

INVESTMENT MANAGEMENT STANDARD Guideline

Service Logic and Investment Prioritisation

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This Service Logic and Investment Prioritisation document is part of the Investment Management Standard.

The publications in the 2009 series are:

- Overview v3.5
- Problem Definition v3.5
- Benefits Definition v3.5
- Solution Definition v3.5
- Business Case v3.5
- Investment Reviews v3.5
- Benefits Reports v3.5
- Service Logic and Investment Prioritisation v1.0
- Understanding and evaluating a potential investment v1.0

More information at: www.dtf.vic.gov.au/investmentmanagement

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1 Purpose of this Guideline

This guideline provides a set of practices that enable an organisation to define new service needs, identify the best strategic response to the needs, identify the benefits that any investment must deliver in responding to the needs, and shape new investments. It also provides a way to prioritise a set of potential investments that might each claim to address the new service needs.

1.1 Background

Investment Logic Maps have been used across the Victorian government and elsewhere for several years and their use is now firmly embedded into the mainstream investment practices of the Victorian government. Their rapid uptake is due to the substantial benefits they provide to the business of Government.

The idea of establishing the logic underpinning a potential investment arose from the recognition that existing complex processes were failing to provide adequate information or context to those people who make investment decisions.

While their original focus was on individual investments, the questioning they invoke inevitably led to higher level questions such as, “but what are the service needs that our organisation will be required to address over the next decade?”, and “which of the potential investments will provide the best value?”

The need for each Department to develop a service strategy as the foundation for ongoing investment has always been well recognised. However the development and maintenance of these has often proven to be difficult for Departments and agencies to achieve. This guideline aims to assist.

An additional and ongoing challenge for organisations is to give effect to their agreed policy and strategy. Those organisations that are well skilled in defining their preferred strategic direction are frustrated when it fails to be translated into investments consistent with their direction. It is more common that investments are shaped without direct reference to the service need or strategic direction and it is only when seeking funding they look for a policy or strategy hook that will give their investment some legitimacy.

This guideline has evolved to address the problems outlined above.

1.2 Positioning within the Investment Management standard

The objective of the Investment Management standard at its inception was to improve the way that individual investments were shaped and investment decisions were made. This Guideline

supplements the original Investment Management practices by enabling an organisation to obtain a line-of-sight from the service challenges of the organisation through to the eventual evaluation of the effectiveness of a program that was funded to react to these service challenges. It spans:

- Identification of the unmet service need (the Problem)
- Determination of the best strategic response
- Definition of those Benefits that any investment will be required to deliver in responding to the Problem
- Identifying and shaping those investments that will best respond to the need
- Measuring the Benefits provided by the individual investments, and finally
- Evaluation the effectiveness of the program of investments.

The following diagram depicts this line-of-sight and the positioning of the Service Logic and Investment Prioritisation practices relative to the original practices of the Investment Management standard.

