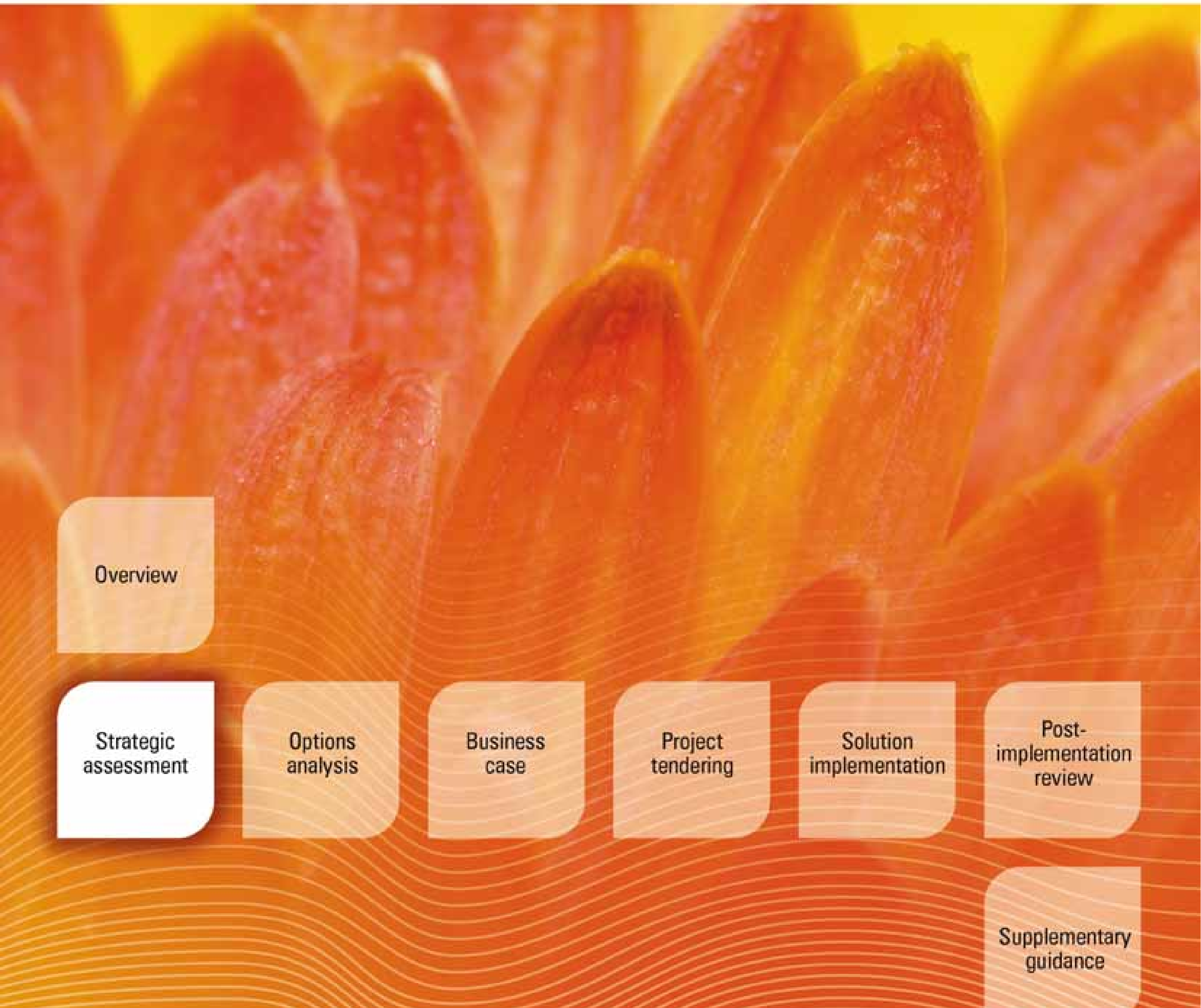
INVESTMENT LIFECYCLE GUIDELINES

Strategic assessment



Department of **Treasury & Finance**

Victoria
The Place To Be

Investment Lifecycle Guidelines

Strategic assessment

'What are the business needs and the likely solution?'

Version 1.0

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This Strategic Assessment guideline is part of the Investment Lifecycle Guidelines, first published in 2003 as Business Case Guidelines. The publications in the 2008 series are:
Overview
Strategic Assessment
Options Analysis
Business Case
Project Tendering
Solution Implementation
Post-implementation Review.

More information at: www.lifecycleguidance.dtf.vic.gov.au

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Abbreviations

CFO	Chief Finance Officer
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
ERC	Expenditure Review Committee (Cabinet Committee)
ICB	investment concept brief
ICT	information and communications technology
ILM	investment logic map
IMS	Investment Management Standard
IT	information technology
IEPG	Investment Evaluation Policy and Guidelines
KPI	key performance indicator
MYS	multi-year strategy
PPM	project profile model
TEI	total estimated investment

Executive summary

The strategic assessment is sometimes referred to as the initiation phase of a project.

Usually, a proposal concept is driven by the need to sustain or improve government service delivery so that it achieves particular priorities and outcomes.

The strategic assessment process translates the concept into a robust service requirement. It incorporates the investment logic map, benefit management plan and related preliminary studies (such as market research or feasibility studies). The strategic assessment shapes them into a submission to decision-makers—a proposal for investing government funds.

It highlights the:

- requirement to meet identified business needs
- anticipated benefits and timelines
- alignment with government policy directions
- fit with the department or agency's strategic priorities.

This Strategic Assessment guideline identifies issues and processes involved in developing a strategic assessment. It includes:

- useful tools developed under the Investment Management Standard
- links to related processes
- a template for presenting the information to decision-makers.

It is important that the strategic assessment is used as an effective filtering tool in the development of investment proposals.

1 Context

Start with a shared understanding of the need and its context – effort should not focus on solutions looking for problems.

1.1 Investment Lifecycle Guidelines - background

The Investment Lifecycle Guidelines series (the guidelines) are designed to be applied to Victorian Government investments so they provide the maximum benefit for the State's individuals, communities and businesses.

They are mandatory for major[1] investments, but can be used for any investment, whatever its type, complexity or cost.

Every investment needs to address a basic set of questions consistently and robustly. The guidelines provide practical assistance to shape investment proposals, inform decisions about them, monitor their delivery and track the benefits they achieve. They also refer to tools best suited to help at each phase of the investment lifecycle.

The guidelines have seven parts – an Overview and one document for each of the six phases in the process. Their titles and the questions they address are:

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?)
4. ***Project Tendering*** (What is the preferred delivery option?)
5. ***Solution Implementation*** (Is the investment proceeding as planned?)
6. ***Post-implementation Review*** (What benefits were delivered and what were the investment lessons?).

Supplementary guidance includes *Procurement Strategy* and *Risk Management* documents.

