Business Case.

**Identifying and managing constraints**

- 54. Constraints are limiting parameters within which the investment must be delivered. These can include relevant Government policy decisions, initiatives or rules. Affordability constraints can include funding envelopes or limits on the amount of either operating or capital expenditure that can be incurred.
- 55. Likely constraints imposed on the proposal should be identified and managed from the outset, as they can limit the range and scale of the investment options that may be considered for further assessment.

**Identifying dependencies**

- 56. Any actions or developments required of others and outside the scope of the project or programme should be considered if the ultimate success of the investment proposal is dependent upon them. For example, this could encompass the delivery of outputs associated with other projects within the same overall programme.

## Economic Case – Exploring the Preferred Way Forward

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57. Having determined the strategic context for the investment proposal and established a robust case for change, this part of the Indicative Business Case focuses on identifying and assessing the main options available for delivering the required services.
58. The purpose is to develop short-listed options and an indicative or preferred way forward as the basis for seeking early approval from Ministers to proceed with more detailed assessment of the options as part of the Detailed Business Case.

### Action 6: Critical Success Factors

59. Critical success factors are those attributes essential to successful delivery of the investment. The key point is that they must be crucial, not desirable. As the critical success factors form part of the criteria for the initial options assessment, they should not be set at a level which could potentially exclude important options.
60. Questions that can prompt the identification of a concise set (three to five) of critical success factors, from the perspective of key stakeholders, include:
  - What condition is critical to meeting the investment objectives and service requirements?
  - What is critical to achieve business continuity of essential services?
  - What is critical to achieving value for money, maximising the return on the investment and/or minimising possible risks to delivery?
  - What would have to be in place for stakeholders to be confident that:
    - potential service providers have the capacity and capability to deliver the required services and functionality?
    - costs will remain within funding constraints and the project or programme remains affordable?
    - the organisation can deliver the project or programme?

### Action 7: Long List Options and Initial Options Assessment

61. 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 short-list options.
62. Where a Strategic Assessment has been undertaken and an Investment Logic Map (ILM) developed, the analysis of strategic interventions should be revisited and incorporated.

## Identifying long list options

63. Consider a wide range of realistic options for meeting the identified service needs.
64. One way to generate the long-list options is by the use of a facilitated workshop composed of a representative group of senior business managers, stakeholders, users and technical specialists. This process 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 or innovative options.
65. 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. The analysis of the existing arrangements undertaken in action three can be used to inform the specification of the base case.
66. All proposals requiring Cabinet approval that have whole of life costs in excess of \$25 million must include an evaluation of alternative procurement options that includes a public private partnership (PPP) option.
67. A suggested approach is to consider possible sub-options within each of five dimensions (scale, service solution, service delivery, implementation and funding). In the worked example overleaf, there are potentially hundreds of composite options for meeting the service need<sup>13</sup>. Only a portion of these options will typically result in feasible long-list options.
68. Impractical long-list options can be ruled out early to avoid undue time or effort being expended on further assessment. Impractical options may sometimes be ruled out early for valid legal, financial or political reasons. These constraints were identified earlier in action five.

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<sup>13</sup> By consideration of all possible combinations of the three (excluding the base case) scoping options, the three service solution options, the two service delivery options, the three implementation options and the three funding options, it is possible to generate up to 162 possible composite long-list options

**Table 6:** Identification of long list options for each of the five dimensions for a hypothetical hospital campus redevelopment proposal