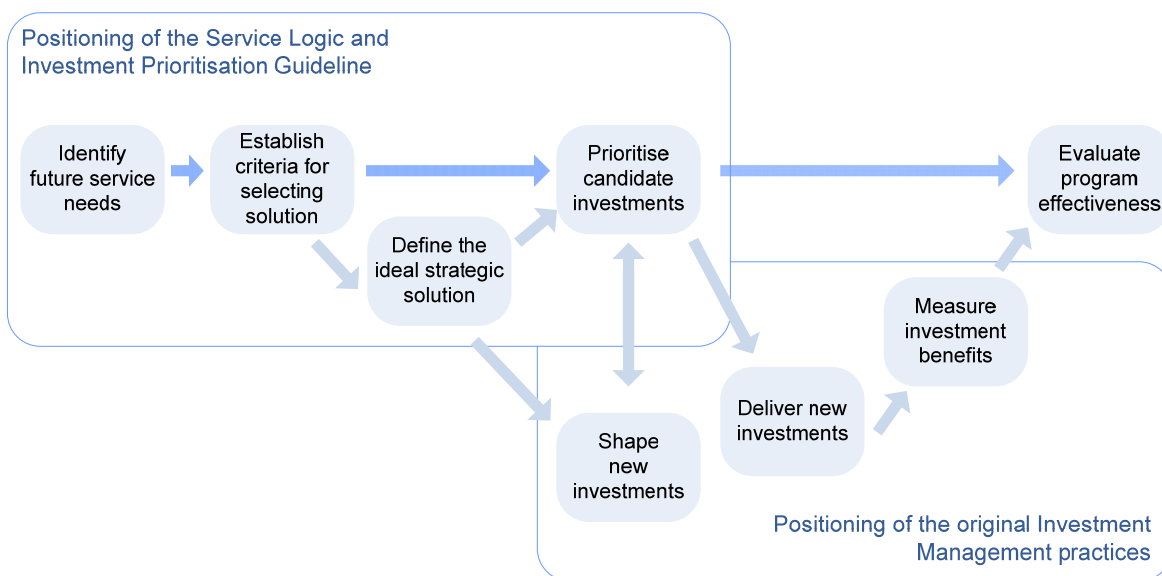


Diagram 1 **Establishing the line-of-sight from a new service need to the eventual program evaluation**

2 General Approach

The approach used in this guideline adopts the *key concepts* that underpin all of the practices of the Investment Management standard. These are:

- The best way to understand and shape a potential investment is to have intelligent discussion between the key decision makers and the people with most knowledge of the subject
- These discussions take the form of structured and facilitated workshops not exceeding two hours in duration
- The outcome of the discussions is an agreed 'investment story' - a plain English depiction of the problem, the benefits or the solution
- Each statement in an investment story must be able to be supported by evidence
- The investment Benefits are understood to the point of documenting the evidence that will be required to demonstrate they have been delivered, and the timelines and responsibilities related to their measurement and reporting.

To get the most from this guideline it is necessary to understand the previous Guidelines of the Investment Management standard.

3 The Workshops

This guideline comprises four specific structured discussions. These are depicted in Diagram 2. Dependent upon the individual circumstances, there may be no need to complete all of these. There will be circumstances when it only makes sense to complete the first. Even if the intent is to use this approach to *'prioritise candidate investments'*, the third workshop may be missed.

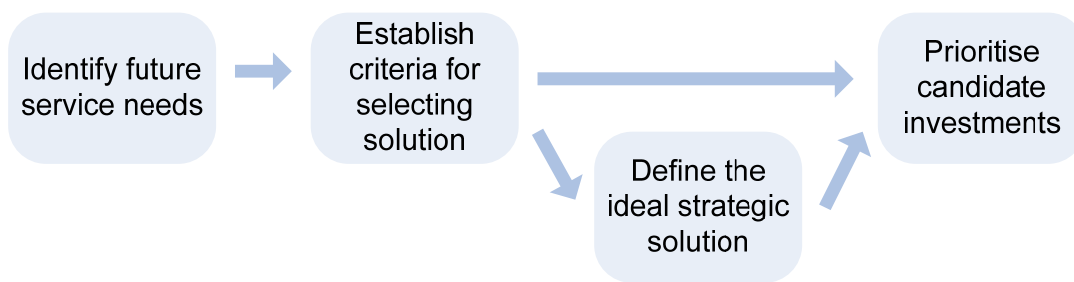


Diagram 2 The structured discussions of the Service Logic and Investment Prioritisation (SLIP) Guideline

What follows describes the purpose, participation, line of enquiry and outcomes of each of these discussions.

NOTE:

To ensure their success, it is essential that each discussion is facilitated by an Accredited Investment Management Facilitator. Details of the people who are currently accredited as facilitators is available on the Investment Management website.

www.dtf.vic.gov.au/investmentmanagement. In the case that nobody within your organisation is accredited you are able to engage a consultant for around \$1,500 (AUD) per session. The profile and costs of these consultants is available on that site.

3.1 Identify future service needs

Purpose

This discussion identifies the unmet service needs that may require new investment during the short to mid-term (10 – 15 years). It also defines the strategic actions that would best respond to the needs and the benefits that any investment is required to deliver.

This will enable decision-makers to determine:

- Are these service needs something that should be addressed at this time?
- If so, are the strategic Interventions that have been identified the best way to respond to the problem?
- How valuable to the organisation are the Benefits that would result?

Approach

This is identical to that described in the *Problem Definition Guideline* of the Investment Management standard. The discussion centres upon identifying and describing what is the Problem confronting the organisation. This must be described in plain English and encapsulate both what is broken (the cause) and what are the implications (the effect). Evidence must be provided to support all aspects of the problem statement. Once the Problem/s are defined and agreed, a set of strategic Interventions are identified that will best respond to the Problem. The high level Benefits that will be expected are also identified.

What questions are to be answered?

- “What needs or problems is this <organisation/portfolio> facing over the next 10 <or 15> years that will require us to consider new investment or changing our current investment priorities?”
- “What are the strategic actions that will provide the best response to those needs?”
- “In responding to those needs, what benefits would any investment be expected to deliver?”