1.2 Purpose of the guidelines series

The guidelines provide standards for activities carried out at various phases of an investment. The Overview explains the whole context of the series and relevant processes. Supplementary guidance material has 'how to' details about processes and methods (available at www.lifecycleguidance.dtf.vic.gov.au).

The Overview explains the context of the investment lifecycle guidance series and relevant processes. This guideline addresses strategic assessment, the first phase of the investment lifecycle. The strategic assessment phase clarifies and validates the service need, outlines a possible solution, and specifies the anticipated benefits of a proposal.

[1] To meet current government requirements, *major* has a total estimated investment (TEI) > $5 million.

This guideline also refers to related processes and guidance material regarding strategic assessment. A resource directory is provided for web-links.

2 Strategic assessment

Key principles

- Government investments are made to meet service delivery needs that contribute towards agreed government policy objectives. These needs must be clearly articulated and evidence-based.
- Planning should take an integrated approach in a whole-of government policy framework.
- Stakeholders may be well placed to clarify the reasons driving the investment and possible solutions, but their expectations need to be managed.
- Investment opportunities will always exceed investment capacity, so departments and agencies should filter and rationalise the number of proposals under development by setting priorities and taking an integrated approach.

2.1 Purpose

Senior management can use a strategic assessment to review service delivery needs and the level of service needed to meet government and departmental strategic priorities and outcomes.

Carrying out the assessment gives a firm foundation for the proposal to proceed to the next stage, if this is warranted.

Strategic assessment should provide sufficient information to clarify for decision-makers:

- how the service relates to achieving government priorities and outcomes
- the need for the service and the service level to be satisfied
- how urgent or critical the potential initiative is to government, and the department or agency, and its priority
- who the key stakeholders are
- the indicative financial implications of the initiative or program
- the purpose, objectives and critical success factors for the initiative (or program) to deliver the desired outcomes.

Given this information and the characteristics of the potential initiative (a new initiative or an investment in an existing asset), the strategic assessment should also clarify whether it should progress to the options analysis phase.

2.2 When to undertake a strategic assessment

A proposal's characteristics determine whether it needs a strategic assessment, and how comprehensive the assessment should be.

Complex

Generally, if a proposed initiative is likely to be complex or to raise significant policy issues, the department or agency should prepare a strategic assessment as a matter of course. Such proposals must originate from either an explicit government policy decision, a service strategy or an agreed asset strategy. All proposals should be detailed in departmental or agency asset management plans.

Less complex

A separate strategic assessment may not be warranted for proposals that are consistent with an agreed asset strategy, are less policy challenging, or lower-risk. These proposals may be absorbed within a broader program. It may be sufficient to include the strategic assessment template as part of the department or agency's asset management planning, particularly if the proposal is expected to be under the threshold for the departmental or agency multi-year strategy (MYS).

Simple

In the case of simple, straightforward, low-value proposals that are part of an agreed asset management plan, a separate strategic assessment submission is not likely to be required. Discussion with one of the central agencies (the Department of Premier and Cabinet (DPC) or the Department of Treasury and Finance (DTF)) should help departments and agencies in considering this.

Multi-year strategy

To be recognised and included on a departmental or agency MYS, proposed projects (or the programs they belong to) must have been through a strategic assessment.

Gateway review

If a proposal is to have a Gate 1 - Strategic Assessment Gateway Review, this happens after the service need is identified and the strategic assessment has been undertaken. High-risk, and many medium-risk, projects will be independently reviewed through the Gateway Review Process.

In assessing a project's risk, departments and agencies must complete the Project Profile Model (PPM) that is part of the Gateway Review process. The departmental or agency Chief Finance Officer (CFO) (or their equivalent) must sign off on the PPM. There is further information on the Gateway Review process at www.gatewayreview.dtf.vic.gov.au. The extent of uncertainty about risk should be clearly explained.

2.3 Strategic assessment – benefits

Carrying out a strategic assessment brings benefits through:

- considering whether a proposal can achieve government and departmental priorities
- fully identifying the service delivery need to be met before proceeding to assess the ways to achieve it
- clearly documenting objectives to be agreed at the start of the investment lifecycle

- identifying key stakeholders and potential opportunities, and conflicts, early in the investment lifecycle.

2.4 Strategic assessment – outcomes

Strategic assessments should:

- identify service need and its scope
- describe broadly, but explicitly the service need to be met, the initiative's objectives and its success criteria
- advise on the level of uncertainty surrounding the investment
- advise on the anticipated potential for applying non-asset solutions
- provide information essential for the proposal or program to be recognised by the departmental or agency MYS and incorporated into the asset management plan.

Developing an investment logic map (ILM) clarifies the reasons underpinning a proposal. This means they can be properly considered. The ILM is useful for completing the strategic assessment template that, as noted, is the foundation for progressing the proposal. Section 3 discusses the ILM further.

3 Strategic assessment - steps

What are the business needs and the likely solution?

3.1 Key elements

The starting point for a strategic assessment is to identify the core reasons (drivers) that underpin the service need. Those service needs that achieve agreed government outcomes, or contribute towards achieving them, should be key to all investment decision-making processes, including asset investment decisions. Investigations and planning in this area should take an integrated approach, taking into account the whole-of-government policy framework.

The strategic assessment will identify the service requirements necessary to achieve agreed outcomes. It should provide enough detail for key decision-makers to confidently determine the initiative's strategic fit and how suitable it is to be developed further. Figure 3.1.shows key elements of the strategic assessment.

Figure 3.1: Strategic assessment – key elements

3.2 Identify the service need

Developing a potential asset investment initiative flows from the process that departments and agencies normally use when considering how they will deliver the outcomes government requires. (Departments or agencies are responsible for delivering services for the community that meet these agreed government outcomes.)

Government policy direction requiring action is identified through departmental strategic planning and review processes. This includes using tools such as the service strategy, asset strategy and asset management plans. Appendix A lists a range of documents that are relevant for preparing a strategic assessment.

As noted above, it is fundamentally important for the strategic assessment to identify properly what service requirements are needed to achieve particular outcomes. It is also very important to properly specify the project objectives that support and deliver the required service. Project objectives must be precise and measurable.

Considering the service need carefully:

- clarifies the nature of service requirement and any essential changes to it
- gives a preliminary measure and a perspective on how important the need is
- provides advice on how the service need aligns with government and departmental strategic objectives and priorities

- broadly identifies any key relationships or interdependencies with other services in delivering outputs.

The assessment should also be broad enough to accommodate any changes to definitions of service levels or requirements, since these may be refined while the proposal is being developed. Service requirements can change for a number of reasons, including:

- new government policies or regulations
- increased or decreased demand for services
- replenishing of asset capacity
- increasing services or providing an alternative range of services
- business improvements and efficiencies
- sustaining service delivery
- enhancing or containing service capacity, as expressed in the service strategy, or responding to an agreed asset strategy.

