

# Better Business Cases for Capital Proposals Toolkit:

## Overview

24 February 2012



**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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## About this Document

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A vital part of the work of investment is the proper 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.

The New Zealand state sector makes significant capital investments in infrastructure and improving public services. There is over \$110 billion worth of physical assets in the state sector- and a further \$38 billion in the pipeline over the next five years<sup>1</sup>.

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 report<sup>2</sup>, "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.

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.

When considering how to apply this guidance, you should refer to Cabinet Office Circular CO(10) 2<sup>3</sup> *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.

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 the Major Projects Monitoring Unit in the State Services Commission (SSC) or other

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<sup>1</sup> Based on available information as at July 2011.

<sup>2</sup> Refer to the Standish Group web-site at [http://www1.standishgroup.com/newsroom/chaos\\_2009.php](http://www1.standishgroup.com/newsroom/chaos_2009.php)

<sup>3</sup> Refer to the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

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 find aspects of business case guidance previously promulgated by the Treasury, SSC and other Government agencies relevant and useful.

This guidance is not intended to comprehensively cover all the related aspects of business case development such as OGC Gateway<sup>TM</sup> review or other Independent Quality Assurance (IQA), regulatory impact analysis, Public sector procurement, Public Private Partnerships (PPPs), Treaty requirements or the monitoring processes applied by central and other monitoring agencies. For detailed rules and expectations on these aspects, you should refer to the relevant existing guidance.

# Overview

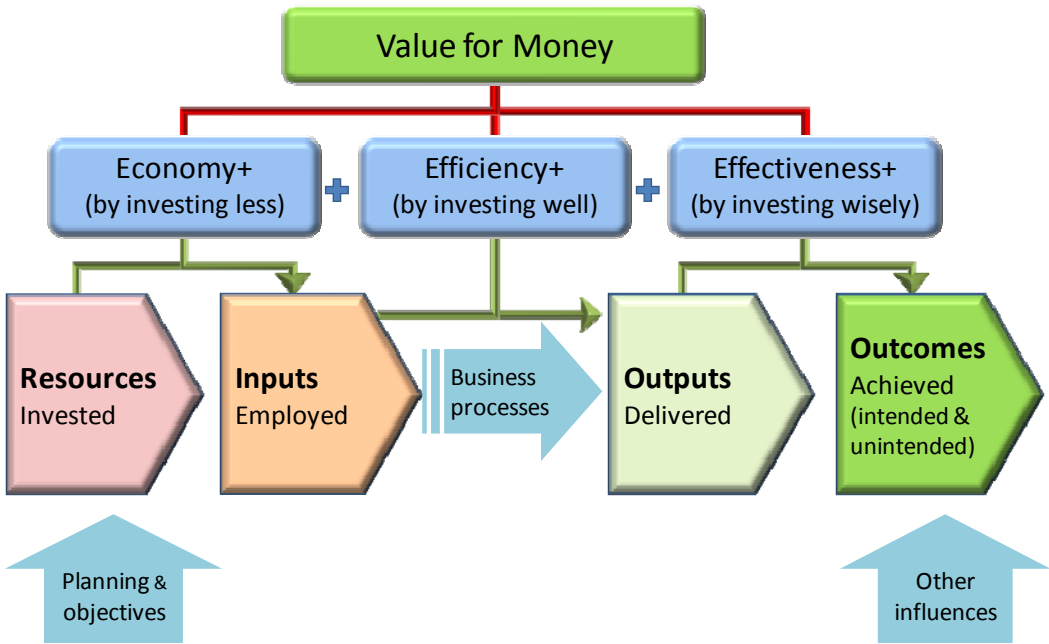
## What is a Business Case?

1. A business case provides the justification for undertaking a project. It is the articulation of a compelling case to decision-makers for the investment of scarce resources to deliver planned benefits.
2. However, a business case is not just about gaining approval for funding. A robust business case should provide:
  - an explicit and systematic basis for decision-making
  - transparency and accountability for the use of scarce resources
  - an effective communication tool for engaging stakeholders and providing assurance that the proposed investment is affordable, achievable and maximises value for money compared to alternative spending priorities, and
  - a plan for post-implementation review over the life of the project that includes the management of risks and the delivery of expected benefits on time and within budget.

## Maximising Value for Money

3. The Government is a major consumer of New Zealand’s available resources and consequently needs to ensure that investment proposals maximise value for money to the economy and society. This means that capital investment decisions are taken by State sector agencies to ensure *the right capacity to deliver the right Public services in the right place at the right time.*
4. Value for money measures the relationship between outcomes achieved and the underlying resources consumed by Government to achieve these outcomes. If better outcomes are achieved from the resources used, then value for money is improved.

