

# Better Business Cases for Capital Proposals Toolkit: Strategic Assessment

8 July 2011



**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

New Zealand Government

## Acknowledgements

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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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### Internet

The URL for this document on the Treasury's National Infrastructure Unit website at 8 July 2011 is <http://www.infrastructure.govt.nz/publications/betterbusinesscases>

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# Developing a Strategic Assessment

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## Purpose

1. The purpose of the Strategic Assessment is to allow internal and external stakeholders to consider the merits of a proposed investment and determine if it warrants further investigation. The Strategic Assessment is intended to provide stakeholders with a high degree of confidence that the investment they are considering is in response to a true service need and that this response aligns with Government's key strategic priorities.
2. The Strategic Assessment can be developed for either projects or programmes, although the focus for each is slightly different. While a Project Strategic Assessment may scope indicative solutions for further analysis, a Programme Strategic Assessment will only focus on key strategic responses to problems or business needs. Further examples of the differences are included throughout this booklet.
3. The key questions that are answered as part of the Strategic Assessment are:
  - What is the problem or business need that is causing us to consider a new investment?
  - What benefits will the organisation expect in successfully responding to the problem or business need?
  - What strategic responses will best address the identified problem or business need?
  - How are these strategic responses aligned with Government and agency policy?
4. The Strategic Assessment builds on the information developed as part of the Investment Logic Mapping (ILM) approach, a series of workshops led by an ILM facilitator.
5. The State Services Commission (SSC) and the Treasury provide on-going support to assist State sector agencies to develop and access the ILM capability. The State Services Commission regularly runs training and overview sessions on the ILM approach, and helps train accredited facilitators across the Public sector. The SSC is also directly responsible for the Gateway assurance process, including Independent Quality Assessment (IQA), and Qualitative Risk Assessment (QRA).<sup>1</sup>

## When to Undertake a Strategic Assessment?

6. A Strategic Assessment 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, Capital Asset Management in Departments and Crown Entities: Expectations, and are either large (over \$25 million whole-of-life cost) or high risk (based on the New Zealand Gateway Risk Profile Assessment (RPA) methodology).

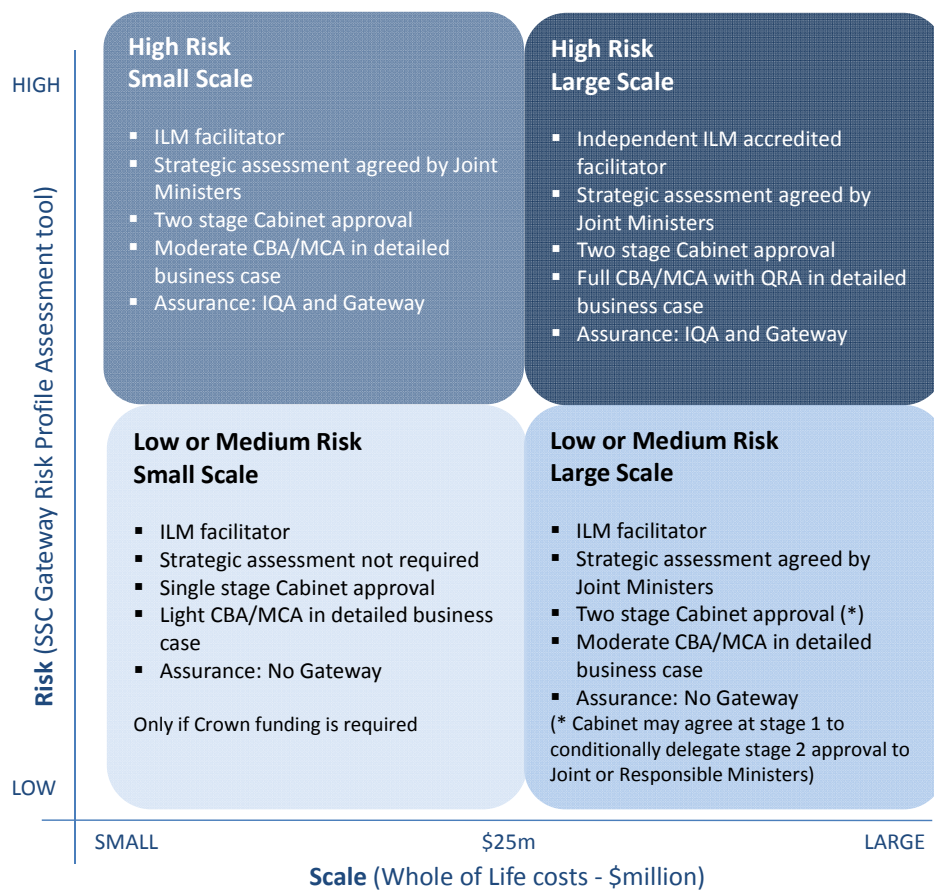
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<sup>1</sup> For further information on ILM facilitators in New Zealand, or further information on IQA and QRA, contact the SSC at [gatewayunit@ssc.govt.nz](mailto:gatewayunit@ssc.govt.nz)

