

MAJOR PROJECTS GUIDANCE FOR LOCAL GOVERNMENT

Overview

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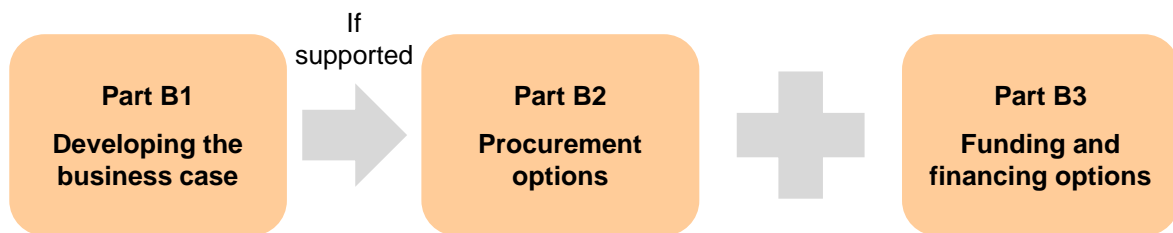
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About Part B

Part B guides the project team through the process of developing a full business case for the project. The primary role of the business case is to enable the Council to clearly understand the direct benefits that may be achieved by the project, and how the project can be procured.

Part B is divided into 3 sections as illustrated in Figure 1.

Figure 1: Structure of Part B



In Part B1, *Developing the business case*, the project team builds on the strategic business case prepared during the strategic assessment of the project (see Part A, *Strategic assessment*) to develop a detailed business case. This involves a more detailed analysis of whether the Council should invest in the project and explores the options for delivering the project.

This is a staged process. The project team should first undertake the work required to determine whether investment in the project is supportable, before proceeding to examine the procurement options and the funding/financing options described in the other sections of Part B.

Part B2, *Procurement options*, sets out a range of delivery models relevant to local government, and Part B3, *Funding and financing options*, looks at a range of funding and financing options available to local government for infrastructure projects.

The business case presented to the Council should generally comprise the business case report, including (or incorporating) the proposed funding strategy and procurement strategy documents. Once completed, the business case report becomes the core document that establishes the need for the project and for developing the project plan.

Key objectives of the business case stage

The key objective of the business case stage is to develop a detailed business case and determine whether investment in the project is supportable. Where the business case supports the project, the following elements should be developed:

- commercial principles
- a procurement strategy
- a funding strategy

At the end of the business case stage, the project team – having completed the tasks set out in Part B – will be in a position to seek the Council’s approval for the:

- full development of the project (see Part C, *Project development*)

- proposed funding strategy for the project
- proposed procurement strategy for the project
- appointment of external advisers, where required, for the project development stage
- expenditure of Council funds, within a budget allocation, for the purposes of project development
- delegation of authority to members of the project team for the project development stage.

Key documents in the business case stage

During the business case stage, the project team will prepare the following key documents:

Business case: A detailed report that establishes the case for the Council investing in the project (or not) and proposes project options.

Communication strategy: An outline of the key project stakeholders, the critical path and procedures for engagement with project stakeholders and the responsibilities and resources required for stakeholder consultation (see section 7.2, *Communication strategy*).

Economic appraisal (or Economic impact assessment): A detailed economic evaluation including a cost benefit analysis (see section 9.4, *Socio-economic analysis*).

Procurement strategy: A proposed procurement strategy for the project contained in the business case or a separate document referenced in the business case (see Section 11, *Procurement strategy*).

Governance plan – business case: A detailed plan of the roles and responsibilities of the project team for developing the full business case (see section 2.2, *Governance and probity*).

Governance plan – project development: A high level overview of the roles and responsibilities of the proposed project team for the next stage of the project – project development (see section 13.2, *Governance for project development*).

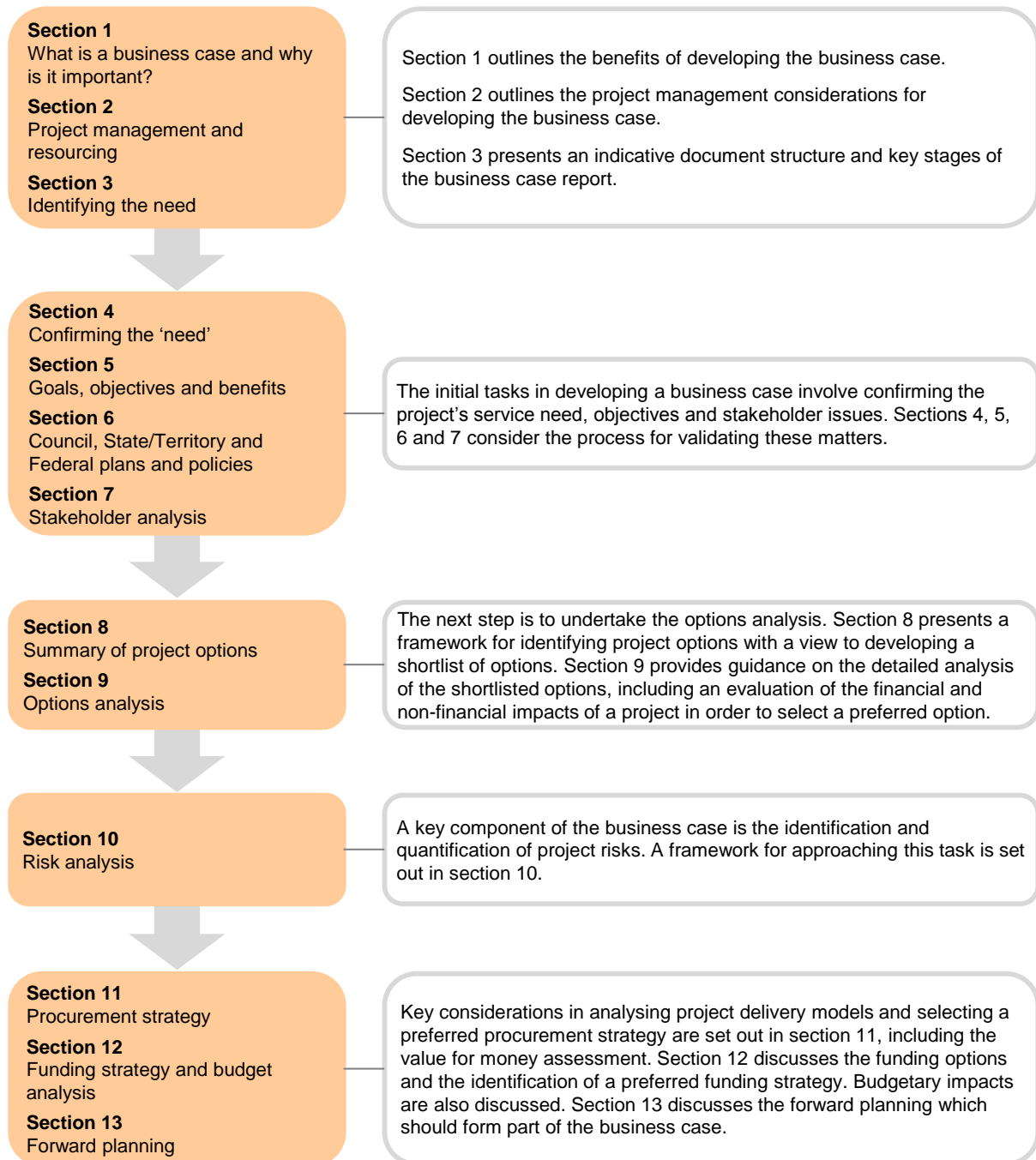
Project plan: A high level implementation plan for the project (see section 13.1, *Project plan and timetable*).

Report to the Council: A report seeking the Council's formal approval to proceed to the next stage of the project, supported by the documentation listed below.

Resource plan: An outline of the resources required for the project development stage including Council staff, external resources and budget allocation (see section 13.3, *Key resource requirements for delivery*).

Overview of Part B1 – Developing the business case

Figure 2: Overview of Part B1 – Developing the business case



1. What is a business case and why is it important?

1.1 What is a business case?

The detailed business case is a report developed by the project team to analyse the proposed project. It is a further development of the strategic business case prepared as part of the strategic assessment stage (see Part A, *Strategic assessment*).

The business case should provide the necessary information to the Council and project stakeholders (including potential financiers) to support a fully informed investment decision to proceed, or not to proceed, with a project.

A well-developed business case:

- presents the strategic rationale supporting a proposed investment – identifying the service need or rationale and how the project meets that need
- sets out the options for delivering the project, making a comprehensive and robust argument for the preferred option, demonstrating how that option is the best way forward
- analyses the costs, benefits and risks of the investment
- demonstrates that the project is affordable and represents a value for money investment for the Council
- identifies the preferred project funding/financing strategy
- specifies the preferred procurement strategy
- outlines the key project milestones and governance model for managing the further development of the project.

The business case needs to be a realistic assessment of what is possible, and must be properly supported by evidence and rigorous analysis.¹ To achieve this, the project team needs to apply a disciplined approach to collecting relevant information, analysing the proposal (including identifying the source and basis of the assumptions used), and developing acquisition and risk management plans.

1.2 What is the purpose of the business case?

The 'output' of the business case stage is a document which informs the Council's decision to proceed, or not proceed, with a project. However, its fundamental value lies in the process of interrogating and communicating the range of benefits, costs and risks attributable to the project so that decisions are made on the basis of such understanding.

A well-developed business case is critical to the efficient and successful delivery of a project. It has four key purposes:

- Firstly, the business case provides an opportunity for the project team to assess whether the proposed project is viable and on what basis to propose the project to the Council.

¹ *Rethinking Service Delivery, Volume Two, From Vision to Outline Business Case*, Office of the Deputy Prime Minister, Strategic Partnering Taskforce, United Kingdom, p 52.

- Secondly, the business case provides a detailed and well-supported case for investment in the project by the Council.
- Thirdly, a quality business case is a useful tool in dealing with key project stakeholders. For example:
 - where government approval and/or funding is required
 - how to attract project financiers
 - how to generate market confidence in the project and increase competition in the tendering process.
- Finally, once developed, the business case is a project management tool that provides a comprehensive framework to assist the Council in effectively managing the project throughout its life cycle, ranging from decisions about the strategic value of the project through to procurement and implementation. The business case underlines the importance of careful planning, ensuring that resources are only released for investment where the cost-benefit analysis is robust and can be properly accounted for.

1.3 Outcomes

Before commencing the development of the business case, it is important to understand the likely outcomes from the process. A key consideration is the purpose for which the business case will be used. In general, the business case (or sections of it) will be used for the purposes described below.

Approval by the Council

For any local government project, the primary objective of the business case is to recommend a course of action to the Council based on the evidence and analysis it contains. The main recommendations arising from the business case are likely to be to:

- **abandon the project:** for example, if the project is not affordable, is unacceptable to key stakeholders or carries risks which are unacceptable to the Council
- **proceed to the project development stage:** within a broad set of parameters approved by the Council including an approved budget allocation²
- **modify the project:** this may require further analysis and the development of a modified business case, or it may mean proceeding with a part of the proposed project or proceeding in stages (where progression to the next stage is subject to further analysis).

Government approval or funding

It is also important to consider whether the project requires State, Territory or Federal Government endorsement and/or funding. If so, the relevant requirements, government policies and procedures for such approval or funding need to be addressed as part of the business case process.

External financiers

Where the project is, or may be, dependent on external financing, the likely requirements of the financiers should be addressed in the business case.

² Rethinking Service Delivery, Volume Two, n1 p 24.

Stakeholder engagement

Parts of the business case may be used to drive the stakeholder engagement process, both during the business case stage (as the business case is developed) and in subsequent stages of the project.

Project management

The business case will form the foundation of future project planning in subsequent stages of the project.

