

Guidelines for the evaluation of public sector initiatives

Part A Overview



Government of South Australia
Department of Treasury
and Finance

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Abbreviations

Benefit cost ratio (BCR)

Cost benefit analysis (CBA)

Cost effectiveness analysis (CEA)

Cost effectiveness ratio (CER)

Department of Environment, Water and Natural Resources (DEWNR)

Department of Planning, Transport and Infrastructure (DPTI)

Department of the Premier and Cabinet (DPC)

Department of Treasury and Finance (DTF)

Full-time equivalent employees (FTE employees)

Government of South Australia (the government)

Guidelines for the evaluation of public sector initiatives (guidelines)

Information communication and technology (ICT)

Internal rate of return (IRR)

Investment peer review committee (IPRC)

Key performance indicators (KPIs)

Multi-criteria analysis (MCA)

Net present cost (NPC)

Net present value (NPV)

Net present value per unit of capital invested (NPVI)

Office of Design and Architecture SA (ODASA)

Office of the Chief Information Officer (OCIO)

Public private partnerships (PPP)

Sustainable Budget Cabinet Committee (SBCC)

Strengths, weaknesses, opportunities and threats analysis (SWOT analysis)

Treasurer's Instruction 17: *Evaluation of and Approvals to Proceed with Public Sector Initiatives*
(Treasurer's Instruction 17)

Part A: Overview

1 Introduction

The Government of South Australia (the government) is committed to the efficient and effective delivery of essential services to the community, while maintaining budgetary discipline that creates the framework for responsible investments in the longer term.

Early and effective planning, prioritisation and coordination of public sector initiatives by a lead agency¹, that is based on clear and shared long-term strategic directions is essential. This is to ensure investments are delivered where and when needed, for a cost that represents 'value for money' (compared to alternative proposals), within budget capacity, and that provides for the sound management of risks.

A comprehensive evaluation of a proposed public sector initiative (proposal) will benefit both lead agencies and the government by:

- developing a common understanding and consistent framework for evaluating proposals on a comparable basis
- facilitating the provision of high quality business cases that support sound and accountable decision making processes
- establishing a basis for undertaking a post-implementation review of a proposal and its outcomes

Part A of the guidelines discusses the purpose and application of these guidelines and provides an overview of the investment evaluation framework, the required outcomes of the investment evaluation process and other government agency roles and support.

Part B of the guidelines details the investment evaluation process and the requirements of a completed investment proposal and business case.

¹ The public authority as defined under Treasurer's Instruction 17. The lead agency is the public authority instigating the proposed public sector initiative.

2 Purpose and application of these guidelines

These guidelines provide the evaluation framework for assessing public sector initiatives pursuant to Treasurer's Instruction 17: *Evaluation of and Approvals to Proceed with Public Sector Initiatives* (Treasurer's Instruction 17).

These guidelines are an update of the previously released 'Guidelines for the evaluation of public sector initiatives' by the Department of Treasury and Finance (DTF).

These guidelines support the application of a comprehensive, consistent and robust investment evaluation process.

The outcome of this evaluation is initially to develop an investment proposal and later a business case, which contains objective, relevant and meaningful information that facilitates sound investment decision making concerning investment proposals within the government.

Treasurer's Instruction 17 specifies that the chief executive of each public authority shall ensure that officers of that public authority evaluate:

- public sector regulatory initiatives in line with the Better Regulation Handbook²
- all other public sector initiatives in accordance with these guidelines.

These guidelines are applicable in evaluating all non-regulatory public sector initiatives including capital and/or operating proposals that require an investment from the government to proceed.

In accordance with Treasurer's Instruction 17, approval to proceed with a proposal can be granted by the lead agency chief executive, minister and/or Cabinet depending on the total estimated cost of the proposal as detailed in Table 1 below.

