Better Business Cases

Guide to Developing an Indicative Business Case

30 September 2015

THE TREASURY
Kaitohutohu Kaupapa Rawa

New Zealand Government

Acknowledgements

This document was created using material provided by Her Majesty's (HM) Treasury in the United Kingdom and the Welsh Government (Llywodraeth Cymru). Accordingly, ownership of any copyright in the information contained in this document belongs to the original copyright owners. Other than as provided by the applicable copyright laws in each jurisdiction, permission to copy, distribute, adapt or otherwise use the information contained in this document, must be sought from the original copyright owner.

The Five Case Model is the best practice standard recommended by the HM Treasury for the preparation of business cases. The New Zealand Treasury wishes to acknowledge that the following documents were used and adapted for the purpose of creating this guidance:

- 'Making Sense of Public Sector investments' (2001) by Courtney A Smith and Joe Flanagan;
- the Green Book at www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent; and
- 'Delivering Public Value from Spending Proposals: Green Book Guidance on Public Sector Business Cases using the Five Case Model' at wales.gov.uk/funding/wiipindex/5cmodel/?lang=en.

© Crown Copyright

This work is licensed under the Creative Commons Attribution 4.0 International licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Crown and abide by the other licence terms.

To view a copy of this licence, visit https://creativecommons.org/licenses/by/4.0/ Please note that no departmental or governmental emblem, logo or Coat of Arms may be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Crown should be in written form and not by reproduction of any such emblem, logo or Coat of Arms.

ISBN 978-0-908337-10-1 (Online)

The URL for this document on the Treasury's website at September 2015 is
http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc/guidance

The Persistent URL for this document is http://purl.oclc.org/nzt/g-bbcibc

Contents

About this Guidance

This guidance is intended to assist business case developers and reviewers to build business cases using the Five Case Model, the New Zealand Government's accepted good practice standard.

This guidance document is intended to assist investors, senior responsible owners, workshop facilitators and business case developers to prepare an Indicative Business Case as part of applying the Better Business Cases process. It is part of the support that is available to assist you at every stage of the business case development. This guidance can assist you whether you are considering an investment in change at the portfolio, programme or project level in either the public or private sectors.

This guidance also provides a useful reference for business managers, project or programme managers, business case developers, and other stakeholders who can either influence investment decisions or have an interest in the successful delivery of change.

The guidance outlined in this document applies until this document is updated or replaced.

What this Guidance is Not

This guidance is not intended to comprehensively cover all the related aspects of business case development (although the guidance describes where other relevant guidance fits). These may include regulatory impact, economic assessment, procurement, risk management, Public Private Partnership (PPP), Treaty, programme/project management or assurance processes. You should refer to any relevant policies, rules, expectations and practices that apply to your specific organisation or sector.

Key Changes to this Guidance from the Previous Version

The key changes to this guidance from the previous version dated 28 February are:

- being clearer on what's expected and the suggested evidence
- bringing a principle based approach to the use of methods and tools in gathering the evidence needed to develop the business case
- giving greater clarity of the relationship between strategy, policy and programmes
- showing different ways of designing and delivering programmes and projects, in conjunction with the GCIO
- providing greater clarity on how each type of business case supports what types of decisions in the Governments annual budget process
- incorporating recent changes to the NZ Government Procurement guidance, including early market engagement, and
- replacing multiple scoping documents into one point of entry form to agree the business case approach.

Questions and Feedback

General enquiries about the information contained in this guidance, and not addressed in this guidance, can be directed to betterbusinesscases@treasury.govt.nz

For Government agencies, any agency-specific questions should be addressed to your Treasury Vote team.

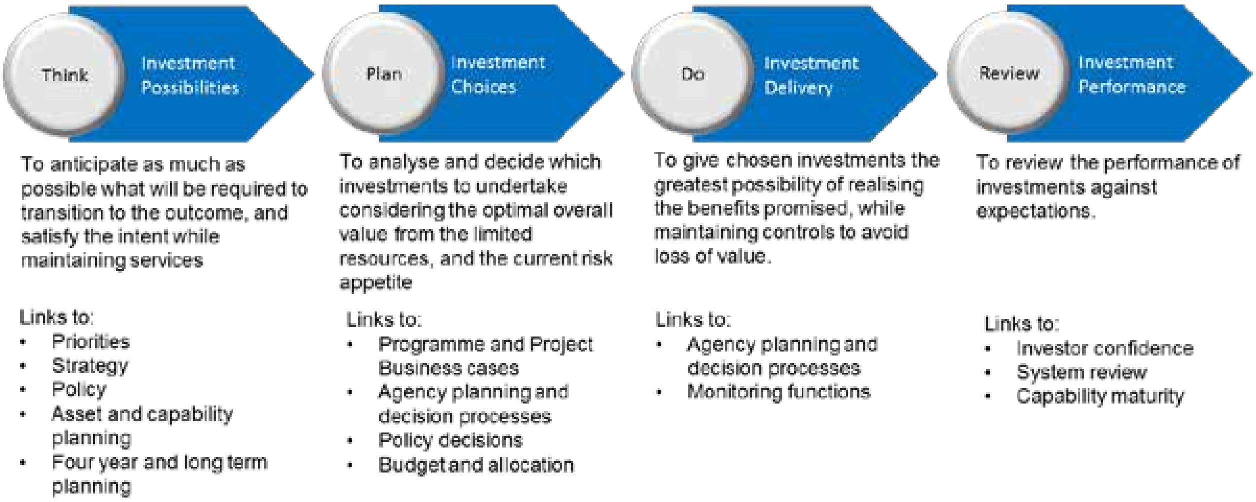
Any comments as to how we could improve this guidance can be directed to guidance@treasury.govt.nz

Further Information

This document is part of the Better Business Cases suite of guidance available at the Treasury website at:
http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc

The Investment Management Lifecycle

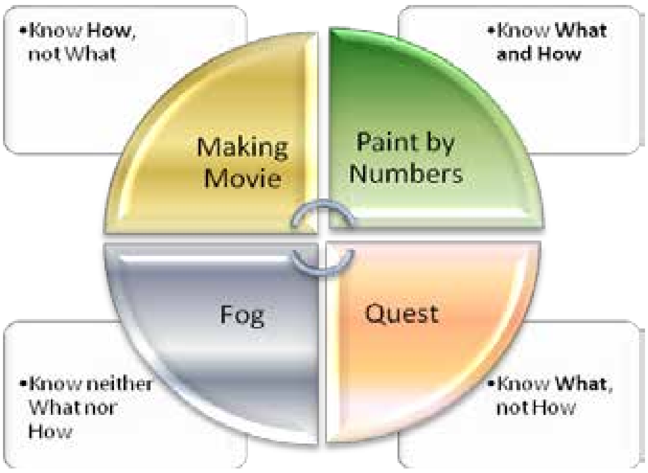
Government's investment life cycle is made up of four phases: think, plan, do and review. Together these create an ongoing dynamic as ideas are tested, refined and adopted or discarded within an agency and across government. Each phase has different implications for agencies and decision makers.