2. Project management and resourcing

2.1 What to consider at the business case stage

At the business case stage the project management tasks are focused on the development of the business case report and some high level forward planning for the project development stage. (The forward planning aspects are discussed in section 13, *Forward planning*.)

In most cases the Council will have approved the development of the project only in relation to the development of a business case. Care needs to be taken to ensure resources are focused on what is necessary to achieve those objectives and not more detailed project development tasks, which are only necessary if the project proceeds to the next stage. It is important to note that an investment in project management is not an extra task in the procurement process. It is critical to the smooth planning and successful delivery of a project. As such, an appropriate level of resources needs to be invested by the Council to project management aspects of the business case.

2.2 Governance and probity

The high level governance plan developed at the strategic assessment stage (see section 6.4 of Part A, *Governance plan*) included the key governance roles and reporting lines, requirements for written reports, regularity of management meetings, delegations sought and an overview of the probity framework. This now needs to be reviewed and further developed in so far as it relates to the implementation of the business case activities, and may include:

- re-assessing the plan to ensure it reflects any relevant changes in circumstance (especially if there has been a lapse in time since the preparation of the plan), and any requirements of the Council or conditions of Council approval relating to governance aspects of the project
- adding further detail to enable implementation, especially where the plan developed for the strategic assessment stage was very high level
- updating the delegations register to reflect any delegations granted by the Council when approving the project for the purposes of proceeding to the business case stage.

The governance plan developed at the strategic business case included an overview of the probity framework for the project. The project director should now consider whether a probity plan should be prepared and a probity adviser and/or auditor appointed at this stage of the project. This will depend on the nature of the project and to some extent the market conditions and political sensitivity of the project. Generally, this will occur in the project development stage. However, there may be circumstances that warrant undertaking these activities in the business case stage. For an overview of probity considerations refer to section 2.10 of Part C, *Probity*.

2.3 Allocating resources

The high level resources plan prepared at the strategic assessment stage included the allocation of Council staff to management roles and the project team, an outline of consultants to be appointed for the business case stage, and a high level budget for the delivery of the business case report. As with the governance plan, this also needs to be reviewed and further developed for the implementation of business case activities. This may include:

- updating the plan to reflect changed circumstances (for example, where staff allocated to certain roles are no longer employed by the Council or have moved to another role)
- revising the plan to reflect changes to the governance plan (discussed above) including requirements imposed by the Council and delegations granted
- outlining the work streams to be established for the business case stage and the allocation of resources to those work streams, which may include:
 - stakeholder engagement and public relations/communications
 - base case and options analysis
 - risk analysis
 - procurement strategy
 - value for money assessment
 - market sounding
 - funding strategy
 - budget analysis
 - forward planning for the project development stage
- detailing the budget breakdown based on the budget allocated by the Council for the purposes of preparing the business case
- assessing the proposed appointment of advisers and consultants and determining whether the appointments should be for the provision of specialist advice on specific areas of the project or to supplement the in-house resources allocated to the project (where in-house expertise is not available).

2.4 Advisers and consultants

While many of the tasks to be undertaken at the business case stage can be performed in-house, it is likely that, for a major project, the Council may need to engage specialist external advisers and consultants to prepare the business case. The specific requirements will differ depending on the resources available to the Council in-house and the scale and complexity of the project.

Typically, in developing the business case, the following expertise will be required:

- commercial/financial adviser
- economic adviser
- master planning, engineering, architectural and/or cost consultants

- subject matter experts depending on the project (e.g. transport, urban planning or water sector experts).

Further guidance on appointing advisers is presented in section 2.7 of Part C, *Resourcing plan – the project team*.

2.5 Programming

While a full project plan is not necessary at this stage, a detailed program for the implementation of business case activities should be developed at the outset. As a minimum, this should include:

- the proposed date for delivering the business case report to the Council, having regard to scheduled Council meetings
- the key milestones in the preparation of the business case and dates for commencing and completing those tasks
- a clear indication of critical path activities in the development of the business case information needs and the interdependence of activities on the critical path.

A well-documented program that is clearly communicated to project team members, and which is regularly monitored and updated as required, is a powerful tool in managing the resources allocated to the project and in keeping the project team (including external advisers) focused on the key tasks to be performed.

2.6 Processes and protocols

There are a number of project specific processes or protocols that may assist in establishing good project planning and, help the Council to achieve accountable and transparent processes. These should be established at the outset of the business case stage and communicated to the project team and external advisers. Outlined below are some of the processes or protocols, which may be relevant at the business case stage.

Delegations register

All elements of delegations that are specific to the project should be noted in a delegations register, including the delegate name or title and a description of the delegation and the limits that apply including any time restrictions.

Gifts and hospitality register

The Council's existing policies regarding gifts and hospitality will apply to the project. A project specific policy is not usually necessary. However, it may be useful to create a separate project specific gifts and hospitality register, even where one exists more generally for the Council.

Conflicts of interest register

Similar to gifts and hospitality, the Council's existing conflicts of interest policies will apply to the project and a separate policy is not usually required. However, a project specific conflicts of interest register should be established.

Compliance program

The compliance management system is developed to ensure compliance with relevant legislation and other instruments. This is an important risk management tool that will inform project programming.

The compliance management system should include (in broad terms) relevant legislation, regulations and State, Territory or Federal Government policies, as well as Council policies, procedures and operations in relation to the project. It should include a brief description of the relevance of the provision or policy to the project and, an indication of when, during the project life cycle, the issue needs to be considered. The system need not cover every aspect of the project, however it should form a basic checklist of the key legislative provisions, regulations and/or policies. (As a starting point, see Annexure 2, *Sources of power for local government* for a summary of local government sources of power in relation to infrastructure projects).

This may only need to be developed in outline form during the business case stage of the project.

Confidentiality policy

Balanced against the need for accountability and transparency in public procurement is the need to protect confidential information. Even at this early stage, the protection of commercially sensitive and otherwise confidential information needs to be considered and a policy developed for the project. The specific requirements of the policy must be developed in line with legislative requirements (including freedom of information legislation) and the relevant policies of the Council, in accordance with the nature and scale of the project. It does not need to detail the policy as it applies to the tendering process as that may developed at the project development stage if the project proceeds to that point.

An important consideration at the business case stage is the confidentiality obligations to be imposed on external advisers. The policy should specify a consistent approach for use in professional services agreements and should specify whether advisers are required to execute confidentiality deeds as a condition of their appointment.

Complaints procedure

It is likely that the Council's general complaints procedure will be sufficient for the purposes of the business case stage. As such, a project specific procedure will usually not be required.

Document control and information management protocols

The purpose of a document and information management process is to establish protocols around the collection, storage and availability of documents and information in relation to the project, and to further ensure that members of the project team are aware of freedom of information, confidentiality and security issues. The protocol should outline how certain documents and information should be handled, and detail employee or external adviser access.

The types of documents and information the project team may be responsible for handling, and which might be covered by the document and information protocol over the life of the project, include the following:

- project specific policies, procedures, protocols and plans
- contracts and associated documents such as security documents, guarantees etc
- gifts and hospitality register
- conflicts of interest register
- insurance policies

- regulatory approvals
- land title documents
- Council reports and approvals
- reports, advice and other correspondence
- confidential commercial or technological information
- project plans, drawings and specifications
- instruments of delegation
- minutes of project team and other meetings.

3. Structure of a business case

3.1 Report structure

Table 1 outlines the general structure of a business case report. It also summarises the steps involved in developing a business case and the type of content that may be included of each section.

The specific structure of the business case will be shaped by a range of contextual factors, including the problems and issues that are being addressed, the importance assigned to the project as well as policies of the Council (and, where relevant, State, Territory or Federal Government) that are significant to the project.

Table 1: Structure of a business case		
Section	Relevant steps	Content
Executive summary	Develop from the content of the detailed business case – final step in the process	Summarise the key findings of the business case and provide the recommended course of action for executive review and approval (see section 1.3, <i>Outcomes</i>)
Project service need	Confirm/review service need as defined in the strategic business case	Describe the project drivers, evidence supporting the need for the project and the logical actions required to address the project need (see section 4, <i>Confirming the 'need'</i>)
Project goals and objectives	Confirm/review project goals and objectives as defined in the strategic business case	Define the project goals and objectives (see section 5, <i>Goals, objectives and benefits</i>)

Table 1: Structure of a business case		
Section	Relevant steps	Content
Project benefits	Confirm/review the anticipated project benefits as defined in the strategic business case	Describe the anticipated project benefits, when these will be realised and how the project will contribute to the Council's business or policy outcomes Outline any interdependencies with other projects or programs of the Council and/or stakeholders (see section 5, <i>Goals, objectives and benefits</i>)
Alignment with government policy	Define relevant government policies and strategies	Assess the degree to which each policy and strategy is aligned with the project to indicate the extent to which a project is consistent with government objectives (see section 6, <i>Existing plans and policies</i>)
Stakeholder identification and consultation	Consult stakeholders and establish stakeholder management strategy	Identify the key stakeholders, stakeholder issues, key actions to address issues, and an outline of the plan for further stakeholder engagement/management (see section 7, <i>Stakeholder analysis</i>)
Summary of project options	Identify and short-list project options	Describe the key project options identified to address the project objectives including those options identified and rejected (see section 8, <i>Summary of project options</i>)
Critical assumptions and constraints	Determine the critical assumptions and constraints (further developed from the strategic business case)	Detail the key assumptions and constraints that shape the scope of the project Discuss the consideration of the strength of the assumptions and constraints (see section 8.9, <i>Critical assumptions and constraints</i>)
Financial evaluation of options	Analyse short-listed options for financial impacts	Analyse the direct financial impacts of the project on the Council (see section 9.3, <i>Financial evaluation of options</i>)
Socio-economic analysis	Analyse short-listed options for non-financial impacts	Assess the non-financial impacts of the project from the perspective of the broader community, including economic, social and environmental analysis (see section 9.4, <i>Socio-economic analysis</i>)
Risk analysis	Undertake a risk assessment of the options (further developed from the strategic business case)	Evaluate key project risks, mitigation strategies, high level risk allocation and the quantified impact of those risks (see section 10, <i>Risk analysis</i>)
Project option recommendation	Recommend a preferred project option	Present the preferred project option based on analysis presented in preceding sections of the business case (see section 9, <i>Options analysis</i>)

Table 1: Structure of a business case

Section	Relevant steps	Content
Procurement strategy	Identify a preferred procurement strategy	Describe the preferred procurement strategy for the project and the basis for its selection (see section 11, <i>Procurement strategy</i>)
Budget analysis and funding strategy	Identify the budgetary impact and preferred funding/financing strategy	Present the budgetary impact of the project to the Council and the proposed funding strategy. Present recommendations on financing that may be required and the preferred options (see section 12, <i>Budget analysis and funding strategy</i>)
Forward planning	Develop the implementation plan for the next stage of the project	Demonstrate project readiness by presenting the planning implementation timetable, project resources required, governance arrangements and other planning needs such as change management strategies (see section 13, <i>Forward planning</i>)

3.2 Use of case studies and research

To articulate certain aspects of the business case, it may be useful to include information from relevant case studies or research, for example:

- the performance of a similar project in the local area or broader region
- specific research and analysis of a target market or emerging community issue
- findings of joint studies between the Council, industry, community groups and/or State, Territory or Federal Governments
- research to demonstrate what may happen in the event the existing arrangements continue.

When used appropriately, the inclusion of case study materials and/or specific research and analysis can add significant weight to the priority or extent of an issue to be addressed by the project.

3.3 Building on the strategic business case

Part A, *Strategic assessment*, establishes the initial process and framework for identifying the project need and investment logic, and documenting the strategic business case for the project.

The strategic business case provides the starting point for many sections of the detailed business case outlined in this section 3, *Structure of a business case*. Where this occurs, the project team should review the corresponding section of the strategic business case, confirm the content, and further develop the material or review it in light of the work undertaken during the business case stage. Where the business case materially departs from the strategic business case, this should be clearly noted in the business case report.