The capital proposal may also be subject to Gateway review<sup>2</sup>. If so, preparing the Strategic Assessment will inform the Gate 0 review. Early engagement is essential with the SSC Gateway Unit for capital proposals that are likely to require Gateway reviews.

7. The Strategic Assessment should be completed prior to commencing development of an Indicative Business Case or Programme 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 to stakeholders.
9. Contact your Treasury Vote team or monitoring agency for clarification and guidance on whether or not a Strategic Assessment is required. A summary of the scalability matrix is included below.

**Figure 1:** Scalability Matrix based on estimated scale and level of risk of the investment proposal<sup>3</sup>



<sup>2</sup> Refer to the Better Business Cases Overview booklet or <http://ssc.govt.nz/gateway> for further information about the Gateway process.

<sup>3</sup> Source: *Better Business Cases for Capital Proposals Quick Reference Guide*, available from <http://www.infrastructure.govt.nz/publications/betterbusinesscases>

# Strategic Case – Making the Case for Change

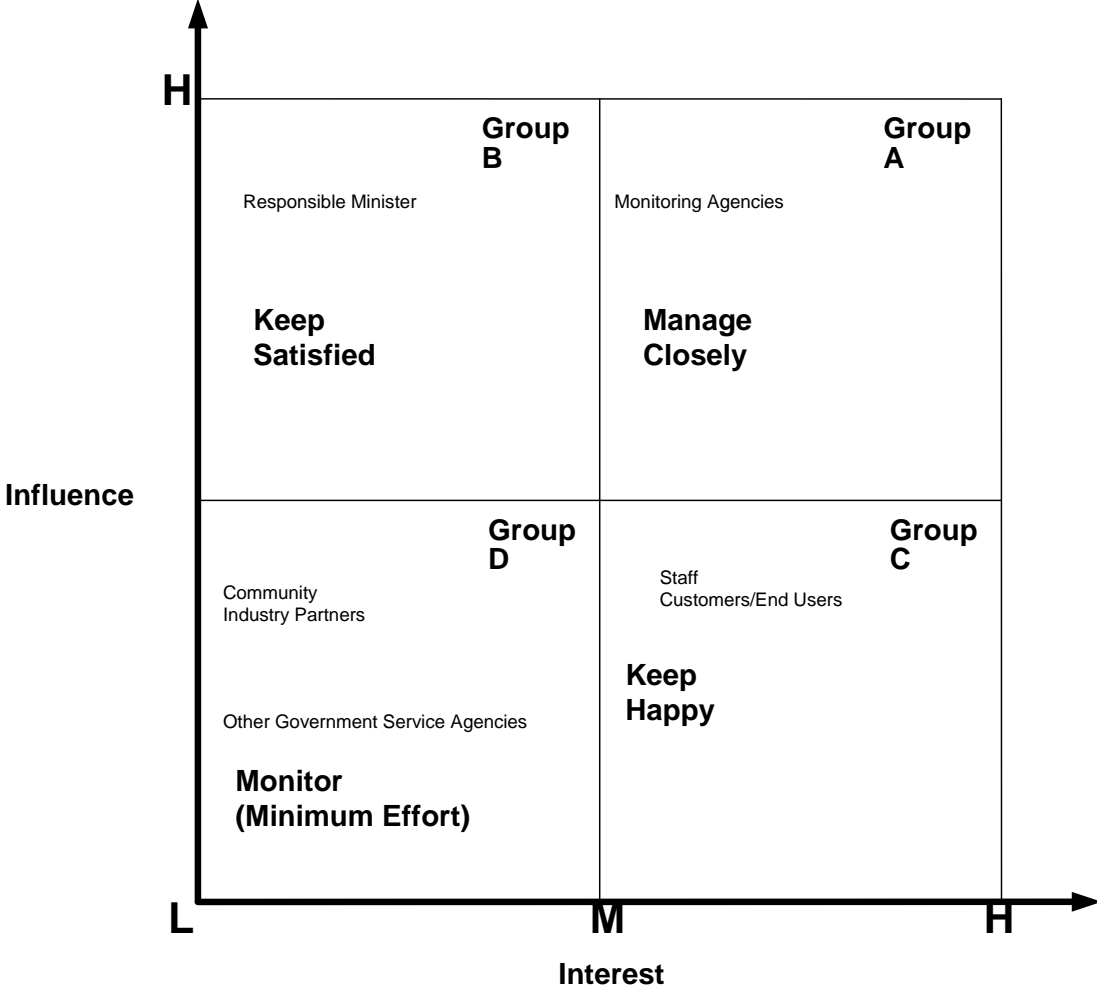
## Action 1: The Case for Change

10. As part of an organisation’s normal planning processes, investment requirements are identified that are required in order to deliver Government outcomes and policy objectives. This identification process can occur as a result of strategic policy decisions by Cabinet, or as part of normal business planning. The Strategic Assessment provides both the organisation and monitoring agencies certainty that the proposed investment will help deliver Government’s outcomes.