The Plan phase examines how to translate the Think to the Do. A business case is the vehicle to demonstrate that a proposed investment is strategically aligned, represents value for money, and is achievable. A business case turns an idea (think) into a proposal (plan). It enables decision makers to invest with confidence knowing that they have the best information available at a point in time. It is also a reference point during the "Do" phase to support delivery, and used in the "Review" phase to determine whether the benefits in the business case were realised. For more guidance on managing benefits from programmes and projects please see Managing Benefits from Projects and Programmes: Guide for Practitioners (384 KB)

BBC should be used in a fit for purpose way

BBC has been developed so it can be used in a fit for purpose way no matter the nature of programme or project and the associated scale, risk and uncertainty.Eddie Obeng was one of the first to provide a useful way to look at managing projects that had differing degrees of uncertainty and ambiguity. In essence there are two axes to be considered. How much do I know about **what** I am trying to? And How much do I know about **how** I am trying to do it?



The differences between Programme and Project Business Cases

Programme Business Cases

Major investments that comprise of a set of related projects and activities will typically require a programme business case. Programmes are about managing change with a strategic vision and a roadmap of how to get there. They are able to deal with uncertainty and complex inter-relationships in a dynamic environment by being flexible.

Programmes typically comprise a number of related projects and activities that will be completed in several tranches over an extended period to achieve outcomes that are greater than sum of the parts. Examples of different types of change may be delivered by a programme are:

- Policy change focussed on changes and improvements in society, driven by desired outcomes but likely to be ambiguous and complex to define in terms of what it involves.
- Fundamentally changing the way an organisation works – led by a vision of the outcomes and the benefits; typically some uncertainty about the change but clear delivery approaches can be used.
- A highly complex, lengthy project that is best broken down into a series of related projects and managed as a programme.

Project Business Cases

In contrast to a programme, a project is a set of interrelated tasks to be executed over a fixed period to achieve a set of objectives.

For significant projects, there are two key stages in the evolution of a project business case being the indicative business case and the detailed business case. For smaller and/or lower risk investments typically a single stage business case (which combines the indicative and detailed business cases) is used.

The Business Case Framework

The primary objective of BBC is to enable smart investment decisions for public value. If applied appropriately BBC can also help to:

- reduce the costs of developing business cases
- reduce the time it takes to develop business cases, and
- meet recognised good practice.

BBC is a common language and provides a systematic way for stakeholders to think and work together to give decision makers the information they need to invest with confidence.

Further information about the BBC framework is available on the Treasury's investment management website, at:
http://www.treasury.govt.nz/statesector/investmentmanagement/plan

We support senior responsible owners (ie, sponsors), business case developers and reviewers by providing:

- BBC Guidance
- Methods (and tools) to develop business cases
- Access to BBC Training
- Access to Endorsed BBC Experts
- BBC Clinics for Investment Intensive Agencies

We encourage organisations to further build their business case capability by accessing training and using endorsed BBC Experts.

We suggest the senior responsible owner (ie, sponsor), use the Point of entry document to agree the approach, including the methods (and tools) and effort with the reviewer. In the State Sector, investment intensive agencies can engage with the Corporate Centre to secure this agreement through business case clinics.

To ensure we are achieving our objectives we regularly evaluate the BBC approach to identify improvements. A summary of the most recent business case evaluation is available on our website.

The Indicative Business Case

Purpose of the Indicative Business Case

The Indicative Business Case provides decision makers with an early indication of the preferred way forward for high value and/or high risk investment proposals and provides the senior responsible officer with early certainty.

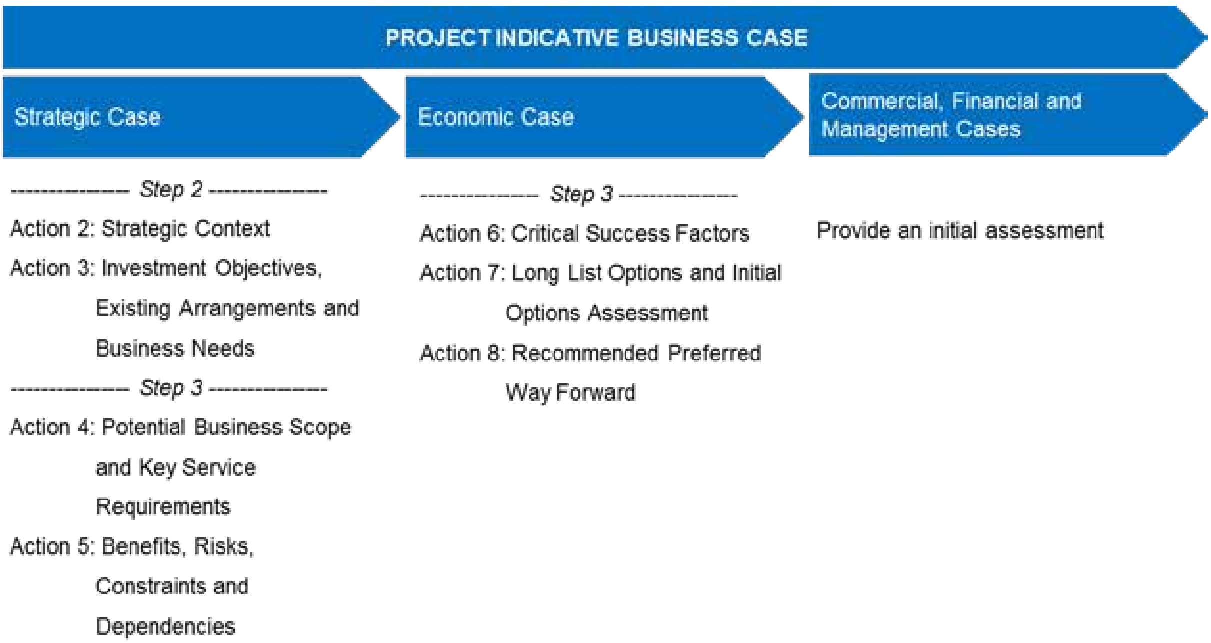
The Indicative Business Case typically follows from the Strategic Assessment, which justified the need to change. The Indicative Business Case:

- outlines how the proposed investment fits within the organisation(s) strategic intentions
- confirms the need for investment and the case for change
- recommends an indicative or preferred way forward for further development of the investment proposal, by considering the feasibility of full range options – supported by a limited number of short-listed options for further analysis, and
- seeks the approval of decision-makers to proceed to developing a Detailed Business Case, based on the preferred way forward and to formally commence engagement with the market.