Who should be there?

The key person (the ‘Investor’) is the high level executive responsible for delivering the outcomes of the portfolio or organisation. This person would bring together those people who can best help them identify the needs and determine the best strategic responses. These might include:

- Those responsible for the various portfolios within the organisation
- Strategists whose role it is to understand future needs and challenges and to plot the strategic direction of the organisation.

In addition, this is an ideal opportunity to include any key stakeholders who will ultimately be important to giving effect to any identified investment.

The number of people involved will probably be between 8 and 15 depending upon the size of the organisation.

What preparation is required?

None. It is expected that the people present will have adequate knowledge to support this discussion.

What is produced?

On a single page, a description of the Problems, the strategic Interventions and the Benefits and their relationship to one another. This is known as the Service Logic and an example of this can be seen in Part 1 of Appendix 5.2.

3.2 Establish criteria for selecting solution

Purpose

This discussion establishes the foundation that will enable potential investments to be prioritised based on their ability to respond to the service need and deliver the expected Benefits.

Approach

This is similar to that described in the *Benefit Definition Guideline* of the Investment Management standard.

What questions are to be answered?

- “What are the high-level Key Performance Indicators (KPI) that any investment will be required to deliver before it can claim to be delivering one of the identified benefits?”, and
- “What are examples of the plain English ‘Public Value Messages’ that would be able to be made when each benefit had been delivered.”

Who should be there?

- The key person is again the Investor - the high-level executive responsible for delivering the outcomes of the portfolio or organisation. The same people who attended the previous discussion (“Identify future service needs”) should also be present. In addition someone who has knowledge of/or responsibility for the organisation’s ‘program evaluation’ or ‘outcome measurement’. The criteria that is required to support investment prioritisation should be the same as that which will eventually be used to evaluate the effectiveness of the investment program. This connection is depicted in Diagram 1 above.

The number of people involved will be similar to the previous discussion.

- Note:
- The KPIs provide the evidence that the investment has delivered the expected benefit. The Public Value Messages are a way to validate that the delivery of the KPIs will result in public good that could be articulated to say, the media, in a way that can be understood and valued.

What preparation is required?

All participants should have thought about what might be the most suitable KPIs for each of the Benefits that were identified previously. The criteria used in choosing a KPI is:

- Is it MEANINGFUL? (A good indication that the stated Benefit has been delivered.)
- Is it ATTRIBUTABLE? (It would not occur if this investment was not made.)
- Is it MEASURABLE? (A baseline exists and ongoing measurement is realistic.)

What is produced?

On a single page, a description of the agreed Key Performance Indicators and the Public Value Messages that can be used as evidence that each Benefit has been delivered.

An example of this can be seen in Part 2 of the Appendix 5.2.

3.3 Define the ideal strategic solution

Purpose

This discussion provides a means of identifying the set of initiatives that will best respond to the service need based on the strategic interventions that have been identified and the benefits that are sought. Effectively, it establishes what is often the missing link - an activity where policy and strategy are directly translated into a balanced set of actions and investments. This can then be used to mobilise the preferred investments as an alternative to the practice of 'just waiting to see what comes along'.

Approach

This is identical to that described in the *Solution Definition Guideline* of the Investment Management standard. KPIs that will be required to deliver the Benefits and consistent with the identified strategic Interventions, a preferred Solution is identified.

The criteria for selection a solution that was developed in the previous discussions and documented in the form of Parts 1 and 2 of Appendix 5.2 provides the basis of this exercise.

What question is to be answered?

- "What are the set of initiatives that will be most effective at implementing the strategic Interventions and delivering the Benefits that were identified in the previous discussions?"

Note: The initiatives are described at a strategic level (eg. 'Build new service links to poorly serviced areas'). This will then direct subsequent work to define specific investments by identifying what areas are poorly serviced and how service links might be developed.

Who should be there?

The key person is again the Investor - the high-level executive responsible for delivering the outcomes of the portfolio or organisation. In addition, the following people should be there:

- A Solution Architect who will propose a 'solution' that the group can use as the basis for their discussion. For this discussion, the Solution Architect will be someone who has a solid understanding of the service challenges of the organisation and the types of strategic actions that will be most effective in responding to these challenges.
- Somebody (preferably a strategist) who was present at the previous discussions who can act as the 'custodian of the strategic direction'.
- The person that has the best understanding of the KPIs, of measuring outcomes, and of evaluating programs who can ensure the identified initiatives will be able to deliver the expected Benefits (and KPIs).