## Identifying Key Stakeholders

- 11. Prior to confirming the case for change, key stakeholders for the proposal should be identified that can assist in developing the investment story. Key stakeholders have a vested interest in the investment proposal, will provide specialist judgement and opinions to help confirm the need for investment.
- 12. It is important that the right stakeholders are identified to assist in developing the case for change. Each stakeholder is identified by determining the amount of interest that they have in the proposal, as well as the amount of influence they have in driving success of the proposal. An example Boston Square is located below.

Figure 2: Sample Boston Square used for stakeholder management



13. Without the right stakeholders, the ILM will not deliver a clear understanding of the service need, nor will it provide clarity on the appropriate strategic responses.

## Using the Investment Logic Map (ILM)

14. Developing the investment story to support the Strategic Assessment is conducted by following the Victoria Department of Treasury and Finance's (DTF) Investment Logic Mapping (ILM) approach.
15. An accredited or expert ILM facilitator should be engaged throughout the ILM process. An accredited facilitator should be utilised for all large and high-risk initiatives. An expert facilitator can be utilised for smaller and low-risk initiatives. The State Services Commission and Treasury can assist in identifying an appropriate ILM facilitator.
16. The Strategic Assessment is developed through a series of three two-hour workshops with stakeholders, including sponsors, business and project managers. These workshops enable stakeholders to identify the need for a potential investment, and validate that the potential investment aligns with key agency and Government outcomes. The three outputs of the workshops are the:
  - Investment Logic Map (ILM)
  - Benefits Management Plan, and
  - Investment Concept Brief.