Table 1: Approval thresholds for proceeding with a proposed public sector initiative

Total estimated cost (plus GST) ^a	Approval required
Less than \$1 100 000 or Chief Executive delegation	Chief Executive
Greater than \$1 100 000 or Chief Executive delegation and less than \$11 000 000	Minister
Equal to or greater than \$11 000 000	Cabinet

^a Note the total estimated cost of the proposal is determined when all stages of implementation are complete, regardless of any funding sources. It is not appropriate to stage or segment proposed investments to avoid compliance with these guideline requirements.

Full compliance with these guidelines is required where a proposal has an estimated cost equal to or more than \$11 million unless otherwise exempt from Treasurer's Instruction 17 approval requirement³.

For proposals with a total estimated cost equal to or less than \$11 million, it is recommended that compliance with these guidelines is achieved to the extent necessary to support the decision

² The *Better Regulation Handbook* can be accessed from the Department of the Premier and Cabinet website at <http://dpc.sa.gov.au/publications#regreform>.

³ Treasurer's Instruction 17 provides exemption to these approval requirements, typically for commercial sector project(s) undertaken by a public corporation provided that the project is included in the corporation's capital plan and that the plan is endorsed as part of the annual performance statement required by section 13 of the *Public Corporations Act*.

making process undertaken by either the lead agency chief executive and/or the relevant minister where applicable⁴.

The outcomes of this investment evaluation process (an investment proposal or business case) should be attached to any recommendation seeking to progress with a proposal.

⁴ Note: it is unlikely that all of the governance requirements as outlined later in these guidelines will be applicable for proposals with a total estimated cost equal to or less than \$11 million.

3 Investment evaluation governance framework

The governance framework encompassing the investment evaluation process as outlined in these guidelines is the government's established 5-step Infrastructure Planning and Delivery Framework.

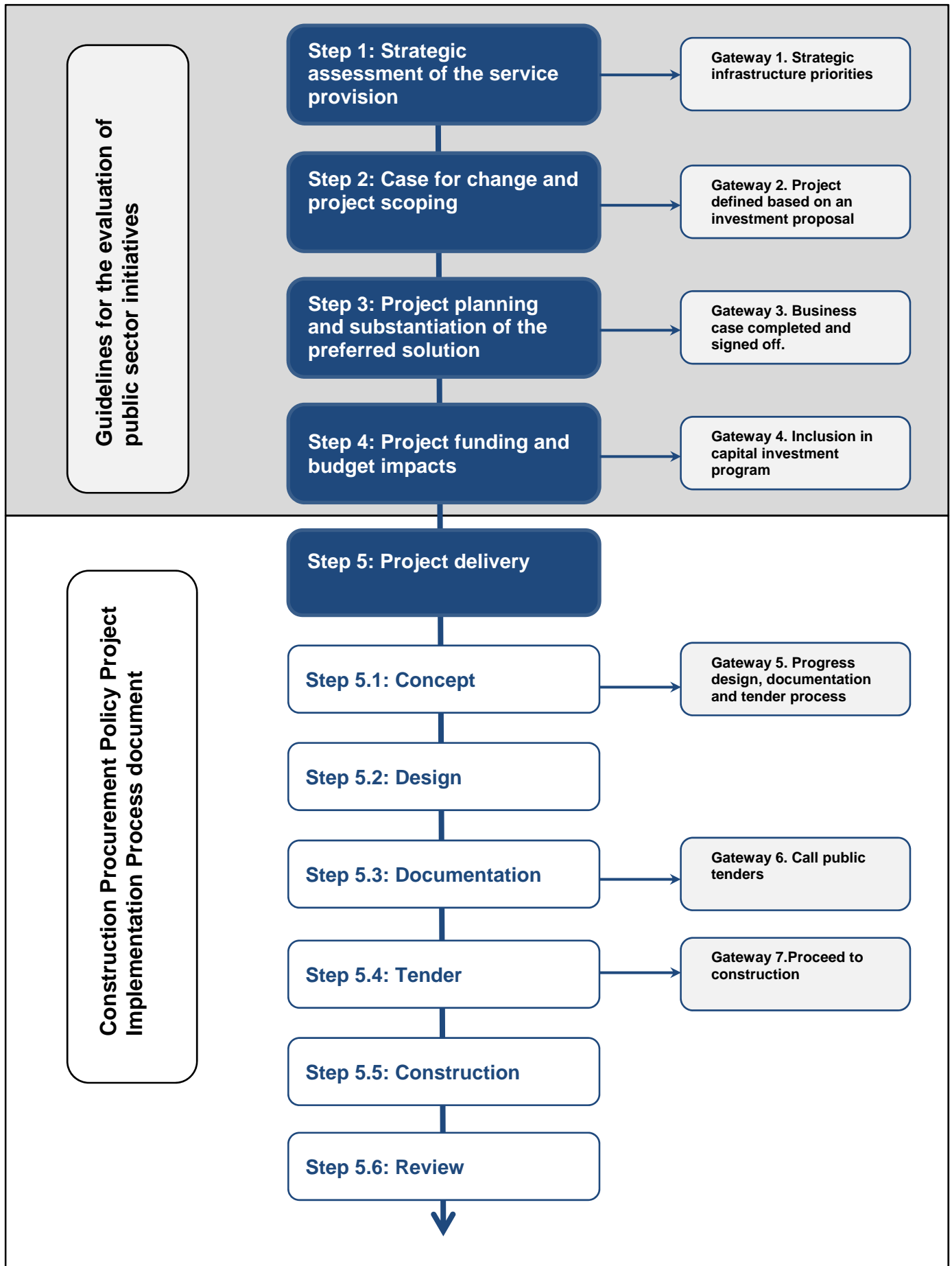
This framework is detailed in the *Construction Procurement Policy Project Implementation Process* document produced by the Department of Planning, Transport and Infrastructure (DPTI)⁵. This framework guides the development and delivery of infrastructure proposals from concept to delivery⁶.