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



5. 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 inputs.
  - iii. **economy**, by investing prudently. This means minimising the resources consumed by an organisation for a given level of inputs employed.
6. 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.
7. 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.
8. 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.
9. 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.

## The Five Case Model

10. The Five Case Model has been adopted by the New Zealand Government as the basis for the Better Business Case process. The Five Case Model provides explicit assurance to Ministers, stakeholders, officials and managers that the proposed investment:
  - 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**', and
  - v. is achievable, the '**management case**'.
11. The Five Case 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.
12. The strategic case demonstrates that the investment proposal is well-aligned to Government policy objectives and to organisational strategy. The strategic case should provide a robust and well-evidenced case for change and clear specification of the investment objectives and required service needs. The focus should be on service needs driving capital investment, not the other way round.

13. The economic case is intended to demonstrate that all viable options for delivering the required services and meeting the investment objectives have been thoroughly analysed. The preferred option should represent the best value for money for the Crown from a national economy perspective and under varying future scenarios.
14. The purpose of the commercial case is to show that the preferred option will result in a transparent, accountable and sustainable procurement arrangement that achieves desired outcomes and provides value for money.
15. The financial case shows that the preferred option can be funded and is affordable to both Government and the organisation under various future scenarios.
16. The purpose of the management case is to demonstrate that the preferred option can be delivered successfully using best practice project and programme management. This includes setting processes in place for change, risk and contract management, as well as managing the on-going delivery of expected benefits.
17. The five cases are **not** discrete business case deliverables. The five cases are embedded into the business case development process and provide an organising structure for the underlying analysis and communications to stakeholders.
18. The Five Case Model was developed in the United Kingdom (UK) as a framework for decision-making for capital investment proposals<sup>4</sup>. The model is the best practice standard recommended by the HM Treasury for the preparation of business cases and is used extensively within UK government departments and agencies.

## The Better Business Case Development Process

19. The Better Business Case development process is based on the UK Treasury business case toolkit and the Five Case Model<sup>5</sup>. The UK process has been modified by The Treasury to fit within the New Zealand Government context, where applicable, by:
  - integrating the Logic Map (ILM) process
  - integrating the two stage Cabinet approval process<sup>6</sup>
  - co-ordinating with existing Treasury guidance for Public Private Partnerships (PPPs), cost benefit analysis, public sector procurement and regulatory impact analysis, and
  - integrating accepted good practice programme and project management methodologies.

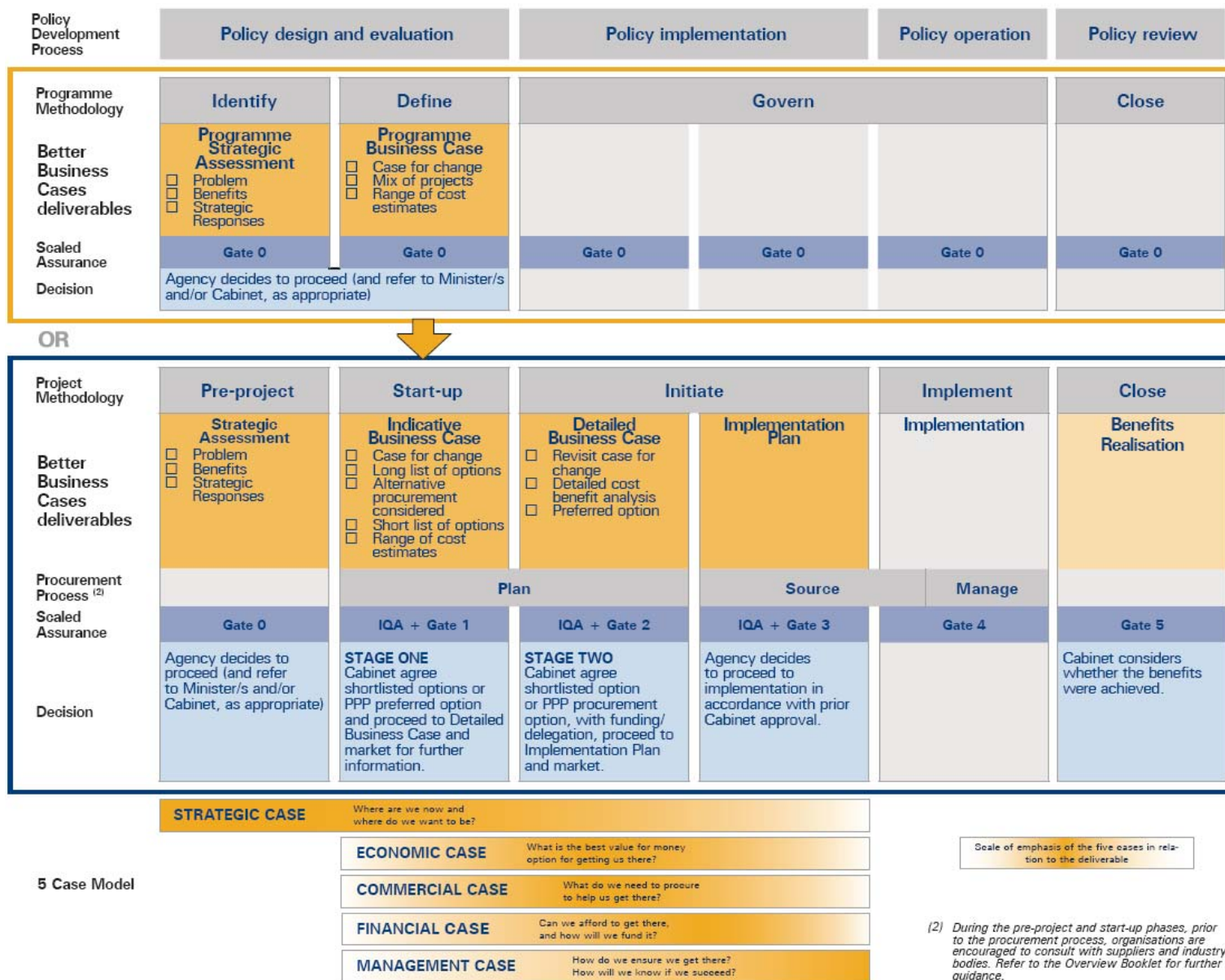
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<sup>4</sup> Refer to *Making Sense of Public Sector Investments* (2001) by Courtney A Smith and Joe Flanagan.