## Developing the Investment Logic Map (ILM)

17. The ILM provides a clear understanding of why an investment is being considered (the problem) and some idea as to how the organisation should respond to this issue. It then becomes one of the key foundation documents for the capital proposal. An example is included at the end of this booklet.
18. The ILM can help the stakeholder panel clearly define and validate the problem or business need, and the benefits that potential solutions can be expected to deliver. The tool can also help to scope indicative strategic responses.
19. The questions that need to be answered when developing the ILM are:
  - What is the problem?
  - What is the best strategic response to the problem?
  - What benefits does any investment need to deliver?
  - What are possible strategic responses to the problem?
20. Most time in the first two-hour discussion will be spent identifying, articulating and prioritising the 'problems'. The problems are generally written in simple language and imply both the cause (what is the problem), and the effect (why this is a problem for the organisation).
21. Once the problems have been agreed and identified, the discussion will then turn to the strategic interventions that will best respond to the business needs or problems. The

benefits that the investment must produce in responding to the problems are also stated, with KPIs for achievement of these benefits detailed as well.

22. Any indicative strategic responses should be sufficiently broad enough that they can be refined and analysed at later stages. The identification of responses should not limit viable investment and long-list options. Strategic responses can also result in non-asset based solutions, such as development of a capability or training.

## Developing the Benefits Management Plan

23. Following the completion of an ILM, a second workshop is held to validate and confirm the benefits identified as part of the ILM. This second workshop focuses on ensuring that the benefits and KPIs identified as part of the ILM are still valid, and that they follow SMART principles.
24. A Benefits Management Plan is developed that helps further confirm the benefits identified in the ILM, assigns key performance indicators (KPIs) to those benefits, and makes one person (the SRO) accountable for delivering those benefits.
25. The workshop participants validate the most suitable KPIs for each benefit, using SMART criteria<sup>5</sup>:
  - Specific (must be clear and unambiguous)
  - Measurable (has an existing baseline; is cost-effective to measure progress).
  - Achievable (the goal is neither out of reach nor below standard performance)
  - Realistic (must represent a goal toward which the project is willing to work) , and
  - Time-bound (grounded within a time-frame).

## Developing the Investment Concept Brief

26. Following the development of the ILM and Benefits Management Plan, a final two-hour workshop is held to develop and refine the Investment Concept Brief. This workshop reviews information collected as part of the ILM and Benefits Management Plan, and ensures that the proposal can be effectively summarised. The Investment Concept Brief also confirms how the proposed investment aligns with key Government and agency policies.
27. The Investment Concept Brief is a simple one-page summary of the proposed investment. The document should summarise all information contained in the ILM, Benefits Management Plan, and also include rough-order costs and timescales associated with delivery of the proposal.
28. The Investment Concept Brief can function as an executive summary for the Strategic Assessment. An example is included in the back of this document.

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<sup>5</sup> Note that the Victorian Strategic Assessment guide refers to MAM rather than SMART. However, we have assumed that MAM and SMART criteria are largely interchangeable. 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)

## Confirming Strategic Alignment

29. Once the workshops have been completed, the proposal should identify how the strategic responses identified as part of the ILM process support the achievement of key Government outcomes and objectives.
30. Considering the problem and the strategic interventions in the context of how they align with key policy:
  - ensures that the focus of the proposal is on big, tractable issues that have precedence over other issues in the sector
  - targets significant change for New Zealanders, with measurable results based on tangible goals, and
  - broadly identifies any key relationships or interdependencies with other Government organisations in delivering any proposed solutions.
31. The Strategic Assessment should be broad enough to accommodate changes to service levels or requirements in later stages, since these may be refined while the proposal is being developed.