Consistent with the Solution Definition Guideline:

- An Innovator who will be focussed on the cleverness of the solutions, and
- An Implementer who has a practical sense of what is possible.

The number of people involved will probably be less than the previous discussions.

What preparation is required?

The Solution Architect will have considered what strategic actions are worth considering based on the criteria that was developed previously and what, in their opinion, is the preferred approach. This must be depicted in the form of an Investment Logic Map that can be articulated and defended during this discussion.

What is produced?

Two documents:

1. An Investment Logic Map that uses the Service Logic developed earlier and the ideal strategic solution that is agreed at this workshop, and
2. An Investment Concept Brief that will describe, as can best be known at that time, the Dis-Benefits, Risks, Costs, etc. of the proposed Solution.

When completed, this can be used to mobilise those initiatives that will best respond to the need.

3.4 Prioritise candidate investments

Purpose

This discussion will provide value to two groups of people:

- Decision-makers who will be comparing the merits of individual proposals and actually making investment decisions, or
- Advisors who will be analysing and ranking individual investments to provide advice to the decision-makers.

Approach

This discussion is different in nature to any of the previous workshops of the Investment Management standard. Using the investment prioritisation criteria developed in the first two discussions, this considers what is known of all candidate investments and ranks them against one another based upon:

- Their ability to deliver the identified benefits and to respond to the identified strategic Interventions
- When the benefits will be delivered
- The cost of the investment
- The risks to its success as an investment.

A suggested Agenda for this discussion is at Appendix 5.3. As with the previous discussions, it is facilitated by an Accredited Facilitator.

What question is to be answered?

“In applying the criteria for selecting a solution developed earlier, how do the candidate investments rank against one another?”

Who should be there?

If this is to be used as a decision making forum, those people who are responsible for the investment decisions will be present. This is likely to include the 'Investor' who was present at previous workshops. It also requires access to those people who have conducted or compiled analysis on each of the candidate proposals and can provide advice as to their merit against the prioritisation criteria developed earlier.

What preparation is required?

The inputs to this workshop will depend on what information is available for each of the candidate investments. Ideally, an Investment Concept Brief should be prepared for each of the candidate proposals so that their relative merit can be quickly understood.

Before the workshop a list of candidate proposals will be prepared and provided to the facilitator with whatever Investment Concept Briefs are available. Against each individually listed proposal will be the name of the workshop participant who is the 'authority' on that proposal - the person most suited to provide information as required.

Note: Each Prioritisation workshop will be able to consider and prioritise probably no more than 10 competing investments. Where the number being considered is greater it will be necessary to hold more than one workshop. Before these workshops 'sorting' should take place to decide which ones should be compared at each workshop.

What is produced?

A list of the candidate proposals in priority order. Shown against each entry on the list will be a summarised assessment against the Benefits sought, the Interventions to which it responds, the Date the benefits will be delivered, the Cost of the investment and the major Risks to its success. A format for this is at Part 3 of Appendix 5.2.

4 More Information

For more information, please go to www.dtf.vic.gov.au/investmentmanagement
or email investmentmanagement@dtf.vic.gov.au

5 Appendices

5.1 Glossary

Assets Needed

Any physical asset that must be built or purchased to enable the identified changes to occur. These may be a hospital, a pipeline or an IT system.

Benefits

The value that the investment will provide to the organisation or its customers. Benefits are normally a positive consequence of responding to the identified Problem. Each claimed Benefit must be supported by Key Performance Indicators that demonstrate the investment's specific contribution to the identified Benefit.

Benefits Management Plan

A short document that defines the pre-requisites for the delivery of each expected Benefit, how the delivery of each Benefit will be measured, and who will be responsible for measuring and realising each Benefit.

Benefits Reports

A report for the investor that depicts the status of the delivery of the Benefit compared to the original expectations.

Business Case

A document providing the information that an investor needs to decide whether to commit resources to a new investment.

Change

The things that must be done by the business if the Benefits are to be delivered. The changes provide detail of how the strategic intervention defined will actually happen.

Dis-Benefits

A negative impact that might occur as a direct consequence of implementing a particular solution.

Gateway

The Gateway Review Process is a best practice initiative based on proven techniques used extensively in progressive industries and governments. The Gateway Review Process has been validated and optimised for use in Victoria over a wide variety of projects and programs.

