

# Stage

# 3

## Decide to invest

Confirm that the proposed investment is worthwhile and of greater merit than other proposals competing for funds, and develop a procurement strategy.

### Key better practice messages

- Build a compelling argument that is a reliable road map for the investment
- Define the business case for all partner agencies
- Identify and secure funding from partner agencies
- Understand ability to take on and execute change

### Overview

The development of a business case is the final planning step for an ICT investment.

A business case should include:

- a compelling argument for the investment of government funds and a demonstration of 'value for money' (i.e. the benefits outweigh the costs, and the risks are acceptable)
- an assessment of the success of the investment based on a sound appreciation of capability of any partners (such as other agencies and vendors) and available technology
- a reliable road map for implementation that will provide a baseline for governing and managing the investment.



## Build a compelling argument that is a reliable road map for the investment

### Issues we have observed

Our audits consistently identify poorly developed business cases as a significant cause of implementation problems and poor realisation of benefits.

Implementation issues that could have been anticipated and analysed in a business case often manifest themselves during the life of the investment, triggering a 'crisis', rather than 'planned' response to managing the investment.

Poor business cases often mean that investors are not clear about the business benefits, which almost certainly leads to poor outcomes from the ICT investment.

### Illustration

#### Common flaws in business cases

Some of the common flaws we have observed in ICT investment business cases include:

- investment appraisals failing to demonstrate whether the program's benefits outweigh the costs
- not analysing or reviewing the capacity and capability of partner agencies to participate in and manage the effects of the significant change posed by the investment
- the failure of agencies to gather enough evidence to accurately estimate the budget, which increases the risk of cost overruns
- not validating and reviewing the capacity or capability of the market to deliver the ambitions of the proposed change
- not considering total cost of ownership up-front, leading to critical components of the investment being under-funded, which potentially puts the overall investment at risk
- not developing project timelines or milestones at the time of the funding decision, with critical dependencies and activities often being left undefined
- not holding a detailed discussion about 'key related processes' for consideration in tandem with project implementation, such as change, quality and risk management
- not identifying key project delivery risks or a management strategy for these risks
- not supplying evidence of a commitment to re-examine and re-affirm the project objectives and the scope at each significant milestone throughout the project implementation/development process

### Practical steps to take

#### Be comprehensive and use evidence

A comprehensive, evidence-based business case contains:

- information to enable a fully informed decision to be made on whether funding (or other resources) should be provided, or whether the proposal should proceed
- a reliable estimate of expenditure implementation schedules and benefits to be received
- an understanding of the total cost of ownership across the investment's life
- empirical data (e.g. data from past projects or similar projects elsewhere), have been adjusted for the unique characteristics of the current environment/project. When such information is not available and the project is worth doing, acknowledge the level of risk and build in adequate tolerances in your timelines and budgets
- clear communication of the key issues and recommendations arising from the business case to aid executive decision-making. Ensure stakeholders are aware of financial impacts, such as compressed timelines or changes to scope.

DTF's Business Case Development Guidelines provide detailed guidance on what you should include in a comprehensive business case. This guidance is available at <http://www.lifecycleguidance.dtf.vic.gov.au>.

#### Use the business case as a benchmark for progress review

Use the business case as a benchmark against which project performance can be measured to check whether key objectives and benefits are being met.

Make the business case a living document that will run for the lifetime of the investment, not just a mechanism to obtain funding. By using the business case as a tool for monitoring progress, it is possible to be more confident that the intended benefits of the investment will be realised.

## Define the business case for all partner agencies

### Issues we have observed

Some investments provide value for money from a whole-of-government perspective, but might not 'stack up' for all partner agencies. This can lead to situations where CEOs and SROs find themselves being required to fund an investment that will not achieve a reasonable return or benefit, when viewed from the perspective of their own agency.

This can lead to significant delays due to protracted negotiations about value, the relative contributions of partners, and the impact on individual agencies.

Investors need to explicitly recognise the business case for each participating agency and be mindful that:

- benefits may not accrue equitably for each participant but may still be of substantial value to the state as a whole
- the cost of the ICT investment may affect the financial viability of individual agencies.

### Illustration

The lead agency did not develop an overall business case for the investment. Much later, the lead agency required its partner agencies to develop individual business cases as a basis for making the investment decision.

The development of the business cases by partner agencies identified that while the overall benefits for the state potentially exceeded the costs, this was not the case for individual agencies.

This led to protracted delays, while the partner and lead agencies negotiated the relative amounts of their co-contributions.

### Practical steps to take

#### Understand the costs and benefits for all partner agencies

Take care to define costs and benefits for all partner agencies up-front and ensure that these are clearly understood.



## Identify and secure funding from partner agencies

### Issues we have observed

Partner agencies are often not clear about their respective levels of contribution.

This can lead to:

- investments being delayed due to a lack of available funds
- significant funds being diverted from agency's operational budgets.

### Practical steps to take

#### Identify and secure required funding from partner agencies

Make sure that all partners in the investment are clear about the level of funding they are required to contribute, and confirm that they will have the funds available when required.

### Illustration

The lead agency failed to clearly communicate with its partner agencies about the costs involved in the investment.

It failed to acknowledge that viability of ongoing operations was an issue for some of the partners and that the partners were not able to fund their share of the capital or recurrent costs associated with the ICT investment.

In the end, the lead agency had to divert an additional \$35 million from its own operational budget to support its partners.

## Understand ability to take on and execute change

### Issues we have observed

ICT investments can involve a significant transformation or re-engineering of the business. However, investors often don't analyse their agency's readiness or capability to undertake this change. This issue can be exacerbated where multiple agencies with very different levels of ICT capabilities are involved in the same project.

A misunderstanding of the readiness or capability to change can lead to delay, particularly when multiple parties are working on a project. A careful consideration of the organisation's history with regard to change should be part of the process of building a business case.

### Illustration

Delays were primarily due to an underestimation of the complexity of the project and the readiness of partner agencies, by both the vendor and the departments.

The post-implementation report revealed that the original schedule was regarded as 'uncompromising' and had minimal consideration for contingency planning and the ability of the partner agencies to implement the solution.

Specific delays were attributed to clashes with the implementation of other departmental ICT projects, project scope changes, and the need to re-work and correct flaws in the solution provided by the vendor.

### Practical steps to take

#### Analyse all major changes required for success

Analyse and describe the major changes required for the ICT investment to succeed and assess their likely impact on the agency.



## Further references

### DTF guidance

Gateway information can be obtained from <http://www.gatewayreview.dtf.vic.gov.au/>

- Gate 3, Readiness for Market, Gateway Initiative, Gateway Review Process.

Life Cycle Guidance information can be obtained from <http://www.lifecycleguidance.dtf.vic.gov.au>.

- Investment Life Cycle Guidelines— Business case, July 2008.