The reasons for investing (investment drivers) should also be identified, for example in a problem definition workshop. Using a set of practical tools in the DTF's Investment Management Standard (IMS) is a way of tackling this task.

(The Investment Lifecycle Guidelines Overview (section 3.2) has more detail about the IMS. Alternatively, you can visit www.dtf.vic.gov.au/investmentmanagement or email investmentmanagement@dtf.vic.gov.au.)

Problem definition workshop (IMS tool)

IMS provides communications tools that investors and project owners can use to help clearly articulate the reason for the investment, its strategic alignment to organisational outcomes and what benefits it will deliver. In particular, the IMS problem definition workshop will help identify the key drivers for the investment proposal.

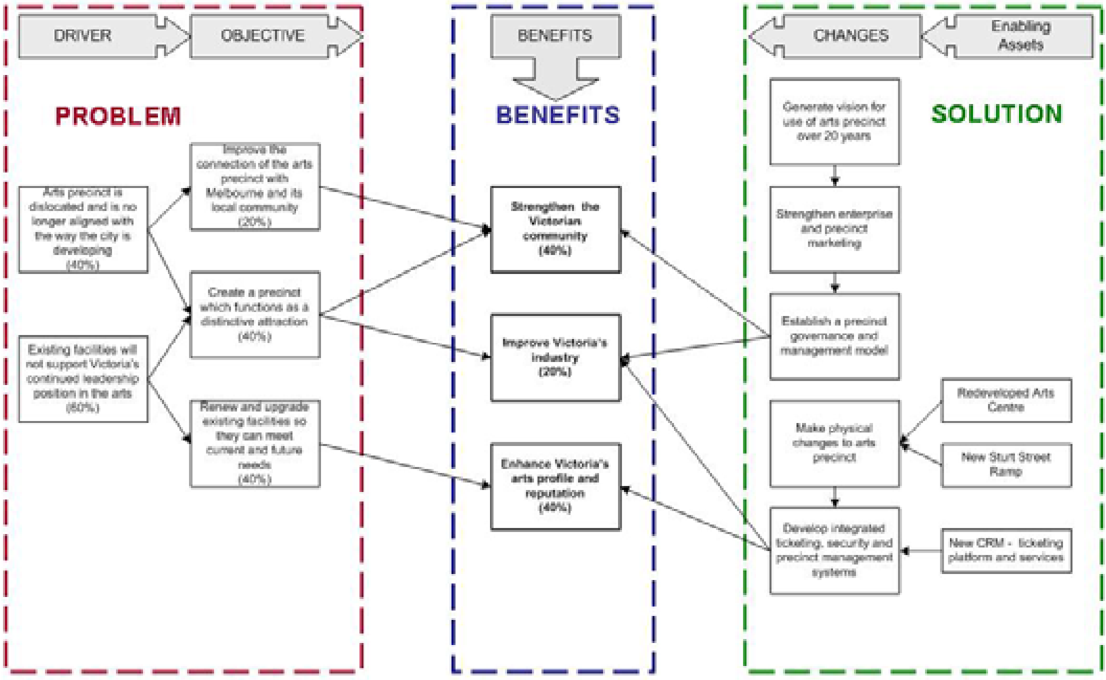
One of the primary reasons that investments fail is that the basic logic for the investment was either not understood or not shared by all those who needed to know. Often this is because the investors themselves were not clear about what was driving the investment decision or what benefits the investment could be expected to deliver.

Investment logic map (IMS tool)

An investment logic map provides the foundation logic used throughout the investment's lifecycle.

Figure 3.2 shows an example of an ILM developed for Melbourne's arts precinct and how the ILM links the three elements—the problem, the benefits and the solution.

Figure 3.2 Main elements of an investment logic map (arts precinct example)



Problem definition workshop and investment logic map – process

The ILM is a single page showing *the problem* that an investment has to address. It shows the circumstances driving the investment and the responding objectives and benefits. It then identifies the probable *solution* (the changes and any assets needed to meet the objectives and provide the benefits).

An ILM is the product of a two-hour facilitated workshop. The key participant is the 'investor', the person who has identified a business need and will be responsible for making an investment to satisfy that need. This person will ultimately be responsible for the delivery of the benefits that will respond to the need. It is critical that the actual investor is at this workshop and that the role has not been delegated to someone less directly responsible. This would ultimately compromise the outcome of the investment.

The ILM is the foundation document for the investment and is the basis for all subsequent phases using this method. It should be noted that, outside investment management, ILMs have proven to be an effective way of clarifying underlying logic and priorities. They have assisted in:

- portfolio management
- re-focusing an organisation to increase delivered benefits
- program development and evaluation
- policy development.

Further information about problem definition workshops is available at www.dtf.vic.gov.au/investmentmanagement.

3.3 Scope the service need

The need for the service should be scoped in broad terms at this early stage. This will establish the nature of potential solutions for the need. Co-location and 'joined-up' government opportunities should be considered as possible solutions. The MYS should help identify such opportunities.

The main assumptions, possible constraints and dependencies need to be identified. A determination can then be made about:

- how, or if, any solution is to be progressed
- whether, at this early stage, a potential project is a strong or weak candidate for a non-asset solution
- if an asset solution is likely, whether it should be delivered through traditional procurement methods or alternatives such as *Partnerships Victoria* or project alliancing.

Solution definition workshop (IMS tool)

The ILM developed in the problem definition workshop provides a clear understanding of why an investment is being considered (the problem) and some idea as to what the solution might be.

However, before making any judgement about the relative merit of an investment, investors need a better understanding of the likely best solution and its associated costs, risks, timelines and critical dependencies. Shaping solutions at an early stage will help to avoid investments that duplicate infrastructure, miss opportunities to align solutions with broader policies and strategies and fail to take advantage of new thinking and technologies.

In a two-hour facilitated solution definition workshop, the investor is brought together with a strategist, an innovator and someone who has implemented a similar solution—all bringing various perspectives to shaping the solution.

At the workshop, a solutions architect proposes what they believe to be the best solution to the identified problem. Workshop participants then address the following questions:

- Is the proposed approach aligned with broader policy objectives?
- Can this investment be used to provide capabilities or assets that others might use in the future?
- Are there existing capabilities or assets that might be used as part of the solution?
- Does the proposed solution take advantage of new thinking and technologies?
- Is the proposed solution feasible?
- Will the solution provide the benefits sought by the investor?
- Will the identified solution produce any negative impacts?

Based on the agreed broad solution definition, the second hour of the workshop identifies the likely timeframe, risks, dependencies and costs. A simple two-page investment concept brief can then be completed. Appendix E has an example of the format for this brief.

Support and further information about the solution definition workshops is available at www.dtf.vic.gov.au/investmentmanagement .

Benefits definition workshop (IMS tool)

It is vitally important to measure and track the benefits resulting from the investment. The benefit management plan helps identify the benefits, assigns measurable key performance indicators (KPIs) and associated benchmarks and makes one person accountable for delivering those benefits.