# Annex One: Example Project Investment Logic Map

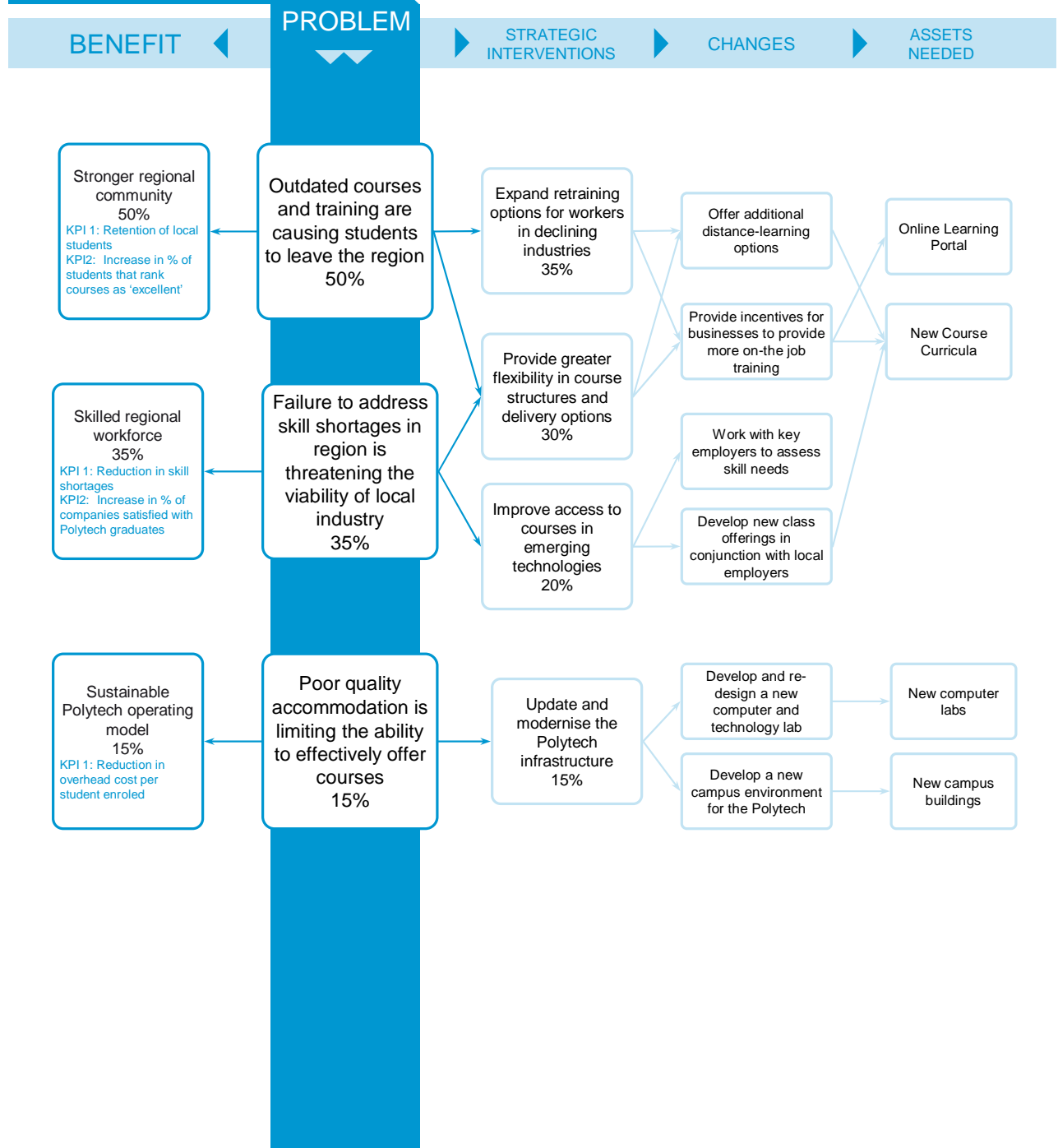
## New Learning Options

Reinvigorating the learning curricula at ABC Polytechnic

Tertiary Education Commission