<sup>5</sup> Refer to the UK Treasury business case resources at [http://www.hm-treasury.gov.uk/data\\_greenbook\\_business.htm](http://www.hm-treasury.gov.uk/data_greenbook_business.htm)

<sup>6</sup> Refer to Cabinet Office circular CO(10) 2 *Capital Asset Management: Expectations* available from the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

**Figure 2: The Better Business Case deliverables and fit with related processes<sup>7</sup>**



<sup>7</sup> Source: *Better Business Cases for Capital Proposals Quick Reference Guide (1 July 2011)*, available from <http://www.infrastructure.govt.nz/publications/betterbusinesscases>

20. Depending on the scale, risk and nature of the investment proposal, the business case development process entails up to 35 sequential actions encompassing the development of up to five key deliverables; the Strategic Assessment, the Programme Business Case, the Indicative Business Case, the Detailed Business Case and the Implementation Plan. Refer to figure 2 overleaf.
21. Not all investment proposals will require completion of all the 35 actions or five deliverables, the full two stage approval process, detailed analysis or quality assurance. The process is intended to be scalable to ensure that the level of effort is fit for purpose.
22. The business case development process in this guidance is targeted at State sector practitioners and project managers. It provides a guide to the business case development process in a Public sector context, but can just as easily be applied more widely as good practice.

## When is the Better Business Case Approach Used?

### Mandatory for all capital proposals that require Cabinet approval

23. 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) 2<sup>8</sup> *Capital Asset Management: Expectations*, as set out in table 1 below.

**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	✓		

<sup>8</sup> Refer to Cabinet Office Circular CO(10) 2 *Capital Asset Management: Expectations*, available from the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

<sup>9</sup> The Crown may have obligations under the Public Works Act 1981 that agencies may have to work through before considering asset disposal.

## Two stage approval required unless small and lower risk

24. Unless otherwise agreed by the Treasury or monitoring agency, a two-stage approval process must be followed for all capital proposals that require Cabinet approval as outlined in table 1.
- **Stage 1:** Based on the Indicative Business Case, consider recommendations for an indicative or preferred way forward, to proceed with more detailed assessment of the short-listed options and to engage with market suppliers.
  - **Stage 2:** Based on the Detailed Business Case, consider recommendations to develop and finalise the arrangements for the successful implementation of the preferred option.
25. A single stage Cabinet approval process may be permitted for proposals that seek new Crown funding that are assessed as both lower risk and small (with whole of life costs less than \$25 million). Consistent with Cabinet Office circular CO (09) 6 *Guidelines for Changes to Baselines*, it is intended that such projects will be considered as part of the annual Budget process.<sup>10</sup>

## For other capital proposals requiring approval by the responsible Minister

26. The Better Business Case guidance is also mandatory for all capital expenditure, lease and asset disposal proposals that require approval by the responsible Minister as set out below.<sup>11</sup>

**Table 2:** Capital expenditure, lease and asset disposal proposals that require approval of the responsible Minister<sup>12</sup>

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	✓	

<sup>10</sup> Refer to Cabinet Office circular CO (09) 6 *Guidelines for Changes to Baselines*, available from the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

<sup>11</sup> A two stage process is also mandatory for high risk or large scale self-funded investment proposals that require approval of the responsible Minister.