The remaining sections of Part B1 discuss the key steps to be followed in developing the business case in line with the structure outlined in Table 1.

4. Confirming the 'need'

This section of the business case report should encompass the initial assessment of the 'need' as documented in the strategic business case, revised or updated as appropriate. It should also include the Investment Logic Map (ILM), Investment Concept Brief (ICB) and Benefits Management Plan (BMP) if prepared during the strategic assessment stage (see section 4 of Part A, *Validating the project*).

At the business case stage, the first task for the project team should be focused on reconfirming the Council's needs and project priorities as identified during the strategic business case. This review process is necessary to ensure that the current project environment is taken into account in assessing the business need and priorities, particularly where there has been a period of inactivity between the strategic assessment (or approval of the strategic business case by the Council) and the business case stage. It is important to confirm that the project drivers are not materially impacted by any changes in the economic environment, the Council's policy commitments, stakeholder priorities and other factors.

5. Goals, objectives and benefits

5.1 Project goals

As discussed in section 5.3 of Part A, *Project goals*, project goals are high level statements that articulate what the project is trying to achieve.

The project team should review the project goals to ensure they remain relevant in the current environment (and revise if necessary). This section of the business case should outline the confirmed or revised goals for the project.

5.2 Objectives

Project objectives are the results the Council seeks to achieve for the project. Project objectives are low level statements that describe the specific, tangible deliverables (that is, a service and/or asset) that the project will deliver. Guidance on developing project objectives is set out in section 5.4 of Part A, *Project objectives and critical success factors*.

The project objectives and critical success factors included in the strategic business case now need to be reviewed by the project team and considered in light of any changes in circumstance, particularly where there has been a significant lapse in time since the Council approved the strategic business case or where the Council's strategic plan or other relevant plans have changed since the strategic business case was developed. The objectives and associated critical success factors should be confirmed or revised as appropriate in the business case report.

The project objectives and critical success factors included in the strategic business case may be relatively high level. These need to be explored further and expanded in some detail in the business case. Where Key Performance Indicators (KPIs) were not developed for each critical success factor in the strategic business case, they should be developed and documented in the business case report.

5.3 Benefits

Project benefits represent the value that the investment will provide to the Council or the regional community and are normally a positive consequence of responding to the identified need. Project benefits are described in more detail in section 5.5 of Part A, *Project benefits*. Each claimed benefit must be supported by KPIs that demonstrate the specific contribution to the identified benefit.

The high level project benefits described in the strategic business case should be examined and confirmed or revised as appropriate. The project team can then use this material as a basis for preparing a more detailed analysis of the extent to which the benefits are likely to be achieved. The benefits defined in this section of the business case report form the basis of the analysis of the financial, economic, social and environmental impacts of the project. This is discussed in section 9, *Options analysis*.

While some initial work needs to be undertaken analysing project benefits early in the business case process, the proposed project benefits cannot be finally documented until the options analysis has been undertaken and a preferred option selected. Therefore, the project team will need to revisit this section of the business case report after the preferred option has been selected.

6. Existing plans and policies

Having undertaken the strategic assessment process outlined in Part A, *Strategic assessment*, the project team will have identified the issues covered by the project within a broader context, and determined the extent to which the project is aligned with the Council's strategic plan and other Council plans. Where relevant, State, Territory and Federal Government strategic plans and policy objectives may also have been identified (see section 3 of Part A, *Identifying the need*).

The project team should review this information in light of the identified need for the project to ensure it is still valid. If the work within the strategic assessment process was undertaken some time ago, the project team may also be required to review its validity to ensure that it remains aligned to current policies and strategies, constraints, etc.

7. Stakeholder analysis

7.1 An ongoing process

Stakeholder analysis is an ongoing process supporting the development of a major project. At the business case stage, the stakeholder analysis is focused on describing:

- the nature and extent of potential impacts of the project on different stakeholders
- the stakeholder benefits
- the potential synergies between the project and stakeholder requirements.

Building on the process initiated during the strategic assessment stage, the stakeholder engagement process (during the business case stage) should aim to review and clarify stakeholder concerns and the strength of stakeholder support for the project.

It is essential to allow enough time and resources to consult effectively with stakeholders during the business case stage.

7.2 Communication strategy

The project team may wish to develop a communication strategy outlining the critical path for engaging with project stakeholders and the resources available for stakeholder consultation. One of the key benefits of having a communication strategy is the formation of agreed messages to underpin stakeholder consultations relating to the project. This ensures clarity and consistency in project communications.

Building upon the preliminary stakeholder consultations undertaken to support the preparation of the strategic business case, the communication strategy may include the following elements:

- objectives – these may differ between stakeholder groups
- identification of stakeholders
- method of consultation and the priority order of consultations
- need for a formal stakeholder management structure to provide guidance to the project team (for example a Stakeholder Reference Group)
- key messages to stakeholders as part of consultation – may be different for different groups
- reporting requirements and planning framework for resolution of identified issues.

In certain cases, it may be appropriate to engage the advice of public relations organisations, independent facilitators or community relations officers to facilitate the development and implementation of the stakeholder engagement strategy.

7.3 Identification and prioritisation of stakeholders

Section 3.6 of Part A, *Stakeholders*, outlines the considerations for identifying stakeholders in the project.

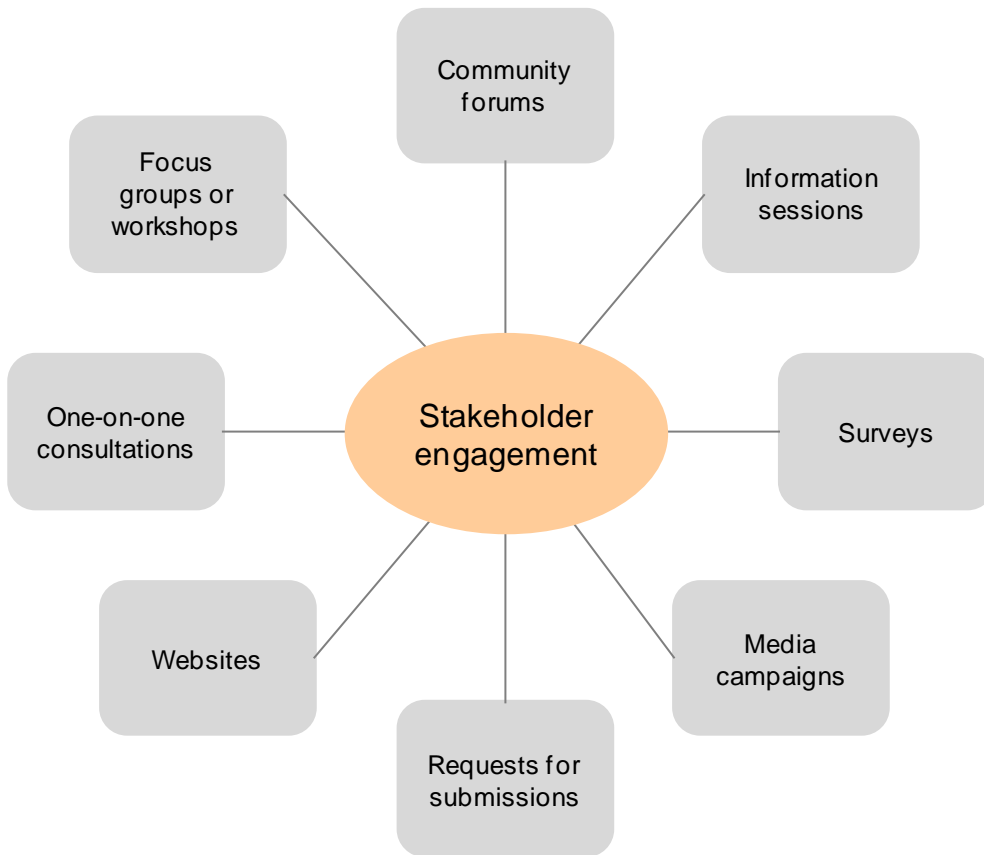
The list of stakeholders in the strategic business case should form the starting point for identifying stakeholders and further consideration of stakeholder issues. The project team should confirm the potential stakeholders in the project.

It is unlikely that the Council will have enough time to consult each and every stakeholder and therefore it will be necessary to prioritise those that are the most important and are greatly impacted upon by the project. This will enable the creation of a manageable and meaningful list of stakeholders to consult.

7.4 Method of consultation

There is a range of methods that can be used for engaging stakeholders, including those represented in Figure 3.

Figure 3: Stakeholder engagement



Selection of the most appropriate approach for stakeholder engagement depends on a number of considerations. In addition, the project team may wish to consult stakeholders using more than one method. The following questions may assist in determining the best method of engagement with a particular stakeholder:

- What financial or emotional interest does the stakeholder have in the outcome of the work? For example, where the issues relate to commercially sensitive information, one-on-one consultations will be more effective.
- How has the Council consulted with the stakeholder in the past? Was the method used effective?
- Are there any existing structures in place which provide a forum for consultation on the project?
- What information does the stakeholder expect from the Council and what is the best way of communicating it to them?

It is important to remain open to feedback as stakeholders can play an important role in testing broad options and proposals that will affect the overall project. Consistent evaluation is key to ensuring the feedback being obtained is useful, and that the targeted stakeholders are representative of the key stakeholder groups.

At all stages, it is important to manage expectations so stakeholders understand that although their ideas and opinions will be taken into account, it may not be possible to address them all.

7.5 Documenting stakeholder analysis

The business case report should present the following information arising from the stakeholder analysis:

- the process already undertaken (including at the strategic assessment stage) to identify and engage with stakeholders to clarify their needs and responses to the project
- a stakeholder map and/or segmentation to outline:
 - the specific groups of stakeholders – including those directly impacted by the project, those internal or external to the Council, those with project influence, or those who may experience wider project implications (refer to examples of stakeholder groups noted in section 3.6 of Part A, *Stakeholders*)
 - the nature of issues, impacts or interests for different stakeholders, including the critical success factors for the project from the perspective of each of the key stakeholders
 - the specific consultation actions relating to each stakeholder
 - the level of support or concern requiring further management
- consideration of how certain stakeholder issues or views have contributed to the shaping of the project, including how the project should be/has been reconfigured, in appropriate circumstances, to address stakeholder concerns
- the communication strategy for the business case stage – and potentially the communication strategy to be established and implemented going forward during the project development stage – to deliver a responsive approach to engaging with stakeholders and resolution of their issues.

8. Summary of project options

8.1 Why should options be identified?

A critical step in developing the business case involves identifying the options for delivering the project objectives, with a view to developing a short list of options for more rigorous analysis. This section provides guidance on that process.

Why is this process important? The Council can only be confident that the option ultimately recommended in the business case is the best way forward if:

- all feasible options for delivering the project are identified
- those options are systematically analysed to identify the one that best meets the Council's needs at optimum cost.³ Furthermore, the work undertaken in identifying the project options will define the key characteristics of the project, which in turn will inform the detailed analysis undertaken in the further development of the business case (including financial, economic, social, environmental, risk and procurement).

An outline of the process for the initial assessment of options is illustrated in Figure 4 (in section 9, *Options analysis*).

³ *Rethinking Service Delivery, Volume Two*, n1 p 65.

8.2 What to include in the business case

The strategic business case included a high level outline of the project options. This needs to be further developed for the business case report.

In the 'summary project options' section of the business case report, the following should be articulated:

- base case
- strategic interventions
- project options
- capital costs of project options
- commercial opportunities
- key assumptions and constraints.

These are considered below.

8.3 Defining the base case

The base case should be presented in the business case as the first project option. A base case is an assessment of the existing service delivery performance and asset condition together with an assessment of the scenario if no action (or minimal action is taken). It represents the 'status-quo' option and it is the option that is accepted if all other options fail to be approved.