The 5-step Infrastructure Planning and Delivery Framework is outlined on the following page in figure 1.

⁵ The *Construction Procurement Policy Project Implementation Process* document can be accessed at <http://www.infrastructure.sa.gov.au/BuildingManagement/policies>.

⁶ The 5-step Infrastructure Planning and Delivery Framework is mandated for application, with the exception of 'prescribed authorities' as defined in Regulations under the *State Procurement Act 2004*, under the Department of the Premier and Cabinet (DPC) Circular PC028 — Construction Procurement Policy Project Implementation Process for construction projects with a total cost exceeding \$150 000.

Figure 1: 5-step Infrastructure Planning and Delivery Framework



These guidelines specify the requirements for undertaking the investment evaluation process needed for completing the first four steps of the 5-step framework. These guidelines also provide preparation for post-construction and post-implementation review processes under step five.

While this framework was established specifically for infrastructure proposals, the first four steps and the investment evaluation process as outlined in these guidelines are applicable for all non-infrastructure or operating public sector investment proposals.

The framework includes seven 'gateway' approval points as shown in figure 1, which must be adhered to in all prescribed construction projects⁷, and for the purposes of these guidelines, all non-construction projects. This provides assurance that project management disciplines, including the proper development of a business case, are being followed. It also ensures that there is early warning of risks of project failure, in planning or delivery, enabling action to improve project outcomes.

Accordingly, these guidelines require that an initial investment proposal is required to be approved at gateway two for progressing to a business case, and that a business case is required to be approved at gateway three for progressing to obtaining project funding and project delivery. All other 'gateway' approval points as detailed in the framework are outside of the scope of these guidelines.

Obtaining approval through gateways two and three may require lead agency representation before an Infrastructure Peer Review Committee (IPRC) (refer section 6.2) and the Budget Review Cabinet Committee (BRCC) prior to submissions being forwarded to Cabinet.

⁷ Depending on the procurement model, some may be combined approvals.