Dimension	Description	Long-list options by dimension
<b>1. Scale, scope and location</b>	In relation to the proposal, what levels of coverage are possible?  For example, by levels of functionality, geographic coverage, population/user base, organisation, etc.	<ul style="list-style-type: none"> <li>Do nothing (routine maintenance and essential refurbishment only)</li> <li>Redevelop Muldoon clinical services block only</li> <li>Muldoon plus four theatres (electives)</li> <li>Greenfields full services build at Holy Oaks site</li> </ul>
<b>2. Service solution</b>	How can services be provided?  For example, potential solutions and answers, use of technologies, etc.	<ul style="list-style-type: none"> <li>Off-site Integrated Family Health Clinic (IFHC)</li> <li>Off-site IFHC and oncology services</li> <li>Full service solution on-site</li> </ul>
<b>3. Service delivery</b>	Who can deliver the services?  For example, in-house or out-sourced, with differing procurement strategies.	<ul style="list-style-type: none"> <li>Conventional design and build</li> <li>Public Private Partnership (PPP) - DBM<sup>14</sup></li> </ul>
<b>4. Implementation</b>	When can services be delivered?  For example, timing and staging, big bang, phased, modular, etc.	<ul style="list-style-type: none"> <li>Single stage construction</li> <li>Two stage construction to ensure continuity of laboratory services</li> <li>Single stage deferred by three years</li> </ul>
<b>5. Funding</b>	How can it be funded?  For example, capital or operating, privately or Crown funded, user charging, etc.	<ul style="list-style-type: none"> <li>Crown equity funding</li> <li>Crown debt funding</li> <li>PPP - DBFM</li> </ul>

69. If long-list options with regulatory impacts are being considered, a Preliminary Impact and Risk Assessment (PIRA) may be required if this has not already been addressed. Refer to the Treasury Regulatory Impact Analysis Handbook and contact The Treasury for further guidance.<sup>15</sup>

### Initial assessment of the long list options

70. Following the identification of feasible long-list options, the next step of the facilitated workshop process is to conduct an initial assessment of the long list options.

71. In the United Kingdom, the following initial options assessment approach has proven to be particularly useful as a means of engaging senior management on the preferred

<sup>14</sup> There are several aspects to the development of major fixed asset that may be contracted to external service providers as part of a Public Private Partnership (PPP) arrangement. These are design (D), build (B), finance (F), maintenance (M) and operate (O).

<sup>15</sup> Refer to the Treasury web-site at <http://www.treasury.govt.nz/publications/guidance/regulatory/impactanalysis>

way forward, prior to the more thorough financial and economic analyses to be undertaken in the Detailed Business Case.

72. The long-list options can be presented in tabular form as shown in Annex Two to this booklet. Options are grouped by dimension across the table. Each option is then ranked against the assessment criteria listed in each of the rows.
73. The suggested assessment criteria are:
  - a) Investment objectives: Each option can be ranked in terms of how well it meets each of the investment objectives specified in action three. The approach taken in Annex Two is to rank the option as either fully meeting the objective ('yes' or green), partially meeting the objective ('partial' or amber) or failing to meet the objective ('no' or red). More sophisticated scoring approaches can be adopted depending on the individual proposal.
  - b) Critical success factors: Annex Two ranks each option as either yes, partial or no against each of the critical success factors. A fail against any critical success factor typically results in the option being disregarded from further consideration.
  - c) Advantages/ disadvantages: This is a qualitative analysis approach that considers the efficacy of the option in terms of benefits likely to be delivered, the level of associated risks and any relevant constraints or inter-dependencies. This analysis can be documented separately and presented as part of the overall assessment table in Annex Two.
74. Within each of the five dimensions, an option is preferred as part of the workshop process if it ranks highly against all of the criteria. In Annex Two, four composite short-list options are constructed and carried forward for further consideration (along with the base case option).

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

75. Based on the initial assessment of the long-list options, develop an indicative or preferred way forward as the basis for seeking early approval from Ministers to proceed with further assessment as part of the subsequent Detailed Business case.
76. This stage one decision can influence the direction of the analysis and prevent too much effort being put into the development of proposals or options that should not proceed.

### **Short-listing a Public Private Partnership (PPP) option**

77. Where a public private partnership (PPP) or other alternative procurement option has been short-listed as part of the initial options assessment, an alternative approach is required for seeking approval from Ministers and approaching the market.
78. Refer to the supplementary PPP guidance in Annex One to this booklet.

