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Disclaimer

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The findings in this report are based on a qualitative study and the reported results reflect a perception of Victorian Public Service representatives but only to the extent of the sample surveyed, being Department of Treasury and Finance's approved representative sample of stakeholders.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Department of Treasury and Finance and its management / personnel and government stakeholders consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form. The findings in this report have been formed on the above basis.

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1 Executive Summary

1.1 Introduction

The Victorian Government's Investment Standard (IMS) was originally developed to enable capital expenditure in Information and Communication Technology (ICT) projects to be assessed during the annual budget process. In 2006, KPMG undertook a study into the cost effectiveness of the application of the IMS and found that benefits outweighed costs of implementation. Since 2006, the remit of the IMS has been extended to include non ICT investments and extended throughout the Victorian government. In the recently issued Investment Lifecycle Guidelines, the use of the IMS was made mandatory for all investment decisions with a total estimated investment of over \$5 million. The standard can still be used for smaller projects, although in these instances the level of detail will depend on risk and complexity.

KPMG were engaged by the Department of Treasury and Finance (the Department) to undertake a study into the impact of IMS on Victorian Public Services (VPS) as part of the Department's long term aim to improve investment processes. The Product Specification specifically noted the following areas:

- Identifying and documenting the ways investment management practices are being applied across the Victorian government;
- Quantifying the economic impact of the practices in each identified application;
- Identifying opportunities to expand the use of the standard across the VPS and quantifying the impact that was likely to have; and
- Recommending a set of actions that would consolidate the existing standard and provide new value to the government.

2 Key findings

Ten stakeholders were interviewed, with a further seven contributing to the case study examples in the report. An initial survey was sent out to 600 potential participants, of which around forty responses were received. The secondary survey was then sent to 24 participants, of which only three responded.

The key findings from our consultation and research are summarised below.

2.1 Survey

At the commencement of the engagement, it was recognised that there was insufficient consistent data across all departments to achieve a whole of government value assessment. Instead, interviews were held with key stakeholders from VPS, who both use, or facilitate the use of, the IMS. The survey results showed that practitioners believe the fundamental benefits of the IMS relate to its ability to help proponents better articulate the nature of a business problem. It also allows business cases to be more strategic and adds to their overall quality. Other identified benefits were the engagement of senior executives, better investment prioritisation, better solution identification and shaping and better definition and tracking of benefits.

However, there was no clear consensus (defined for this purpose as fewer than 75% of survey participants choosing the answers “some value” or “valuable”) from practitioners surveyed that the IMS reduced the number of business cases being undertaken, or led to a reduction in the time and costs to prepare them or that it assisted in shaping solutions that better leverage existing or future infrastructure.

However, one of the interviewees was able to point to a significant reduction within their department in the number of business cases being produced and in the time taken to complete them which was attributed to the use of the IMS.

2.2 The application of the IMS

The use of IMS across different departments is inconsistent, with people applying the standard only when, in their opinion, is it “fit for purpose”. Different departments have varying attitudes towards the IMS, with some seeing it as a useful tool and others as another administrative burden. Some identified applications are listed below:

- As part of the ERC approval process, as envisaged by the investment lifecycle guidelines;
- As a screening tool to identify effective projects at an early stage, and prevent unnecessary business case development;
- As an accountability tool, using the benefits management plans;
- Project/programme evaluation. Programme evaluation teams are developing evaluation frameworks from the Investment Logic Map (ILM) including performance measures and KPIs, although it appears these frameworks use a much higher level of detail than the Department requires for the ERC process;

- To resolve situations where there is inter-departmental conflict over strategy or resources;
- To facilitate the clear articulation of business problems and their solutions and obtain funding for projects under time pressure; and
- As a concise, one page summary for ministers on what a programme is about (this benefit relates to the ILM in particular).

2.3 Quantifying the impact of the IMS

IMS has been designed to facilitate the choice of investments to progress the Victorian Government's strategic objectives. Unlike project management tools which are about efficient management of the project, IMS is concerned with whether the right projects are selected in the first place. This makes the economic impact hard to assess as a successful implementation of IMS may stop the choice of an inappropriate project, with significant cost savings, which cannot be captured as they have not been incurred. One way that the impact in an improvement of solution selection might be seen is in a decrease in projects being abandoned at late stages of development, and an increase in the benefits in terms of strategic outcomes being realised. Another possible measurement is to survey investors immediately after the ILM workshop for their impression of how the workshop challenged and moulded their investment decision. This could be expressed in terms of a change in proposed capital expenditure (capex).

By screening projects early, the IMS prevents the preparation of unnecessary business cases. The clarity that the ILM produces around strategic objectives and the definition of the problem which the project is addressing means that those business cases which do progress through to development are easier and quicker to complete. Within the Victorian Police (VicPol), this was quantified as representing a saving of 4,000 person days. Now that the IMS is within the Investment Lifecycle Guidelines (ILG), the Department should take this opportunity to use 2007/08 as a baseline year, and establish the number of business cases developed in each department. Going forward, the number can be monitored and compared to this baseline to see if VicPol's experience is duplicated across other departments.

The use of IMS to identify benefits and the people accountable for realising those benefits ought to result in a better assessment across VPS of the "success" of each project and the achievement of strategic objectives.

In one department the ILM is being used as a source document for project and programme evaluation. It is anticipated that this will result in higher quality, consistent evaluations. However, this is in the early days of development, and will be monitored by the department in question. There is considerable enthusiasm for this approach as it is seen to be internally consistent and rigorous; giving a robust basis for evaluations that can link back clearly to the original reasons for undertaking the project.

All other uses of IMS are connected to the successful resolution of problems and access to funding, which departments have experienced using IMS. These advantages will diminish in time as all departments adopt the IMS, and funding applications (for instance) will all be of the same high standard.

The perceived benefits of IMS in different departments is, to some extent, dependant on the take-up within that department of IMS, the level of investment which it undertakes, and the baseline from which it is operating. Poorly performing departments are likely to see more benefits from the introduction of any management process. A department with few large investments will not see as great a benefit of implementing IMS as one with a large number of large investments. Similarly, VicPol, who identified a high level of benefit, have implemented IMS for all projects requiring funding, not just large investments.

2.4 Identifying opportunities to expand the use of the standard across the Victorian Public Sector

The new Investment Cycle Guidelines should result in the IMS being implemented for certain high value investments across the whole of the VPS. This will be a significant increase in the use of the standard.

Other opportunities should be taken on an ad hoc basis. There is enthusiasm in some departments for using IMS and in particular the ILM, in diverse circumstances and for different reasons. However, the real benefits will be derived from concentrating on the consistent application across all departments of the ILG as a whole. In particular, it is important that the effectiveness of the ILM is not diluted by poor facilitation of the workshops, so it is important that sufficient facilitators are trained and their work assessed and monitored to ensure high standards are maintained.

2.5 Recommendations

- Cease treating the IMS as a separate, stand-alone investment framework, and concentrate on ensuring that it becomes properly embedded within the ILG and Gateway initiative.
- Make the IMS mandatory for all investment proposals over \$1 million.
- Make benefits reporting mandatory for all approved investments over \$5 million.
- Maintain focus of IMS on asset investment.
- Prepare a comprehensive training programme for the broader VPS on the development of ILMs, Benefit Management Plans and Benefit reporting.
- Establish an on-going mechanism for external facilitators to ensure the provision of assistance in workshops is maintained to a high standard.
- Formalise a system of data capture to better establish value of mechanism to the Victorian Government.

3 Introduction

3.1 Background

A study completed by KPMG in 2006 found that the application of the Victorian Government's Investment Management Standard (IMS) annual budget process for ICT projects created more benefits than the associated costs.

Specifically, the study concluded that:

- the application of investment management activities (which included undertaking strategic alignment workshops, investment logic maps and benefits management plans) in the 2006/07 ERC cycle has greatly influenced the assessment of value (of the proposed ICT projects);
- the OCIO standard and tools have directly assisted individual central-funding submissions at the operational level, and established a standardised base for benefits management at a portfolio level;
- the OCIO hypothesis of portfolio-level value derived from the application of the investment standard and tools in the order of:
 - reduced investment level of 10%; and
 - increased identified benefits of 20%;

appeared reasonable based on the stakeholders consulted and projects assessed. .

Since 2006, the IMS has been adopted across the Victorian Government and applied beyond ICT investments. It has recently been included in the Investment Lifecycle Guidelines and is now mandatory for all investment decisions with a total estimated investment of over \$five million.

The Department has now requested a study be completed to quantify the impact that the IMS has had across the Victorian Government, and to make recommendations as to how the investment management practices could be further exploited to improve the effectiveness of government policy and reduce cost.

3.2 Project scope and objectives

KPMG was engaged by the Department to undertake a study into the impact of the IMS, with a particular purpose to improve the investment management practices across the VPS.

The Product Specification specifically noted the scope of work to comprise:

- identifying and documenting the ways the investment management practices are being applied across the Victorian government (eg shaping, prioritising and monitoring new investments OR program design and evaluation);

- quantifying the economic impact of the practices in each of the identified applications;
- identifying opportunities to expand the use of the standard across the Victorian public sector and quantifying the impact that was likely to result; and
- recommending a set of actions that would consolidate the existing standard and provide new value to government.

In responding to the Product Specification, KPMG's proposal noted:

We note however, that a whole-of-government value assessment can only be achieved if sufficiently consistent data is available for all departments and agencies. We recognise that extrapolation of data from a few sample agencies is likely to misrepresent the total value effects from a whole-of-government perspective, and therefore it may be that a combination of case studies and department / agency specific values could be established to present value effects.

Therefore, at the commencement of the engagement, it was recognised that, should data be readily available to quantify the value effect of the IMS, then KPMG would utilise that information and establish relevant quantitative estimates. However, should the data not be readily available, then such estimates could not be established.

3.3 Project methodology

This engagement was planned to be undertaken over six stages:

- Stage One – A project initiation phase to ensure a shared agreement of project deliverables, timing, communication and approach;
- Stage Two – Attendance of KPMG representative to the Skills Transfer Workshop (Workshop 1) and Investment Logic Mapping Workshop (Workshop 2);
- Stage Three – Consultation with identified stakeholders to obtain their views and establish their feedback on the IMS, specifically with respect to how the IMS is being applied, the value it is or has created for their Department or Agency, and their recommendations for how the IMS could be improved from a value-to-government perspective;
- Stage Four – Review of relevant documents, including academic literature, DTF Best Practice Guidelines for the Gateway Review Process, Lifecycle Guidance Material and Investment Management;
- Stage Five – Preparation of a Draft Report and presentation of key findings to selected Departmental representatives; and
- Stage Six – Finalisation of the draft report based on feedback received from the Department.