A benefit management plan uses the problem and solution definitions developed in earlier workshops. If the ILM identifies, say, three benefits, then the benefit management plan would have only three pages. No more than two KPIs are selected for each benefit. For each of these KPIs, there is an existing baseline measure and a target value (that could be attributed to the proposed investment).

Benefit management plans – process

Benefit management plans developed using the IMS are brief and to the point. They are developed in a two-hour facilitated workshop that brings together a group of people who understand the proposed investment and will be responsible for delivering the expected benefits. The key participants are:

- the investor who 'owns' the investment and will be ultimately responsible for benefit delivery
- a 'KPI designer' who has some expertise and will propose a suitable set of KPIs for each benefit
- a 'data provider' who will be ultimately responsible for reporting progress against the KPIs for each benefit.

The workshop participants select the most suitable KPIs for each benefit, using 'MAM' criteria:

- **m**eaningful (direct relationship between the KPI and the targeted benefit)
- **a**ttributable (KPI and its target value directly attributable to the proposed investment)
- **m**easurable (has an existing baseline; is cost-effective to measure progress).

Support and further information about the benefit management plans is available at www.dtf.vic.gov.au/investmentmanagement.

3.4 Identify key stakeholders

A proposal can involve or affect a range of stakeholders in a variety of ways. Investors should identify the key stakeholders at the outset and determine the potential impacts on them (both positive and negative) and how these can be managed. For many routine proposals, stakeholder identification is likely to be a well understood and straightforward process.

Consulting with stakeholders in this early phase can help clarify the drivers and potential scope of solution, including integration opportunities.

Appendix C details consultation guidelines for major infrastructure projects.

3.5 Strategic assessment coverage

The strategic assessment template is included at Appendix G. As a guide, the assessment should include:

- an executive summary (a succinct summary of the findings of the strategic assessment)
- a description of service requirements, consistent with the department's strategic direction
- investment logic (project function, objectives and critical success factors)
- alignment with strategic objectives, both government and departmental, and its priority
- stakeholder identification (their interests, objectives, possible conflicts and opportunities)
- potential high-level solutions, including any constraints and dependencies
- the Project Profile Model to indicate the risk level and any Gateway Review requirements
- actions to progress the proposal, such as resources, studies or information required.

3.6 Level of detail required

	Small/simple (Low-risk)	**Medium (Medium-risk)**	**Large/complex (High-risk)**
What are the business needs and the likely solution?	Investment logic map + benefit management plan (optional)	Investment concept brief (including investment logic map) + strategic assessment + benefit management plan	Investment concept brief (including investment logic map) + strategic assessment + benefit management plan + Gate 1 Review

4 Project assurance

There is a range of options to make sure projects are reviewed and have effective governance. Gateway Reviews may be required for medium or high-risk projects. Whether required or not, it may be useful to review the issues that would normally be considered in a Gateway Review.

If the project is identified through the Gateway Project Profile Model (PPM) as being medium to high-risk, the department or agency should discuss the need to undertake a Gate 1 review with the Gateway Unit in DTF. This should be done before presenting the strategic assessment to decision-makers. This will help determine whether to proceed to an options analysis phase. Gateway Review information and documentation, including specific guidance about the PPM and the Gate 1 review (Strategic Assessment), can be found at www.gatewayreview.dtf.vic.gov.au.

4.1 Gateway Review Gate 1: Strategic Assessment

Gateway Review Gate 1 investigates the direction and planned outcomes of the project in the wider policy, program or corporate context. It can be applied to any type of project. It is particularly valuable, as it helps to confirm that the plans are achievable before finalising them.

The review includes these aims, but is not limited to them:

- Confirm that the outcomes and objectives for the project contribute to the overall organisational strategy.
- Ensure that users and key stakeholders support the policy, program or project.
- Review the arrangements for leading and managing the policy, project or program (and their individual projects).
- Investigate the project's potential for success, considering broader delivery plans and interdependencies.
- Check that there is engagement with the market, as appropriate, on the feasibility of achieving the required outcome.
- Confirm the arrangements for identifying and managing project risk.
- Check that financial and other project resources have been provided for.

The review looks closely at documents such as:

- the business strategy and business plan
- the strategic assessment
- the investment concept brief and ILM
- any relevant service level agreements
- a project brief and preliminary business case (detailing project objectives, background, model of intended outcomes, scope, required benefits from the project, the main assumptions and constraints, stakeholders, finance, organisation, risks, issues, outcomes and components)
- a plan covering the work to be done in the short to medium term.

Resource directory

Further information may be obtained from the following publications/websites. Please advise the Department of Treasury and Finance if your agency, or other agencies, have additional information that should be included in this listing.

Resource name	Access details
Investment Management Standard	
Problem Definition (Investment Logic Map)	www.dtf.vic.gov.au/investmentmanagement investmentmanagement@dtf.vic.gov.au
Solution Definition (Investment Concept Brief)	
Benefit Definition (Benefit Management Plan)	
Business Case	
Investment Reviews	
Benefit Report	
Gateway Review Process	
Project Profile Model	www.gatewayreview.dtf.vic.gov.au gateway.helpdesk@dtf.vic.gov.au
Program Reviews	
Gate 1 Review: Strategic Assessment	
Gate 2 Review: Business Case	
Gate 3 Review: Readiness for Market	
Gate 4 Review: Tender Decision	
Gate 5 Review: Readiness for Service	
Gate 6 Review: Benefits Evaluation	
Investment Lifecycle Guidance	
Overview	www.lifecycleguidance.dtf.vic.gov.au
Strategic Assessment	
Options Analysis	
Business Case	
Project Tendering	
Solution Implementation	
Post-implementation Review	
Supplementary Guidance	
Investment Evaluation Policy and Guidelines	www.lifecycleguidance.dtf.vic.gov.au
Project Alliancing Practitioners' Guide	
Procurement Strategy Supplementary Guideline	
Melbourne Water Triple Bottom Line	
Asset Investment Reporting	www.dtf.vic.gov.au/assetinvestmentreporting
Asset Management Policy	www.dtf.vic.gov.au/assetmanagementpolicy
Multi Year Strategy	www.dtf.vic.gov.au/multiyearstrategy
Partnerships Victoria Guidance	www.partnerships.vic.gov.au
Other Guidance	
Building Commission Guidance	www.buildingcommission.com.au
Capital Development Guidelines	www.dhs.vic.gov.au/capdev.htm
Construction Supplier Register	www.doi.vic.gov.au
Environmental Sustainability Framework	www.dse.vic.gov.au
Health Privacy Principles	www.health.vic.gov.au/hsc/
Human Rights Charter	www.justice.vic.gov.au
Information Privacy Act	www.privacy.vic.gov.au
Multimedia Victoria	www.mmv.vic.gov.au/policies
Standards Australia	www.standards.org.au
Tender Documentation	www.tenders.vic.gov.au
Whole of Government Contracts	www.vgpb.vic.gov.au

Glossary

Asset management framework: A Victorian Government initiative to allow the Expenditure Review Committee to exercise greater strategic control over the asset base, with a tighter focus on adapting the asset base to better support output delivery. The framework has a series of linked strategies (service strategy, asset strategy and multi-year strategy) that guide investment planning in departments and agencies.