The base case provides the point of comparison for all other project options. Project options should always be analysed on an incremental basis compared to the base case. For example, a project option may not deliver significant benefits, but it may avoid the Council being exposed to significant risks under the base case. Without comparison to the base case, the risks avoided may not be easily understood..

A base case does not always represent the 'do nothing' scenario. It may be a minimum works option in a scenario where there is no alternative but to undertake some minimum works. This is particularly important when considering the true incremental cost of a project option. For example, a project may incur a capital cost of \$50 million. However, if \$10 million of minimum works were required under the base case, the incremental cost to the Council would be \$40 million.

8.4 Examining strategic interventions

The second section of the 'summary of project options' should outline strategic interventions or the high level actions to be taken in response to a project. It is important to describe any strategic interventions that have been identified, adopted to date or even rejected as part of addressing the project objectives. These are not always asset focused, but rather consider the range of alternatives the Council may have before progressing to an asset solution. Identifying strategic interventions and either adopting or rejecting them can strengthen the case for major capital investment by demonstrating that all alternative solutions have been exhausted.

For example, if the objective of a project is to increase tourism and entertainment visitation and expenditure in the local area, a potential strategic intervention may be to provide incentives to attract major events to the region to boost growth in tourism. This is an example of an intervention that may not require significant capital expenditure to achieve the project objectives.

For a major capital project, it is important to address all the interventions leading up to the decision to propose a major investment in capital. Key questions to answer are:

- Can the service need be addressed by improving the productivity of existing assets?
- Can the service need be addressed by improving the way demand is managed?
- If supply (or capacity) must be increased, what actions can be taken to address this before an asset is needed and have all alternatives been adopted?

8.5 Summary of project options

In the context of the strategic interventions considered, this section of the business case report should present a summary of all the project options identified, including those rejected (reasons should be given). For example, a capital project in a particular location may be deemed inappropriate or high risk, or the scale of a proposed option may be quite simply unaffordable.

The aim of this step is to identify all feasible options to deliver the project objectives and to develop a short list of those options selected for detailed analysis in the business case, giving reasons. It is preferable to have three short-listed project options including the base case analysed in the business case. This enables a comparison of the impact of the project against the base case scenario, showing the alternative impacts of a couple of differing options in detail.

The extent of option analysis may vary from project to project and is often driven by the complexity and scale of a project. For example, a project may require a preliminary analysis of options (using high level criteria) followed by a more detailed analysis of short-listed options. The process for undertaking a detailed analysis of the short-listed options is discussed in section 9, *Options analysis*.

For each possible option, the report should present some of the characteristics of the option to enable the Council to identify and compare the options. Key information to present may include:

- conceptual designs (if available)
- capital costs
- capacity – square metres, number of seats, length of the road
- timeline for delivery
- unique characteristics of the option
- size – the capacity of a facility or type of technology may vary depending on the business need and options of different sizes may need to be considered
- types of services offered – options may offer a variety of facilities and services
- location of the option
- refurbishment or rebuilding options – for asset redevelopment projects, some master planning studies have indicated that refurbishing is more costly than rebuilding. This needs to be considered on a case by case basis. As the most appropriate option may not be easily identifiable, both approaches may need consideration
- staging – consider if there are alternative solutions for the implementation or staging of an asset, and if there are not, provide an explanation.

8.6 Capital costs and contingencies

In this section, the business case report should present a summary of the capital costs and contingencies, or the expected value of risks in cost estimates, for the short-listed project options. These costs are analysed in more detail as part of the financial analysis.

To give a true picture of the capital cost of each option it is important that the costs are assessed over the life of the project, including running costs, maintenance costs, opportunity costs and the cost of transitional arrangements. The purpose of this section is to enable the Council to consider the high level financial impacts of each option.

The costs should be as accurate as possible to distinguish between the options being presented and to assess affordability.⁴ At the business case stage, capital cost estimates would typically require the support of a quantity surveyor to prepare the estimates to sufficient accuracy. Refer to section 5.8 of Part A, *Cost estimates*, for broad guidance relating to the order of accuracy for project cost estimates at the business case stage.

8.7 Commercial opportunities

Some projects or particular options will result in an asset that generates revenue, such as a leisure centre or a car park. However, many local government projects will not generate revenue. In either case, a complete analysis of all the alternative opportunities to generate revenue is required to:

- identify additional revenue sources for the Council arising out of the project
- identify sources of revenue that could reduce the level of Council funding/external financing required.

This analysis should be included in the 'summary of options' section of the business case report.

8.8 Studies supporting options specifications

Depending on the nature of the project, a range of alternative studies may be used to inform the description of the project and its cost. While report terminology varies across industries, these studies may include:

- master plans
- conceptual designs
- feasibility studies
- environmentally sustainable design studies
- information and communication technology strategies
- traffic management studies
- equipment studies.

These studies can assist the project team to determine the high level specifications of the options and the overall accuracy of project scope and cost. Where the project team relies upon these studies, they should be attached as appendices to the business case to demonstrate the robustness of the business case.

⁴ *Rethinking Service Delivery, Volume Two*, n1 p 69.

8.9 Critical assumptions and constraints

Critical assumptions and constraints are factors that heavily influence the Council's ability to deliver the project objectives and the scope of the options defined. Examples may include:

- major events or other projects on which this project depends, or which are dependent on this project
- assumed Council policies that constrain or inform the project parameters
- assumed availability of land for the project
- funding constraints
- available resources
- regulatory, legislative and policy issues which may impact on the proposal
- timeline assumptions and constraints (may be short, therefore particular options are not proposed as they breach the assumed timeframe for delivery).

The strategic business case should include a section on the key assumptions adopted in developing the high level project scope and the major constraints impacting the project. Building on this work, the project team should review and update the assumptions and constraints on the project and document them in the business case. This should include a clear description of each assumption and/or constraint and an assessment of its strength.

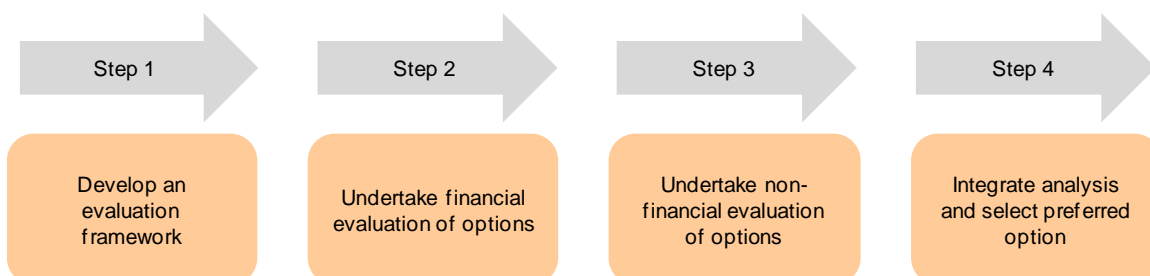
Relevant research to support this assessment should also be documented, and may include references to precedent projects undertaken by the Council (or other Councils or levels of government) and information obtained in stakeholder consultations.

9. Options analysis

9.1 Purpose of a detailed options analysis

An options analysis is a detailed analysis of the short-listed options for the scope of the project against the base case (see section 8.3, *Defining the base case*). This will enable the project team to analyse options and select a preferred option. A detailed options analysis will provide evidence that supports the preferred scope of a project, and provide the necessary information to enable the Council to make an informed decision.

Figure 4: Initial assessment of project options



9.2 Developing an evaluation framework

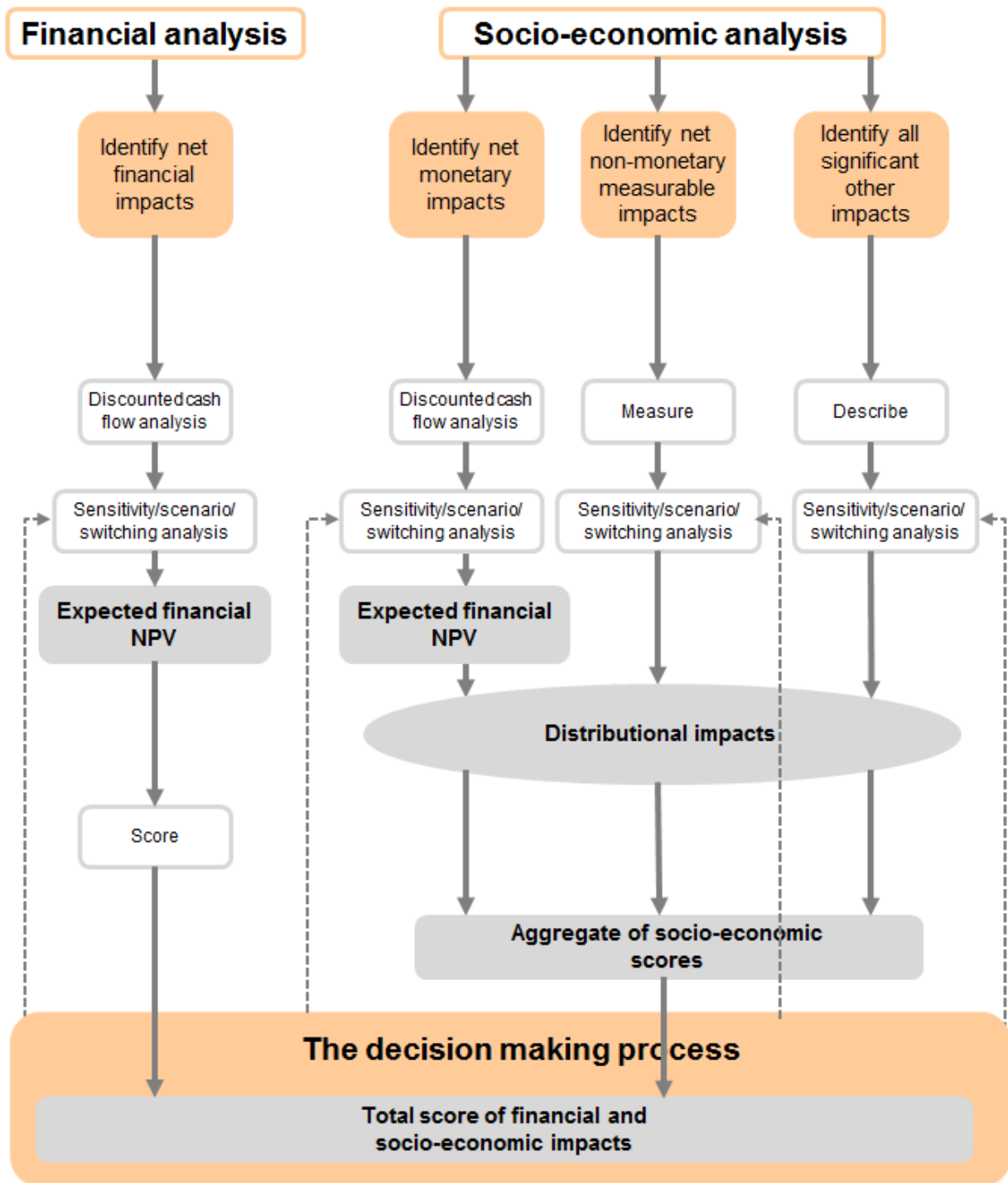
An evaluation framework outlines the range of impacts (benefits and costs) that the Council should consider in assessing the merits of a proposed project option. The range of impacts is measured by the net economic benefit for the community, which is measured by:

- financial impacts (described in section 9.3, *Financial evaluation of options*)
- non-financial impacts (described in section 9.4, *Socio-economic analysis*).

Options should be ranked on the basis of their net financial cost-benefit, as measured in Net Present Value (NPV) terms and the non-financial impacts which may encompass a range of economic, social and environmental values.