However, as noted above, at the start of the project, it was recognised that there may be insufficient consistent data across all departments to achieve a whole of government assessment. In an attempt to counter this, Stage Three was extended to include a survey and interviews with DTF Report post meeting review DOC_3950844_1(Client-Job) - 18 November 2008

stakeholders. The survey was extended to include a second iteration to try to drill down on a few of the original questions to gain quantifiable data about the effect of the IMS. However, insufficient responses were received to draw any meaningful conclusions. In addition, three case studies were written up to illustrate some particular instances where individuals had identified the IMS as being of specific value.

3.4 Structure of this report

This report is structured as follows:

- Section Four discusses policy and business context of the IMS, the concept of benefits management and presents information regarding the IMS as it currently applies within the Victorian Government;
- Section Five presents how the IMS interacts with the broader investment framework applied across the Victorian Government;
- Section Six summarises views obtained from stakeholders during the consultation process, including the survey;
- Section Seven looks at quantifying the benefits of the IMS;
- Section Eight details the three case studies; and
- Section Nine presents our findings and recommendations in relation to future actions to improve the application of the IMS procedures across the Victorian government.

4 Policy and Business Context

This section of the report discusses the concept of benefits management and presents information regarding the Investment Management Standard (the Standard or IMS) as it currently applies within the Victorian Government, and how that standard interacts with the broader investment framework applied across the Victorian Government.

4.1 Benefits Management

The concept of ‘benefits management’ appears to have its origin in the mid 1990s in the arena of information technology. Ward and Daniel defined benefits management as:

“The process of organising and management such that the potential benefits arising from the use of IS (information systems) / IT are actually realised”¹

Proponents of benefits management suggest that, in addition to investment justification and evaluation, it is necessary to establish explicit methodologies to ensure that the projects or activities actually deliver the proposed benefits. However, although it is also acknowledged that identifying the potential benefits of investments is important, it is not by itself sufficient to ensure that the anticipated benefits are actually realised².

Lin and Pervan³ found that only about one-third of the 69 companies they surveyed reported that they used some form of formal benefits realisation methodology involving pre-project identification of potential benefits followed by post-project review. Importantly, 44% of these sample companies concluded that they had not learned from their previous unsuccessful projects. Conversely, a subsequent study found that those organisations that followed a benefits realisation methodology had more confidence in the effect a project had on it as an organisation, and that the organisational staff were less prone to overstating the effects of their projects in order to get the projects approved⁴.

A more recent study by Flak, Eikebrokk and Dertz⁵ found several challenges with the introduction of benefits management approach in a public sector context, recognising that Government projects are often characterised by complex stakeholder relations, involving a variety of often competing interests. The authors found the two major issues associated with benefits management in the public sector were:

- the quantitative estimates of the realised benefits were of poor quality; and
- the contents of the benefit management plans were also of poor quality.

¹ Ward, J. and Daniel, E., *Benefits Management, Delivering Value from IT Investments*, Chichester: Wiley, 2006.

² Ward, J. and Griffith, P., *Strategic Planning for Information Systems*, Chichester, UK: John Wiley and Sons Ltd, 1996

³ Lin, C. and Pervan, G., *The practice of IS/IT benefits management in large Australian organisations*, Information and Management, Vol 41, pp13. 2003

⁴ Lin, C. Pervan, G. and McDermid, D., *IS/IT investment evaluation and benefits realisation issues in Australia*, *Journal of Research and Practice in Information Technology*, vol 37, 2005

⁵ Flak, L., Eikebrokk, T., and Dertz, W., An exploratory approach for benefits management in e-Government: insights from 48 Norwegian government funded projects, Proceedings of the 41st Hawaii International Conference on System Sciences, 2008

The authors postulated that drivers of these issues could be:

- a lack of willingness of project managers to accurately state benefits prior to commencement of a project if there is a concern they will be held accountable for achieving these benefits post-implementation;
- cultural shock for government employees who are traditionally accustomed to a budget optimising logic and return on investment logic;
- the author of the benefits management plan had such a lack of connection with the project in its early stages that they were not fully aware of why a project was occurring. Further, the authors suggested this issue had a follow-on problem in the sense that, if there was an indifferent attitude towards the identification of the benefits by a project proponent, it generally followed there was an indifferent attitude towards the realisation of the project benefits as well; and
- lack of competence regarding how to develop a useful plan.

These academic findings accord very closely to the anecdotal evidence provided early on in the conduct of this study. Further, it appears many of these exact issues identified in the academic literature were the drivers behind the Victorian Government's objectives to establish the IMS.

4.2 Investment Management Standard

4.2.1 Introduction

While recognised in the above literature, benefits management is now being practically considered as the 'missing piece of the puzzle' that links project initiation to project maturity, benefit maturity and project success. Under this framework, it is argued that organisational benefits and business outcomes should drive projects, and that projects should be linked strategically.

The Investment Management Standard (IMS) adopted by the Victorian Government builds on from this understanding and formalises through a set of 'practices an approach that allows an 'investor'⁶ to clearly define the need for an investment, shape the solution that will best respond to the need and track the delivery of benefits throughout the investment lifecycle'⁷.

Consistent with the background of benefits management, the IMS was developed out of the ICT investment function within the Office of the Chief Information Officer (OCIO). The initial framework was established to drive better value for money from government-ICT related spending, and help shape investments that would build whole-of-government strategic capability.

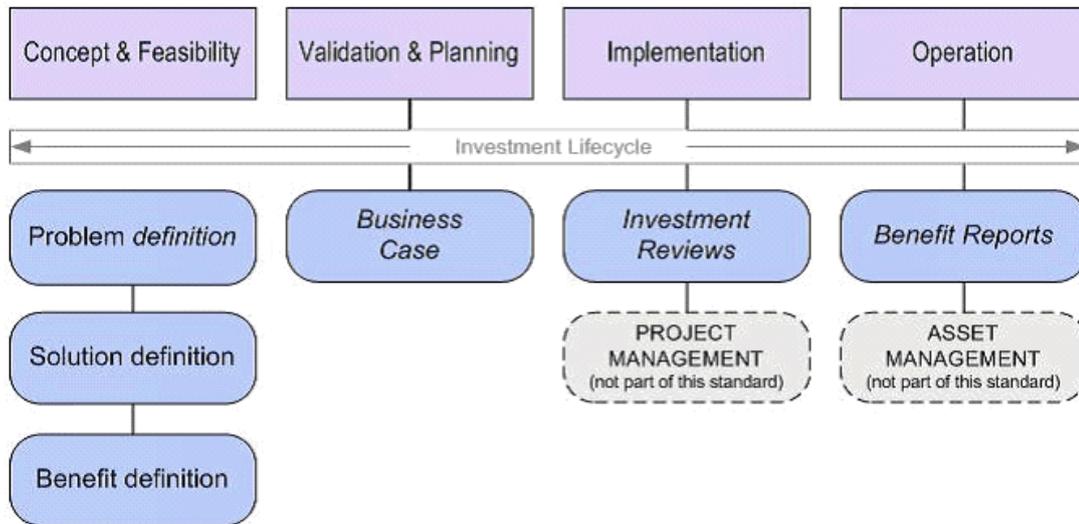
⁶ Equivalent to Senior Responsible Owner (SRO) within the Gateway Review Process

⁷ Department of Treasury and Finance, Investment Management Standard v3.0, p3
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4.2.2 Investment Management Standard Guidelines

The IMS comprises six guidelines which are intended to enable the investor to focus on the reason for the investment and the benefit it provides throughout its investment life. Figure 3.1 graphically depicts where these six guidelines fit within the investment lifecycle.

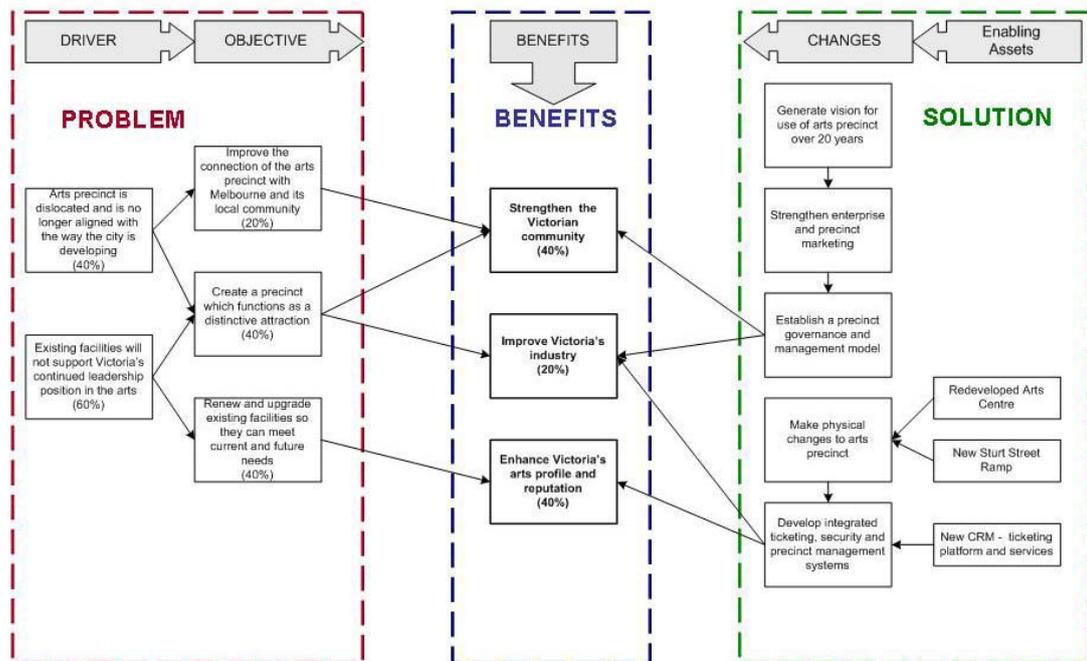
Figure 3.1 The Investment Lifecycle



Source: Department of Treasury and Finance, Investment Management Standard, p5

The guidelines associated with the concept and feasibility of a project aim to define the logic for an investment, and this is depicted via an Investment Logic Map (ILM) as the problem, benefit and solution, as shown in the Figure 3.2 below.

Figure 3.2 Main elements of an Investment Logic Map



Source: Department of Treasury and Finance, Investment Management Standard, p6

The ILM is considered the foundation upon which the investment is undertaken, and IMS considers it to be the formal document that is to be maintained and referenced throughout the investment lifecycle.