Appraisal: The process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made.

Asset option: An asset option is a means of satisfying service needs by investing in existing assets or creating new assets.

Asset strategy: Sets the direction and communicates up-front the assumptions and decisions about levels of service and who provides them; is the means by which an entity proposes to manage its assets over all phases of their lifecycle to meet service delivery needs most cost-effectively.

Assets: Service potential or future economic benefits controlled by an entity (e.g. a department) as a result of past transactions or other past events. Assets may be physical (e.g. plant, equipment or buildings) or non-physical (e.g. financial investments). Assets may also be current (having a store of service potential which is consumed in one year or less) or non-current (having a store of service potential that is consumed over a period of more than one year).

Base case: The base case is a realistic option that involves the minimum expenditure to sustain existing standards of service delivery or to achieve previously agreed service standards. Therefore, the base case does not always mean ‘do nothing’; rather it is the minimum essential expenditure option (e.g. carrying out obligatory works to meet safety and health regulations).

Benefit: The value that the investment will provide to the organisation or its customers. Benefits are normally a positive consequence of responding to the identified driver. Each claimed benefit must be supported by key performance indicators that demonstrate the investment’s specific contribution to the identified benefit.

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

Benefit reports: Regular reporting of the delivery of benefits, which are tracked and reported consistently with the benefit management plan.

Business case: A document that forms the basis of advice for executive decision-making for an asset investment. It is a documented proposal to meet a clearly established service requirement. It considers alternative solutions, and identifies assumptions, benefits, costs and risks. The development of the business case is based on the logic in the investment logic map.

Capital expenditure: Expenditure involved in creating or upgrading assets.

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 in the objective will actually happen.

Cost: An expense incurred in the production of outputs.

Cost-benefit analysis: Cost-benefit analysis is a technique that can express in a comparable (monetary) way the net effect of the costs and benefits associated with an investment proposal.

Demand management: A management technique used to identify and control demand for services.

Depreciation: The allocation of the cost of an asset over the years of its useful life.

Disposal: The process in which an asset is disposed of or decommissioned – resulting in removal from an entity's balance sheet.

Dis-benefit: A negative impact that might occur as a direct consequence of implementing a particular solution.

Driver: The reason that action needs to be considered at this time. Drivers are normally couched in negative terms such as 'Climate change is demanding new ways of living in Australia'. A driver should capture the essence of what is broken and the consequences.

Economic cost (or opportunity cost): The value of the most valuable of alternative uses.

Enabling asset: Any physical asset that must be built or purchased for the identified changes to occur. This may be, for example, a hospital, a pipeline or an IT system.

Evaluation: The process of defining objectives, examining options and weighing up the costs and benefits before a decision is made to proceed.

Financial analysis: An investment evaluation technique that is confined to the cash-flow implications of alternative options and is undertaken from the perspective of the individual department or agency or government as a whole.

Gateway Review Process: A review of a procurement project carried out at critical points of project development by a team of experienced people, independent of the project team. These critical points are known as Gateways or Gates. There are six gateways during the lifecycle of a project.

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

ICT-dependent: Information and communications technology (ICT)-dependent projects meet any of the following conditions: The ICT component of the project is critical to the overall success of the investment; or $5 million or more of the total estimated investment (TEI) is assigned to the ICT component; or 50 per cent or more of the TEI is assigned to the ICT component. Examples of ICT components include hardware purchases, software development and IT project management costs (i.e. anything that is covered by the whole-of-Victorian Government ICT classification.

Impact: The cost, benefit or risk (either financial or socio-economic) rising from an investment option.

Investment: The expenditure of funds intended to result in medium to long-term service, or financial benefits rising from the development or use of infrastructure or assets by either the public or private sectors. A single investment proposal may contain a number of related investment expenditures addressing the same service need.

Investment concept brief: A two-page document that shows the logic underpinning an investment and identifies the likely costs, risks, dependencies and deliverables of the proposed solution. It summarises the merits of an investment and allows decision-makers to prioritise competing investments before proceeding to the business case.

Investment logic map: A simple single-page depiction of the logic that underpins an investment. It provides the core focus for an investment and is modified to reflect any changes to the investment logic 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 benefits. This person is often referred to as the 'senior responsible owner'.

Lifecycle cost: Lifecycle cost is the total cost of an item or system over its full life. It includes the cost of development, production, ownership (operation, maintenance, support), and disposal, if applicable.

Key performance indicator (KPI): A measure that has been selected to demonstrate that a benefit expected from an investment has been delivered. The KPI must be directly attributable to the investment.

Multi-year strategy: An agreed listing of asset and non-asset initiatives intended to be implemented in the medium term (generally, the next 5-10 years).

New asset option: Acquisition, transfer or commissioning of an existing asset, or creation of a new asset.

Non-asset option: Under this option, service capacity is met without creating additional assets. This could be done through reconfiguration of the way the services are provided (contracting out, increased use of existing or private assets, or reduction of demand through selective targeting).

Objective: The high-level action (or strategic intervention) that is proposed as the response to the identified driver. This intervention must be framed within the context of the organisation's purpose.

Optimism bias: The demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery.

Options analysis: A process in which a range of options (both asset and non-asset) are evaluated. The most cost-effective options are then selected for more detailed evaluation through a business case.

Outcome(s): In the Government's output/outcome framework, outcomes equate to benefits.

Partnerships Victoria: The Victorian framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through public-private partnerships. The policy focuses on whole-of-life costing and full consideration of project risks and optimal risk allocation between the public and private sectors. There is a clear approach to value for money assessment and the public interest is protected by a formal public interest test and the retention of "core" public services. *Partnerships Victoria* is most useful for major and complex capital projects with opportunities for innovation and risk transfer.

Project alliancing: A form of procurement where the State or another government entity collaborates with one or more service providers to share the risks and responsibilities in delivering the capital phase of a project. It seeks to provide better value for money and improved project outcomes through a more integrated approach between the public and private sectors in the delivery of infrastructure. Project alliancing should generally only be considered in the delivery of complex and high-risk infrastructure projects, where risks are unpredictable and best managed collectively.

Project lifecycle: The stages of an asset lifecycle between the identification of the need and the delivery and handover of an initiative.

Proposal: An idea for a policy, program or project that is under development and appraisal.

Residual value: The net value applied to the asset at the end of the investment lifecycle or evaluation period; this may result in either a positive or a negative value.

Resources: Labour, materials and other inputs used to produce outputs.