<sup>12</sup> Refer to Cabinet Office circular CO(10) 2 *Capital Asset Management: Expectations*, available from the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

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

27. Even where the approval of Cabinet or the responsible Minister is not required, there is an expectation that Departmental chief executives adopt and apply the Better Business Case guidance to all capital proposals.

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

28. Where Cabinet approval is not required for a non-Departmental capital proposal, the use of the Better Business Case guidance will depend on the expectations set by the responsible Minister from time to time. Even if this guidance is not required to be followed, it is suggested as good practice within the State sector for all major capital investment proposals.

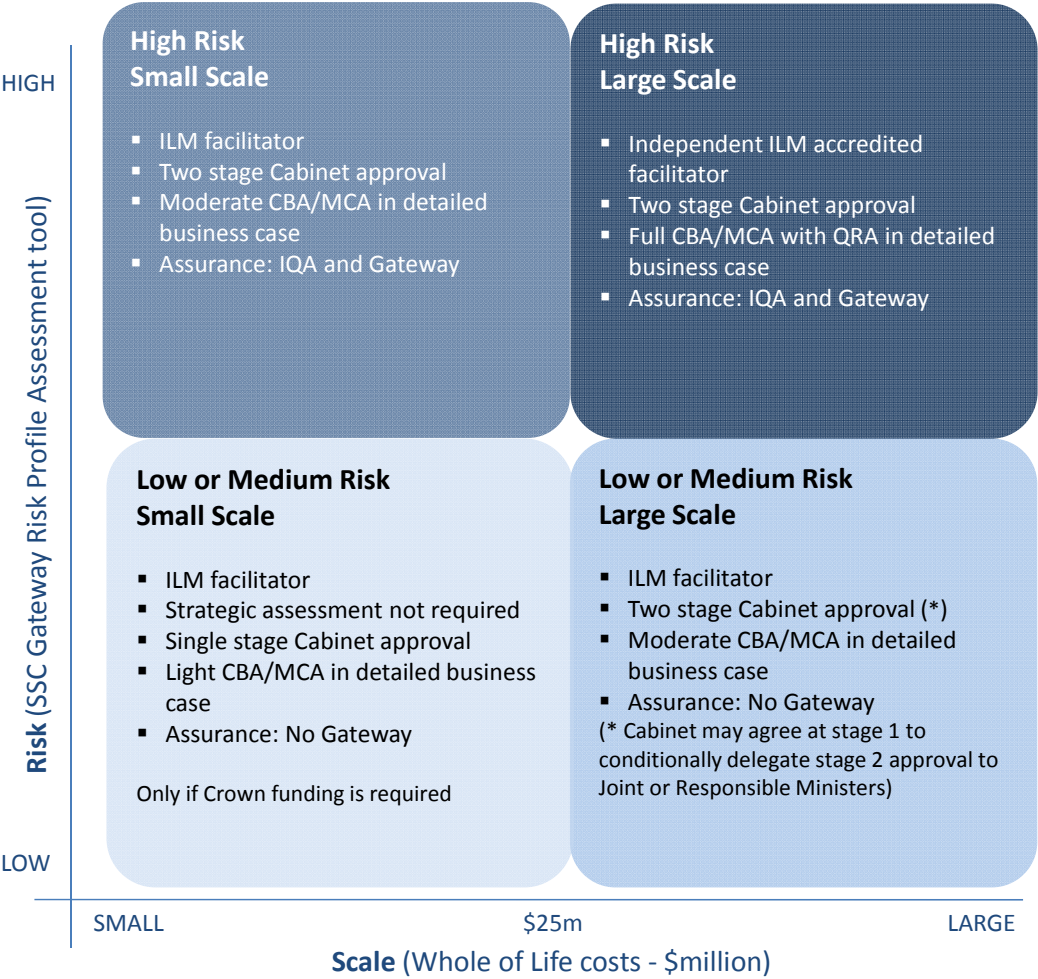
## **Post-implementation monitoring**

29. Unless otherwise agreed by Cabinet, departments and Crown agents that seek Cabinet approval for capital proposals that are both large and high risk (as determined by SSC Gateway Unit) must report back to Cabinet on the actual level of benefits actually achieved compared with those outlined in the proposal.