Growing Victoria Together

A ten-year vision that articulates what is important to Victorians and the priorities that the Victorian Government has set to build a better society.

Intervention

The high-level action (or 'strategic intervention') that is proposed as the response to the identified Problem. It should clearly state the strategic direction without locking in any solution.

Investment Concept Brief

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.

Investment Logic Map

A simple single-page depiction of the 'investment story'. It provides the foundation for an investment and is modified to reflect any changes to the logic of an investment throughout its lifecycle.

Investment Management Standard

A best practice approach applied over the life of an investment that aims to reduce the risk of investment failure, provide greater value-for-money and drive better outcomes. It has been designed to enable the *investor* to shape and control investments throughout their lifecycle.

Investment Reviews

Formal scheduled periodic reviews that aim to confirm that the logic for an investment remains valid.

Investor

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 Benefit. This person is often referred to as the 'senior responsible owner'.

Key Performance Indicator (KPI)

The measure that has been selected as evidence that an expected Benefit has been delivered. The KPI must be directly attributable to the investment.

Problem

The reason that action needs to be considered at this time. Problems are normally couched in negative terms but can also be an opportunity that will be lost. The statement of a problem should capture the essence of what is broken (the cause) and the consequence (the effect).

Project Management

A controlled process of initiating, planning, executing and closing down a project. The changes required to enable the Benefit of an investment to be delivered are usually defined as projects.

5.2 Example Service Logic and Investment Prioritisation

Service Logic and Investment Prioritisation

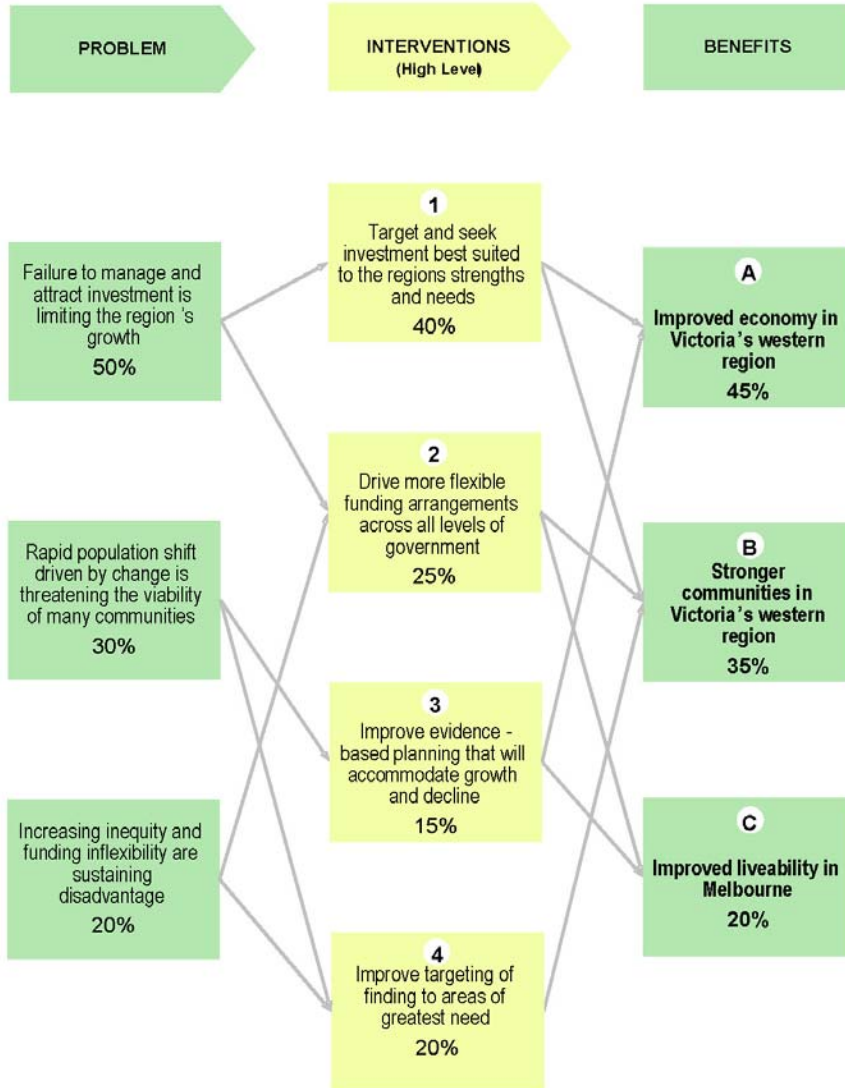
GRAMPIANS Regional Management Forum

Version 0.1 / 11 February 2009

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of demonstrating and progressing leading
investment practice in government

Part 1: Service Logic

The need for further intervention in this portfolio/service area.



