

Investment Management Standard 2017 update

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Frequently Asked Questions

1. What are the key drivers for the 2017 refresh of the Investment Management Standard (IMS)?

The Department of Treasury and Finance (DTF) has not significantly reviewed and updated the IMS since 2013. Some elements of the framework have been in use since 2005, and have been iteratively reviewed and improved during this time. Other elements were developed in the last policy update, and have not had the benefit of review. There were some known limitations of the framework that required improvement to better meet user needs. The update was also required to ensure the framework aligns with Government's current, broader policies, priorities and expectations.

2. What are the key differences between the new 2017 update and IMS Edition 5.0 (2013)?

This IMS update retains the fundamental principles and logic of the IMS. However it introduces a number of practice changes, including:

General:

- Increased preparation required by participants prior to workshops;
- Clearer definition of the preferred participant types for each workshop;
- Increased focus on determining the quality and availability of evidence throughout the workshop process.

Workshop-specific:

- A more structured approach to unpacking the cause and effect of the Problem Definition
- a reshaped and more robust Benefit Definition workshop which tests alignment with Government policy, or other relevant strategic drivers, and focuses on the integrity of KPIs and measures;
- a restructure of the Response Definition¹ and Solution Definition workshops to clarify the objectives of each, to ensure both are more intuitive and robust and to provide a clearer link between responses and benefits;
- consequential changes to the supporting documentation for all the workshops.

Broader government policies and priorities:

¹ Previously the Strategic Options workshop

- greater and more explicit consideration of uncertainty during the workshops including identifying investments which may need real options analysis, including amendments to the *16 Questions – Decision Maker’s Checklist*.

3. When will the changes come in to effect?

Victorian Government departmental users and facilitators will be required to use the IMS 2017 edition templates for any new initiatives commencing from 1 June 2017. I.e. where departments are undertaking a Problem Definition workshop from 1 June, they will be required to comply with the 2017 Standard.

Users can continue to use IMS Edition 5 templates for any initiatives that have already commenced the IMS process. For example, if a department has already undertaken a Problem Definition workshop using Edition 5 templates, they may continue to use the Edition 5 workshop formats and templates. IMS users will not be required to revisit and review work already commenced.

Both the Edition 5 and 2017 formats will be accepted for investment proposals submitted for consideration in the 2018-19 Budget. IMS outputs developed for subsequent budget processes will be required to comply with the 2017 Edition.

4. How will the update impact accreditation

From 1 June 2017 – 30 May 2018, facilitators may submit examples of IMS outputs in either the Edition 5 or 2017 formats to support their accreditation / reaccreditation.

From 1 June 2018, any documents submitted to support facilitator accreditation / reaccreditation MUST comply with the 2017 update.

5. Did DTF seek stakeholder feedback to inform the 2017 IMS update?

Yes – DTF invited IMS facilitators, key departmental users and other stakeholders to participate in a number of stakeholder workshops in November 2016 to canvass their feedback on improving the IMS. These workshops were well-attended and informed the subsequent policy development.

6. Why does DTF distinguish between risks and uncertainties?

The Victorian Government’s *Risk Management Framework* describes the minimum risk management requirements agencies must meet to demonstrate they are managing risk effectively. It adopts the Australian and NZ standard AS/NZS ISO 31000:2009 *Risk Management – Principles and Guidelines* which provides a generic, internationally accepted basis for best practice risk management. This guide defines risk as “*the effect of uncertainty on objectives*”, creating a link between the two concepts.

In its Investment Management Standard and the Investment Lifecycle and High Value High Risk Guidelines, DTF clearly distinguishes between risk and uncertainty. When considering investment management, particularly infrastructure delivery, the two concepts can be distinguished as likely having different causes, requiring different controls and treatments, and resulting in different consequences.

Risk is defined as a variance (either positive or negative) from an expected outcome. It usually applies to the delivery of a project, and is inside the project team's control to minimise or mitigate to achieve the defined scope and expected benefits.

Uncertainty is defined as an event or change in conditions that can impact investment success. It usually relates to the investment need or problem, and is driven by external factors outside the project team's control. The event or change in conditions can result in a different future state to that anticipated in the business case, which in turn can impact the need for an investment or the benefits that are likely to be realised. Whilst risk is usually managed to deliver the expected outcomes, dealing with uncertainty can require a change in response altogether.

7. What is Real Options Analysis?

Real options analysis is an investment evaluation and decision-making framework that enables investors to incorporate flexible, quantitative approaches to better manage projects that are significantly impacted by uncertainty.

8. Where can I find more information on managing uncertainty?

Information on managing investments under uncertainty, including using real options analysis, is contained within DTF's Investment Lifecycle and High Value High Risk Guidelines, in particular the Stage 2: Prove and Stage 3: Procure Guidelines, and the Procurement Strategy Technical Supplement. A further dedicated guideline, Investing under uncertainty – real options analysis technical supplement, will be released shortly.

9. Will DTF run any further education or training on real options analysis?

The Institute of Public Administration holds regular business case training, which is delivered by DTF staff. This training includes guidance on managing uncertainty and undertaking real options analysis to inform the business case.

10. When is the next major update of the IMS likely to occur?

DTF refreshes its investment management policies and frameworks on a regular basis to ensure they remain robust and current, and align with broader government policies and priorities. IMS users should expect minor updates of the IMS framework from time to time. DTF does not expect a major policy review for 1-2 years.

11. Why do IMS facilitators have to be re-accredited every year?

DTF requires IMS facilitators to be re-accredited on an annual basis to maintain minimum quality standards in the services provided to users. Annual re-accreditation aims to ensure facilitators understand current policy and process requirements, and regularly update their skills.

12. Will other jurisdictions adopt the policy changes?

From 1 June 2017 it will be mandatory for any agencies or organisations to adopt the updated workshop and output formats for any investment proposals to be considered by the Victorian Government.

Other jurisdictions have been informed of the policy changes. Whether the changes are adopted by other jurisdictions is a matter for each government to consider.