Figure 5 demonstrates the range of impacts that may be considered when developing an evaluation framework. As shown, the evaluation process involves the integration of two components: financial analysis and socio-economic analysis.

Figure 5: Options analysis evaluation framework



9.3 Financial evaluation of options

The purpose of a financial evaluation of options is to:

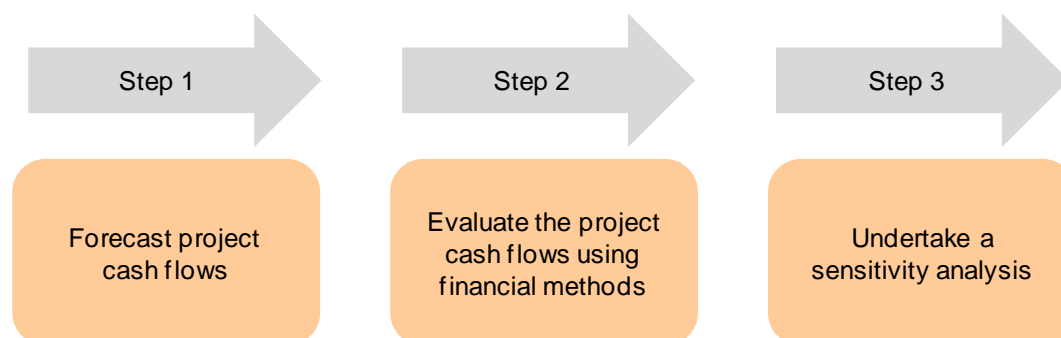
- assess the incremental financial value or cost of the short-listed project options when compared to the base case in present value terms
- assess the commercial viability of the short-listed project options (where applicable)
- assess any funding requirements or subsidies from other government bodies
- assess the affordability of the short-listed options.

Completion of the financial analysis provides a set of baseline cash flows. This can be used in the development of cost comparators, which are used in the value for money assessment (see section 11.6, *Value for money and cost comparator models*).

Framework

A typical process for the financial evaluation of the project options is illustrated in Figure 6.

Figure 6: Framework for the financial evaluation of options



Each step is examined in turn below.

Forecast project cash flows

To understand the financial impact of a project, the forecast cash flows should be estimated for each project option. This will enable the Council to:

- understand the annual net cash flow generated from the project option (if any)
- identify the net financial cost or benefit of the project option in present value terms.

Cash flows for the short-listed options should only comprise the elements that are an incremental result of the option when compared with the base case. The cash flow associated with the base case should not be included. The types of cash inflows include revenues, avoided cash flows, productivity savings, residual value, release of capital and other Council levies and taxes, while the types of cash outflows include capital expenditure, operating expenditure and one-off costs.

The typical components of a forecast cash flow for an infrastructure project are outlined in Table 2.

Table 2: Components of a project cash flow	
Components	Description
Estimated capital cost	The cash outflows associated with the capital development phase of the project option, including expected risks or contingencies.
Forecast revenue generated	<p>The revenue expected to be generated from the project option. Some project options may leverage revenue to the Council, thereby limiting the net cost. For example, a capital investment for preliminary infrastructure in a newly zoned industrial precinct may increase the Council's revenue as a result of new rate payers. This increase in expected revenue should be captured as part of the financial analysis.</p> <p>Depending on the nature of the project, revenue generation may be negligible or insufficient for the project to be commercially viable. Rather, revenue will provide an incentive for private sector participation or minimise the extent of government subsidy/borrowings required (see also in section 8.7, <i>Commercial opportunities</i>).</p>
Forecast operating expenditure incurred	The operating expenditure to be incurred as a result of the investment made, including staff costs, direct operating costs, overheads, and operating risk adjustments.
Annual net cash flow	Represents the sum of all cash outflows and inflows for a particular year.
Key assumptions	Assumptions are used to project the capital cost, revenue and operating expenditure of the project option. They may include activity growth assumptions, price indexation rates and timing assumptions.

Key considerations when developing a cash flow forecast are:

Forecast period: The forecast period of a cash flow may vary. However, it should reflect the Council's investment horizon, as long as it does not exceed the life of the asset.

Analysis based on pre-funding cash flows: To evaluate the financial performance of a capital investment, the analysis is typically undertaken minus cash flows associated with borrowings and interest charges. Cash flows after interest charges from debt financing may also be included in the analysis. However, this will have implications for the financial evaluation methods adopted.

Impact on existing revenue and expenditure: It is important to consider the impact that a proposed capital investment will have on existing services.

Cash flow period adopted: Depending on the degree of accuracy required in the analysis, cash flows may be forecast on a monthly, quarterly or annual basis.

It is recommended that all modelling prepared for the forecast project cash flows be included as an attachment to the business case.

Evaluate project cash flows

To assess project cash flows, an evaluation method needs to be selected and applied to each of the short-listed project options. Table 3 provides an overview of the key financial methods used to

evaluate a capital investment. It is important to select the most appropriate method for the project.

Table 3: Key financial methods to evaluate capital projects		
Method	Description	Key considerations
Discounted cash flow methods		
Net Present Value (NPV)	<p>The NPV is the present value of an investment's future net cash flows minus the initial investment.</p> <p>A positive NPV represents an immediate increase in financial value to the Council. A negative NPV indicates that a project option will result in a net cost to the Council.</p>	<p>A NPV can be generated from projected cash flows.</p> <p>The NPV is dependent on the Council discount rate.</p>
Internal Rate of Return (IRR)	<p>The IRR is a rate of return used in capital budgeting to measure and compare the implied or intrinsic profitability of investments. It is effectively the discount rate that makes the NPV of all cash flows (both positive and negative) from a particular investment equal to zero. Generally speaking, the higher the internal rate of return on a project option, the more desirable it is to undertake that option.</p>	<p>An IRR can be determined from projected cash flows.</p> <p>When cash flows are volatile, multiple IRRs may be generated, which may confuse the analysis.</p> <p>It is useful when capital is rationed and assists in developing an overall portfolio approach.</p>
Profitability index	Present value of net cash flows/initial cash outlay.	<p>Can be determined from projected cash flows.</p> <p>An index of one or more indicates the project option should be accepted.</p>
Non-discounted cash flow methods		
Accounting rate of return	Earnings from a project option expressed as a return on the initial cash outlay (on a per annum basis).	<p>Focuses on project earnings rather than cash flow, so may produce differing results depending on accounting policies.</p> <p>Ignores the timing of earnings as they are evenly allocated across the project forecast period.</p>
Payback period	Time it takes for the initial cash outlay to be recovered from project cash flows.	<p>Need to determine what is the maximum acceptable payback period (which helps the Council understand how long funds are committed to a project option).</p> <p>Shorter payback periods enable more capital investment planning and controls risk.</p> <p>Does not measure value added to the organisation (may be arbitrary).</p>

Sensitivity analysis

Once the financial evaluation is complete and the expected financial outcome generated, it is important to undertake a sensitivity analysis for each project option.

A sensitivity analysis is the exercise of assessing the change in financial outcomes of the project when one or multiple variables associated with the project option are changed. For example:

- What is the impact on the IRR if operating costs were 10 per cent higher?
- What is the impact on the IRR if capital costs were overrun by 5 per cent?
- What is the impact on the NPV if operating cost escalation was 2.0 per cent and not 2.5 per cent?

An effective sensitivity analysis can provide a greater level of comfort over the likelihood of a proposed project option being delivered within a desired cost envelope. There is a range of techniques to undertake this exercise, the simplest being a 'single-point analysis' whereby individual variables are amended to assess the impact on financial results.

An effective approach to identifying the sensitivities that should be analysed is to undertake a risk analysis. This process recognises that not all assumptions and forecasts associated with a project will eventuate as planned. Therefore, having an understanding of the major risk events (for example, the risk forecast visitor activity is not achieved) can inform the sensitivity analysis undertaken. For example, the effect on financial performance of a 10 per cent reduction in forecast visitor attendance. In this way, the expected impact on results can be determined (e.g. a decrease in revenue generation). The process for undertaking a risk analysis is discussed in section 10, *Risk analysis*. The results of a sensitivity analysis can be utilised in the financial evaluation of options.

9.4 Socio-economic analysis

Overview

It is important for the Council to consider the broader non-financial impacts of an investment upon the Council's budget and the local community. These broader considerations include all relevant economic, social and environmental factors (collectively known as 'non-financial factors') that are of significance to the Council in making its investment decision and selecting the preferred project option.

The financial analysis is solely quantitative. For non-financial impacts, a range of analysis techniques may be adopted, including:

- a monetised economic analysis – cost benefit analysis
- an analysis of non-monetised but quantifiable measures – economic impact analysis
- a purely qualitative analysis of impacts – a multi-criteria analysis.

These are considered in turn below. Where supportable data is available, every effort should be made to put a value on the monetary or quantifiable benefits and impacts. For some projects, a combination of the three evaluation techniques (monetary, quantitative and qualitative) may be adopted, and a weighting of impacts can also be applied across the three types of analysis. This enables the Council to consider the complete merits of an investment ranging from financial quantitative impacts to qualitative non-financial impacts.

Given the role and functions of local government, many proposed projects will be non-revenue generating or revenue-generating proposals that will not reflect positive net present values on the basis of their cash flows alone. However, they will be undertaken to deliver other significant benefits to the local community.

The business case should seek to place a quantifiable value on the extent of project benefits where possible. That said, it is acknowledged that some non-financial costs, benefits and risks are difficult to measure given their subjective nature and it is not expected that all will be quantified or capable of being translated into monetary terms. All significant non-monetary and non-quantifiable costs, benefits and risks relating to each project option should be reported upon in an appropriate form in the business case.

The socio-economic evaluation of a project option can be a complex process. Whilst in some instances the Council will have the requisite skills to undertake its own evaluation, some project options will require the services of a credible external consultant. As a minimum, the project team should be in a position to identify the type and nature of the likely non-financial impacts of each project option prior to engaging an external consultant.

Purpose

Like the financial analysis, the purpose of the non-financial analysis of options is to assess and compare the incremental impacts of each short-listed project option over and above the base case.

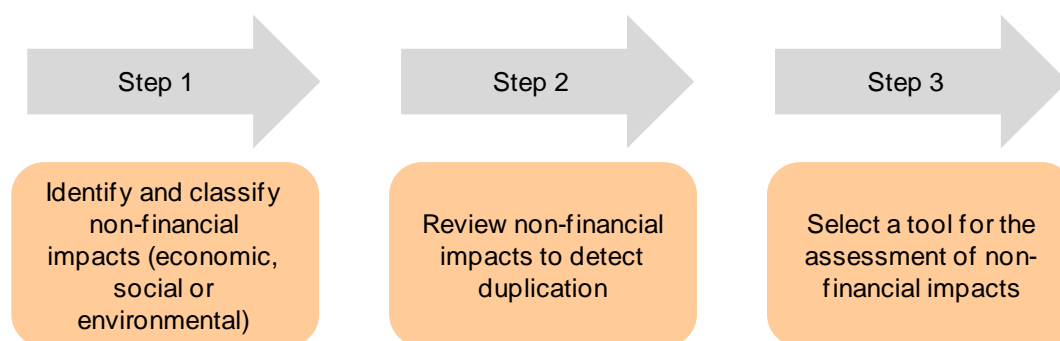
The non-financial evaluation is required to identify and estimate all the likely impacts of a project to the local community as a whole (or if this is not appropriate, to the Council as a whole). The Council should, wherever possible, consult with the individuals, community groups, industries and enterprises likely to be affected by a project through the stakeholder consultation process (see section 7, *Stakeholder analysis*). Very often such consultations are necessary to achieve a thorough identification of non-financial impacts.