Revenue: Inflows or other enhancements, or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity (other than those relating to contributions by owners) that result in an increase in equity during the reporting period.

Risk: Risk is often characterised by reference to potential events, consequences, or a combination of these and how they can affect the achievement of objectives. Risk is often expressed in terms of a combination of the consequences of an event or a change in circumstances, and the associated likelihood of occurrence.

Risk versus uncertainty: Uncertainty is the extent of variability in the capacity to achieve the desired outcomes or the outcomes themselves. Risks lead to uncertainty.

Scenario analysis: Scenario analysis is a procedure for providing the decision-maker with some information about the effect of risks and uncertainties on an investment. In a scenario analysis, a set of critical parameters and assumptions that define a particular scenario are identified and varied to reflect a best-case and a worst-case scenario.

Service strategy: The strategy for the supply of appropriate services to the community, which is consistent with the entity's corporate goals. It is based on strategic analysis and review of how services are presently provided.

Social benefit: The estimated direct increase in the welfare of society from an economic action. It is the sum of the benefit to the agent performing the action, plus the benefit accruing to society as a result of the action.

Social cost: The estimated direct total cost to society of an economic activity. It is the sum of the opportunity costs of the resources used by the agent carrying out the activity, plus any additional costs imposed on society from the activity.

Strategic assessment: The phase of the project lifecycle during which a need is translated, where justified, into a proposal where outcomes, purpose, critical success factors and the level of strategic alignment are clearly defined.

Value management: Value management is a technique that seeks to achieve optimum value for money, using a systematic review process. The essence of value management is a methodical study of all parts of the product or system to ensure that essential functional requirements are achieved at the lowest total cost. Value management examines the functions required from a product, functions actually performed, and roles of the product's components in achieving the required level of performance. Creative alternatives which will provide the desired functions better or a lower cost can also be explored.

Weighting and scoring: A technique that assigns weights to criteria, and then scores options in terms of how well they perform against those weighted criteria. Weighted scores are summed, and then used to rank options.

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Appendix A: Government service delivery frameworks and process

Element and content	Relationship to strategic assessment, options analysis and business case
Government policy	
From time to time, government releases statements that outline key strategic service objectives. Project proposals are expected to be derived from, and be consistent with, all relevant government policy. This would include: • government strategy/policy, including *Growing Victoria Together* • public commitments • asset management policy.	Specifies the State's strategic direction and priorities
Service strategy	
Aligns service delivery to the corporate strategy; sets out broad service delivery targets that are used to drive corporate planning The service strategy should provide a medium-term focus as a basis for planning.	Specifies the broad service delivery strategy, which should be the focus for the corporate plan, asset strategy, strategic assessment, options analysis and business case
Service plan	
Translates the direction given in the service strategy into planned and timed actions used in the corporate planning process	The broad planned service actions will guide the corporate plan and asset strategy.
Corporate plan	
Used as basis for departmental submissions to the Expenditure Review Committee (ERC) Stage 1. Plans have a 3-5 year outlook and set strategic priorities, vision, mission and objectives of the organisation. Plans identify relationship between departmental objectives and associated key government outcomes to be achieved. The plans are high-level and strategic, and set the context of departments' activities rather than detailing activities themselves.	Specifies the departmental objectives and priorities
Asset strategy	
This sets the direction and communicates up-front decisions about levels of service and who provides them. It aligns these directions to the corporate strategy, so that the asset base supports departmental objectives and government policies, priorities and targets. It has two main parts: 1. *Present situation:* includes the current size, condition, cost and forward maintenance and renewal consequences of the existing asset portfolio. It provides high-level background on all	The asset strategy determines projects to be evaluated through a strategic assessment, an options analysis and business case development.

Element and content	Relationship to strategic assessment, options analysis and business case
existing assets for decision-making. 2. *Future possibilities:* identifies future opportunities and directions. It should provide short reference papers on various key topics. The information is drawn from long-range forecasts (including renewal forecasts, demographic studies, and studies of industry changes). The asset strategy is a major input into the corporate planning process.	
Business plan	
Each departmental business plan has a one-year outlook and translates the corporate plan into a detailed work plan for the year. It includes: • the objectives for the department (i.e. a brief statement of the desired state to be achieved) • outputs, performance measures and resource requirements • links to departmental objectives • strategies (i.e. the key activities to achieve the stated objective) • performance measures (i.e. the measures that the organisation will use at the system level for performance improvement, accountability and reporting purposes) • performance targets where set (i.e. the intended level of performance to be achieved within the specified time).	Specifies approved priorities and targets to be delivered in the year
Multi-year strategy	
The multi-year strategy presents a consolidated five to 10-year view of all planned and agreed asset and non-asset-related proposals for each department. It identifies the different stages of development and different time-slots for each proposed initiative. Details would change over time as an initiative evolves and develops.	The multi-year strategy presents the end results from the strategic assessment, options analysis and business case phases. A proposal should be recognised on the MYS after a strategic assessment is undertaken. The entry should be updated following both the options analysis and business case phases.

Appendix B: Case studies

Case Study 1: Lessons from an integrated solution success

Sometimes, service philosophy needs to be reconsidered. When this service delivery affects a range of portfolios and change is needed, inertia can be quite powerful. Perseverance can produce significant results. One such example relates to managing domestic violence.

The Chief Commissioner of the Victoria Police, Christine Nixon, challenged the philosophy of treating domestic violence differently from other crime. The usual scenario was that:

- An assaulted partner (usually female) would escape from the family home with young children requiring accommodation, support, medical treatment and counselling.
- There would be a restraining order or an assault charge against the partner (usually male) who stays in the family home.

The change to the usual standing orders response was to remove the perpetrator rather than the victim. This had considerable ramifications for the service support that had built up to accommodate and support displaced victims and their children. The impact of such a change could potentially reduce the need for refuges for women and children, require more support in the home for victims, result in the perpetrator being homeless, and require counselling and behaviour modification programs. There was also some anxiety that providing services to perpetrators would reduce the resources directed to victims.

Affected departments discussed the issue, as the service support affected not only Victoria Police but the Department of Human Services (housing and welfare), the Department of Planning and Community Development (regarding the status of women) and Department of Justice (regarding crime and prisons). Following the change to Victoria Police standing orders, a consultant was engaged to redesign the whole service delivery strategy. An Inter-departmental Committee (IDC) was formed to manage the review and recommendations. It was a challenging cross-portfolio issue, but it was resolved.

What made it work?

- A strong lead Minister: Domestic crime is a difficult project, so one of the first problems was to identify who could provide the strongest ministerial support
- A strong and focused IDC: The change process was significant and heavily influenced by various stakeholders. A statement that funding would change encouraged an integrated and comprehensive response from a range of service providers. This reduced the number of small funding programs.
- A solid strategy: The analysis and recommended service delivery strategy were underpinned by sound numerical and strategic thinking, which was not locked in to the existing approach.