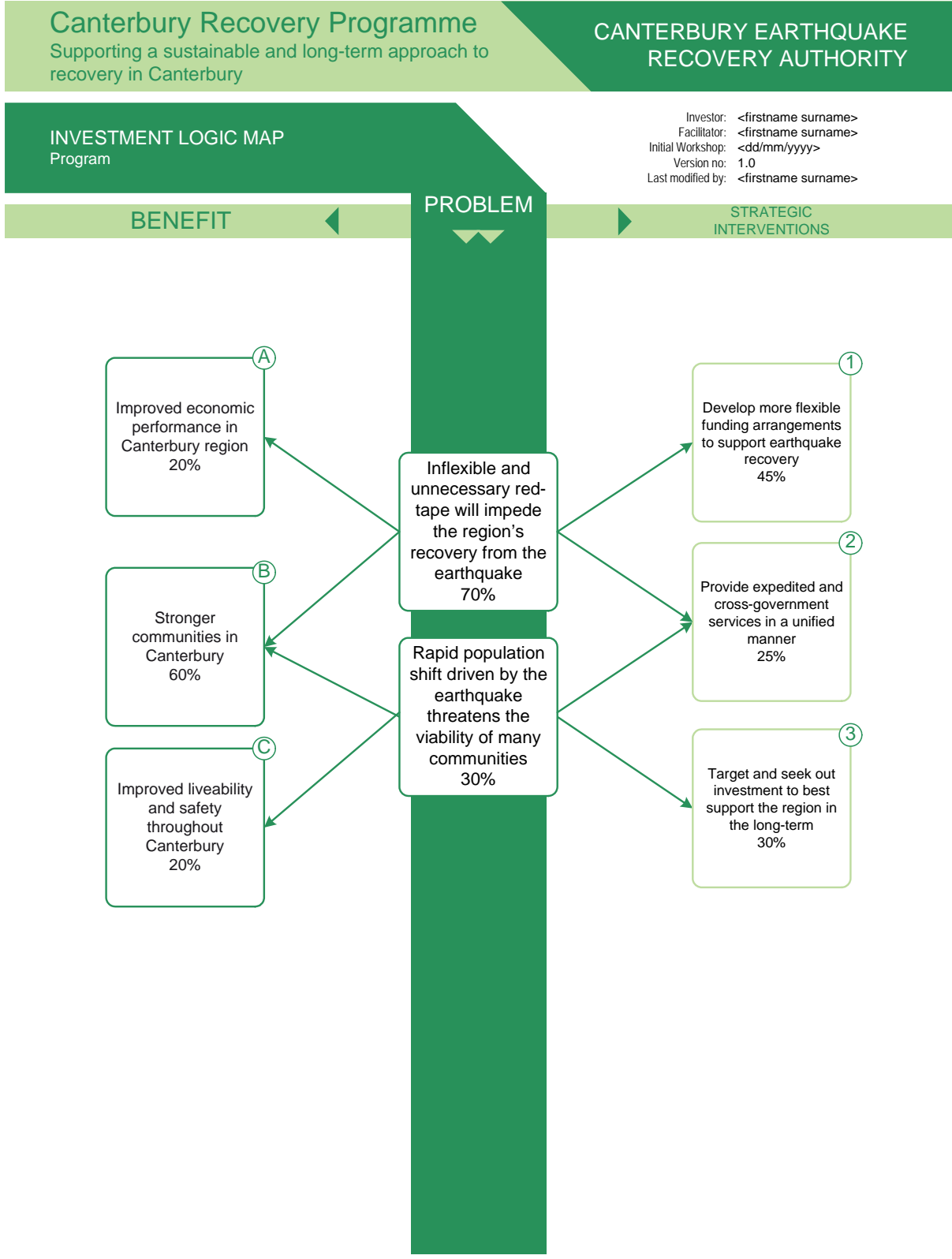
### INVESTMENT LOGIC MAP

Investor: <firstname surname>  
 Facilitator: <firstname surname>  
 Initial Workshop: 03/06/2011  
 Version no: 1.0  
 Last modified by: <firstname surname>