4 Outcomes — the initial investment proposal and business case

The initial outcome of the investment evaluation process is the completion of an investment proposal. The final outcome of the investment evaluation process is the completion of a business case.

Properly undertaking an investment evaluation process is resource and time intensive; therefore, the decision to proceed in developing a business case should be based on an initial consideration of an investment proposal.

The investment proposal is not an outline business case; rather, it is that part of the business case which focuses on the strategic analysis and case for change. The investment proposal should only include a preliminary analysis of possible options, cost, benefits and timeframes. It **should not** refer to a preferred option or solution for resolving the identified service need problem.

The requirements and purpose of the investment proposal and business case is summarised in table 2.

Table 2: Investment proposal and business case comparison

Requirement	Investment proposal	Business case
When is it required?	When seeking approval to proceed with further analysis of a proposal and the development of a business case.	When seeking approval for resources to proceed with the delivery of a recommended proposal.
Purpose	<p>Provides a detailed and near finished strategic analysis and identification of the service need.</p> <p>Provides a near finished justification that there is a case for change.</p> <p>Provides a preliminary project scoping analysis of possible options, including initial costs, benefits and timeframe estimates.</p> <p>Options short-listed, however no preferred solution identified.</p> <p>Provides sign off of the investment proposal by the lead agency chief executive.</p>	<p>Provides a detailed and finalised strategic analysis and identification of the service need.</p> <p>Provides a finalised justification that there is a case for change.</p> <p>Provides a finalised project scoping analysis including 'most likely' costs, benefits and timeframe estimates, financial and socioeconomic evaluations.</p> <p>Provides a finalised substantiation of the preferred solution.</p> <p>Provides a finalised risk management, implementation management, post-implementation review plans and communication strategy for the preferred solution.</p> <p>Provides a determination of project funding and resource allocation.</p> <p>Provides sign off of the business case by the lead agency chief executive.</p>
Amount of detail and evidence required	Proportionate to the value and/or risk of the project and program.	<p>Proportionate to the value and/or risk of the project and program.</p> <p>Cost, benefits, cash flow and timeframe estimates to be within +/- 10 per cent.</p>

The business case is not a one-off document only designed to gain Cabinet approval to proceed with a proposal. It is a tool to improve service delivery and substantiate the decision to invest in a proposal. The business case also provides a means for assessing post-implementation performance. Accordingly, the business case should be updated as the proposal proceeds through the delivery stages.

A sound business case will provide the investor (the government) with:

- information to make a fully informed decision on the merits of proceeding with a proposal and how funding should be provided
- assurance that the proposal is sufficiently developed and capable of being delivered within the cost and timeframes specified
- an ongoing tool for managing progress and evaluating benefit realisation post-implementation.

A business case should demonstrate that the recommended proposal is the best:

- way to achieve the strategic objectives or priorities of the government
- use of the proposed resources
- way to maintain and/or enhance the required service provision.

The business cases should be written in plain English, with the level of detail appropriate to the scope, depth and risk of the proposal. Technical terminology/jargon should be kept to a minimum and if necessary, supporting information should be provided that facilitates an easy understanding of all contents contained in the business case.

A business case may ultimately conclude that proceeding with a proposal is not justified. This outcome still provides useful information for decision makers, particularly where the government has previously approved the development of a business case based on an investment proposal.

Both an investment proposal and business case when finalised should be treated as 'in confidence' documents within the government.

5 Stakeholder consultation

A proposal may impact on a range of stakeholders both within and external to the lead agency, including users or recipients of the service.

Key stakeholders are those who have a direct interest in the proposal and/or the relevant service provision. Key stakeholders may include users of the service, other government agencies, investors, special interest and community groups.