## **Scalability Matrix of Business Case Development Effort**

30. 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 determined by the SSC Gateway Unit, based on their moderation of the Risk Profile Assessment (RPA). Variations to the risk rating can be made 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 small. A Strategic Assessment may not be required and less analytical effort is likely to be sought for options analysis, risk analysis and assurance in particular.
33. The above expectations on both fitness for purpose and the approval process should be agreed with the Treasury vote team, the SSC Gateway Unit and/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.

**Figure 3:** Scalability matrix based on estimated scale and level of risk of the investment proposal<sup>13</sup>



**Programmes and Projects**

- 34. Programmes tend to be outcome focused and bring together multiple projects under a single coordinating structure, when it makes sense to do so due to each project’s contribution to the programme outcomes. Programmes can include pieces of work that are not projects (for example on-going business as usual work), and can have a variety of structures.
- 35. “Project management is suited to making tactical changes where there are closely bounded and scoped deliverables that can be relatively well defined (bounded change). Programme management is suited to strategic change initiatives where there are complex and changing inter-relationships in a wide, dynamic and uncertain environment (unbounded change).”<sup>14</sup>
- 36. The table overleaf summarises the key differences between programmes and projects.

<sup>13</sup> Source: *Better Business Cases for Capital Proposals Quick Reference Guide (1 July 2011)*, available from <http://www.infrastructure.govt.nz/publications/betterbusinesscases>

<sup>14</sup> OGC UK (2006), *Business Benefits through Programme and Project Management*, Office of Government Commerce, page 7.

**Table 3:** Comparison of the key differences between programmes and projects<sup>15</sup>

Programme	Project
Creates new capability in order to realise one or more key organisational strategies... is about delivering outcomes and programme level business benefits.	Creates and delivers products (or services) that will deliver defined project-level business benefits within agreed budget, timeframe and quality standards... is about delivering outputs.
Business change is transformational. Entirely new business models, capacity and/or activity will transform significant parts, or all of the organisation.	Business change is incremental. Integration of the product(s) requires adjustment to existing business functions and/or personnel.
Programme leadership has a broad focus across the business and wider organisation in order to achieve the desired change and benefits.	Project leadership primarily focuses on product and task delivery in order to meet agreed success criteria, including delivery of project level business benefits.
Scope evolves over time and change is the norm – only very significant change would be escalated.	Scope is tightly managed and change must be carefully controlled – changes are escalated.
High-level planning provides guidance – but is likely to change as the programme progresses. Project plans are aggregated into the overall programme schedule.	Detailed, stage by stage planning is critical to managing successful product delivery.
Always big, relative to the size of the organisation.	Can be big or small.
Have a long timeframe – normally several years.	Have a shorter timeframe – normally up to 18 months.
Can initiate new, or alter existing projects and activity to adjust to strategic changes.	Cannot initiate new work and is less likely to be affected by strategic change.

37. Programmes and projects do have some things in common. They both:

- are required to deliver benefits
- require good governance, controls and management disciplines (such as risk, assurance, finance, monitoring and reporting) to be in place, and
- require the active involvement of the Senior Responsible Owner.

## Benefits Management

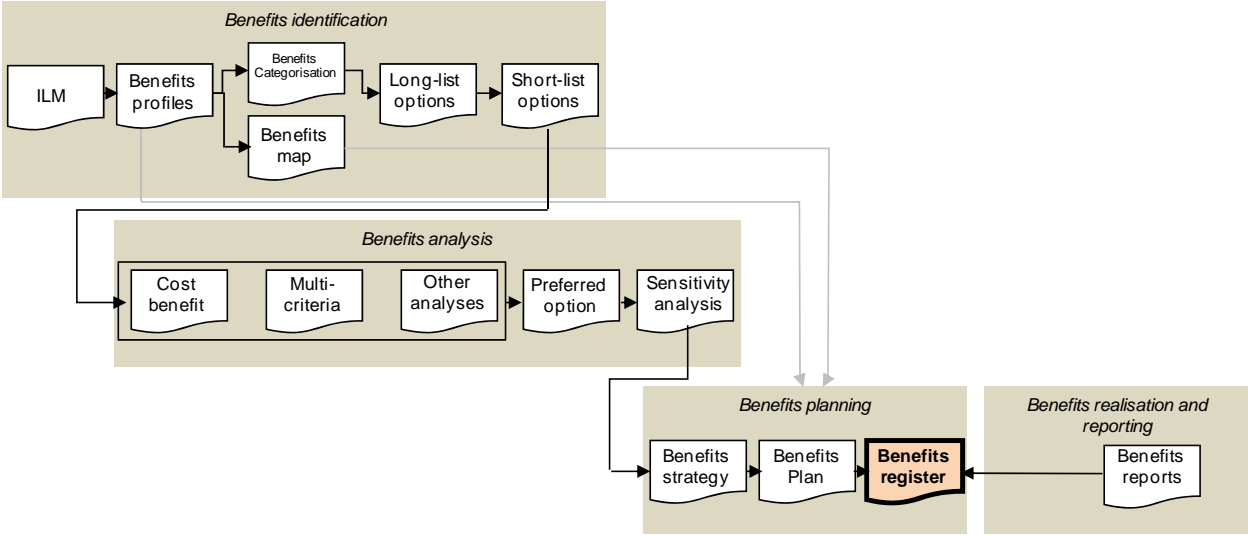
38. An economic benefit is any gain in the welfare of society (or to the individuals that comprise it) from the proposal being considered. Undertaking a project or programme should result in benefits of some kind, otherwise, why do it. Benefits can be considered the return from the investment in undertaking a project or programme. The contribution of benefits to an organisation's outcomes is also a way to align initiatives with the organisation's strategy. These are both important considerations when assessing whether or not initiatives should proceed.