The evidence expected is indicative by nature. It provides the decision maker with an early opportunity to consider change and confirm the options being considered before more detailed evidence is gathered in a detailed business case. Where appropriate, there should be some early market engagement in the development of the indicative business case.

Indicative Business Case Steps and Actions

An indicative business case, Steps 2 and 3 of the business case framework, is developed using Actions 2 to 8 as shown below. Please refer to Annex A for an overview of all of the 34 BBC actions.



The remainder of this guidance is structured around each action by the applicable Case. The purpose of each action is described together with what is expected and the suggested evidence should be provided. It also contains tips and examples to assist business case developers.

A typical process to develop the indicative business case could be:

1. Update or develop the stakeholder management plan. This will inform the choice of stakeholders who should be involved or consulted in the development of the business case
2. Draft the Point of Entry Document and arrange a meeting with the business case reviewer(s (or monitoring team) to agree the process, the level of effort and any additional assurance requirements (including Gateway review, regulatory impact analysis and independent quality assurance).
3. Determine and agree with key stakeholders and reviewers the case for change including investment objectives, scope, benefits, risks, service requirements, constraints and dependencies.
4. Once the strategic case is drafted, identify a wide range of options (the long list) and to assess these to determine the short-list options and the preferred way forward.
5. Collect information for the commercial, financial and management cases and draft the Indicative Business Case.
6. Present the final draft Indicative Business Case (and any supporting documentation required) for review and incorporate feedback
7. Finalise the Indicative Business Case, seek final sign-off from the Senior Responsible Officer and submit for approval to proceed to the development of the Detailed Business Case.

Suggested methods and tools

There are a variety of methods and tools that can be used in the development of the business case. When considering the approach to be used, developers should consider the methods (and tools) that they will use. Reviewers will consider whether the methods (and tools) are suitable, proven, inclusive, and capability should exist to apply it.

Some suggested methods can be found at http://www.treasury.govt.nz/statesector/investmentmanagement/plan

Strategic Case – Making the Case for Change

Purpose of the Strategic Case

The strategic case confirms the strategic context developed in the previous Strategic Assessment and makes a compelling case for change. The strategic case:

- demonstrates the strategic alignment for the proposed project
- establishes the investment objectives, existing arrangements and business needs
- considers the potential business scope and key service requirements, and
- identifies potential benefits, risks, constraints and dependencies.

Action 2: Strategic Context

Purpose

The purpose of this action is demonstrate alignment of the proposed investment with wider national or sectoral priorities and goals, policy decisions, other multi-agency programmes (if relevant) and with the sponsoring organisation(s) strategic intentions.

What's expected?

This action builds on the initial analysis undertaken in Action 1 as part of the Strategic Assessment. This action includes:

- Providing an organisational overview
- Demonstrating alignment to strategic intentions

An organisational overview

Providing context for reviewers and decision makers by summarising:

- Main outcomes, impacts and objectives that the organisation is trying to achieve
- The nature and scope of the organisations activities and services (outputs), key stakeholders and customers
- The current environment in which the organisation operates, including how it intends to respond to changes and possible risks. This summary should consider external drivers for considering the investment proposal.

Alignment to strategic intentions

Explain how the proposed investment fits within, supports and promotes the agreed strategy and/or work programme including how the investment proposal is aligned with all relevant strategies including wider organisational, sectoral, regional, and Government strategies and priorities.

Where an investment proposal is intended to contribute to shared outcomes across multiple organisations, or where expected outcomes contribute to other related projects or programmes, these linkages and inter-dependencies should be clearly demonstrated

Suggested evidence

Provide a linkage to the Think phase of the Investment Management Lifecycle by referencing strategic planning documents such as the latest Statement of Intent, the latest Four year plan and the Long term investment plan as well as relevant government priorities and policies.

Action 3: Investment Objectives, Existing Arrangements and Business Needs

Purpose

The purpose of this action is to:

- set the investment objectives of the proposal ie, what the organisation is seeking to achieve
- document existing arrangements ie, what is currently happening
- specify business needs ie, changes between the current state and the desired future state

What's expected?

Setting investment objectives

Setting good investment objectives is a critical part of a business case and informs the later assessment of potential options in Action 7. It is recommended that an inclusive approach is used to develop and agree the investment objectives to ensure that key stakeholders are well-engaged and have an opportunity to challenge and shape the direction of the proposal.

The investment objectives specify the desired outcomes for the proposed investment. Three to five objective statements are typical, although some proposals may require either fewer or more. A large number of investment objectives, or single objective statements that encompass multiple outcomes, can undermine the clarity and focus of the proposal.

The objectives should be SMART (specific, measurable, achievable, relevant, and time-bound) to help facilitate the generation of potential options in Action 7 and to provide the basis for determining the investment's success (or not).

Defining good investment objectives

Objectives are generally limited to three to five objective statements, although some proposals may require either fewer or more. A large number of investment objectives, or single objective statements that encompass multiple outcomes, can undermine the clarity and focus of the proposal.

Guidelines for setting objectives are that they should be:

- Customer-focused and distinguishable from the means of provision
- Focus on what needs to be achieved rather than the potential solution
- Not so narrowly defined that they preclude important options, and
- Not so broadly defined that they cause unnecessary work at the options analysis stage.

Where a Programme Business Case has been completed, the programme objectives can provide part of the context for setting project-based investment objectives.

In practice, well-defined investment objectives typically address one or more of the following five generic investment rationales:

- To improve effectiveness. For example, by improving the quality of services, improving access or better targeting these services to meet demand.
- To improve efficiency. For example, by improving the relationship between the quantity of inputs employed and the quantity, quality and timeliness of services delivered.
- To reduce costs. For example, by reducing the underlying costs of the inputs employed to deliver existing services.
- To meet statutory, regulatory or organisational requirements. This can include complying with new or changing legislative requirements (or organisational policies)
- To re-procure services or avert service failure. For example, at the end of an existing contract or where an enabling asset is no longer fit for purpose.

Document existing arrangements

Provide a snapshot and an analysis of the current situation. This analysis is intended to highlight any problems, difficulties and opportunities associated with the current situation to highlight the need for change.

Depending on the type of investment proposal, this could include describing the existing arrangements and explain how services are currently organised, provided and supplied. Include any relevant contextual details about stakeholders, competitors, suppliers, customers, service performance, and asset availability, utilisation and condition. An evidential base should be provided to support the problems and opportunities that are described.