The ILM is initially developed as part of the Problem Definition component of the IMS in a two-hour, facilitated workshop during which the 'investor' identifies the 'drivers', 'objectives' and 'benefits' justifying an investment, and the 'business changes' and 'enablers' that are required for the benefits to be achieved.

Version 3.0 of the IMS Guidelines suggests that the ILM be developed in an iterative process, with the first iteration being a problem definition workshop, whereby the investor clarifies what is driving the investment decision and what benefits the investment could reasonably be expected to deliver.

As shown in Figure 3.2, the 'problem' is shown in terms of the:

- 'driver' – being the core reason for investing. Each driver within the ILM, generally up to but no more than three, must be validated by describing the evidence that it really does exist, and the relative importance of each driver is noted by allocating a percentage to each⁸; and
- 'objectives' – being the high level action or strategic intervention that is proposed in response to the identified problem, and should be defined in the context of the organisation's mission.

⁸ The percentage allocated to each driver must be different, ie: there must be a relative hierarchy of drivers as shown by different percentages allocated to each different driver.

The IMS Guidelines also outline the concept of a ‘Benefits Framework’ which is explained as being a three-tiered structure that links the contribution of an individual investment to the outcomes the enterprise is seeking. The three tiers include:

- Enterprise – with the key question asked at this tier being, ‘*What outcomes is the enterprise seeking?*’;
- Organisation – with the key question asked at this tier being, ‘*How will the organisation contribute to the enterprise outcomes?*’; and
- Investment – with the key question asked at this tier being, ‘*How will this investment help the organisation meet its objectives?*’.

In the context of the above tiers, the Benefits Framework attempts to explicitly link the Enterprise benefits to government policy, Growing Victoria Together (GVT). GVT is a ten-year vision that articulates what is important to Victorians and the priorities the Government has set to build a better society. The stated Vision and Goals of GVT for 2010 and beyond are shown in the following table, while linked to these are a further 36 measures that are aimed to be tangible targets from which the GVT can be assessed against.

Table 3.1 GVT Vision and Goals

Vision	Goals
<ul style="list-style-type: none"> • A thriving economy 	<ul style="list-style-type: none"> • More quality jobs and thriving, innovative industries across Victoria • Growing and linking all of Victoria
<ul style="list-style-type: none"> • Quality health and education 	<ul style="list-style-type: none"> • High quality, accessible health and community services • High quality education and training for lifelong learning
<ul style="list-style-type: none"> • A healthy environment 	<ul style="list-style-type: none"> • Protecting the environment for future generations • Efficient use of natural resources
<ul style="list-style-type: none"> • Caring communities 	<ul style="list-style-type: none"> • Building friendly, confident and safe communities • A fairer society that reduces disadvantage and respects diversity
<ul style="list-style-type: none"> • A vibrant democracy 	<ul style="list-style-type: none"> • Greater public participation and more accountable government • Sound financial management

Source: www.growingvictoria.vic.gov.au

The IMS Guideline states that the Benefits Framework should be used as the basis for considering the validity of the potential benefits during the development of the ILM. Further, the IMS Guideline also suggests that the Benefit Framework be worked through during a *Benefits Definition Workshop*, which is a separate two-hour workshop and the mechanism by which the investment benefits and associated key performance indicators (KPIs) are identified

and confirmed. Specifically, it anticipated that the outcome of the workshop would be one of the following:

- 1 The benefits defined in the original ILM are validated and a benefits management plan is produced; or
- 2 The benefits of the original ILM were changed and this has altered the investment logic. An amended ILM and a benefits management plan is produced to reflect the new logic; or
- 3 The benefits identified in the original ILM could not be validated, and therefore the investment proposal can no longer be considered valid.

In order for the workshop to achieve one of these outcomes, it is recommended that the following participants be in attendance.

Table 3.2 Proposed Benefits Definition Workshop Attendees

Vision	Goals
Investor	<p>The person who has an identified business problem (or opportunity), will be responsible for making (or advocating) a decision to investment, and who will be responsible for delivering the expected benefits. This person is often referred to as the ‘senior responsible owner’.</p> <p>It is highly recommended that the investor be present at the benefit definition workshop as they will be ultimately responsible for delivering the benefits.</p> <p>If the investor is unavailable, an Investor Proxy must be present instead. They must have the ability and authority to act on behalf of the investor for identifying the KPIs and targets that will demonstrate that the benefits have been delivered.</p>
Business Case Developer	Responsible for developing the business case and linking the Project outputs to the expected investment outcomes (Benefits).
KPI Designer	A person who will develop, table and defend a set of benefit management data that will provide the evidence that the expected benefits have been delivered, consistent with the benefits identified in the ILM.
Benefits Data Provider	The senior person who will be responsible for providing the data that will demonstrate whether the expected benefits are being achieved.
Facilitator	Is accredited in facilitating the development of Benefit Management Plans

Source: Department of Treasury and Finance, Investment Management Guideline – Benefits Definition, p.7

While Figure 3.1 above has the problem definition, followed by the solution definition, and then the benefit definition, the IMS Guidelines argue that the benefit workshop should occur prior to the solutions workshop. The rationale for this sequencing is that the development of the benefits management plan has the potential to challenge and change the benefits identified in the problems workshop to the point that the solution previously identified may no longer be valid. Therefore based on this argument, the final element of the ILM is the solution definition workshop.

It is again suggested that a two-hour facilitated workshop be held from which the type and scope of potential solution(s), including associated enabling assets⁹, can be reviewed and an investment concept brief¹⁰ be developed. Similar to the Benefits Definition Workshop, a specific set of participants are recommended to be in attendance in order to achieve the most out of the workshop.

Table 3.3 Proposed Solution Definition Workshop Attendees

Vision	Goals
Investor	Person who has the business problem, will be responsible for making or advocating the decision to invest, and will ultimately be responsible for realising the expected benefits. Was the key participant in the problem definition workshop.
Solution Architect	Understands the business problem and the domain of the solution. Is responsible for proposing and defending the likely best solution to the identified business problem.
Strategist	Understands the strategic direction of the organisation in terms of policy, business strategy and enterprise architecture.
Innovator	Has broad knowledge as to how innovation and new technologies are being used in the specific business area
Implementer	Has developed solutions in the specific business area and is aware of what already exists and the feasibility of developments in this area
Facilitator	Is accredited to facilitate workshops under the investment management standard

Source: Department of Treasury and Finance, Investment Management Guideline – Solution Definition, p.8

Once the Solutions Workshop is completed, the potential investment should theoretically have the following documents finalised:

- a refined ILM, including KPIs;
- an investment concept brief; and
- a Benefits Management Plan.

At this stage, the potential investment is ready to be considered for ‘Stage One’ support by the Expenditure Review Committee of Cabinet (ERC). Assuming the potential project receives support to be considered further, being Stage Two of the ERC process, the IMS Guidelines refer users to the *Business Case Guidelines* which exist as part of the *Investment Lifecycle Guidelines*, although the guidelines do acknowledge that:

‘the use of Investment Logic Maps, Investment Concept Briefs and Benefit Management Plans [are the] foundation of the Business Case.’¹¹

⁹ An enabling asset is defined as a physical asset that is required to make a change work.

¹⁰ An investment concept brief is defined in the IMS Guidelines as a two-page document that depicts the logic underpinning an investment and identifies the likely costs, risks, dependencies and deliverables of the proposed solution. It is used to summarise the merits of an investment and allow decision makers to prioritise competing investments before proceeding to business case.

¹¹ Investment Management Guidelines Version 3.0, Business Case, Department of Treasury and Finance, p.3 DTF Report post meeting review DOC_3950844_1(Client-Job) - 18 November 2008

The IMS Guidelines highlight that, once a project moves into its implementation phase, progress reporting traditionally focuses on how the project is tracking against original time and cost expectations, with the rationale as to why the investment is taking place being assumed to be held constant and valid. The IMS Guidelines argue that a governance board for the project is established and reviews focussing on the investment logic should be undertaken at pre-determined intervals throughout the investment lifecycle to ensure the investment remains valid and optimal. Again, at each pre-determined interval, it is suggested that a (maximum) two-hour workshop is conducted where:

- 1 The investment context is represented;
- 2 The ILM is reconsidered in the context of whether the investment remains valid and whether there are opportunities to derive more benefits;
- 3 The benefits management plan is reviewed to determine whether the expected benefits will be delivered as planned, and/or whether there are new opportunities that should be incorporated; and
- 4 Any changes to the ILM and the benefits management plan arising from the above process are agreed, documents accordingly modified and endorsed by the governance board.

The final aspect of the IMS is the tracking and reporting of benefits associated with the investment. The IMS Guidelines outline a reporting framework to present the performance data tracked against the KPIs defined in the benefits management plan. In essence, the Benefits Report is a simple spreadsheet that tracks the actual performance of KPIs against target values on a quarterly basis and then depicts the outcomes graphically. It is suggested that this reporting framework be managed by the Business Unit, but signed off by the investor.

4.3 Extent of adoption of the investment management practices across the Victorian Government

The Department have noted some of the key developments since 2006 associated with the IMS include¹²:

- about 650 staff of the Victorian Government and 120 consultants have attended workshops that have both refined and expanded the IMS, resulting in an increased knowledge base around investment appraisal within the Victorian Public Service (VPS);
- the IMS has evolved rapidly in its useability and the business value it provides;
- over 1,000 Investment Logic Maps (ILMs) have been developed across government;
- sixteen people have been accredited to facilitate ILMs;
- an invitation to departments to include Investment Concept Briefs as part of their asset related proposals for the 2008/09 budget process; and
- creating simplicity and clarity around projects that have been considered challenged due to institutional problems or a lack of focus from the investment proponent.

¹² Department of Treasury and Finance, *Investment Management Impact Study 2008*, Product Specification, p1 DTF Report post meeting review DOC_3950844_1(Client-Job) - 18 November 2008

4.4 Summary

The IMS promulgated by the Department is driven by the premise that the underlying logic to invest needs to be well defined, robust and consistent with the achievement of broad government policy.

The IMS Guidelines present a framework for the Victorian public sector to follow which, if strictly adopted, includes a minimum of four 2-hour facilitated workshops and at least 10, but potentially up to 19, different participants contributing through the workshop and reporting processes.

KPMG recognise that, while the IMS is a discrete framework, it is intertwined with other Victorian Government investment processes, such as the ERC process, the Gateway Initiative and the Investment Cycle Guidelines. The following section of the report discusses these processes, but only in the context of the objectives of the IMS.