Leadership, effective collaboration and change management, along with sound analysis and planning, resulted in a significant change.

Case study 2: Guidelines for early stages of capital planning and use of benchmarks

The Department of Human Services has developed guidelines for the early stages of capital planning for new hospital projects and redeveloping existing hospitals. The guidelines help in determining the initial scope, area, and budget.

Benchmarks were developed at the functional level, to determine the space (floor area and interface) requirements and a cost budget.

Functional benchmarks convert the number of services to be provided into the number of functional unit outputs or 'space drivers' required to deliver the services. Area benchmarks are developed based on a review of recent hospital capital projects and generic briefs for health facilities.

Cost benchmarks have also been developed, noting that the main factors affecting costs in hospital development are:

1. hospital role delineation
2. functional make-up
3. building configuration
4. site locality
5. site-specific factors
6. car parking.

Appendix C: Consultation guidelines for major infrastructure projects

Identifying and consulting with key stakeholders is important for successfully scoping and delivering major infrastructure projects. You should develop a consultation and communication strategy as part of the business case. The consultation/communication strategy should detail:

Key stakeholders who are affected or have a direct interest in the project

Key stakeholders will differ between projects and may include bidders, investors, users, politicians and officers at the local and state government level, special interest groups and community groups.

Stakeholder analysis (including for each stakeholder/ group)

This includes:

- each stakeholder's relationship to the project
- consultation already undertaken
- synergies/benefits from the project
- issues and their potential impact on the success of the project
- actions/response (if further work is needed, above the current planning and consultation processes); may include, for example, addressing specific stakeholder concerns in project specifications or increasing communication activities
- timing of activities
- key responsibility – who will take responsibility for the actions surrounding an individual stakeholder,

Project consultation and communication objectives

Identify the key objectives that the department or agency seeks to achieve through implementing the strategy.

Key issues to be addressed

Using the stakeholder analysis, detail the key issues that have emerged for action and their priority —in terms of their impact on the investment or the project's cost, schedule, quality and its capacity to achieve the benefits intended.

Key messages

Define the key messages at the overall project level, and develop them further for each stakeholder as required.

Designated spokespeople

It is important to nominate designated speakers and brief them appropriately with the desired key

messages.
Measures of success
Identify and detail key measures of success.
Resources
Detail the resources required to implement the strategy

Major infrastructure project types

Major infrastructure projects would include, for example those:

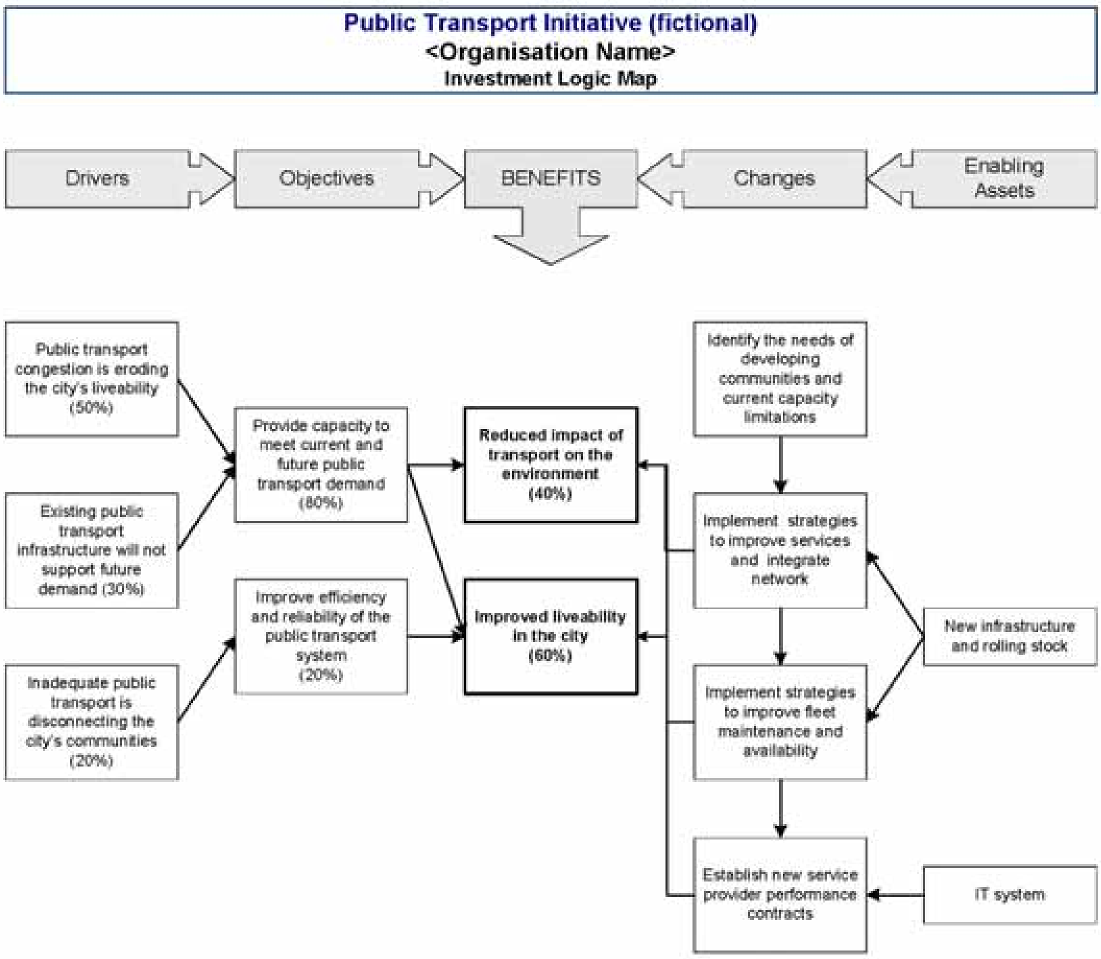
- arising from the *Project Development and Construction Management Act 1994* (section 6 of that Act)
- requiring government capital funding greater than $100 million
- deemed by the Economic Development and Infrastructure Delivery Committee to be a 'major infrastructure project' for this purpose.

Public interest test

Major projects are required to complete a public interest test as part of the business case seeking project approval. Government takes this test into account when considering an application for project funding. It is important that the consultation strategy links with the public interest test, including identifying key groups for consultation and reviewing information gathered. Appendix I in the Business Case guideline has information on this.

Appendix D: Investment logic map

This example is fictional.



Key Performance Indicators

Benefit 1: Reduced impact of transport on the environment (40%)
KPI 1: Increased share of trips taken on public transport vs. road

Benefit 2: Improve liveability in the city (60%)
KPI 1: Increase in the % of public transport services that arrive on time
KPI 2: Increase in the frequency of services

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NOTE: (%) indicates relative importance of drivers, objectives or benefits to this investment

Appendix E: Investment concept brief

This example is fictional.

Context

What is the compelling reason this investment should be considered further?