This description will also form the basis for specifying the “status quo” or “do nothing” option in Action 7, the baseline for measuring successful change.

Specify business needs

The business needs (or changes) that are required from the current arrangements to deliver the investment objectives.

In most cases, it will be necessary to consider:

- confirmation of the continued need for existing business operations, including supporting evidence

- projections of the nature and level of demand for future services (including customer demographics and alternative sources of supply)

- deficiencies in current provision, and
- a summary of requirements, distinguishing clearly between the current and the future states.

Suggested evidence

Demonstration that analysis of the current state, investment objectives and underpinning business needs are defined clearly and supported by key stakeholders and customers.

Action 4: Potential Business Scope and Key Requirements

Purpose

The purpose of this action is to identify the potential business scope of the proposal and the key requirements to satisfy the identified business needs specified in Action 3. This action also helps informs Action 7 in the Economic case, when thinking about scope options is considered in more detail.

What's expected?

Define the potential business scope

This step sets out the boundaries, or limitations, of the proposal. Only options within this scope should be assessed in Action 7 in the economic case. These scope boundaries should be concise enough to avoid later scope creep, but broad enough to encourage consideration of innovative options or solutions.

Clearly specifying the business scope ensures that the proposal focuses on those key service requirements that meet the investment objectives and are likely to improve value for money.

Describe the scope of the proposal from the perspective of affected areas and functionality. The scope describes the degree or scale of change required for the investment proposal to be considered successful. These can vary from the core or minimum scope, through to the most aspirational.

Identify key requirements

Identify key requirements with reference to proposed scope and business changes identified in Action 3.

With reference to the investment objectives it is useful to classify requirements as either being:

- minimum requirements - representing the must have or core service requirements essential for the investment proposal to be successful
- desirable requirements - considered if they represented good value for money, or
- optional requirements – these are more aspirational and may be included in the proposal if they can be added at low marginal cost and are likely to be affordable.

Finally, classify the potential scope and service requirements to inform the identification of scope options in the later economic case.

For example:

- Minimum scope – minimum, core service requirements only
- Intermediate scope – minimum plus desirable service requirements (if value for money)
- Maximum scope – minimum, desirable and optional service requirements

Suggested evidence

Evidence should include clear statements of business outcomes and service outputs together with demonstration that key stakeholders understand and agree scope and requirements. It should also be clear and understood what is out of scope.

Methods and tools to gather the evidence for Action 3 and Action 4

There are a variety of methods and tools that are available to help the strategic case or specific actions within the strategic case. A selection of these methods and tools can be found at [insert the link]

Workshop(s) can be used to identify and agree the investment objectives and business need with key stakeholders.

Action 5: Benefits, Risks, Constraints and Dependencies

Purpose

The purpose of this action is to identify the potential benefits, risks, constraints and dependencies associated with the investment proposal.

What's expected?

Identify potential benefits

A benefit is positive consequence from change. Benefits can also be considered as the return from the investment in undertaking a project or programme.

All significant benefits should be identified from the perspective of the benefits to New Zealand (ie, national economy) unless otherwise agreed with the reviewer. This recognises the wider perspectives of public value decision-makers when making resource allocation choices.

Benefits can be classified by whether or not they are monetary or non-monetary, direct or indirect and quantitative or qualitative[1]. Benefits may be measureable in either monetary terms (such as avoided costs or efficiency savings) or non-monetary terms (either quantifiable, such as reduced customer complaints or qualitative, such as improved health outcomes). Qualitative benefits may be observable but not easily measured. Dis-benefits with negative impacts on stakeholders also need to be identified and analysed.

---

[1] Refer to the Treasury Cost Benefit Analysis Guide http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/guide

Benefits may either have a direct or indirect impact and can result in both winners and losers. The description should identify those stakeholder groups who potentially gain or lose from 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 in terms of resources might not always be the main beneficiaries.

Identify the main risks to objectives

In this context, a risk is the chance of something happening that will have an impact on the achievement of the investment objectives.

The main risks associated with the proposal should be described. 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 (or the Programme Business Case where these are relevant to the proposal) can be revisited and updated.

Detail the sources of potential risk, the likely impact and relevant factors including possible changes in circumstances, causes and potential consequences.

Uncertainty of costs and benefits

The most familiar form of risk to investment objectives in business cases 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 complexity of the proposal or some cost or benefit information may be unavailable.

Additionally, 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 estimates, reducing projected benefits, or by assuming benefits are delayed.

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.

Identify constraints

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.

Likely constraints imposed on the proposal should be described because they can limit the range and scale of the investment options that may be considered for further assessment.

Identify dependencies with other initiatives

Any actions or developments required of others and outside the scope of the project or programme should be identified and describe if the 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.

This section should also identify outward dependencies, other things that rely on this project to deliver what it says it is going to.

Suggested evidence

Demonstration that the benefits, risks, constraints and dependencies are defined clearly and are understood and agreed by the key stakeholders.

Methods and tools to gather the evidence

A workshop(s) can be used to identify and agree the benefits and risks with key stakeholders.

Other methods and tools can be found at http://www.treasury.govt.nz/statesector/investmentmanagement/plan

Economic Case – Exploring the Preferred Way Forward

Purpose of the Economic Case

The economic case focuses on:

- Action 6: identifying critical success factors which are used to help evaluate the options identified in Action 7
- Action 7: identifying and assessing the main options available for delivering the required services
- Action 8: recommending the preferred way forward, and
- Outlining how the preferred way forward may be achieved.

It is recommended that senior business managers, stakeholders, users and technical specialists are involved in identifying options to direct the preferred way forward.

Action 6: Critical Success Factors

Purpose

The purpose of this action is identify the investment proposal's critical success factors. Critical success factors are the attributes essential to successful delivery of the project.

What's expected?

Identification of the critical success factors and agreement by key stakeholders.

The critical success factors form part of the set of criteria for the assessment of each potential options in Action 7. Therefore, care should be taken to ensure that they are not set at a level which could potentially bias or exclude important options at an early stage of the analysis.

Typically, the business case team should define a set of critical success factors for discussion and agreement with key stakeholders. The starting point for identifying and agreeing critical success factors should be the five case model. A generic set of factors are shown over the page.

Key Critical Success Factors	Broad Description
Strategic fit and business needs	How well the option: · meets the agreed investment objectives, related business needs and requirements, and · fits with other strategies, programmes and projects.
Potential value for money	How well the option: · optimises value for money (ie, the optimal mix of potential benefits, costs and risks).
Supplier capacity and capability	How well the option: · matches the ability of potential suppliers to deliver the required services, and · is likely to result in a sustainable arrangement that optimises value for money over the term of the contract.
Potential affordability	How well the option: · can be met from likely available funding, and · matches other funding constraints.
Potential achievability	How well the option: · is likely to be delivered given the organisation's ability to respond to the changes required, and · matches the level of available skills required for successful delivery.