5 Linkage of the IMS to the broader Victorian Government Investment Framework

5.1 Introduction

This section of the report discusses how that IMS interacts with the broader investment framework applied across the Victorian Government. However, it is important to recognise the implicit and explicit objectives for all these of policies and procedures. In very broad terms, it appears the:

- Investment Lifecycle Guidelines are about setting the framework to allow for better decision making around government investments;
- ERC 1 and ERC 2 processes are about allocating budget funding for a project or initiative;
- Gateway Initiative processes are about managing the risk of high value and/or complex projects and initiatives; and
- IMS processes are about establishing the logic for investing in a project or initiative, and then tracking that logic throughout the project life to confirm its legitimacy.

The remainder of this section discusses each of elements of the Victorian Government investment framework in more detail, albeit only focusing on those areas of overlap between each component and the IMS.

5.2 Investment Lifecycle Guidelines

KPMG were provided with a draft version of Investment Lifecycle Guidelines (ILG) prepared by the Department. The stated aim of the guidelines is:

‘to establish a framework for informed investment decisions and governance that will improve the value for money and the impact of all government investments.’¹³

The ILG make the distinction between an investment and a project, with the key difference being a recognition that one involves a permanent solution (the investment) while the other is often a temporary activity (the project). Further, the ILG notes that they are designed to be applied to investments, and a mandatory in their application for major investments¹⁴.

The ILG identifies six phases of the investment process, being:

- 1 Strategic assessment (what are the business needs and the likely solution?);
- 2 Options analysis (which option will provide the best solution?);
- 3 Business case (is there a compelling case for investing?);

¹³ Department of Treasury and Finance, Investment Lifecycle Guidelines, July 2008, p.1

¹⁴ Defined as more than \$5 million total estimated investment (TEI)

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- 4 Project tendering (what is the preferred delivery option?);
- 5 Solution implementation (is the investment proceeding as planned?); and
- 6 Post-implementation review (what benefits were delivered and what were the investment lessons?).

The ILG documents prepared by the Department discuss, in both the *Overview* and the *Strategic Assessment* documents the IMS, in particular the elements of investment logic maps, investment concept briefs and benefit management plans. Specifically, KPMG note that the ILG advocates the need to complete an ILM for all investments, regardless of the value of the investment under consideration. Further, given that the Strategic Assessment Template requires the inclusion of an investment concept brief (including [an] investment logic map) and a benefit management plan, it would appear that ILG actually mandates the need to complete the Problem Definition, Solution Definition and Benefit Definition of the IMS.

Table 4.1 Reproduction of Table 3.6 of ILG Strategic Assessment Guidance material

	Small / simple Low-risk (less than \$100,000)	Medium Medium-risk (\$100,000 - \$5 million)	Large / complex High-risk (more than \$5 million)
What are the business needs and the likely solution ?	Investment logic map + benefit management plan (optional)	Investment concept brief (incl. Investment Logic Map) + strategic assessment + benefit management plan	Investment concept brief (incl. Investment Logic Map) + strategic assessment + benefit management plan + Gate 1 Review

Source: Department of Treasury and Finance, Investment Lifecycle Guidelines, Strategic Assessment, July 2008, p.11

5.3 ERC Stage One Submissions

KPMG reviewed the document Budget and Financial Management Information Request No.57, 2008-09 ERC Stage One Submissions as part of this engagement. The documentation provided by the Department outlines the information required to be part of the submission to the ERC, and essentially relates to the following broad areas:

- submission proposal, including limited commentary on objectives, key issues, risks, support/criticism;
- funding, including analysis on revenue impacts, appropriation impacts, asset investments, and funding already in the Department’s base; and
- impact assessments, including commentary on social, economic, environmental and charter of human rights and responsibilities impacts.

In the context of the IMS, the ERC Stage One Submissions template does not allow a concise explanation as to the driver of the investment, rather the author of the document is required to articulate those issues into the sub-heading areas of the recommendation (ie solution), objectives (ie benefit) and key issues (ie problem).

5.4 ERC Stage Two Submissions

The *Gateway Initiative - Business Case Development Guidelines* (BCDG) is the reference material prepared by the Department to assist the Victorian General Government sector on the processes and evaluation needed for investment decision making¹⁵. Specifically, this advice addresses the Strategic Assessment, Options Analysis and Business Case stages of the Government's investment process.

Within this documentation, the Department states with respect to the strategic assessment component of the framework:

'the key deliverable of this stage is the completion of a strategic assessment template including an investment logic map.'¹⁶

Further, Section 3.4 of the BCDG outlines the Investment Logic Map process, references the Investment Management Standard and directs readers to Appendix H which presents an example of a completed ILM.

It is apparent from a review of this documentation that proponents of business cases are required to have completed the problem definition, solution definition and benefit definition components of the IMS in order to practically complete the requirements of a Business Case, given a Strategic Assessment feeds into this element.

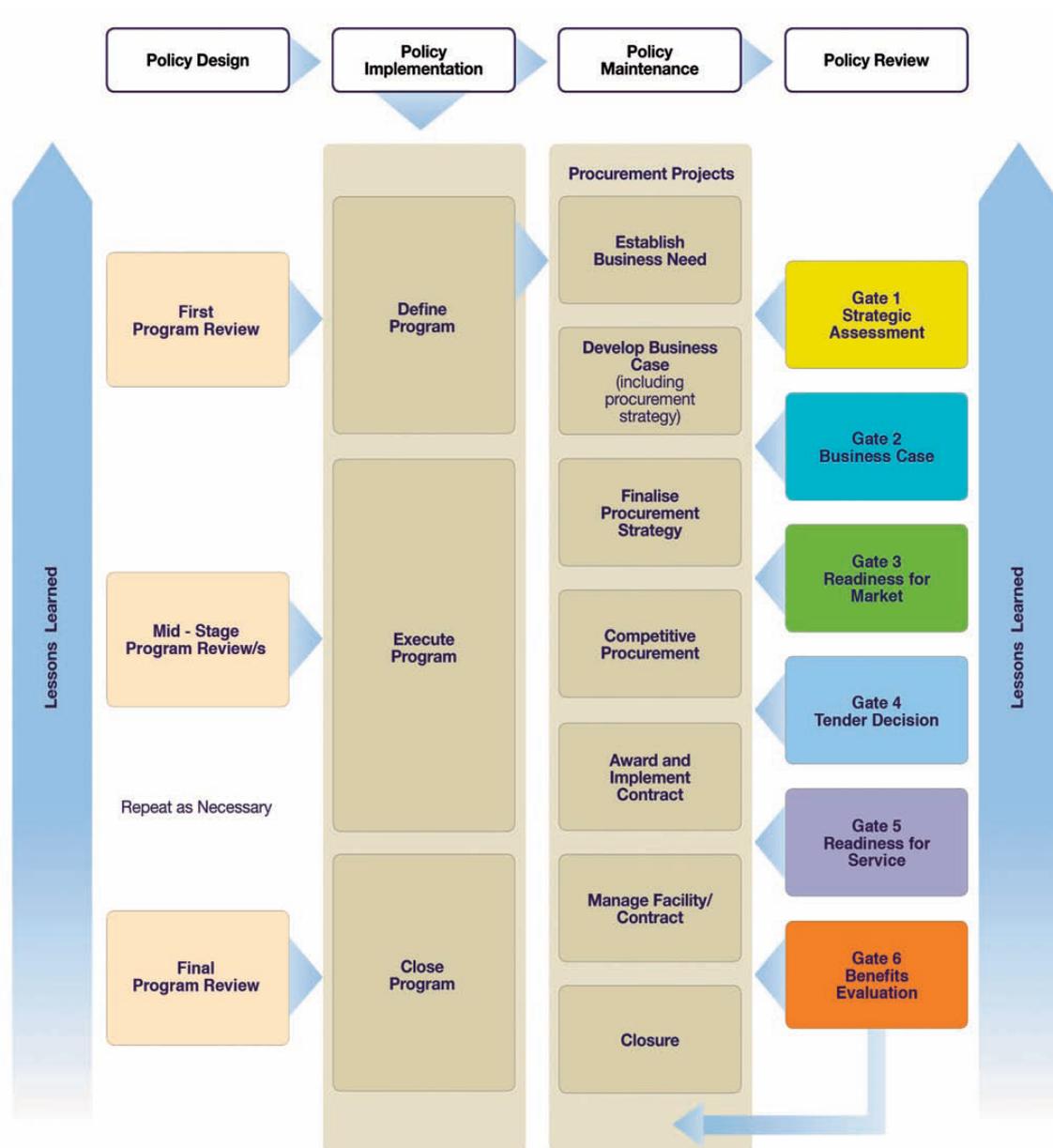
5.5 Gateway Initiative

The aim of the Gateway Review Process is to provide advice to the SRO responsible for a program or project deemed to be high-risk at key decision points. The following diagram presents an overview of the Gateway Review Process, in particular it shows the alignment of government policy implementation and maintenance processes with the Gateway processes.

¹⁵ Department of Treasury and Finance, Gateway Initiative – Business Case Development Guidelines, Revision December 2006, p.3

¹⁶ Ibid, p.12

Figure 4.1 Overview of Gateway Review Process



Source: Department of Treasury and Finance, Overview – Gateway Review Process, 2007, p.4

The Gateway Program Review highlights the need for participants of the process to incorporate several key components of the IMS. In particular, the Overview document states:

‘Is there a robust investment logic map and investment concept brief?’¹⁷

¹⁷ Ibid, p.9

while the Gateway Review 1: Strategic Assessment further notes the documents containing the necessary information for the Gateway Review include:

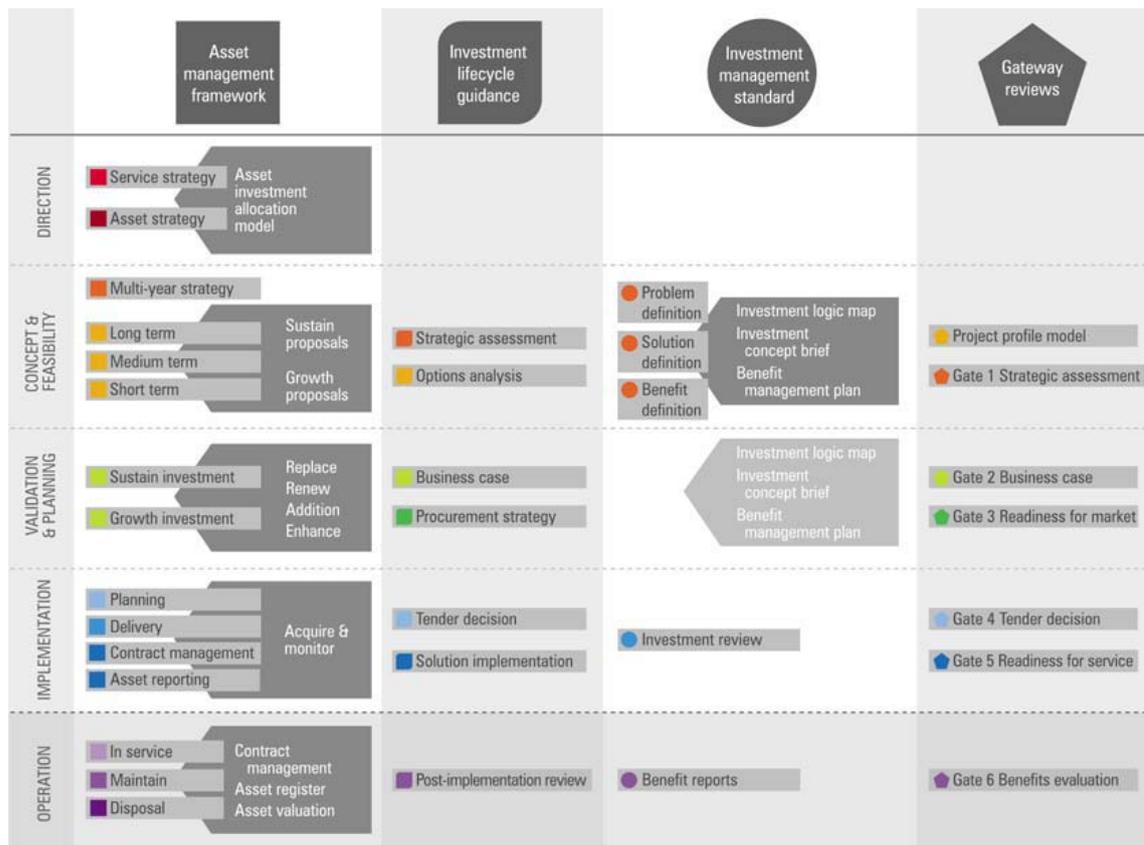
‘An Investment Concept Brief and Investment Logic Map showing that the project is required, what benefits are expected and what business changes and enablers will be required for the anticipated benefits’¹⁸; and

‘Is there a clear and shared understanding of the outcomes to be delivered by the project and are they soundly based ? (ie: Is there a robust Investment Concept Brief and Investment Logic Map)’¹⁹

5.6 Overview

The following diagram presents the inter-relationship between the Victorian Government’s current suite of guidelines associated with the evaluation of new investment in projects and/or policies, with the exception of the explicit activities of the ERC 1 and ERC 2 processes.

Figure 4.2 Key investment related documents and processes



Source: Department of Treasury and Finance, Investment Lifecycle Guidelines, July 2008, p.13

¹⁸ Department of Treasury and Finance, Gateway Review Process – Strategic Assessment, Revision December 2006, p.4

¹⁹ Ibid, p.8

A strict interpretation of the documentation around each of these processes suggests that:

- the problem definition component of the IMS is a mandatory requirement for all investments, while the benefit definition element is optional;
- the problem definition, solution definition and benefit definition components of the IMS are mandatory for all investments more than \$100,000;
- the investment review components of the IMS aligns to the solutions implementation component of the ILG; and
- the benefit reports components of the IMS aligns to the post-implementation review component of the ILG.

However, what remains unclear from these documents is how the IMS components associated with the implementation and operation elements of the Investment Lifecycle, being *Investment Reviews* and *Benefit Reports*, may be directed to be undertaken if the project is less than \$5 million or not identified as high risk.

6 Consultation findings

6.1 Introduction

A range of activities were undertaken as part of this engagement in order to establish stakeholders' views of the value, both positive and negative, of the IMS. These activities included face-to-face interviews with representatives of the Victorian public service who utilise the IMS (to varying degrees) or facilitate the use of the IMS. KPMG also interviewed an external facilitator to gain their practical perspective on the IMS and the process associated with it. At the same time of conducting these interviews, a questionnaire was developed to survey participants of the training workshops in order to gauge their perceptions of the value of the IMS.

The remainder of this section presents a summary of the findings from these two consultation exercises.

6.2 Interview findings

6.2.1 Background

A total of 10 stakeholders were consulted as part of this engagement, representing both users and facilitators of the IMS. The interviews incorporated a series of structured questions that sought to extract information on individuals' experiences with the IMS, what benefits they believed were associated with its application (relative to not applying it), and how the IMS could be improved. Specifically, the structured questions posed to interviewees were:

- 1 What has been your exposure to the Investment Management Process?
- 2 How has it been applied within your Department / Agency, i.e. narrowly or widely?
- 3 Did applying the IM process change the investment, policy or strategy under consideration?
 - If so, how?
 - Is there a case study I could utilise to show how the process was applied within your Department / Agency?
- 4 What has been the benefits / dis-benefits associated with the process?
 - Can they be quantified?
 - Is there someone else within your organisation that would have data to identify these benefits / dis-benefits?
- 5 How should benefits be considered under this process eg: achievement of GVT outcomes or traditional ROI measures?
- 6 How would you improve the IM process?

6.2.2 Summary Responses

A summary of the responses from these interviews is presented below.

6.2.2.1 Benefits

- The investment management process is a very good process to enable key stakeholders to be 'on the same page' with respect to a new investment project, particularly identifying and understanding the driver and problems.
- ILMs are a good visual tool to see the whole of life challenges for resolving a solution. It is an obvious process to go through, but it is recognised that a surprising number of government investments do not do it.
- The introduction of the ILM process 'saved' nearly 4,000 person days of administration and management for Victoria Police around assessing potential investments and projects due to the filtering properties associated with the process. Further, benefit management plans are used as a methodology in Victoria Police for tracking and reporting back KPIs against the ILM, and is therefore being utilised as an accountability tool with the organisation.
- ILM process helps build up the capacity of project managers to better assess investment opportunities, and therefore makes them think sharper about projects presented to them.
- It is recognised that IMS is required as part of the broader ILG, however individually it is considered that ILMs work well, benefit management plans are reasonable, while investment concept briefs are less beneficial.

6.2.2.2 Approach

- IMS has its most benefit as a screening tool to identify effective projects, i.e.: what is it? why do you need it?; what happens if you don't get it ?.
- ILM is equivalent to a 'Gate Zero' in the Gateway Process, i.e.: it establishes whether this is a smart idea worth progressing to senior investor consideration.
- IMS should become part of the ERC process, potentially replacing the ERC 1 documentation, although for this to work it must be done at the same standard across the Victorian Government
 - *Alternative View* : IMS is not sufficient for ERC 1 as there is insufficient story told about the project in the ILM documentation. If IMS documentation mandated as the only documents for ERC 1, then the nuances associated with the project will be lost.
- IMS may need to be made mandatory, although what it is mandated for should be confirmed. If it is mandated, it should replace current processes as opposed to being on top of them otherwise it will just be another administrative burden.
 - *Alternative View*: If the IMS were mandated, users would utilise the approach, but are unlikely to receive a whole lot of value from the process. If Department's have their

own capital processes, then the Department of Treasury and Finance should ratify those processes rather than impose the IMS. The Victorian Government may want to tweak the Business Case process to include ILMs, but it should not be the key driver of the investment process.

- Ministers and Ministerial advisors should be trained on the IMS process as it is not clear they fully appreciate the benefits associated with it.
- The IMS is a good approach for Departments that have a lot of smaller value projects, but it is not helpful for Departments that have a small number of larger value projects as the policy framework sets the investment agenda for those Departments.

6.2.2.3 Improvements

- The current update (IMS Version 3.0) is too complicated. The Department of Treasury and Finance need to maintain the simplicity associated with it when it was first introduced. The current approach is becoming like a quasi business case.
- The whole process should be kept to one session. The current approach of separate sessions for benefit identification, KPIs, solutions, etc, rarely adds to the information gathered in that first session.
- The current process should be frozen for a period of time. The evolution of the IMS has occurred too rapidly too often, and it now needs to be bedded down for a period of time.
- The DTF Budget and Finance Management Branch needs to be thoroughly trained in the IMS.
- The IMS is heavily focussed on asset solutions, whereas the government needs to recognise that solutions to problems often relates to a range of issues, including culture, organisational design, etc, not just investment in assets.

6.2.2.4 Other comments

- Within Departments the application and use of the IMS appears to be erratic, driven primarily by the view that the IMS should be applied on a 'fit for purpose' basis, meaning people are applying the process when they consider it is necessary.
 - The ILM process is seen as 'robotic', with most benefits associated with smaller projects, but is superficial for larger projects. Further, there is uncertainty whether the IMS is enabling a better quality of project to be undertaken by Departments.
 - The allocation of percentages in the ILM is considered problematic in the sense it is considered these percentages articulate a degree of precision that is not there at the point the ILM is undertaken.
- Alternative View: The rigour associated with the ILM process was considered useful as it flushes out a range of views.

- The quality of the facilitator is paramount. The experience to date is that the external facilitators are not of a consistent high quality, and therefore the Department needs to look at the process of recruiting and training consultants.

6.3 Survey findings

6.3.1 Introduction

The Department prepared a draft survey questionnaire in early June 2008 and provided it to KPMG to review prior to issuing to target respondents. The survey asked respondents to rank on a subjective scale (negative impact, no value, some value, valuable and no opinion) their views of the IMS, specifically in the areas of the benefits and impacts of the process. About 600 potential respondents were requested to participate in the survey, of which about 40 actually responded.

6.3.2 Key findings

The following graphs depict the survey results for six key themes, being whether (or not) the IMS:

- assists practitioners define the problem better;
- aids the investment decision process and prioritisation;
- helps in the business case development process;
- allows better solutions to be identified;
- enables the tracking of benefits in a more comprehensive manner.