Part 2: Benefits and their Key Performance Indicators (KPIs)

The Key Performance Indicators (KPIs) that any investment would need to deliver as evidence that an identified Benefit has been achieved. The Public Value Message is a plain English statement that would communicate the value the investment to the community.

<p>A</p> <p>Improved economy in Victoria's western region 50%</p>	<p>B</p> <p>Stronger communities in Victoria's western region 30%</p>	<p>C</p> <p>Improved liveability in Melbourne 20%</p>
Investment KPIs		
<p>KPI 1: Create and retain jobs</p> <ul style="list-style-type: none"> • New sustainable jobs <ul style="list-style-type: none"> ○ In communities in decline ○ In areas of large commuter populations ○ That will broaden the employment base of a town ○ Of high work value (eg. Professional) • Avoid loss of existing jobs 	<p>KPI 1: Improved health and wellbeing of communities</p> <ul style="list-style-type: none"> • Health • Employment • Safety • Income 	<p>KPI 1: Reduced road and rail freight into Melbourne</p>
<p>KPI 2: Raise household disposable income</p>	<p>KPI 2: Improved community strengthening indicators</p>	<p>KPI 2: Increase the number of people populated outside of Melbourne</p>
<p>KPI 3: Attract and retain sustainable investment</p> <ul style="list-style-type: none"> • New investment that <ul style="list-style-type: none"> ○ Builds on existing strengths / uses existing capacity ○ Develops infrastructure that will facilitate future growth ○ Is leveraged (ie. likely to result in further investment) • Avoid loss of existing investment 	<p>KPI 3: Reduced disadvantage</p>	<p>KPI 3: Reduced carbon emission</p> <ul style="list-style-type: none"> • Freight movements • People movements
Public Value Message		
<p>Investment that will create sustainable jobs in communities that were in decline</p>	<p>Families will be more financially secure</p>	<p>The negative impacts of population increases on Melbourne's liveability will be reduced</p>
<p>New industries will be created in western Victoria</p>	<p>Renewal and stability will be returned to communities that were in decline</p>	<p>Reduced need for long distance commuting and a shift of freight from road to rail will be good for the environment</p>
	<p>Employment that is higher quality and sustainable will be available through Victoria's western communities</p>	<p>Unnecessary movements of freight through Melbourne will reduce</p>

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Part 3: Prioritisation of the candidate investment proposals

Each of the proposed new investments are compared in terms of the benefits they will deliver, the strategic intervention to which they will respond, the timing of the delivery of the benefits, the likely costs and the risks involved. *The proposals are listed in priority order.*

Proposal NAME	Scoring the BENEFITS (Max = 10)			STRATEGY To which intervention /s does this respond	WHEN When will benefits be delivered (mm/yy)	COST What will be the cost (TEI in \$M)	RISKS What are the major risks to the success of this investment
	A Improved economy (50%)	B Stronger communities (30%)	C Improved Melb. liveability (20%)				
<name of priority-1>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-2>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-3>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-4>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-5>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2
<name of priority-6>	1-10	1-10	1-10	Intervention number	mm/yy	\$	- Risk 1 - Risk 2

5.3 Sample Agenda - Prioritising candidate investments workshop

Item	Objective	Key Person	Duration (mins)
Setting the workshop 'RULES'	<p>The Facilitator will outline the rules of the workshop:</p> <p>Time constraints</p> <p>Participant roles</p> <p>Approach to be taken and expected output</p> <p>The Investment Prioritisation Framework to be used will be tabled.</p>	Facilitator	5
ASSESSING PROPOSALS	<p>Each candidate proposal will be assessed in terms of Benefits, Interventions, Cost, Benefit, Date of Benefits and Risks</p> <p>Scoring of benefits will be based on the KPIs each will deliver and their relative value to Government</p> <p>A maximum of 15 mins should be allocated to each proposal</p>	All	90
RANKING PROPOSALS	<p>Part 3 of the Service Logic and Investment Prioritisation document provides the format for ranking proposals.</p> <p>On the basis of the merits of individual proposals, discussion will decide the priority order.</p> <p>This discussion will consider the available budget.</p>	All	25
Concluding the workshop	<p>The facilitator will reflect on the outcome of the workshop and any subsequent actions.</p>	Facilitator	5