Suggested evidence

The business case should describe the critical success factors together with the approach that was used to identify and agree the factors.

Action 7: Long List Options and Initial Options Assessment

Purpose

The purpose of this action is to consider as wide a range as possible of realistic options for meeting the investment objectives that lie within the identified scope, and are likely to achieve the expected benefits.

What's expected?

The suggested steps are to:

1. *Identify the long-list of options*

   Identify possible options within a number dimensions in turn. The suggested dimensions are scale, service solution, service delivery, implementation and funding. A base case should also be included to act as a baseline for determining relative value for money. It can be created by combining the status quo choices from each of the five dimensions into a single option.

Typically research is undertaken by the business team to educate themselves of the possible options. Research could include:

- Consulting with senior business managers, stakeholders, users and technical specialists
- Consulting with specialist practitioners and industry or sector experts to gather information relevant to the project
- Considering domestic and international examples to identify proven solutions
- Early engagement with the market to identify possible solution and assess capability and capacity

Early engagement is encouraged because it helps inform an understanding of the potential options and gauging market capacity and capability. It can also help stimulate innovation in the design and delivery of the solutions.

There is no limitation on when you can engage. For state sector organisations, Government Procurement can provide guidance and support on how to engage effectively with suppliers at early stage. Please refer to http://www.business.govt.nz/procurement

2. *Assess the long list options*

   The options should be assessed against the investment objectives set in Action 3 and the critical success factors agreed in Action 6 to rule out impractical and uneconomic options. It is also useful to identify each option's advantages and disadvantages.

   The extent or depth of this options assessment should be tailored to the size, impacts, and risks of the proposal. This will affect the choice of assessment tool and the approach used. Due to the likely level of uncertainty in cost and benefit estimates, there is no expectation that a cost benefit analysis will be undertaken and used to screen long-list options at this initial stage.

   Annex Two contains a worked example of a long list assessment.

3. *Determine the short-list*

   A short-list of three to five options for further analysis should be determined. The preferred option is be defined by amalgamating the preferred choices from each dimension of choice The other (one to three) short-listed options may represent variations of the preferred way forward, say with less or more ambitious scope choices, alternative solutions, a faster or slower pace of implementation or alternative funding arrangements.

It is recommended that senior business managers, stakeholders, users and technical specialists are involved in identifying options to direct the preferred way forward.

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.[2]

Suggested evidence

The business case should describe the approach that was used to identify and assess the long list. The long list assessment should be documented and included as an annex to the

---

[2] Refer to the Treasury website at http://www.treasury.govt.nz/regulation

Indicative Business Case to enable the reviewer to assess the level of analysis and thinking underlying the short-list assessment.

Methods and tools for gathering the evidence for Actions 6 and 7

A series of workshops with can be key stakeholders to agree the critical success factors, the long list of options and the short list.

Other methods and tools can be found at [insert link]

Action 8: Recommended Preferred Way Forward

Purpose

The purpose of this action is recommend the preferred way forward for more detailed economic assessment as part of the subsequent Detailed Business case.

What's expected?

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 way forward option from the long-list assessment, and
- one to three of the next highest ranking alternate options from the long-list assessment (including less and more ambitious options).

Where a non-traditional procurement option such as PPP procurement 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. For further information, refer to the supplementary guidance attached as Annex Two to this guide.

For each short-listed option, provide a description of the option together with indicative costs and benefits. Given the early stage of the analysis it is likely that there is a high degree of uncertainty around these estimates. A range-based approach that is adjusted for contingencies and optimism bias should be used, as this can avoid creating unrealistic expectations of the level of funding likely to be required. Any assumptions should be high-lighted.

The level of analysis should be fit for purpose and meet the expectations set out in the Point of Entry Document.

Suggested evidence

For each short-listed option, provide a description of the option together with indicative costs and benefits and explanation why options have been discounted or recommended for further analysis.

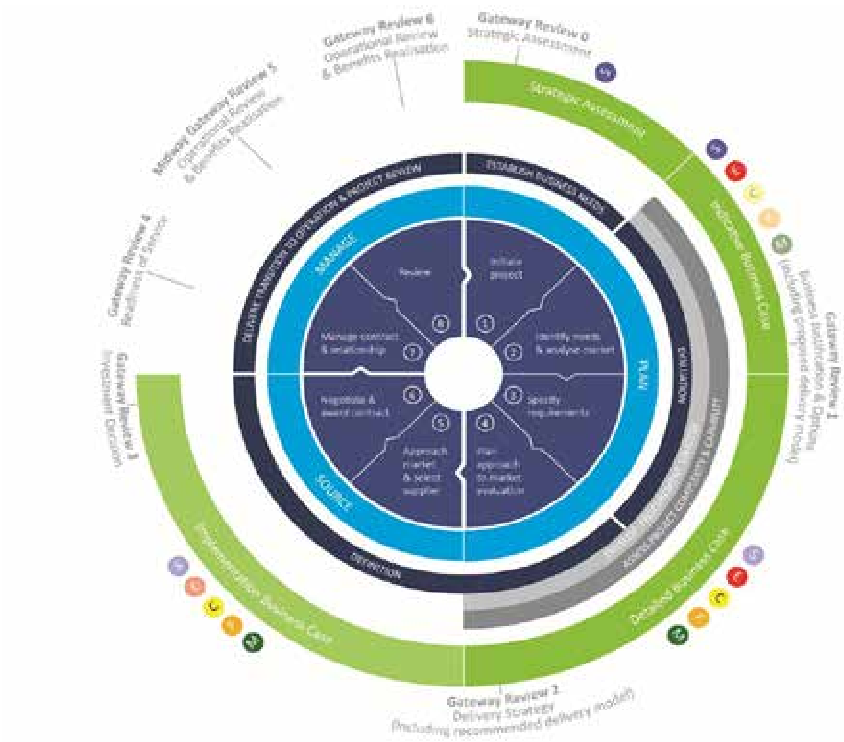
The approach used to develop the costs and benefits should be described together with key assumptions.

Outlining How the Preferred Way Forward May Be Achieved

Outline the commercial case

Overview

The procurement lifecycle is in three distinct phases: planning, sourcing and managing. These phases are further divided into eight distinct, but interrelated stages. The eight stage process is demonstrated in the following diagram and detailed further in *Mastering Procurement: A Structured Approach to Strategic Procurement (2014)*.[3]



The procurement lifecycle is presented as a series of consecutive stages from 1 to 8. In real life however, some stages can sometimes be done concurrently.