Figure 6.1: Assisting to define the problem

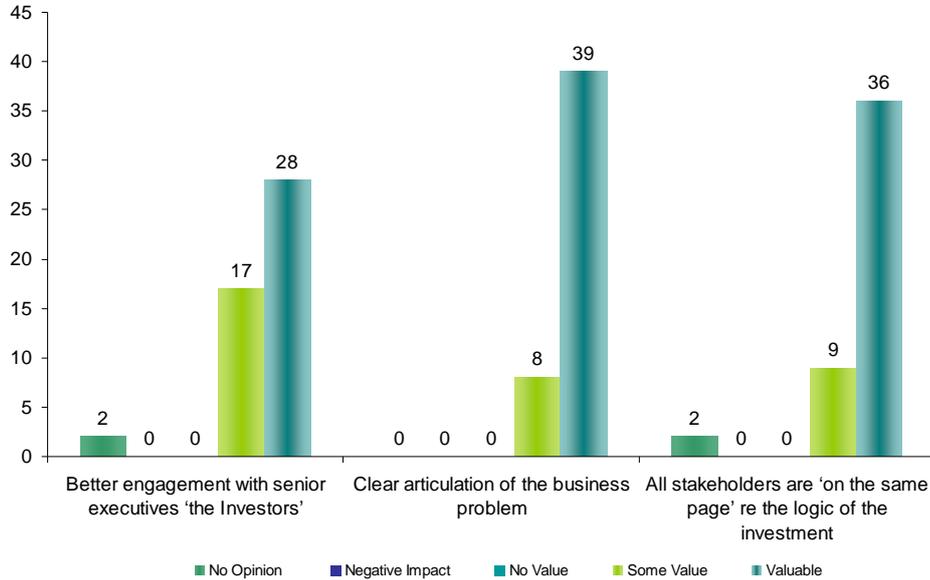


Figure 6.2: Aiding investment decision making and prioritisation

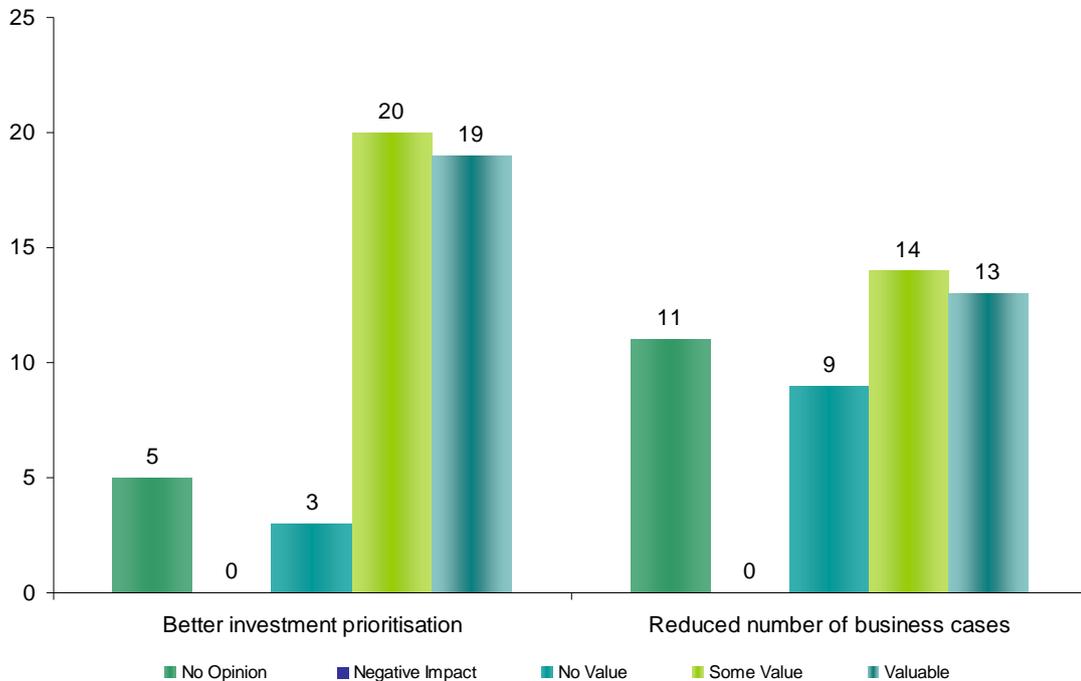


Figure 6.3: Developing better solutions

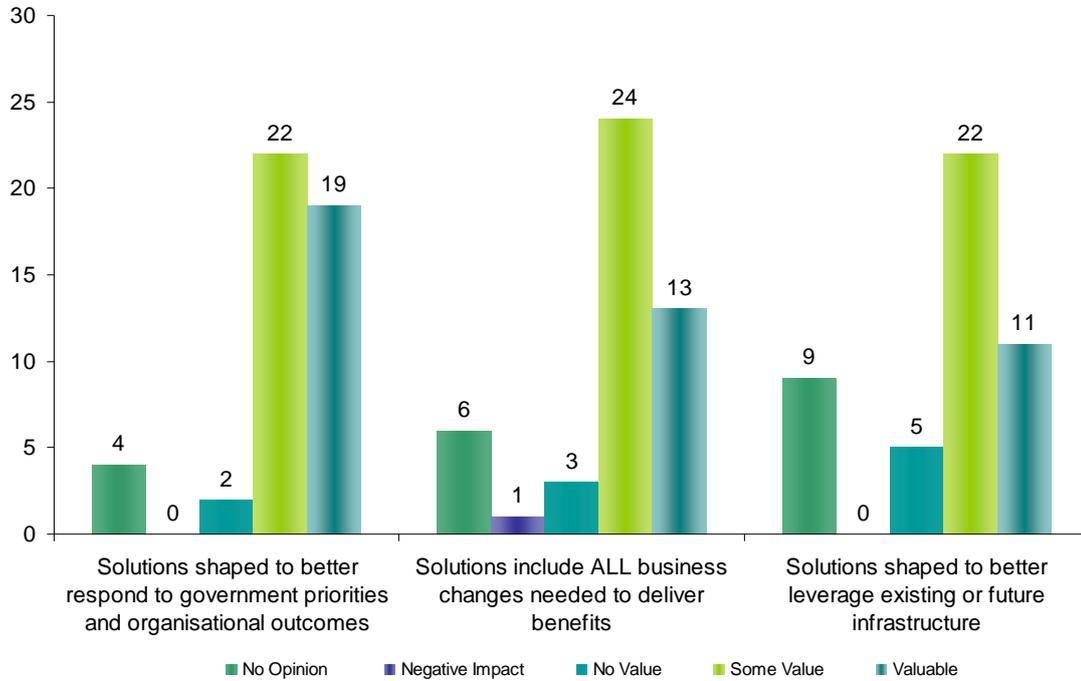


Figure 6.4: Business case development

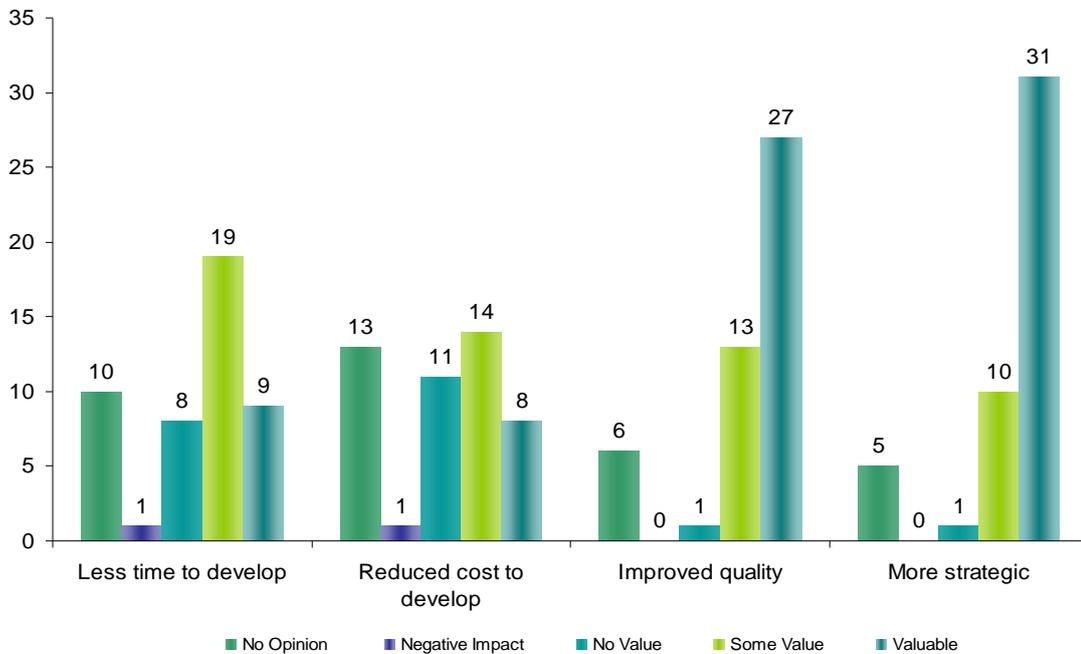
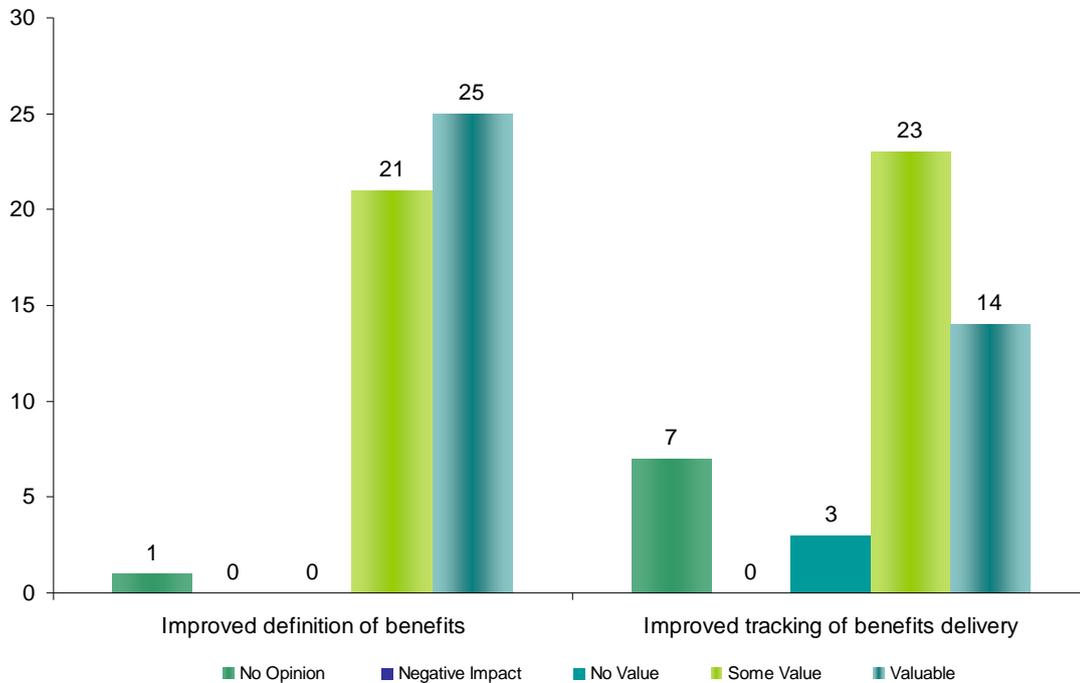


Figure 6.5: Defining and tracking benefits



As shown above, the survey results clearly show practitioners believe the fundamental benefits of the IMS relate to its ability to better articulate the nature of the problem and socialise that understanding with their colleagues. It also allows businesses cases to be more strategic and does add to their overall quality.