Public transport is failing to meet current demand and will be further impeded by growth in patronage.

Benefits

What benefits will this investment deliver to government?

Refer to investment logic map [attach it].

Negative effects (dis-benefits)

What negative impacts to government might result from the identified solution?

Undertaking transport infrastructure projects may disrupt public transport services during delivery phases of projects (short-term).

Undertaking transport infrastructure projects may disrupt road traffic, particularly when projects such as grade separations occur (short-term).

Risks

What are the primary risks to the success of this investment?

Risk	Criticality (H/M/L)	Likelihood (H/M/L)
Inability to accurately forecast patronage growth	M	H
Incorrect identification of public transport needs	H	M
Shortage of technical skills and construction resources	H	H
Inefficient project coordination	M	H
Transport operators not working collaboratively	M	M

Critical dependencies

Are there any conditions that, if they were to change, may affect the need for this investment (e.g. policies or particular dates)?

Government's policy regarding congestion taxes/charges

Government policy regarding the environment

Government targets regarding public transport usage

Timeframe

What are the expected timeframes for the key deliverables?

Description of deliverable/milestone	Time from funding (months)
Identify current and future service requirements	6 months
Delivery of new rolling stock	1-2 years
Delivery of new infrastructure, i.e track, stations	1-12 years
Improved reliability and efficiency of public transport system	1-12 years

Cost

What are the likely costs of this investment?

Item (business change or enabler)	Cost (range)
New transport infrastructure	Approx $9.5b
New rolling stock	Approx $1b
New IT system	Approx $20m
TOTAL	**Approx $10.5b**

Policy alignment

What is the primary policy to which this investment will contribute?

Deliver and sustain future public transport demand

Investor

Who is the senior person who will ultimately be responsible for delivering the identified benefits?

Name	Position	Signature	Date

Appendix F: Benefit management plan

This example is fictional.

Public Transport Initiative (Fictional)
<Organisation Name>
Benefit Management Plan

BENEFITS SUMMARY

The proposed investment is expected to deliver the following benefits:

Benefit 1: Reduce Impact of transport on the environment (40%)

By:

- Increasing the share of trips taken on public transport vs. road from 11% to 20%

Benefit 2: Improve liveability in the city (60%)

By:

- Improving the reliability of transport services by increasing the % of public transport services that arrive on time from 95% to 99%
- Increasing the frequency of services that are provided from 10 minutes per services to 5 minutes.

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Last Reviewed	[Add]
Facilitator	[Add]

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Public Transport Initiative (Fictional)
<Organisation Name>
Benefit Management Plan

Reduced Impact of transport on the environment 40%

KEY PERFORMANCE INDICATORS

KPI 1
Mode share
Measure
Increased share of trips taken on public transport vs road
Baseline value
11%
Target value for measure/s
20%
Date targets will be met
2020

RESPONSIBLITIES

Who is responsible for meeting KPI?
[Name] Director of Transport Department of Transport
Who is responsible for reporting?
[Name] Director of Transport Planning Department of Transport

REPORTING SCHEDULE

Frequency of reporting
Yearly
Source of measurement data
Australian Bureau of Statistics/Department of Transport
Starting date for reporting
2008
Date reporting will end
2020

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Public Transport Initiative (Fictional)
<Organisation Name>
Benefit Management Plan

Improve liveability in the city 60%

KEY PERFORMANCE INDICATORS

KPI 1	KPI 2
Reliability of services	Frequency of services
Measure	**Measure**
Increase in the % of public transport services that arrive on time	Increase in the frequency of services that are provided
Baseline value	**Baseline value**
95%	Services every 10 minutes
Target value for measure/s	**Target value for measure/s**
99%	Services every 5 minutes
Date targets will be met	**Date targets will be met**
2020	2020

RESPONSIBLITIES

Who is responsible for meeting KPI?	Who is responsible for meeting KPI?
[Name] [Position] Private public transport operator	[Name] [Position] Private public transport operator
Who is responsible for reporting?	**Who is responsible for reporting?**
[Name] Director of Transport, Department of Transport	[Name] Director of Transport, Department of Transport

REPORTING SCHEDULE

Frequency of reporting	Frequency of reporting
Monthly	Monthly
Source of measurement data	**Source of measurement data**
Public Transport Operators	Public Transport Operators
Starting date for reporting	**Starting date for reporting**
2009	2009
Date reporting will end	**Date reporting will end**
Ongoing	Ongoing

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Appendix G: Strategic assessment template

Executive summary
Provide a succinct summary of the findings of the strategic assessment. This may only require one or two paragraphs, depending on the nature and scale of the proposal.
Description of service requirements
Compile a future-oriented outline of the service requirement that the department must address, consistent with its strategic direction. The statement should focus on government service delivery requirements, priorities and outcomes rather than on outputs or activities.
Investment logic, project function, objectives and critical success factors
Succinctly and clearly outline and prioritise the objectives of the proposal. Strategists and planners should critically test whether these are the right objectives. Provide an investment logic map linking drivers, objectives, benefits, business changes and enablers. Document critical success factors for each of the objectives.
Alignment with strategic objectives
The extent of alignment with government and departmental strategic direction is to be explicit and evidence-based. List the extent of this alignment and the priority level for the strategic objectives.
Stakeholder identification
Identify and list groups or individuals who have a direct interest in the proposed project, or who are affected by it. Potential stakeholder interests, objectives, conflicts and opportunities for synergies should be identified. List likely actions planned to resolve conflicts or maximise opportunities.
Potential high-level solutions
List any limitations that apply to potential solutions, including any constraints and dependencies. Executives should make sure that non-asset solutions are positioned to receive a fair hearing in the next phase of analysis.
Project Profile Model
The result of the Project Profile Model (PPM) should be documented, signed off by the Chief Finance Officer (CFO) and submitted to the Gateway Unit for high to medium-risk projects. This is to identify the need for involvement in the Gateway Review Process.
Actions to progress to options analysis
Highlight further actions to progress the strategic assessment to the options analysis phase. These may include: • information gathering

- commissioning of specific studies
- financial and resource implications, including a broad and indicative total estimated investment (TEI)
- proposed indicative implementation timetable
- incorporation of the initiative into the department's asset management plan and multi-year strategy
- undertaking a Gate 1 Strategic Assessment Gateway Review and resolving issues identified as a result of that Review (where appropriate).

Supporting documents

List supporting documents that specifically contribute to the strategic assessment including :

- investment concept brief (including investment logic map)
- benefit management plan
- feasibility studies or market research
- reports relevant to the proposal such as evaluations of related programs
- Project Profile Model for Gateway Review.

Sign-off

Each strategic assessment should be signed off by the author, reviewer and authorised delegate. It should be provided to the delegate or other decision-makers for a specific determination on whether the proposal should be progressed or stopped.

The Project Profile Model (PPM) is to be signed-off by the Chief Finance Officer (CFO) (or equivalent).