Early market engagement and procurement planning is particularly important for innovative or more complex services where there may be little market depth and experience (Public Private Partnerships in particular).

What's expected?

For each option, outline briefly the intended procurement strategy which encompasses required needs (scope), the intended outcomes, market analysis and capability (supplier market engagement and ability of the supply market to deliver the best value for money goods and services (commercial viability) and level of complexity and risk.

The Ministry of Business, Innovation and Employment also provides guidance on when and how to approach the market, including the use of competitive dialogue approach to formally approach the market prior to issuing tender documents. Refer to this guidance in the first instance, subject to any other Government Rules of Sourcing obligations and expectations that may apply to your sector or organisation.[4]

---

3 Refer to the Ministry of Business, Innovation and Employment website at http://www.business.govt.nz/procurement

4 Refer to the Ministry of Business, Innovation and Employment website at http://www.business.govt.nz/procurement

Outline the financial case

What's expected?

Provide an initial assessment of the overall affordability of the short-listed options and possible funding sources and requirements. This can include:[5]

- 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

Outline the management case

Purpose

Provide an initial assessment of the capacity and capability of the organisation to implement each of the short-listed options taking into account readiness and available resources.

What's expected?

Outline key aspects including:

- history of the project to date including relationships with wider programmes of work and other related projects
- the next steps needed to develop the detailed business case
- the governance and management arrangements required to progress the detailed business case, and
- the assurance arrangements for the detailed business case.

A letter should be provided by the Chief Executive and included as an annex to the Indicative Business Case[6]. This letter should:

- demonstrate that the Chief Executive has been actively involved in the development of the indicative business case
- confirm acceptance of the strategic aims and investment objectives of the investment proposal, and
- confirm that the indicative cost and benefit estimates of the proposal are sound and based on best available information.

---

5 The level of detail at this stage should be sufficient to provide decision-makers an early indication of key factors that may affect the affordability of the proposal. Also refer to action 19 of the financial case.

6 The Indicative Business Case template is available at http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc/guidance

References

Department of Prime Minister and Cabinet (2001), Cabinet Office Circular CO (15) 05, *Investment Management and Asset Performance in the State Services*, available at the Cabinet Office website at http://www.dpmc.govt.nz/sites/all/files/circulars/coc_15_05_0.pdf

Flanagan, Joe and Nicholls, Paul (2003), *Public Sector Business Cases using the Five Case Model: a Toolkit*, updated July 2011 and available from https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

HM Treasury (2003), *Green Book: Appraisal and Evaluation in Central Government*, Treasury Guidance updated July 2011, available from https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

Ministry of Business, innovation and Employment (2011), *Mastering Procurement: A Structured Approach to Strategic Procurement,* March 2011, available at http://www.business.govt.nz/procurement/for-agencies/strategic-procurement/mastering-procurement-the-guide

Ministry of Business, Innovation and Employment (2013), *The Government Rules of Sourcing: Rules for planning your procurement, approaching the market and contracting,* April 2013, available at http://www.business.govt.nz/procurement/for-agencies/key-guidance-for-agencies/the-new-government-rules-of-sourcing

Smith, Courtney A and Flanagan, Joe (2001), *Making Sense of Public Sector Investments: the five case model in decision-making*, Radcliffe Publishing Limited, (ISBN 1 85775 432 8)

The Treasury (2009), *Guidance for Public Private Partnerships (PPPs) in New Zealand,* published 2 Oct 2009, available at http://www.infrastructure.govt.nz/publications/pppguidance

The Treasury (2005), *Cost Benefit Analysis Primer*, published 1 December 2005, available at http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/primer

The Treasury (2013), *Better Business Cases*, guides and templates available at the Treasury website at http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc/guidance

The Treasury (2013), *Regulatory Impact Analysis Handbook*, published 2 August 2013, available at http://www.treasury.govt.nz/publications/guidance/regulatory/impactanalysis

Welsh Government (2012), *Delivering Public Value from Spending Proposals, Green Book guidance on Public Sector Business Cases using the Five Case Model*, October 2012, available at http://wales.gov.uk/funding/wiipindex/5cmodel/?lang=en

Annex One: The Thirty Four Actions

	Strategic Assessment	Programme Business Case	Project - Indicative Business Case	Project - Detailed Business Case	Implementation Business Case
			Single Stage Business Case		
Strategic Case	Action 1: The Case for change	Action 2:Strategic Context Action 3: Investment Objectives, Existing Arrangements and Business Needs Action 4:Potential Business Scope Action 5:Benefits, Risks, Constraints and Dependencies	Action 2:Strategic Context Action 3: Investment Objectives, Existing Arrangements and Business Needs Action 4:Potential Business Scope and Key Service Requirements Action 5:Benefits, Risks, Constraints and Dependencies		Action 27: Revisit the case for change
Economic Case			Action 6:Critical Success Factors Action 7:Long List Options and Initial Options Assessment Action 8:Recommended Preferred Way Forward	Action 9:Revisit the Indicative Business Case and Confirm the Short List Action 10:Economic Assessment of the Short-Listed Options Action 11:Non-monetary Benefits and Costs Action 12:Risk and Uncertainty Action 13:The Preferred Option	Action 28: Revisit Detailed Business Case options
Commercial Case				Action 14:The Procurement Strategy Action 15:Specify Requirements Action 16:Risk Allocation Action 17:Payment Mechanisms Action 18:Contractual and Other Issues	Action 27:Evaluation of best and final offers Action 28:The negotiated deal & contractual arrangements
Financial Case				Action 19:The Financial Costing Model	Action 29:Financial implications of the deal
Management Case				Action 20:Project Management Planning Action 21:Change Management Planning Action 22:Benefits Management Planning Action 23:Risk Management Planning Action 24:Post Project Evaluation Planning	Action 30:Finalise Project Management Arrangements Action 31:Finalise Change Arrangements Action 32:Finalise Benefits Arrangements Action 33:Finalise Risk Management Action 34:Finalise Post Project Evaluation Planning

Annex Two: Considering PPP and Alternative Procurement Options.

The New Zealand PPP Model

In the New Zealand context, a PPP is a long-term contract for the delivery of a service, where provision of the service requires the construction of a new asset, or enhancement of an existing asset, that is financed from external (private) sources on a non-recourse basis, and full legal ownership of the asset is retained by the Crown.

PPP procurement has been implemented in New Zealand for the primary purpose of improving the focus on, and delivery of, required service outcomes from major infrastructure assets. Whole of life services are purchased under a single long-term contract with payments to the contractor based on availability and performance of the asset. The combination of assets and services required to be delivered by the private sector are referred to in this document as the ‘project’.