The survey results also show practitioners consider the use of the IMS positively assists in the:

- engagement of senior executives;
- better investment prioritisation;
- better solution identification and shaping; and
- better definition and tracking of benefits.

Importantly, the survey also suggests that some of the broader benefits of the IMS advocated by the Department are not consistent with the views of the practitioners. In particular, there is no clear consensus²⁰ that the IMS:

- reduces the number of business cases being undertaken and the time and cost to do them; and
- assists in shaping solutions to better leverage existing or future infrastructure.

²⁰ Defined for this purpose as fewer than 75% of responses answering either some value or valuable to the question.
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6.3.3 Qualitative analysis

In addition to the above quantitative analysis, the survey tool also provided the opportunity for respondents to make comments about other benefits associated with the IMS, what, if any, negative consequences exist from applying the IMS, whether the IMS is applied in ways not anticipated, or any other general comments. The following provides a summary of some of these comments.

6.3.3.1 *Are there other benefits that you believe the approach provides that are not listed above?*

- It is my belief that in reading the ILM from the right side to the left, is a risk assessment process whereby if one part of the ILM is not acted upon, the ILM fails to address the realisation.
- [There is the potential] application of [the] methodology in other decision making forums other than that of investment. It can assist in clarifying or focussing attention in complicated situations.
- (My) comments are based on review of material not application. However it appears to be a good tool for planning, developing and monitoring delivery of broader non infrastructure investment programs.
- [It creates a] better way of thinking about the issues and the approaches.
- Reduces reworking of processes by establishing up-front the problem objectives etc.
- Ability to decide, at an early stage, whether or not to proceed with an investment initiative.
- ILM and Benefits Management Plan provide a concise summary.
- Visual, focussed summary of the Business Case that significantly aids communication. Also the process of identifying drivers, objectives and benefits helps people make sense of the complex ideas.

6.3.3.2 *Are there things that you believe are a negative consequence of using the investment management practices?*

- Limits later flexibility to change investment reasoning
- Seen as focusing only on investment, where the program is less interested in financial issues than in perceived client benefits.
- Risk of over simplification in complex or multi-layered investments with several embedded investment logics, arranged hierarchically.

- It may be limited in giving priority or value to investments that are concerned with maintaining service delivery e.g. services that are subject to contract that is about to terminate.
- These practices are generally seen as 'nice to have' and 'theoretical' with no obligation or mandate to use them by way of embedding them in the business processes. Need to mandate use of this stuff.
- Challenges status quo.
- Not familiar to directors and executives.
- If the right decision makers aren't in the room when the ILM is being constructed then the outcomes and message it is trying to deliver may be somewhat flawed.
- It is still very difficult to get the right people to the exercise. Often delegated to junior staff and usually far too many people involved.
- Risk that inadequate desktop ILMs will degrade the quality and benefits of the system.
- Assuring the quality of the ILM. Was it checked, is it any good?
- Still a challenge to get buy-in from senior executives who see an ILM an administrative burden/overhead.
- Sometimes the benefits analysis that occurs in the workshops is very shallow, and this then doesn't align with all the benefits that become apparent in a more detailed analysis.

6.3.3.3 *Is your organisation using the investment logic mapping technique for other uses outside of shaping and managing new investments?*

- The concepts of the investment management practices has the potential to be applied to other areas of the organisation for program/project development, management and monitoring performance.
- Commercial Division in DTF is using ILMs to help create a vision for the business and ensure that everyone is clear on what the drivers/solutions CD is trying to deliver for the Victorian Government.
- Output submission development, combined with program/policy logic in program/policy design, internal business casing, evaluation, etc.
- Policy frameworks and organisational function /prioritisation.
- At an organisational level, there is much use of the ILM technique.
- Yes - in developing strategic plans to address specific issues or problems in the service system.

- Is being considered to be used in program management.
- Yes, it has provided a mind shift and culture change toward the approach of situations that involve some level of conflict between internal departments for example.

7 Quantifying the Benefits of IMS

7.1 Types of benefit

There are a number of types of quantitative benefits that have been identified as potentially arising from the IMS process, including:

- the improvement in selection of investments, so that they represent value for money;
- the prevention of poor quality decisions over project selection by ensuring strategic alignment early on in the process;
- thorough identification of all benefits arising; and
- a more efficient process. The early strategic alignment of potential investments can result in a reduction in the number of projects progressing to the business case preparation stage, and of those going forward, the business case may take less time to prepare or go through fewer iterations.

7.2 Quantification of benefits

As stated in the introduction, unless there was consistent data available for all departments and agencies, it would not be possible to extrapolate the data received to form a whole of government value effect of the IMS. As it transpired, such data was not available and so an extension of the original survey was agreed. While it was recognised that this additional survey would not provide sufficient evidence to extrapolate over the whole of Victorian government, it was anticipated that it would provide project level examples of where the implementation of IMS had made an actual financial saving to the government.

Apart from the problems around the lack of consistent data across all departments, there is also a challenge around quantifying what the effect of IMS is. This is only possible where historic data to give a “before” scenario is available; or when IMS was employed late in the selection process so that a change of direction and its quantifiable benefit could be identified.

In recognition of this, only five additional questions were surveyed. Two addressed the improvement in selection, and asked for any reductions in the capex as a result of the new process. The other questions were focussed on the cost savings in having fewer, easier to write business cases.

The results of these additional survey questions are summarised below.

7.3 Results of additional survey questions

The original survey participants who agreed to be re-contacted, and had given contact details, were sent the additional quantification questions. This amounted to 24 participants; however disappointingly only three responded within the timeframe allowed, and only one of those responses contained any quantifiable data.

This single response therefore cannot be taken and used as a basis for quantifying the benefits of the IMS, although it is an example of where the use of IMS has given rise to improved recognition of benefits.

7.4 Moving forward

Given the difficulties encountered in this study of quantifying the benefits of the IMS, the Department should consider formalising a system of data capture to better establish the benefits going forward.

7.4.1 Potential reduction in the number of business cases being prepared and their cost

The fact that IMS has been made mandatory within the ILG for projects over a certain level of investment gives the Department an opportunity to set a benchmark level for the number of business cases being prepared in each department. Wherever possible, the person or group responsible for submissions to the ERC should be identified within each department. These individuals can then be asked to make a return to the Department of the number of business cases prepared during 2007/08 for investments over the mandatory level, with an approximation of the costs of preparation for each major type of business case. Every year thereafter, the same information can be collated, and any direct effect of the introduction of the IMS quantified. The Department needs to decide on the level of detail it wishes to collect; as a minimum this should be the mandatory investment level. Depending on whether the department in question is using the IMS outside the mandatory requirements, additional data on other business case preparation could also be collected.

7.4.2 Clear articulation of the business problem and improved investment decisions

In order to ascertain whether there has been an improvement in the articulation of business problems and selection of projects as solutions to these, the Department should survey investors immediately after the ILM workshop phase of the IMS. The ILM workshop facilitators role, as a final step in the process, could send a business questionnaire to the investor to gather their opinion on the efficacy of the workshop in clarifying the business problem and potential solutions. This will also act as useful feedback on the quality of the facilitation process. Whilst this will be a qualitative opinion, the investor could be asked in addition if the workshop has re-shaped the project in a way which affects the capex. It is essential that this is done within one week of the workshop while the impact of the process is still fresh in the mind of the investor.

7.4.3 Identification of additional benefits

Similarly, the facilitator at the benefits management workshop can make an assessment of the level of additional benefits identified through the process, and ask for this assessment to be validated by the key stakeholders.

8 Case studies

Three case studies are described in detail below, to illustrate circumstances where the new IMS had a significant impact on the department concerned.

8.1 Victoria Police

Victoria Police (VicPol) have adopted the use of the ILM widely throughout the department. The benefits of using an ILM first became clear when it became mandatory for ICT projects. Since then, it has been implemented for any proposed project, whether it is looking for outside funding or is just a local initiative.

In quantitative terms, this has led to a reduction in the number of business cases being developed and then failing. For the fewer projects which go forward, the amount of time which has to be spent on developing each business case has also been decreased. VicPol were able to quantify this effect as a saving of 4,000 person days per annum.

VicPol recognise the following benefits as flowing from the use of the ILM:

- improved quality in submissions for funding;
- lifts the quality of the business case as strategic drivers have already been identified and agreed;
- aids in getting buy-in from the investor as involved in the process from the start;
- forces difficult questions to be asked early on in the process, before the project is developed too far;
- one page summary enables corporate committee to quickly grasp what the project is trying to achieve; and
- improves success rate in obtaining funding.

8.2 Department of Justice

In this instance, a change in policy had resulted in an urgent need to increase the number of prison beds. There was an extremely tight timeline for the delivery of a business case to support the investment. In order to provide a level of external challenge, rather than have the corrections department undertake a study a group from a wider area was pulled together in early August.

The IMS's range of tools was identified as being particularly useful in synthesizing a lot of diverse information together, and allowing people from different agencies to engage with it fully. The ILM gave an underlying structure using language familiar to people from different departments. The structured approach gave people confidence in the process, even though they were a new team working together under pressure.

Although the ILM had been prepared before the project team's formation, they still needed to address some minor issues around the benefits management programme. The project team offered to be a guinea pig for a facilitated benefits management workshop. This proved to be a worthwhile experience for the team, mainly because it was considered that it raised the profile of the project by having the Department of Treasury involved in the workshop, boosted the morale of the team, and put the project centre stage for ERC. However, it was recognised that, in order to gain maximum benefit from the workshop, it should be undertaken much earlier in the process and preferably within a week or so of the ILM workshop.

Despite the tight deadlines, the project team received excellent feedback from the gateway review that their project had been one of the most organised received, which the team attributed to the use of the IMS templates and methodology. In fact, the team have already held workshops for other people in their departments to pass on the lessons learnt from this process.

The ILM was identified as a good snapshot of the project and useful for communicating the project outline and objectives to senior executives, rather than expecting them to read through the whole business case. By their nature, ILMs are an early "rough draft", however the team's experience was that, if the ILM is right, then the business case is easier to build. However, the team considered that DTF should be wary of trying to refine the ILM process too early on. Its benefit lies in getting a snapshot of the project early on, with high level buy-in. The workshop facilitates the challenging of any unspoken assumptions, although the success of the workshop is heavily dependant on the right people attending, and the facilitator being of a high calibre.