## Recommending the short list (conventional procurement)

79. Three to five short-listed options should be recommended for further assessment in the Detailed Business Case, including :
- the base case option - either the 'do nothing'/status quo or 'do minimum' option which then provides the benchmark for considering the relative value for money of alternative options
  - the preferred option from the long list assessment, and
  - one to three of the next highest ranking alternate options from the long-list assessment.

## Indicative costs and benefits

80. For each short-listed option, indicative costs and benefits should be provided.
81. Given the early stage of the analysis it is likely that there is a high degree of uncertainty around the estimates. The accuracy of estimates will depend on the nature and complexity of the proposal and the availability of existing benchmarks or market analysis.
82. A range-based approach that is adjusted for contingencies and optimism bias is preferred, as this can avoid creating unrealistic expectations of the level of funding likely to be required. Any assumptions should be high-lighted.

## Outlining the commercial case

83. For each of the short-listed options, provide an initial assessment of the likely attractiveness of the proposal to potential service providers. This is particularly relevant for innovative or more complex services where there may be little market depth and experience.

## Outlining the financial case

84. Provide an initial assessment of the affordability of the short-listed options. This can include:
- the current financial situation of the organisation
  - an overview of resources available for implementing the proposal, including an assessment of the ability of the organisation to provide on-going support
  - any capital and revenue constraints, and
  - statements of strategic or in-principle support from stakeholders.

## Outlining the management case

85. Provide an initial assessment of the capacity and capability of the organisation to implement each of the short-listed options, including:
- the key people required for the successful implementation of the investment proposal, both inside and outside of the organisation, including users, commissioners and other key stakeholders
  - achievability of the proposal, taking into account organisational readiness and available resources
  - how the project is to be governed and managed
  - other key managerial considerations, including change management, training needs, post-project evaluation and timing of key deliverables, and
  - the next steps needed to develop the business case and implement.

## The Chief Executive's Statement

86. A letter should be provided by the chief executive (or equivalent commissioner) and included as an annex to the Indicative Business Case. This letter should:
- demonstrate that the chief executive has been actively involved in the development of 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 indicative cost and benefit estimates of the proposal are sound and based on best available information
  - state the margins of leeway beyond which any support must be revalidated, and
  - demonstrate that suitable contingency arrangements are in place to address any current or unforeseen affordability pressures.

## Annex One: Public Private Partnership (PPP) Process

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87. All proposals requiring Cabinet approval that have whole of life costs in excess of \$25 million must include an evaluation of alternative procurement options that includes a public private partnership (PPP) option.
88. Where a public private partnership (PPP) option has been short-listed as part of the initial options assessment, an alternative approach is required for seeking approval from Ministers and approaching the market:
- **Action 8a:** Based on the initial assessment of the long-list options, seek early approval from Joint Ministers to proceed with more detailed economic assessment of the short-listed options. Where joint Ministers decide not to proceed with a PPP option, the short-list should be based on conventional procurement options identified in the initial long list options assessment and proceed to action 8 - recommended preferred way forward (non-PPP).
  - **Action 8b:** Undertake detailed economic analysis of the short-listed options to determine the preferred solution that maximises value for money. Alternative procurement options for delivering the preferred solution are not assessed at this stage. Refer to the guidance in action 10 - economic assessment of the short listed options.
  - **Action 8c:** Determine how best to procure the preferred solution. Formally approach the market to assess the capacity and capability of providers to deliver the required services and to seek assistance in shaping service requirements. Refer to the guidance in action 14 - determining the procurement strategy.
  - **Action 8d:** Based on the detailed economic analysis of the short-listed options, recommend the preferred service solution and seek approval from Cabinet Ministers to proceed with more detailed assessment of the procurement options. The preferred way forward should recommend further economic analysis of the procurement options (the public sector comparator and the PPP delivery option) in the Detailed Business Case.

# Annex Two: 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			
	* 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.															