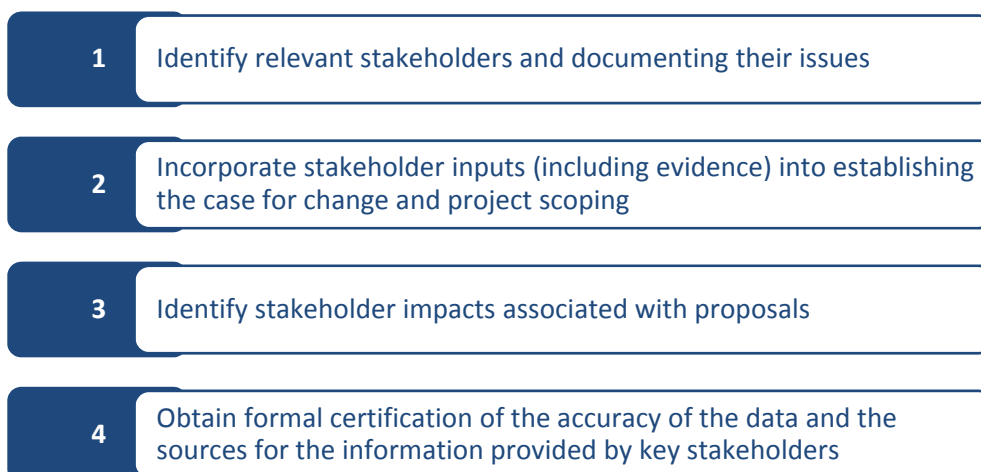
Identifying and consulting with key stakeholders is an integral part of the investment evaluation process. Stakeholder consultation is particularly important where the proposal is likely to have significant impacts on businesses, families, the community and the environment.

A lead agency should consult with key stakeholders early in the investment evaluation process so necessary issues are integrated into each step (where applicable).

Stakeholder consultation, as well as any form of public consultation undertaken during the investment evaluation, should not raise expectations that the government is committed to proceeding with a particular proposal.

A stakeholder consultation process will involve the tasks as outlined in figure 2.

Figure 2: Stakeholder consultation process



The involvement of stakeholders and the extent to which they influenced all aspects of the investment evaluation process should be documented and detailed in the business case.

With respect to major public sector initiative proposals, a targeted public consultation process may be required as part of the options analysis stage of the investment evaluation process (refer Part B, step 2.3). The purpose of a targeted public consultation process is to test the strategic fit with the community and gather feedback on the costs and benefits of alternative options.

Approval to proceed with any public consultation process concerning a major public sector initiative proposal should be obtained from Cabinet. Care should be taken not to create any expectation that the government is committed to an investment in any public sector initiative when undertaking a targeted public consultation process.

6 The Department of Treasury and Finance

The Department of Treasury and Finance (DTF) provides assistance to agencies undertaking an investment evaluation process, including facilitation of an Investment Peer Review Committee (IPRC) in order to assist agencies produce high quality business cases.

In addition, DTF independently assesses and advises the government on submissions seeking to progress with a proposal as part of the normal budget process.

6.1 *General Assistance - compliance*

DTF is available to assist agencies undertake the investment evaluation process. Such assistance will be provided regardless of any view DTF may hold regarding the merits and priority of the proposal. It follows that such assistance should not be interpreted as DTF support for the proposal.

Lead agencies undertaking an investment evaluation process are encouraged to invite DTF involvement in the preliminary planning stages and throughout the process of preparing the business case. The lead agency should contact DTF should such assistance be required.

6.2 *The Investment Peer Review Committee*

The IPRC consists of key agency representatives with extensive experience in the development and implementation of infrastructure and other (including ICT) proposals.

The IPRC will undertake peer reviews of proposals with a total estimated cost equal to or greater than \$11 million at gateway two (based on an investment proposal) and gateway three (prior to completion of a business case).

The purpose of the peer review is to assist agencies in producing high quality business cases that comply with the requirements of these guidelines. In general, this review will include an assessment of:

- the quality of a proposal's planning and analysis, including the extent to which the proposal addresses priority government service need objectives and outputs
- the quality of the evidence-base and methodology employed in demonstrating that there is a service need problem and case for change
- the quality of project planning and substantiation analysis, including the reliability of cost and benefit estimates, and the extent to which robust and objective project selection criterion has influenced the selection of the preferred solution
- the presence of overarching project governance structures and processes to oversee the successful delivery of the proposal, including the management of identified risks
- the evaluation of possible funding methods and budget impacts.