8.3 Department of Innovation, Industry, and Regional Development

The Department of Innovation, Industry and Regional Development (DIIRD) have found the ILM and benefits management planning aspects of the IMS to be powerful tools in the evaluation of programmes.

DIIRD has an internal team to evaluate all projects across the department, currently moving towards \$500 million of total investment. Many of these projects have non-recurrent funding, so evaluation, particularly showing the benefit to the community, is essential to obtaining on-going funding.

The key to strong evaluation methodology is a good understanding of what the project or programme is about, and what benefits it is intended to deliver. In the past, many projects had unclear objectives. The ILM is perceived by the evaluation team to be a succinct and powerful tool that establishes the drivers for each project that captures all the key aspects, and gives the basis for a balanced evaluation.

In an ideal situation, the ILM will have been produced as part of the original funding application. If the evaluation team are asked to evaluate a project which does not already have an ILM, they will assist the project team to prepare one. The ILM guides the data requirements for monitoring, and producing KPIs during the lifetime of the project. During 2007/08, 21 ILMs have been prepared within the department for evaluation purposes and, of these, 10 have had evaluation frameworks developed from them. This is the desired scenario for all major projects, as it means that the evaluation will address the right questions around the projects' "success" based on the original drivers and benefits.

The evaluation framework in turn generates performance measures, and a template to show what data will be collected, at what intervals, from where, and whose responsibility it is to collect it. This is at a far greater level of detail than the KPIs included on the ILM template. However, it helps in responding to the question included in the ERC process on how a project will be evaluated.

This use of ILMs as a basis for evaluating projects has only been in existence for the last 12 months, and so it is too early to make any formal assessment of the effect that it is having on the Department. However, the interviewee's opinion was that there was an improvement in the quality of project evaluations since the ILM became widespread. The reports are answering key questions because they are based on a clear understanding of the objectives of the project, and consequently are better placed to evaluate their success. They are also seeing a higher percentage of projects getting approval when they have ILMs in place.

The use of the ILM as an evaluation tool has also been extended to cover non-investment projects, such as cultural events. The format lends itself to triple bottom line evaluation of major sporting and cultural events which are held to promote Victoria inter-state and internationally. This takes the ILM completely beyond the parameters of the IMS. Its ability to contribute to the evaluation of an event illustrates the degree to which the facilitated workshop and resulting one page summary can help to clarify strategic thinking.

9 Findings and recommendations

9.1 Introduction

The purpose of this chapter is to draw together the analysis undertaken in previous sections of the report and establish findings in the context to Product Specification Scope of Work.

9.2 Findings

Academic and business literature have both acknowledged that investment justification, associated benefit identification and the tracking of benefits to the implemented investment are often poorly exercised in both the public and private sectors. The fundamental purpose of the IMS is to assist the Victorian Government improve its own capabilities on these exact issues.

Since 2006, the IMS has broadened its application across the whole of government beyond its original use as an investment tool for the ICT sector. In broadening its application, users have strongly agreed that the IMS has enabled them to better articulate the nature of the problem that the investment is being proposed for, socialise that understanding with their colleagues, and for those proposed investments that progressed to ERC 2 stage, the associated businesses cases have been more strategic and of a higher quality.

Along with its broader application has been the development of nine separate Guidelines and other electronic and paper based reference material. However, elements of the IMS (like ILMs, Investment Concept Briefs and Benefit Management Plans) are identified as discrete processes within other Victorian Government policies and guidelines associated with government investments, including the ERC 2, ILG and Gateway Initiative. The inclusion of various elements of the IMS in these broader processes indicates that the IMS has been accepted as a mainstream approach to managing investments in more than just ICT projects.

As shown in the following table, the ILG at a minimum mandates the completion of the Problem Definition element of the IMS for all investments, but effectively requires the complete IMS be applied to all investments greater than \$5 million or deemed to be high risk. The Gateway Initiative further ratifies a similar requirement, with the Problem Definition and Solution Definition required for Gate 1 Strategic Assessment, and the Benefit Definition and Benefit Reporting required for Gate 6 Benefits Evaluation.

Table 6.1 Summary of IMS Elements and ILG Requirements

IMS Element	Small / simple Low-risk (less than \$100,000)	Medium Medium-risk (\$100,000 - \$5 million)	Large / complex High-risk (more than \$5 million)
Problem Definition	✓	✓	✓
Solution Definition		✓	✓
Benefit Definition		✓	✓
Business Case			✓
Investment Review			✓
Benefit Report			✓
Administrative Cost	\$2,940 ²¹	\$7,020 ²²	\$17,640 ²³
Administrative cost as % of investment spend	2.7%	0.3%	0.4%

While the above documentation clearly articulates what elements of the IMS need be applied at what stages of the ILG and Gateway Initiative, it appears there is a great deal of confusion within the Victorian Government, including the Department itself, around how the IMS is to be applied. The documentation reviewed as part of this engagement clearly state what information is required to meet the obligations of the ILG and ERC 2, and that information includes completed ILMs, Investment Concept Briefs and Benefit Management Plans.

It is our hypothesis that the evolution of the IMS, over the last two years in particular, has been in part to rectify this confusion within the Victorian Government. The establishment of the IMS was meant to create a simpler process so investment proponents start at the basics of understanding what problem is required to be resolved, what benefits are likely to be achieved to resolving the problem and what solutions exist to materialise those benefits. However, while the IMS has been successful in simplifying this process, the formalisation of the IMS as a separate mechanism to the ILG and Gateway, with its own 90-page Guidelines, has created more administrative complexity and confusion.

If the IMS was developed in response to a lack of consistent application of the ILG and Gateway Initiative across the Victorian Government, then focussing on resolving that problem should be the aim, not creating a new standard. The material created for the IMS Guidelines should, as it is now, be incorporated within the ILG and Gateway documentation and not remain

²¹ Based on average hourly labour cost to Government of \$60, one day preparation time, eight participants for two hours at workshop, and facilitator cost of \$1,500.

²² In addition to cost of small/simple low risk investment cost, solution definition workshop includes five participants for two hours at workshop and facilitator cost of \$1,500 and benefit definition workshop includes four participants for two hours at workshop and facilitator cost of \$1,500.

²³ In addition to medium, medium-risk investment cost, investment review costs equivalent to problem definition costs and benefit reporting consists of 16 work days over four years (equivalent to one day per quarter).

as a separate, stand-alone statement. The effort of the Department should be directed towards ensuring Victorian departments' administrative compliance with the ILG and Gateway documentation, rather than the application of the IMS as a separate process.

KPMG concur with the consultation findings that ILMs are a very useful tool in which to succinctly articulate why an investment should occur. Table 6.1 above estimates that each ILM costs about \$3,000 to the Victorian Government to prepare. An assessment of the ERC 1 documentation reveals the information contained within those forms is not exactly the same as the information contained within a completed ILM, although the aim of both is to provide the initial strategic context for why government should make an investment. Given the cost of completing an ILM, KPMG would consider it reasonable that the Victorian Government mandate the requirement that an ILM be completed as part of any ERC 1 documentation for investments greater than \$100,000. This requirement would ensure that an ILM is available for referencing at later stages in ERC 2 and Gate 1 Strategic Assessment documentation.

The argument presented by some Victorian Departments that they have their own internal mechanisms that perform exactly the same function as an ILM, and therefore they should not need to separately undertake them, is weak. If these Departments are to be fully compliant with ILG and Gateway, then they are simply required to prepare an ILM. Further, if such internal mechanisms do exist, then these Departments are in fact in a better position to prepare an ILM than other Departments, particularly if the Victorian Government mandates their completion as part of the ERC 1 process.

If ILMs are mandated for ERC 1, then the demand for training of VPS staff and facilitators in these activities will likely increase above current levels. Further, it has also been acknowledged that the capabilities of current external facilitators are mixed, and that utilising an expert facilitator is one of the key factors in achieving a quality ILM. It is therefore likely that a broader roll out of training will be required for the VPS, and more stringent assessments of external facilitators should also be conducted in order to ensure high standards are achieved and maintained.

The Department has also indicated that the IMS, and ILMs in particular, have been useful to apply to questions of evaluating policy and programs. The responses received during the consultation phase of the study verified these assertions, and KPMG can understand how the clarity of thought generated through these processes would benefit the evaluation of policy and programs. Expanding the use of the IMS elements to the better formulation of policy and programs would be a natural and beneficial process to occur, although the question must be raised at what priority and cost should this extension occur. In time, budget and resource constrained working environment, applying the IMS elements beyond physical investments in a formal structured manner is likely to stretch the capacity of current advisors and practitioners. Until the goal of applying IMS elements to a consistently high standard for all Victorian Government investments is achieved, KPMG suggests expanding the use of IMS elements to policy and programs only on ad-hoc, reactive basis.

Benefit Management Plans are considered by users of the IMS a more useful tool than Investment Concept Briefs. They link directly to investors being able to monitor the performance of the investment against its stated objectives through establishing what KPIs are to be measured. Again, the academic literature also confirms that those organisations that followed a benefits realisation methodology had more confidence in the effect a project had on it as an organisation, and that the organisational staff were less prone to overstating the effects

of their projects in order to get the projects approved²⁴. However, it is probably this process of monitoring benefits which is least understood and applied from the IMS. KPMG would therefore suggest that greater focus be given to the benefit reporting than is currently the case, and potentially mandating it as an activity for all investments greater than \$5 million. If this approach and threshold were to be applied to the 2008/09 Budget, then approximately 73 Asset Initiatives would be covered across all Government Departments.

9.3 Recommendations

The key recommendations are:

- Cease treating the IMS as a separate, stand-alone investment framework for the Victorian Government, but rather concentrate on ensuring the elements of the IMS become practically embedded within the application of the ILG and Gateway Initiative.
- Mandate the inclusion of an ILM within the ERC 1 documentation for all investment proposals greater than \$1 million.
- Mandate benefit reporting, using a consistent approach and reporting template, for all approved investments greater than \$5 million.
- Maintain focus on the elements of the IMS on asset investments, with their application to policy and programs provided in the short term only on an ad-hoc, reactive basis.
- Prepare a comprehensive training program for the broader VPS on the development of ILMs, Benefit Management Plans and Benefit Reporting.
- Establish an on-going assessment mechanism for external facilitators to ensure the provision of this assistance is maintained at a high standard.
- Formalise a system of data capture to better establish the value of the IMS to the Victorian Government.

²⁴ Lin. C, Pervan, G. and McDermid, D., *IS/IT investment evaluation and benefits realisation issues in Australia*, *Journal of Research and Practice in Information Technology*, vol 37, 2005
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