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<sup>15</sup> This information is based on material provided by the Cross Agency Project Management Office (CAPMO).

- 39. Benefits management is vital in understanding if an initiative has achieved what it set out to do. It involves articulating what benefits are expected from the initiative, how it will be known that the benefits are achieved, and the assessment of what has eventuated against what was planned.
- 40. Managing benefits also extends beyond the lifecycle of a project or programme, so requires a structure that survives long after the project or programme team has been disestablished. The ownership of the investment planning and business case development processes rests with the organisation.

**Figure 4:** The four phases of benefits management



- 41. The four phases, identification, analysis, planning and reporting apply equally to benefits, costs and risks. These three themes are embedded into this business case development process.

**The Role of the Senior Responsible Owner**

- 42. The ownership of the investment planning and business case development processes rests with the organisation. For significant investment proposals, the organisation should appoint a Senior Responsible Owner (SRO) to oversee the business case development.
- 43. The Senior Responsible Owner has overall accountability for the business case development process, delivery of the programme or project and ultimately the realisation of benefits. The Senior Responsible Owner should have the authority to make decisions affecting progress. Responsibility for the day-to-day management can be delegated to project managers and project teams.
- 44. Accountability for the direction and the production of the business case should not be outsourced to an external consultant.

## Use of external specialist or technical skills

45. The Better Business Cases approach outlined in this guidance will require the Senior Responsible Owner to bring together a range of specialist capabilities and skills at different stages.
46. Specialist or technical skills may be required for the Strategic Assessment (an ILM facilitator), options assessment and evaluation, quantitative risk analysis, change and benefit management. Early planning should signal how and when this expertise will be obtained, along with anticipated costs.
47. 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.
48. The National Infrastructure Unit of the Treasury and SSC intend to provide on-going support to assist state sector agencies to develop and access specialist capability.
49. For further advice and support, e-mail [betterbusinesscases@treasury.govt.nz](mailto:betterbusinesscases@treasury.govt.nz)

## Engaging with Stakeholders

50. Key stakeholders have either a vested interest in the investment proposal or the potential benefits. Each key stakeholder should be identified by the amount of interest that they have in the proposal, and the amount of influence they have in driving success of the proposal.
51. Engaging early and at key points in the process will ensure that stakeholders are able to challenge and shape the direction of the proposal, as well as providing specialist judgement and opinions to help develop the investment story. Different stakeholder groups are likely to be needed at the different stages.
52. Facilitated stakeholder workshops are recommended during the business case development. The number and timing will depend on the nature of the investment and the stakeholder management strategy. Workshops are required for investment logic mapping and typically for identifying and agreeing investment objectives, business needs, business scope, potential benefits, potential risks, critical success factors and options. Workshops may also be used for assessing and ranking of options and risks.
53. Different forms of communication of the business case will be needed, depending on the various information and assurance requirements of the intended audiences. A business case needs to provide:
  - a clear justification for investment to sponsors
  - clear accountability for Public spending to monitoring agencies, and
  - a compelling case for investment to ministers.
54. The Five Case Model can provide a useful and intuitive structure for most business case communication deliverables. Early engagement will help inform your communications strategy.