The PPP model seeks to improve outcomes by capturing best practice and innovation from the private sector. Lessons learnt from PPP projects can be implemented across a broader portfolio of public assets to significantly leverage the benefits of single PPP transactions. The competitive procurement process, focus on outcomes (with minimal input specifications and constraints), appropriate risk allocation and performance based payment mechanisms that put private sector capital at risk optimise the incentives and flexibility for private sector participants to deliver innovative and effective solutions.

PPP procurement is only used where it offers value for money over the life of the project, relative to conventional procurement methods. This means achieving better outcomes from a project than if it were procured using conventional methods, for the same, or lower, net present cost.

Further guidance documents and useful information can be found at www.treasury.govt.nz/ppp and the Treasury PPP Team can be contacted by email to ppp@treasury.govt.nz.

Cabinet Mandated Consideration of PPP Procurement

Procuring entities that are planning any ‘significant investment’ (including any arrangements with Local Government Authorities seeking Crown funding or support) must evaluate all procurement options, including PPP procurement.[7]

The Government Rules of Sourcing require agencies that are considering PPP procurement to:

- consult with the Treasury PPP Team early in the development of the project’s business case
- follow relevant Treasury guidance and instructions
- involve the Treasury PPP Team in the economic and financial assessment and advice to Ministers

---

[7] In terms of financial or risk thresholds, ‘significant’ generally means investments that require Cabinet or Ministerial approval as per Cabinet Office Circular (15) 5, that is, high risk proposals, or proposals with whole of life costs (WOLC) in excess of $15 million, however funded. For further information, refer http://www.dpmc.govt.nz/cabinet/circulars/co15/5

- invite the Treasury PPP Team to participate in relevant project steering and working groups, and in the selection panels for all key PPP advisor appointments, and
- use the Treasury's Standard Form PPP Project Agreement as the basis for any contract and consult with the Treasury PPP Team over any proposed modifications.[8]

Considering PPP Procurement within the Indicative Business Case

Procuring entities should engage with the Treasury PPP Team and consider the potential suitability of PPP procurement for proposed projects at an early stage. For procuring entities applying the Better Business Case framework, formal consideration of PPP procurement is required through the development of an IBC and has implications for the process of developing both the IBC and DBC.

The consideration of procurement options is carried out at Action 7 of the IBC where evaluation of a wide range of realistic options for meeting the identified service needs is required. The suggested approach is to consider possible options against five dimensions: scale, service solution, service delivery, implementation and funding. The resulting options for implementing the preferred solution may range from the procuring agency self-performing the delivery of all required assets and services to the provision of all services by a private sector provider through assets developed and owned by that provider.

An initial qualitative assessment of PPP procurement is required. This should consider the characteristics of the project and assess whether PPP procurement is likely to be suitable and offer greater value for money. Further detail of those characteristics which should be considered at a minimum are set out below.

If PPP procurement is to be included as a short list option, additional consideration is required as part of the IBC before PPP procurement is presented to Cabinet. This additional consideration includes consultation with joint Ministers (being the Minister of Finance and Minister responsible for the procuring entity) and engagement with potential interested parties through market sounding.

Two additional components (Actions 8a and 8b) are required to be added to Action 8 to provide for this additional analysis.

Action 8a: Market Sounding

Engaging with a representative sample of potential private sector partners (the market) early in the planning process for a project can provide real value to a procuring entity as it can help inform the opportunity for all parties – both in terms of readying the market for the project as well as helping the procuring entity resolve the optimal scope and scale of the project.

While care must be taken to ensure that appropriate probity processes are observed, market sounding provides the procuring entity an opportunity to gain a better understanding of the appetite of the market for the project as well as any preferences or challenges the market may have with certain scope and scale permutations.

---

[8] http://www.business.govt.nz/procurement/for-agencies/key-guidance-for-agencies/the-new-government-rules-of-sourcing

The procuring entity must ensure that it is well prepared for the market sounding process and that it presents a coherent and considered opportunity to the market. If the procuring entity is not well prepared and has not considered a range of options or attempts to use the market sounding process to 'crowdsource' innovation or intellectual property then it is likely to damage the market's appetite for the project.

Action 8b: Endorsement by joint Ministers

If, on the basis of the initial qualitative assessment and market sounding, PPP procurement is considered a short list option then joint Ministers should be consulted prior to submission of the IBC to Cabinet. This provides Ministers with full visibility of the analysis and assumptions which underpin the project and allow them to consider whether there are any programme or external factors which may also impact the likely success of PPP procurement. For example, if the timing of another project, for which a different agency is considering PPP procurement, may clash then Ministers may consider intervening.

If joint Ministers agree that PPP procurement is an appropriate option, then further analysis will be required as part of the preparation of the DBC. The IBC should short list two procurement options for further evaluation in the DBC which include PPP procurement and the preferred form of conventional procurement. This is important as the preferred form of conventional procurement will form the basis for the calculation of the Public Sector Comparator (PSC) and will ensure a second option is available if further analysis as part of the DBC results in PPP procurement being discarded.

Detailed Business Case

Where PPP procurement is endorsed by Cabinet, the DBC will build on the analysis completed as part of the IBC and Cabinet directive. Further qualitative analysis will be required as well as quantitative analysis in the form of compiling a PSC. Ideally, the scope of service provision to be included within the PPP will be confirmed at this time together with finalisation of the project's key outcomes and an indicative performance regime and risk allocation.

For further information, refer to the supplementary guidance attached to the *Guide to Developing the Detailed Business Case*.[9] Further guidance on the development of a PSC and quantitative value for money analysis has been published by the Treasury PPP Team (*Public Sector Comparator and Quantitative Assessment*).[10]

Project Characteristics and Suitability of PPP Procurement

PPP procurement is most likely to be appropriate for projects of large scale and long duration where:

- the nature of the asset required is specific and can only be applied to the purpose intended (such as a prison or hospital)
- the service is durable and it is unlikely that the service requirements will vary unpredictably over the life of the contract

---

9 http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc/guidance/bbc-detbus-gd.pdf

10 http://www.treasury.govt.nz/statesector/ppp/guidance/public-sector-comparator

- outcomes or outputs can be well-specified, enabling clear specification and monitoring of performance requirements and standards
- the project is sufficiently complex that innovative design and service approaches may be employed, and
- there is sufficient market appetite and depth to ensure a competitive procurement process.

Nature of the required asset

The nature and characteristics of the asset required to deliver the service outcomes of the project are an important driver in considering procurement options. Where the asset required is relatively generic and could have a range of applications, it is unlikely that there will be a strong imperative for the Crown to retain ownership of the asset. In such a case the best value for money option may be private provision such as through a lease arrangement.