Template version: 4.0

# Annex Two: Example Investment Logic Map for Programmes



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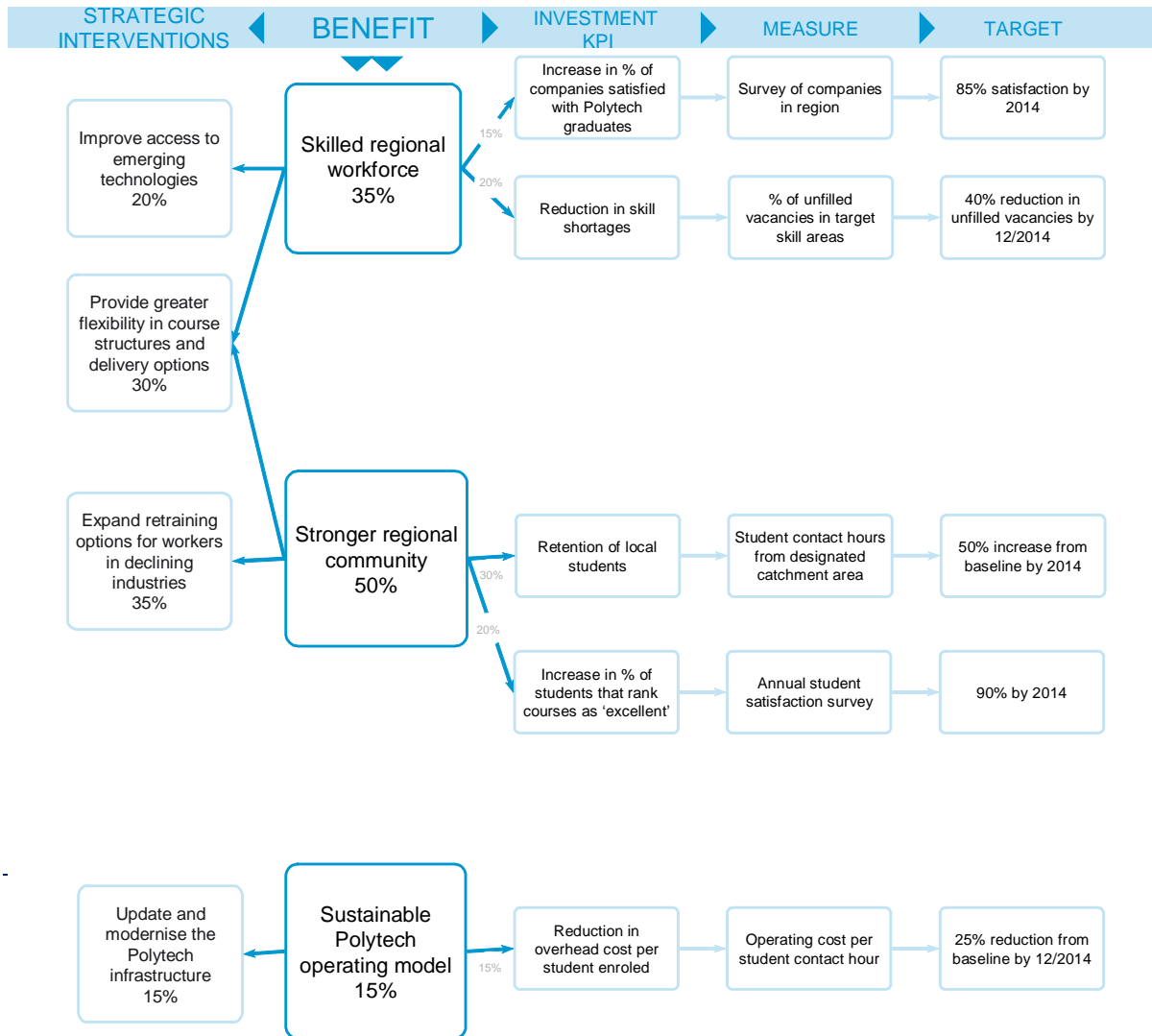


# Annex Four: Sample Benefits Management Plan

Benefit Management Plan  
Benefit Map

New Learning Options  
Tertiary Education Commission

Investor: <firstname> <surname>  
Facilitator: <firstname> <surname>  
Initial Workshop: <date>  
Version no: <version>  
Last modified by: <firstname> <surname>



Template version: 4.0