## OGC Gateway™ Review

55. OGC Gateway™ delivers a strategic-level peer review on the programme or project. Independent practitioners use their experience and expertise to examine progress and make recommendations to improve the likelihood of success. The review panel can provide a valuable additional perspective on the issues facing the internal project team and an external challenge to the robustness of plans and processes.
56. The OGC Gateway™ review process provides support by helping the Senior Responsible Owner to ensure:
  - the best available skills and experience are deployed on the programme or project
  - all the stakeholders associated with 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.
57. The Gateway methodology was developed in 2001 by the UK Office of Government Commerce (OGC). In New Zealand, Gateway is part of Treasury's Capital Asset Management (CAM) regime and is administered by SSC. Further details can be found at the SSC Gateway Unit web-site.<sup>16</sup>
58. Cabinet has mandated that all high risk capital programmes and projects initiated by departments or Crown Agents are to undertake Gateway reviews.<sup>17</sup>
59. Departments and Crown agents must perform an initial Risk Profile Assessment (RPA) for all projects and programmes 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 SSC Gateway Unit as early as possible to ensure early engagement with the relevant central agencies. The Gateway Unit will review the RPA and determine a final risk rating.
60. Early engagement with the SSC Gateway Unit is essential. Due to the need to assemble a suitable review team, there can be a significant lead time from the first contact with the SSC 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 programme or project.

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<sup>16</sup> Refer to the SSC Gateway web-site at <http://www.ssc.govt.nz/gateway>

<sup>17</sup> Refer to Cabinet Office circular CO(10) 2 *Capital Asset Management: Expectations*, available from the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

## Independent Quality Assurance

61. The focus of project assurance is to support the successful delivery of the project or programme within time and cost. Assurance should target any aspects of a programme or project that pose a risk to the successful realisation of benefits, and it should provide value to those working on, or who have an interest in the programme or project.
62. High risk investment proposals are expected to undergo independent quality assurance in addition to Gateway reviews. Refer to the Treasury vote team and SSC for further information and guidance.

## Engaging with Monitoring Agencies

63. It is important to engage with your Treasury vote team, the Major Projects Monitoring Unit of SSC<sup>18</sup> or other designated monitoring agencies at an early stage in the business case development process to determine how and when to apply the Better Business Case processes detailed in this guide.
64. This is to ensure the business case will be fit for purpose by agreeing on the:
  - type of business case
  - timing and nature of decisions required including the fit with the required Budget process
  - scale and risk of the proposal, using the Risk Profile Assessment tool and the scalability matrix
  - scope of analysis required for each case
  - scope of assurance required for each case
  - level of effort and cost for development and assurance, and
  - scope of the engagement during the development of the business case.
65. The National Infrastructure Unit (NIU) of the Treasury will facilitate this agreement between the organisation and the relevant monitoring agencies. This process entails the following four steps:
  - i. The organisation completes the relevant sections of the Scoping Document and sends the document to the relevant monitoring agency. This simple document considers the points above and provides the basis for obtaining early agreement and clearly defining expectations on both the process and the degree of analytical effort required in developing and implementing the capital proposal.<sup>19</sup>

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<sup>18</sup> The Major Projects Monitoring Unit at the SSC is the lead major projects monitoring agency for Government. It sets project monitoring guidelines for all monitoring agencies and works with other monitoring agencies in planning the monitoring of their projects. Refer to the *Guidance for Monitoring Major Projects and Programmes*, 5 September 2011, available from <http://www.ssc.govt.nz/monitoring-guidance>. Contact the Major Projects Monitoring Unit at [majorprojects@ssc.govt.nz](mailto:majorprojects@ssc.govt.nz)

<sup>19</sup> A copy of the Scoping Document template is attached to this booklet.

- ii. The monitoring agency engages with the National Infrastructure Unit who then provide access to subject matter experts for each of the relevant (strategic, economic, commercial, financial and management) cases.
  - iii. The monitoring agency aims to agree the Scoping Document with the organisation prior to work commencing on the business case.
  - iv. The organisation (typically the Senior Responsible Owner and the project team) engages with monitoring agency on an on-going basis throughout the development of the business case.
66. The relevant sections of the Scoping Document template should be completed and provided to the Treasury vote team.
  67. On-going monitoring may include regular progress meetings with the Senior Responsible Owner and project team throughout the lifecycle of the project, Independent Quality Assurance (IQA) of the business case prior to approval and quality assurance and comment on any Cabinet submission for approval. These processes need to be factored into planning.
  68. Early engagement with The Treasury is recommended if the proposal is likely to involve a Public Private Partnership (PPP) or other alternative procurement solution, as this is likely to result in a different process for options assessment, seeking approval from ministers and engaging with potential suppliers<sup>20</sup>. All departments and Crown agents must consult with the Treasury's National Infrastructure Unit early in the development of a PPP or other alternative procurement proposal, and must give the National Infrastructure Unit the opportunity to make a representative available to relevant PPP project steering and working groups.<sup>21</sup>
  69. 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 instance.<sup>22</sup>

## Engaging with Potential Suppliers

70. Organisations need to be aware of the size, composition and nature of the supply markets on which they depend. This means taking a systematic approach to researching and analysing markets and suppliers. A key part of this can be consulting with the market at an early stage in the development of policy or the design of a concept.
71. The quality of the solution achieved will benefit greatly from the time invested in market analysis. However, the amount of time, effort and resources expended on this exercise should be commensurate with the anticipated level of spend, the risks, or the complexity or innovation in the products or services being procured.