Where the required asset is highly specific to the proposed use (such as a prison or hospital), it is more likely that public ownership will be favourable to private ownership. The limited application of such an asset to other uses will mean that a private owner will likely seek to recover the full cost of the asset over the duration of the lease which is unlikely to be value for money for the Crown.

Once the preferred ownership structure has been identified, those procurement options relevant to the ownership structure can be identified and considered. PPP procurement is only considered appropriate for assets for which long-term Crown ownership is preferable.

Outcome specification

As a general rule, if the required asset or service can be well specified, then it is likely that it can be measured and delivered by a third party under a contractual relationship.

Additionally, where the service can be clearly specified, clear performance specifications can be formulated to ensure higher levels of service outcomes can be contractualised and enforced. The PPP project agreement can include incentives to deliver stronger performance, resulting in greater efficiency and higher quality service outcomes.

Service outcomes which cannot be well specified, however, risk undermining the performance regime and, ultimately, the procuring entity's control over the asset and its performance.

Durability of service specification

The durability of the service specification is also a crucial issue for a public sector practitioner to assess as it will dictate the potential tenure of the contract. If a contract is easily specified and the nature of that service is unlikely to change significantly then it may suit a procurement model with a long contract term such as PPP procurement. A shorter duration may be preferred where the required scope of an outsourced service is unpredictable in order to mitigate a risk premium being charged by the service provider due to uncertainty.

Project complexity

Complexity (both in terms of asset and service provision) is also an important consideration in determining the suitability of PPP procurement for a specific project. Greater opportunity exists for a private sector partner to introduce an innovative solution where the project has a higher level of complexity. Innovation may include approaches that provide improved service outcomes or reduce the overall cost of the project.

Conversely, care should be taken to ensure that a project's complexity and a private sector partner's response do not undermine the value of the overall project. This might arise through the creation of difficult or costly interface issues with other services provided by the procuring entity or increased contract management and enforcement costs.

Project scale and cost

The size of the project (both in terms of asset and service provision) is an important criterion when considering procurement options and the suitability of PPP procurement.

The larger a project is, the greater ability it will likely have to absorb the transaction costs associated with PPP procurement and attract market interest. A small project or service contract may not be able to sustain those transaction costs associated with the required market development, procurement and monitoring inherent in PPP procurement, reducing the value for money proposition.

The procuring entity's contract management competency

Effective management of outsourced service contracts is critical regardless of the form of procurement. However, due to the level of complexity inherent within the performance regime, PPP procurement requires a higher level of active contract management than other forms of procurement. Effective contract management is most likely to occur where service performance can be readily measured and the procuring entity has the requisite contract management resource and expertise.

Where the adoption of PPP procurement for a specific project requires a procuring entity to establish a contract management function, consideration should be given to the likelihood of further PPP projects or other opportunities to utilise this capability. If such opportunities are not apparent, the additional cost of establishing and maintaining this contract management functionality may diminish the value for money of procuring the project as a PPP.

A procuring entity considering PPP procurement should consult the Treasury PPP Team in developing its contract management plan. The Treasury PPP Team are able to provide advice on best practice PPP contract management as well as the Treasury's ongoing contract monitoring framework.

Competitive tension

The nature of the asset and service outcomes required will determine whether there are sufficient suppliers in the New Zealand market to ensure a competitive process to deliver value for money. Factors both internal and external to the project may have an impact on the level of competition available and the procuring entity must ensure that the project and potential procurement methods are robustly tested with interested parties.

The number and nature of interested parties will play an important role in delivering value for money and innovation within the project. Early engagement with the market is required to ensure that interested parties have sufficient opportunity to consider the opportunity and form consortia. This is particularly important where the project is likely to attract interest from new or international parties.

Engaging with the Treasury PPP Team

The Government has established a PPP Centre of Expertise within the Treasury which is responsible for:

- developing PPP policy
- advising agencies in respect of PPP procurement
- developing and maintaining the PPP market in New Zealand, and
- the PPP procurement model and Standard Form Project Agreement.

The Treasury PPP team understands that the requirement to consider a new procurement model can be daunting and encourages early engagement to discuss the PPP model and its suitability for a specific project. Ownership of, and responsibility for, all PPP projects remains with the respective procuring entity and seeking early engagement with the Treasury PPP team on procurement options will provide opportunity to understand how PPP procurement may suit project and agency requirements.

Early engagement allows scope for full consideration of alternative procurement options on a best-for-project basis. It also provides maximum opportunity to leverage lessons learnt from other projects and international best practice in the development of procurement options for a project.

The Treasury PPP team is able to provide agencies valuable assistance through:

- providing an understanding of the New Zealand PPP model and policy
- the development of the economic, financial and commercial cases component of a project's business case (in particular, consideration of procurement options, market sounding, risk analysis and the development of a PSC)
- experience in planning the procurement process and engagement with potential private sector partners
- established relationships with market participants including advisors, investors, contractors and service providers
- providing insight from lessons learnt and experience from PPP projects in other sectors, and
- representation within the project's steering group and project team to provide support and direction throughout the procurement and negotiation phases.

Departments or agencies considering a significant investment may discuss the potential for applying PPP procurement with their Treasury vote manager or contact the Treasury PPP team directly.

Annex Three: Worked Example of a Long-list Options Assessment

	Scoping Options				Service Solution Options				Service Delivery Options				Implementation Options			
Reference to	SCO1	SCO2	SCO3	SCO4	SOL1	SOL2	SOL3	SOL4	SDO1	SDO2	SDO3	SDO4	IMP1	IMP2	IMP3	IMP4
Description of option	*Do Nothing*	*Minimum*	*Intermediate*	*Maximum*	*Discrete*	*Integrated Regionally*	*Integrated Nationally*	*Regional and National Network*	*In house*	*Partially managed (led by [MINISTRY])*	*Partially managed (led by commercial supplier)*	*Fully outsourced to commercial suppliers*	*Phased nationally by discipline*	*System phased by site*	*System phased by region*	*National implementation*
Investment Objectives																
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
Critical Success Factors																
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
Options progressed to the shortlist *As the CSFs are crucial (not desirable) any options that had a CSF scoring a "No" are discounted*										*Refer Note below*						
Option Title																
Option 0 Do Nothing	SCO1 Do Nothing															
Option 1 Intermediate Scope - Regional	SCO3 Intermediate				SOL2 Integrated Regionally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
Option 2 Intermediate Scope - National	SCO3 Intermediate				SOL3 Integrated Nationally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
Option 3 Maximum Scope - Regional Integration	SCO4 Maximum				SOL2 Integrated Regionally				SDO3 Partially managed (led by commercial supplier)*				IMP2 Phased by site			
Option 4 Maximum Scope - National Integration	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.*