In addition, the IPRC may undertake a deliverability assessment with reference to the outcomes of past project post-implementation review outcomes, risk management (refer Part B, step 3.6) and implementation management plans (refer Part B, step 3.7). An indicative deliverability assessment template that may be used for this purpose is provided in Part B, appendix 2.

The peer review process should occur before the finalisation of the business case and development of a formal submission seeking approval to proceed with a proposal. Lead agencies should utilise any IPRC feedback in order to review, update and finalise a business case before any formal submission is made for consideration by DTF, the SBCC and Cabinet.

The outcomes of the peer review process may also be used by DTF in its independent evaluation of a proposal and consideration of its budget impacts.

Lead agencies are encouraged to engage early with the IPRC (through DTF) when developing a business case for a proposal.

6.3 Independent assessment

DTF is responsible for providing independent advice to the government on public sector initiatives submitted to Cabinet for approval to proceed to project delivery.

The purpose of DTF independent assessment is to test the soundness of assumptions applied and the accuracy and robustness of the analysis.

DTF will advise the government on the relative 'value for money' of the proposal compared to alternative proposals currently under consideration and in the context of existing budget capacity.

When conducting this assessment, DTF may seek independent advice on the financial, scope, schedule, procurement and risk assessment elements of the proposal as outlined in the business case.

6.4 Contacts

The appropriate contacts within DTF regarding general assistance and/or peer review processes are as follows:

Ms Anne Alford

Director, Account Management

Phone 8226 1374

Email: anne.alford@sa.gov.au

Mr Adam Lawrence

Manager, Account Management

Phone: 8226 2411

Email: adam.lawrence@sa.gov.au

7 Other government agency roles and support

The lead agency should consult with any other government agency or body that is affected by the particular issue or by a possible solution. It should also seek to identify any other government agency or body that may have a similar business need or problem with a view to establishing support in undertaking the investment evaluation process.

In addition to consulting with DTF, the lead agency should consult with the following agencies where required.

7.1 *The Department of Planning, Transport and Infrastructure*

DPTI is the government lead agency responsible for providing an assurance comment on the time and cost estimates of construction projects. The business case requires assurance that the cost, cash flow and timeframe estimates are within +/- 10 per cent. This assurance comment should be included in the business case for all building and infrastructure proposals.

DPTI is required under the DPC Circular PC028 — Construction Procurement Policy Project Implementation Process to provide project, risk and procurement management services to agencies for all infrastructure projects of a cost exceeding \$150 000 (exclusive of GST). This requirement is to ensure that the project implementation process and all relevant policies and guidelines for construction procurement are followed.

The lead agency should seek advice from DPTI regarding the scope, estimated costing and timeframes of an infrastructure proposal.

Lead agencies are encouraged to invite DPTI involvement in preliminary planning stages and throughout the process of preparing the business case for infrastructure proposals.

7.2 *The Office of the Industry Advocate*

Procurement is an important driver of economic activity, investment, employment, and innovation in the State's economy. Encouraging and facilitating local participation in government contracting is critical to ensuring that these objectives are fully realised and their benefits to the State maximised.

Recognising its central role as a key purchaser of services with a capacity to grow and expand industry capability as well as drive significant innovation, the government launched the South Australian Industry Participation Policy (IPP) in July 2012. The aim of the IPP is to ensure that capable local firms are given a full, fair and reasonable opportunity to tender and compete for government procurement contracts and participate in significant public and private sector projects. This initiative was further enhanced and strengthened in February 2013 with the creation of a dedicated Office of the Industry Advocate (OIA), led by an Industry Participation Advocate (IPA). Responsibility for administering the IPP lies with the IPA.