Framework

The scope of the non-financial evaluation undertaken will vary depending upon the nature of the project, the likely impacts and the level of expenditure involved. The depth of analysis and detail of reporting is expected to be greater for proposals involving significant expenditure or with significant impacts. It also depends on the availability of data and the agreed scope of the analysis (including time, budget and appropriateness) of all three elements. The quantifiable and non-quantifiable costs and benefits of the economic, social and environmental impacts should be addressed in the business case report to fully inform decision making by the Council.

A suggested framework for the non-financial analysis is illustrated in Figure 7.

Figure 7: Framework for non-financial analysis of options



Guidance on each step is provided in the following sections.

Identifying and classifying non-financial impacts

Non-financial analysis in a general sense covers three broad areas: economic, social and environmental impacts. The first step in the non-financial analysis involves the project team identifying and classifying the impacts. This includes the following tasks:

Identify non-financial impacts: Identify all potentially significant non-financial impacts (economic, social and environmental) associated with each project option, regardless of how difficult they may be to measure (otherwise only a partial evaluation may be carried out). A further task is to assess the extent to which a project option achieves the broad objectives of the Council.

Classify impacts: Allocate all impacts under either an economic, social or environmental impact, and further identify (under each category) whether the impact is a cost or a benefit to the broader community.

Table 4 provides an overview of the economic, social and environmental areas of impacts.

Table 4: Economic, social and environmental impacts	
Impact	Description
Economic	<p>A project option may not be seen as 'financially' viable (with a positive net present value) but it may still be 'economically' viable for the Council to execute. On this basis, the option will deliver a return from the perspective of the community.</p> <p>Two key economic considerations for a project option are:</p> <ul style="list-style-type: none"> ▪ whether it is economically efficient, that is, whether the economic benefits of an option exceed the costs ▪ the extent to which it contributes to Gross Regional Product (GRP) or its impact on the regional economy (in some cases a project's contribution to the State's economy, measured as Gross State Product, may also be warranted). <p>The economic analysis should demonstrate which option offers a greater economic return to the local Council area and the community.</p>
Social analysis	<p>Most local government investments are undertaken to deliver services and, as a result, will have some social consequences. The business case should always analyse social outcomes, unless it is clear that the external impacts are minimal.</p> <p>Social analysis identifies and quantifies social issues and opportunities arising from a project option. The analysis should explain the nature and extent of the social impact and, where possible, quantify them. This might include:</p> <ul style="list-style-type: none"> ▪ policy implications ▪ employment opportunities or likely redundancies/termination of existing contracts ▪ community implications.

Table 4: Economic, social and environmental impacts

Impact	Description
Environmental analysis	<p>Legislative requirements and community concerns drive the need for an environmental analysis. The environmental analysis should assess the extent and nature of environmental consequences and opportunities surrounding each project option. Issues include:</p> <ul style="list-style-type: none"> ▪ the extent to which a project option requires a departure from the Council's environmental policy ▪ known environmental issues arising from the option (e.g. contaminated site) ▪ consents or approvals required ▪ whether an Environmental Effects Statement (EES) or a Commonwealth Environmental Impact Statement (EIS) is required, and issues arising from such requirements.

Duplication

It should be remembered that the impacts of an investment proposal on the social and economic wellbeing of a community can be dynamic and the effect may change over time. There is a risk of duplication of impacts when listing the various non-financial costs and benefits of a project option. Therefore, once all impacts have been identified and classified, they should be reviewed to detect any potential overlap or areas of duplication.

Tools for assessing non-financial impacts

The second step of the financial analysis requires the project team to select a tool for assessing the non-financial impacts of each project option. An overview of three such tools are set out below.

Cost-benefit analysis (economic efficiency analysis)

A cost-benefit analysis is an assessment tool used to determine whether an option is beneficial relative to the base case. Its key principle is to convert the costs and benefits into dollar terms, allowing them to be weighed up against each other. An option will be considered more desirable if it delivers benefits over and above its costs, which is typically expressed in NPV terms.

The cost-benefit analysis differs from traditional financial analysis in that it is performed from the viewpoint of society, specifically the community that the Council represents. In the instance of a road improvement project, the cost-benefit analysis would consider the road safety benefits. In short, it looks at the fiscal impacts by examining social welfare impacts.

Economic impact analysis

Wider economic impact studies look at the impact of a project option in terms of changes to macroeconomic aggregates such as Gross Regional Product (GRP), Gross State Product (GSP) or Gross Domestic Product (GDP) and employment – that is the 'economic impacts'. Economic impacts should not be confused with economic costs and benefits described above.

For the Council, a regional-economic impact analysis is a valuable tool to assess the extent of employment expected to be generated and sustained (or lost) by a project option.

Multi-criteria analysis

In the absence of any data to enable the quantitative analysis of project option impacts, a possible form of qualitative analysis that can be used to compare unvalued costs and benefits is a Multi-Criteria Analysis (MCA). While not always appropriate, a weighting-based MCA can assist the decision making process.

Intangibles that cannot reasonably be quantified in monetary terms can be excluded from the quantitative cost benefit analysis. However, where these intangibles are significant, they can influence the final decision on the preferred option. If intangibles are significant they should be explicitly highlighted and explained in the analysis so that decision makers are aware of the value judgements they are making in pursuing a particular option. This explanation can be:

- quantitative
- qualitative
- descriptive,

or a combination of these.

A MCA is a decision modelling tool that weights and scores the qualitative costs and benefits (or criteria) for each option. The alternative options can be assessed and scored (typically by a representative panel of stakeholders) against the criteria. The weighted overall scores provide a ranking of alternative options. A MCA can be less rigorous than a cost benefit analysis, but it is relatively easy to implement and can be used to assess and compare options that involve both monetary and non-monetary impacts. It can aid decision making by complementing the quantitative cost benefit analysis.

The process and the reasoning behind the scores and weightings must be documented clearly to demonstrate that a robust analysis has been carried out. Again, it is important to recognise that the assigned weights and the scores given to options are value judgments.

In order to assign weights and scores, negotiation and compromise need to take place. It is the number of people involved in the process and their expertise that lends credibility to these value judgments. Therefore, it is worth spending some time choosing a representative 'benefits team' comprised of stakeholders, customers (users), as well as business and technical representatives. The people involved should be named in the business case report as part of the recording process.

The extent or depth of the analysis should be tailored to the relative size, impacts and risks of the proposal.

9.5 Decision making - options analysis results

To select a preferred project option, all the various impacts of the options should be considered and integrated, including financial, social, economic and environmental. The analysis of project options may comprise a combination of quantitative and qualitative analysis. Therefore, the selection of the preferred option may require more subjective techniques of analysis.

Table 5 presents a sample framework for the integration of options analysis results using the MCA approach.

Table 5: Sample framework for evaluating options using MCA approach

Category	Option 1: Base case Score	Option 2 Score	Option 3 Score
Financial analysis	0	-4.00	-2.00
Economic analysis	0	4.00	2.00
Social analysis	0	3.00	2.00
Environmental analysis	0	3.00	2.00
Total score	0	6	4
Final ranking	3	1	2

In the above example, the different categories have not been weighted, and each is given the same relative importance. If, based on the analysis undertaken for each option, a preferred option is not clearly apparent; it may be useful to apply a MCA approach to all categories of analysis whereby each project option is given a weighted score under each area of analysis.

10. Risk analysis

10.1 Importance of a risk analysis

Risk is the uncertainty of the occurrence of future events. Project risks have the potential to increase costs, create delays, and generate other challenges for the successful delivery of the project. Risk analysis can be defined as a method – qualitative and/or quantitative – for assessing the impacts of risks on projects.

It is best practice to adopt a risk management process throughout all stages of a project's procurement, as it will assist in:

- understanding the possible events which could occur on a project
- developing a risk adjusted estimate of project cost
- creating strategies to minimise the impact associated with the occurrence of possible risks
- establishing a benchmark cost estimate for the purpose of analysing whether bids received through the tender process represent value for money.

At the business case stage, the risk analysis should reflect an initial attempt to:

- identify all risks associated with the project
- grade risks in terms of their materiality

- quantify risks for the purpose of identifying a risk adjusted cost estimate
- develop a risk management plan which sets out strategies and an action plan to counter the impacts of risk occurrence.

The risk analysis should be updated throughout the development of the project to reflect the latest information available.

10.2 Risk management plan

A risk management plan is a document that outlines the potential risks for a major project, and incorporates:

- identified risks
- likely consequences of these risks
- options to treat and monitor them.

The risk management plan should document the risk management process for the project. A framework for the risk management plan is set out in Table 6.

Table 6: Framework for risk management plan	
Section	Description
Procurement context	<ul style="list-style-type: none"> ▪ describe the procurement ▪ identify the procurement environment and stakeholders ▪ outline the risk criteria of the procurement ▪ plan the major stages of the procurement.
Risk identification	<ul style="list-style-type: none"> ▪ identify and schedule potential risks and their effects.
Risk analysis	<ul style="list-style-type: none"> ▪ assess risk likelihood and consequences ▪ determine risk levels.
Risk assessment	<ul style="list-style-type: none"> ▪ undertake risk priority ranking ▪ determine risks to be accepted and monitored ▪ identify risks to be treated.
Risk treatment	<ul style="list-style-type: none"> ▪ evaluate and select risk treatment options ▪ prepare risk treatment plans and implementation strategies.
Ongoing monitoring	<ul style="list-style-type: none"> ▪ develop schedule for review.⁵

⁵ NSW Government Procurement Guidelines, *Risk Management* (Dec 2006) p 31.

10.3 Risk management process

Managing risk is critical for major infrastructure projects. Adopting a risk management process is recommended as it identifies potential risks, analyses their consequences, and devises and implements responses to ensure that procurement and service delivery goals are achieved.⁶ Effective application of a risk management process will improve project outcomes. The amount of resources allocated to risk management should be commensurate with the:

- nature of the project
- cost of the project
- complexity of the project
- significance of the project to the Council's business activities.

The risk management process in Figure 8 has been recommended by the Australian Standard on risk management – see AS 4360⁷ and associated handbook⁸.

Figure 8: Risk management process



Each of these steps is considered in turn below.

10.4 Establish context

The first step is to define the context for the risk assessment. To ensure all significant risks are identified and considered, the Council will need to refer to the objectives of the project (developed in the early stages of the business case process) and how they relate to the Council's responsibilities. The Council should also consider how the project impacts on the objectives of key stakeholders. The critical success factors and associated KPIs developed for each of the objectives will assist in identifying the potential consequences of risks on the project and the significance of those risks (for guidance on developing project objectives, critical success factors and associated KPIs, see section 5.2, *Objectives*).

10.5 Identify risks

This step enables the project team to identify all of the risks that the project may be subject to over all the entire project life cycle. There are a number of ways to achieve this, with the preferred method being a group workshop to brainstorm potential risks. To optimise results, the workshop participants should have a multi-disciplinary background and be familiar with delivering projects of a similar nature. The Council should consider engaging specialist advisers to assist with the risk identification process. Common risks arising on major infrastructure projects include those identified in the *Risk checklist* in Annexure 3. It is recommended that the project team use this checklist as a tool for the brainstorming session.

⁶ NSW Government Procurement Guidelines, *Risk Management* (Dec 2006) p 4.

⁷ Standards Australia and Standards New Zealand (2004) AS/NZS 4360:2004, Risk Management, Sydney NSW ISBN 0 7337 5904 1.

⁸ Standards Australia and Standards (2004) HB 436:2004, Risk Management Guidelines: Companion to AS/NZS 4360:2004 Sydney NSW ISBN: 0 7337 5960 2.

10.6 Analyse risks

This step of risk analysis requires the project team to identify the likelihood of the risk occurring and its consequence on the project. This assessment may be presented as follows:

Likelihood of each risk occurring: performed initially on a simple scale from ‘highly unlikely’ to ‘almost certain’, and progressing to a numerical assessment of the risk’s probability of occurrence.

Consequence on the project: performed initially on a simple scale from ‘negligible’ to ‘very severe’, and progressing to a quantitative financial estimate of the consequence.