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<sup>20</sup> Refer to the Treasury PPP guidance at <http://www.infrastructure.govt.nz/publications/pppguidance>

<sup>21</sup> Refer to Cabinet Office circular CO(10) 2 *Capital Asset Management: Expectations* available from the Cabinet Office web-site at <http://www.dpmc.govt.nz/cabinet/index.htm>

<sup>22</sup> Refer to the Treasury web-site at <http://www.treasury.govt.nz/publications/guidance/regulatory>

72. Areas to focus on in market analysis include:
- suppliers and their market shares (supply)
  - the number of buyers and their influence on the market (demand)
  - the degree of competition
  - current prices, pricing methodology and factors influencing price
  - market trends and regional differences
  - the availability of alternative/substitute goods/services - product differentiation
  - the degree of technological developments in the market, and
  - the nature and quality of the supply chain.
73. Organisations are encouraged to consult with suppliers and industry bodies at an early stage in their planning and design process. This can enable potential suppliers to help shape the organisation's requirements, provide feedback on feasibility and affordability, and gear up to respond to the tender once it gets underway. It also provides valuable information on the perceived barriers to innovation or working with government.
74. Organisations must exercise care in carrying out their early engagement with suppliers and must deal with all suppliers on an open and fair basis. This is to:
- avoid later accusations of favouritism
  - avoid locking in to a particular solution too early
  - maintain suppliers' confidence in the process, and
  - maintain healthy competition.
75. It is essential that organisations do not jeopardise suppliers' intellectual property rights. A major part of consultation is to ascertain the level of innovation available in design or delivery of products or services. If organisations want to benefit from finding out about suppliers' new ideas and approaches they must ensure that these are fully protected, as they are integral to each supplier's commercially sensitive intellectual property and competitive advantage.
76. There is also potential for organisations to shape existing markets, or create new ones, with the strategic aim of meeting Public sector needs both now and in the future. This involves working with suppliers and industry to ensure that they understand organisational requirements and ultimate objectives. It allows suppliers to investigate alliances with each other and consider innovation in the design or delivery of their products or services to better meet the organisation's current and future needs.<sup>23</sup>

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<sup>23</sup> For further information and guidance on procurement in the public sector, refer to the Ministry of Economic Development web-site at <http://www.business.govt.nz/procurement>

# Where to go for Further Information?

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## Better Business Case Guidance

77. The National Infrastructure Unit (NIU) of the Treasury will:

- i. Monitor and periodically update the Better Business Cases guidance on the National Infrastructure Unit website<sup>24</sup> and on the Public Sector Intranet (PSI)<sup>25</sup> including the:
  - Quick Reference Guide
  - online module
  - Cabinet Office Circular
  - Overview booklet
  - Strategic Assessment booklet
  - Programme Business Case booklet
  - Indicative Business Case booklet
  - Detailed Business Case booklet, and
  - Implementation Plan booklet.
- ii. Review, develop and deliver support to agencies
  - awareness seminars for senior managers
  - half-day training sessions, including agency examples
  - workshops on how to apply the business case development process
  - clinics to assist agencies as they develop a business case
  - communities of practice to exchange information and experiences with peers
  - a list of agency business cases, with contact details, on the Public Sector Intranet
  - templates for each of the business case deliverables, and
  - exemplar business cases.
- iii. Provide facilitation between organisations and their monitoring agencies to ensure the business case will be fit for purpose.

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<sup>24</sup> The National Infrastructure unit web-site is at <http://www.infrastructure.govt.nz>

<sup>25</sup> Access to the Public Sector Intranet at <https://psi.govt.nz/cam> is restricted to State sector organisations.

## Other Relevant Guidance

78. Other relevant guidance can be sourced via the National Infrastructure Unit web site, including:

- Cabinet Office circulars
- programme management
- project management
- Public Private Partnership (PPP) guidelines
- procurement process
- policy development process
- Investment Logic Mapping (ILM)
- Independent Quality Assurance (IQA)
- Gateway Assurance.

## Who to contact?

79. For queries on:

- i. the Better Business Case process or the services provided by the NIU, email: [betterbusinesscases@treasury.govt.nz](mailto:betterbusinesscases@treasury.govt.nz)
- ii. ILM, IQA and Major Projects Monitoring, email: [majorprojects@ssc.govt.nz](mailto:majorprojects@ssc.govt.nz)
- iii. Gateway assurance, email: [gatewayunit@ssc.govt.nz](mailto:gatewayunit@ssc.govt.nz)

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