It is very important that local business participation is actively considered in the development of investment proposals and procuring agencies should consult with the OIA to ensure that they comply with the IPP (<http://www.dpc.sa.gov.au/office-industry-advocate>) and related DPC Circular 033 Industry Participation Policy (<http://dpc.sa.gov.au/premier-and-cabinet-circulars>) so that all applicable public sector initiatives provide sufficient opportunity for local industry involvement.

Some key agency obligations set out in the IPP include:

1. To improve opportunities for locally based businesses in winning Government contracts.
2. Contacting the OIA for contracts above \$220 000 to seek assistance for supplier listings.
3. Including the OIA in initial planning discussions for any contracts above \$4 million in metropolitan Adelaide or \$1 million in regional South Australia.

4. Considering if there is a locally or regionally based company that can supply the required sourcing needs, and confirm if they can use local suppliers.
5. Seeking at least 1 quote from a locally based business if the proposed spend is between \$22 000 and \$220 000 and 3 quotes are being sought.
6. Including Industry Participation Plan templates for all tender packs above \$4 million in metropolitan Adelaide and \$1 million in regional South Australia.

Further information regarding the IPP, its implementation and application can be obtained by telephoning the OIA on (08) 8226 8956.

7.3 The Office of the Chief Information Officer

The Office of the Chief Information Officer (OCIO) provides advice to senior management, Cabinet and ministers on the use of ICT across the government.

OCIO assesses information communication and technology (ICT) proposals as to their alignment with government priorities, their value and risk and to ensure proposals are compliant with the government's ICT governance framework⁸. This framework provides the structures and requirements for governing the planning, development and use of ICT within public authorities.

OCIO can assist agencies identify new or preferred ICT solutions or common approaches in the development of a proposal involving ICT with a view to maximising the benefit (from an ICT investment perspective) to the government as a whole.

Lead agencies are required to obtain OCIO support of a proposal that includes a material ICT component. This support should be documented in the business case.

Lead agencies are encouraged to invite OCIO involvement in preliminary planning stages and throughout the process of preparing the business case for a proposal involving ICT.

⁸ Information regarding the government's information and communication technology governance framework is available online at <<http://www.sa.gov.au/government/entity/1670/About+us+-+Office+of+the+Chief+Information+Officer/Doing+business+with+us/ICT+governance/ICT+Governance+Framework>>

7.4 Other

The following government agencies and bodies may be useful in developing a proposal:

- The Crown Solicitor within the Attorney General's Department provides advice on commercial and legal matters, and assists with contract negotiation and development. The Crown Solicitor ensures the adequacy of proposed contractual arrangements, as well as the integrity of procedures and the methods.
- The Department of Environment, Water and Natural Resources (DEWNR) manages Crown land in all areas of the state. DEWNR is responsible for environment policy development, land use decision making and the delivery of the government's environment and natural resource management agenda across the state.
- The Department of State Development is the government's key agency for industry development policy.
- The Office of Design and Architecture SA (ODASA) within DPTI provides strategic advice to the government and leadership about design processes, architecture and urban design.
- Renewal SA is responsible for managing and developing South Australia's portfolio of land assets. As a public entity with a commercial focus, Renewal SA manages the development of residential and industrial land, commercial property and major urban projects. It manages the purchase and disposal of real property on behalf of agencies.
- The government's Office Accommodation Committee, administered by DPTI, has responsibility for the development and implementation of policies for the management of government office accommodation.

8 Other references

These guidelines should be read in conjunction with other guidelines, instructions and reports, including:

- DPC Circular 015 — Procedures for submissions to government seeking the review of public works by the Public Works Committee
- DPC Circular 024 — Integration of South Australia's Strategic Plan into Government Agency Planning Processes
- DPC Circular 028 — Construction Procurement Policy Project Implementation Process
- DPC Circular 114 — Government Real Property Management.

DPC Circulars can be accessed online at <http://www.dpc.sa.gov.au/premier-and-cabinet-circulars>.