Risks, their likelihood of occurrence, and their consequence on the project, are often presented in a risk register. It is recommended that the Council develops a risk register for all major projects.

Risk factors are tools that can be used for ranking risks, and are based on scaling and then combining the likelihood of a risk and the severity of its impact.⁹ Risk rankings and factors can be used to identify an analysis cut-off point to determine the risks that may be discarded and those that require further analysis and management. Risk factors can be calculated in accordance with Table 7.

Table 7: Calculation of risk factors			
Risk likelihood	(L)	Risk impact	(I)
Almost certain	0.9	Extreme	0.9
Highly likely	0.7	Very High	0.7
Likely	0.3	Medium	0.3
Unlikely	0.1	Low	0.1
Rare	0.01	Negligible	0.01

where:

L = risk likelihood measure, scale of 0 to 1

I = impact measure, scale of 0 to 1

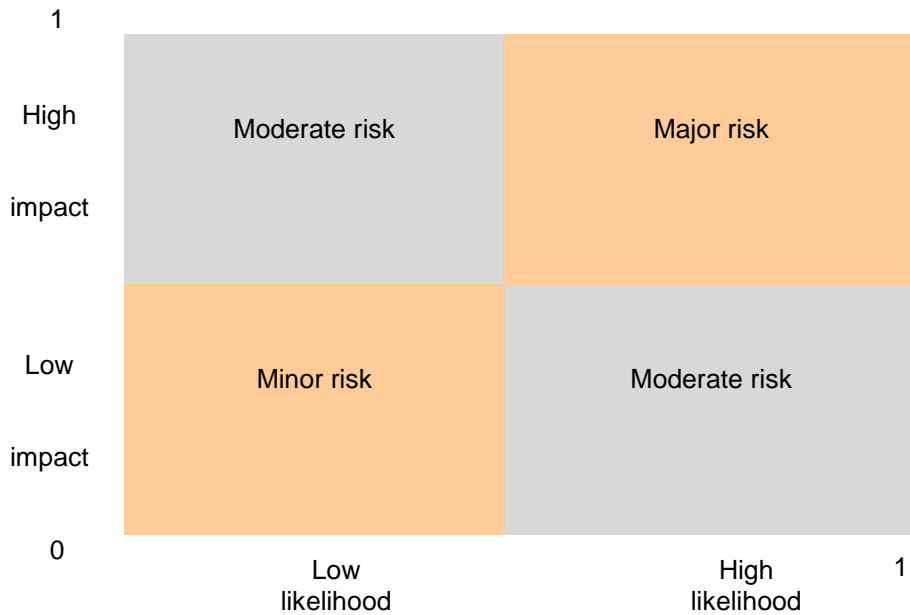
RF = risk factor, $L+I - (L \times I)$

Minor risks, which have a low probability of occurrence and consequence, can be discarded, whereas management measures should be developed for moderate and major risks.¹⁰ Figure 9 presents one format for making this assessment.

⁹ *Total Asset Management – Risk Management Guideline* (TAM04-12,2004) NSW Treasury, p 13.

¹⁰ n9 p 40.

Figure 9: Assessing the probability and consequence of risks



10.7 Evaluate risks

Evaluation of risks involves prioritising each of the identified risks. Three categories of risk are typically used for this phase:

- priority 1: major risk
- priority 2: medium risk
- priority 3: minor risk.

10.8 Treat risks

Treating risks involves determining appropriate strategies to deal with the identified risks. For major and medium risk this involves:

- identifying potential strategies for each risk
- evaluating and selecting an appropriate strategy for each risk
- preparing and implementing a risk treatment plan.

Table 8 provides an overview of some risk strategies.

Table 8: Risk strategies

Strategy	Description
Risk prevention	Adopting measures to eliminate the sources of risk or substantially reduce the likelihood of loss from their occurrence.
Impact mitigation	Adopting measures to minimise the consequences of the risk.
Risk transfer	Shifting the risk to another party who bears the consequences if the risk arises – contracts between the Council and service providers are the primary means of allocating risk.
Risk acceptance	Occurs when risks cannot be avoided or transferred, or the cost of doing so is prohibitive. Risk mitigation measures should be adopted to minimise impacts. ¹¹

Identifying the most appropriate option for a given risk involves balancing the cost of implementing each option and the benefits derived from it. The cost of managing the risk must generally be commensurate with the benefits obtained.¹²

10.9 Risk treatment plan

The next step in the risk management process involves drafting a risk treatment plan to document how particular risks will be managed. Risk treatment plans should include:

- actions and expected outcomes
- timetables
- resource budgets (personnel, costs and data)
- responsibilities
- reporting requirements
- monitoring requirements.

10.10 Monitoring and reviewing

The project's risk assessment needs to be dynamic. It is not sufficient to prepare a risk management plan only at the business case stage – it must be regularly monitored and reviewed throughout the project's life cycle to ensure it incorporates the latest information and implements action plans.¹³

10.11 Risk adjusted project budget

The risk analysis for the project should be fed into the project budget to derive a risk adjusted project budget. The process for deriving a risk adjusted project budget involves refining the project's risk analysis and risk register by assigning a probability of occurrence against each risk, as well as allocating a financial estimate of the impact, or cost of treatment (e.g. insurance), of particular risks.

¹¹ *Total Asset Management – Risk Management Guideline*, n9 p 15.

¹² *NSW Government Procurement Guidelines*, n6 p 19; *Total Asset Management – Risk Management Guideline*, n9 p 16.

¹³ *NSW Government Procurement Guidelines*, n6 p 21.

The risk adjusted project budget can be used as a cost benchmark for the purpose of evaluating bids received from the market.

The quantification process involves analysing risks according to the probability of the risk arising and the financial impact of the risk. There are a number of approaches for quantifying the risks identified for the purpose of deriving a risk adjusted project budget, including those set out in Table 9.

Table 9: Approach to quantifying risks	
Approach	Features
Contingency	<p>The contingency approach is only recommended for low risk projects, and requires the contingency amount to be sufficiently robust as a risk pricing adjustment.</p> <p>The Council should clearly document the set of risks captured within the contingency used, to ensure clarity on the funding provision for risk.</p>
Point estimate	<p>The simple point estimate approach provides a single estimate of the value of risk.</p> <p>For each risk, this approach calculates an expected value which is an aggregate of a small number of probability-weighted consequences should the risk occur.</p> <p>The point estimate approach only produces one combination of potential outcomes across all risks.</p>
Simulation	<p>Although rarely practical for infrastructure projects, the more complex simulation approach is available to provide a range of values for all risks with a corresponding level of confidence to achieve points along the range.</p> <p>For each risk, this approach expresses the relationship between likelihood and consequence as a probability distribution, which provides a more complete and transparent view of the profile of potential risk cost outcomes.</p> <p>The use of probability distributions for each risk enables the combined calculation of all risks, which offers significant advantages from a risk management perspective compared with the point estimate approach. In particular, it provides insight into the sensitivity of the project to adverse outcomes, which is valuable for decision making.</p>

More detailed technical guidance on risks can be obtained from a number of sources, including the *National PPP Guidelines Volume 4: Public Sector Comparator Guidance*, the *Victorian Department of Treasury and Finance's Project Risk Management Guideline* and the *Australian Standards for Risk Management*.

11. Procurement strategy

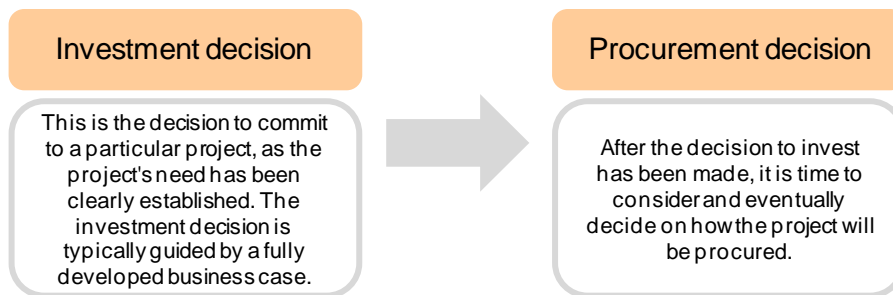
11.1 Procurement principles

A critical aspect of any infrastructure project is consideration of how the project will be procured. The primary task is to develop a procurement strategy and adopt an appropriate delivery model. The two key procurement principles for major capital projects are to ensure that:

- the project achieves its objectives and ultimately addresses the identified need
- the project is procured in a manner which optimises value for money.

These principles form the basis of the distinction between the investment and procurement decisions as illustrated in Figure 10.

Figure 10: Investment and procurement decisions



This section of the Major Projects Guidance focuses on the procurement decision. This can be approached in two ways. The business case may incorporate a section on the procurement strategy and potential delivery options. Alternatively, it may be useful to develop an external procurement strategy (as a separate document) in parallel with the business case.

11.2 What is a procurement strategy?

The procurement strategy is a high level plan aimed at ensuring the procurement objectives are achieved through a structured program of activity.¹⁴ Throughout the procurement process, the strategy should reflect the project's circumstances as they develop.

A well-developed procurement strategy will:

- minimise the potential for problems occurring during project development and tendering stages of the project
- maximise the potential for achieving the project's objectives
- improve the management of risks.

A procurement strategy report typically incorporates the elements set out in Table 10.

¹⁴ *National Public Private Partnership Guidelines*, Volume 1: Procurement Options Analysis.

Table 10: Key elements of a procurement strategy report¹⁵

Section	Description	Considerations
Executive summary	Overview of the procurement strategy – final step in developing the procurement strategy report	Summary of the key findings of the procurement strategy, the procurement options considered and the preferred procurement model
Project description	General description of the project, including the scope	User requirements Stakeholder expectations Proposed approach to the tendering process Funding considerations
Procurement objectives	Description of the procurement objectives including: <ul style="list-style-type: none"> ▪ purpose of the procurement ▪ what is being bought ▪ expected outcomes ▪ cost value objectives. 	What are the major procurement decisions? How will value for money be achieved and measured? How do the priorities of the project align with the existing projects and operations of the Council? Governance objectives Service delivery objectives Impacts on users and stakeholders Factors which will determine whether the procurement has been a success Have the critical success factors for the project been clearly defined? Have success factors been agreed and signed off with stakeholders?
Timeframe	Overview of the procurement and project timeframes	Appropriate detail in the project plan including realistic timelines through to completion (this may need to be revisited after taking the steps described in section 13, <i>Forward planning</i>)
Market analysis	Analysis of the market capability and capacity to meet the procurement objectives	Current and forecast market activity levels Supply chain characteristics and methods within applicable industries Ability of the market to deliver the project objectives and produce what is needed General market capacity and expected interest in the project Assessing the market structure Determining the maturity of the market Opportunity and need to influence and develop markets Market familiarity with type of project Market experience in doing business with local government Market access to suppliers and resources

¹⁵ n14.

Table 10: Key elements of a procurement strategy report¹⁵

Section	Description	Considerations
Project and procurement risks	Discussion of key risks to the procurement / project – how identified risks will be managed during the procurement process	Risk analysis and ongoing processes Opportunities to transfer risk Strategies to mitigate retained risk Implications of delivery models on risk Risk modelling based on different scenarios ¹⁶
Policy context	Overview of policies affecting the procurement	What policies apply to the project? How will policy compliance be managed?
Organisational capability	An outline of the Council's capability to manage the procurement	The Council's capacity to manage and deliver on procurement requirements Management capability within the Council Management arrangements required with other organisations/external consultants Is there a skilled and experienced project/procurement team? Governance arrangements within the Council, having reference to the Governance Plan ¹⁷ Reporting and monitoring arrangements Systems and processes for monitoring and controlling project expenditure and benefit realisation Processes and training to ensure ethical behaviour
Funding	Description of proposed funding/financing arrangements	Is a funding/financing strategy in place? Does funding cover contingencies and costed risks?
Cost analysis	Pre-tender cost estimate and cost management plan	Has the cost estimated been tested to verify acceptability? Are all risks costed? Can contingency items be traced to the risk assessment documents? (Refer to the risk treatment plan discussed in section 10.9, <i>Risk treatment plan</i>)
Procurement methodology	An analysis of the procurement methodology and preferred procurement model	How the market will be engaged and how the engagement will be reflected contractually? Approaches to tendering and contracting with an analysis of the most appropriate procurement methodology, and the implications of the procurement methodology options Whether there is a case for limited tendering

¹⁶ This section will be used as the starting point for developing a risk management plan should the project proceed to the next stage – project development.

¹⁷ See section 2.2, *Governance and probity* regarding existing arrangements and section 13.2, *Governance for project development*.

An integral part of the procurement strategy is the selection of a project delivery model. To a large extent the procurement model or project delivery model will determine the nature and duration of the relationship between the project participants. Essentially the delivery model is a contractual framework for the project that broadly defines the risk allocation and over-arching commercial principles of the procurement.

Part B2, *Procurement options* describes a range of traditional and non-traditional project delivery models. For each delivery model covered there is a description of the key features, benefits and disadvantages, and suitable projects. It does not cover all of the delivery models available. It does, however, consider the models which are most likely to be used for major infrastructure projects and related services by local government, and may provide a starting point for the project team's consideration of the project delivery models that may be appropriate for the project.

11.3 Procurement options analysis

It is vital that the procurement decision is justifiable, based on facts and analysis, and supported by the procurement options analysis, which should demonstrate how the recommended procurement approach represents value for money.

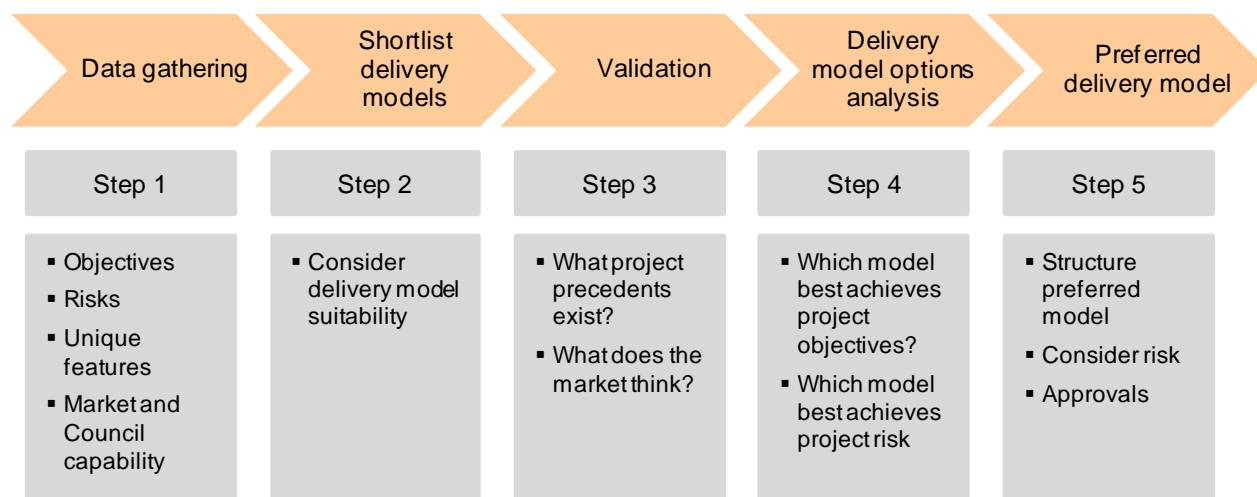
When evaluating different procurement options, the Council should:

- develop a framework for the comparative analysis of the different procurement options, which incorporates an evaluation criteria and a system for rating each option against the criteria
- identify the different procurement options to be considered
- identify key project risks and desired risk allocations (see section 10, *Risk analysis*)
- set timeframes associated with each procurement option and provide an assessment of their achievability
- engage the market through market soundings to:
 - identify key players
 - determine market capacity
 - determine market appetite
 - consider whether there is sufficient competition to drive value for money outcomes
- assess the potential value for money associated with each procurement option
- assess and rank each of the procurement options against the evaluation criteria
- recommend the preferred procurement approach
- identify potential commercial structure and associated issues related to the recommended procurement approach.

11.4 The framework

The process in Figure 11 can be used to assist in selecting an appropriate delivery model.

Figure 11: Appropriate delivery model



Data gathering

The procurement strategy should draw on all relevant data for the purpose of informing the delivery model decision, much of which will be available from the business case.

Key considerations include:

Project objectives:

What are the objectives of the project?

The requirement:

What are the core services or requirements to be delivered?

Are there any associated post-construction services that could be delivered by the private sector?

How are post-construction services currently provided?

Project risks:

Have you considered the risks and strategies outlined in the risk management plan? This information can be used to highlight specific risks that might be better managed by the public or private sector through a particular delivery model.

Project characteristics:

What is the likely cost?

What is unique about the project?

What features of the project make it different from other Council projects?

Short list delivery models

This step involves short-listing delivery models based on a consideration of the scale, scope, risk and whole of life service opportunities. Key issues for consideration are set out in Table 11.

Table 11: Key considerations in short-listing delivery models

Issue	Description
To what extent can services be bundled as part of the project (such as operational and maintenance services)?	<ul style="list-style-type: none"> ▪ What services are core and non-core? ▪ Are there any potential constraints on packaging of services? ▪ What are the expected efficiencies from packaging construction, operational and maintenance components, compared with other service delivery options? ▪ Can the service need be contracted over the longer term?
Scale	<ul style="list-style-type: none"> ▪ What is the scale of the project, including life cycle costs?
What is the project scope?	<ul style="list-style-type: none"> ▪ Can the scope and outputs of the project be defined? ▪ Is the construction straightforward and established, or complex with challenges? ▪ Is the required technology proven and understood? ▪ Are there potential issues that may impact the scope during the project?
What are the key risks facing the project?	<ul style="list-style-type: none"> ▪ What is the Council's capability to manage these risks versus a private party? ▪ Is the cost of transferring responsibility for this risk prohibitive?

Validation

It is important to validate the chosen delivery model by reference to benchmark projects, both domestically and internationally, and by conducting market sounding exercises. This process can help determine the market's interest and ability to manage risks associated with the project, and may inform how the project can be structured to ensure the best possible outcome. It is important to consider lessons learned from similar projects.

Delivery model option analysis

Having identified and validated a number of potentially suitable delivery models, the preferred model needs to be identified. It should be chosen by evaluating each model against project objectives, criteria and any rankings associated with the criteria.

It is important to remember that in evaluating different procurement options, the main purpose is to identify which procurement method will achieve the project's objectives whilst maximising value for money outcomes.

Frameworks designed to assess different procurement models against agreed criteria should be based on qualitative and quantitative factors. As such, it may be appropriate to base the majority of the analysis on qualitative analysis, which is supported by quantitative analysis. Each criterion chosen should be related to how the option will achieve the project's key objectives.

An example evaluation framework with weighted criteria is set out in Table 12.

Table 12: Example evaluation framework				
Evaluation criteria	Weighting	Option 1	Option 2	Option 3
<p>Operational flexibility</p> <p>The extent to which each procurement option enables the Council to retain operational flexibility</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Risk management</p> <p>The extent to which each procurement option provides incentives to effectively and efficiently manage and reduce risks throughout the life of the asset</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Time to deliver</p> <p>The extent to which each procurement option is able to support achieving operation supply by a specified date</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Market interest</p> <p>The extent to which each procurement option assists in maximising market interest amongst the appropriate players with the relevant skills, expertise and capacity to deliver the project</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Value for money</p> <p>The extent to which each procurement option assists in maximising value for money from the project</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Budget certainty</p> <p>The extent to which each procurement option assists in providing earlier budget certainty</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Flexibility</p> <p>The extent to which each procurement option assists in managing and implementing changes to the functional requirements of the project over time</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
<p>Stakeholder management</p> <p>The extent to which each procurement option assists in managing stakeholders through the delivery of the project</p>	X%	1 = poor 10 = excellent	1 = poor 10 = excellent	1 = poor 10 = excellent
Overall rating	100%	X out of 10	X out of 10	X out of 10

Key considerations include:

- all relevant data gathered
- the capacity of the market and the Council to successfully deliver the project under each model
- the degree to which each model will achieve strategic outcomes and project objectives
- implications of each model for the Council or market
- the relevance of chosen delivery model if circumstances change
- the unique or unusual project characteristics and risks associated with each model
- the significant risks associated with a delivery model that could not be effectively managed by the Council.

There is no prescribed approach or methodology for delivery model selection. However, a number of tools are available for comparing models and identifying one that is the most suitable for a particular project. For example, a semi-quantitative assessment may assist in selecting the preferred delivery model. The essence of quantitative analysis is to quantify the rationale behind delivery model selection decisions.

When using a decision support tool:

- avoid methodologies that conceal their logic or fail to demonstrate the reasoning involved
- ensure sufficient intellectual expertise is available to analyse options from first principles
- ensure the tool is appropriate – there is no decision support tool that fits all projects
- do not rely on the assessment of a single tool
- compare the result by applying the tool with an analysis from first principles – does the result withstand scrutiny from a first-principles analysis and a check against another analytical method?

Selecting a delivery model

The delivery model decision requires:

- comprehensive understanding of project strategic outcomes and their relationships to the various aspects of different delivery models
- comprehensive understanding of project risk
- detailed analysis to identify the option that best optimises the project's strategic objectives
- detailed analysis to identify the option that is most likely to maximise value for money
- a project specific risk assessment in respect to each of the delivery models.

Factors that may be relevant in considering different procurement models are set out in Table 13.

Table 13: Procurement model factors

Factor	Consideration
Design	<ul style="list-style-type: none"> ▪ complexity of the design solution ▪ level of control sought by the Council over design development ▪ need and ability to achieve complete design prior to tendering or construction commencing ▪ desire for design flexibility during construction ▪ obsolescence of the design and ability to upgrade ▪ scope for innovations and benefits of having completing design solutions.
Capacity and capability	<ul style="list-style-type: none"> ▪ availability of suitable contractors ▪ in-house resources and skills of the Council.
Whole of life	<ul style="list-style-type: none"> ▪ merits of bundling capital and ongoing maintenance responsibilities ▪ methods of assessing whole of life costs under each model ▪ maintenance and disposal responsibilities.
Political	<ul style="list-style-type: none"> ▪ Council policy and other political considerations.
Scale	<ul style="list-style-type: none"> ▪ likely cost of the project.
Cost certainty	<ul style="list-style-type: none"> ▪ need for strict cost control and/or certainty ▪ degree of certainty regarding design and achievement of KPIs ▪ need for cost certainty.
Project characteristics	<ul style="list-style-type: none"> ▪ risk factors particular to a project ▪ unique or unusual circumstances or factors.
Timing constraints	<ul style="list-style-type: none"> ▪ consider the model most likely to best accommodate time constraints ▪ gauge the critical deadlines.

Once a preferred delivery model has been identified, it can be structured in detail and tailored to the project. It is also advisable that the project's risk assessment is reviewed once the preferred delivery model has been structured.

Prior to going to market, the final procurement strategy which incorporates the preferred delivery model, should be approved by the Council's investment committee (if one exists) or the Council. It is also important to engage with the market in respect of the preferred delivery model prior to calling for tenders.

11.5 Developing the commercial framework

The procurement model impacts upon the commercial framework for the project, which in turn reflects the key commercial principles, including:

- project term: duration of the project, expected commencement, any extension arrangements

- payment mechanism: how the project will be paid for
- risk allocation: how the various risks will be allocated throughout the project term.

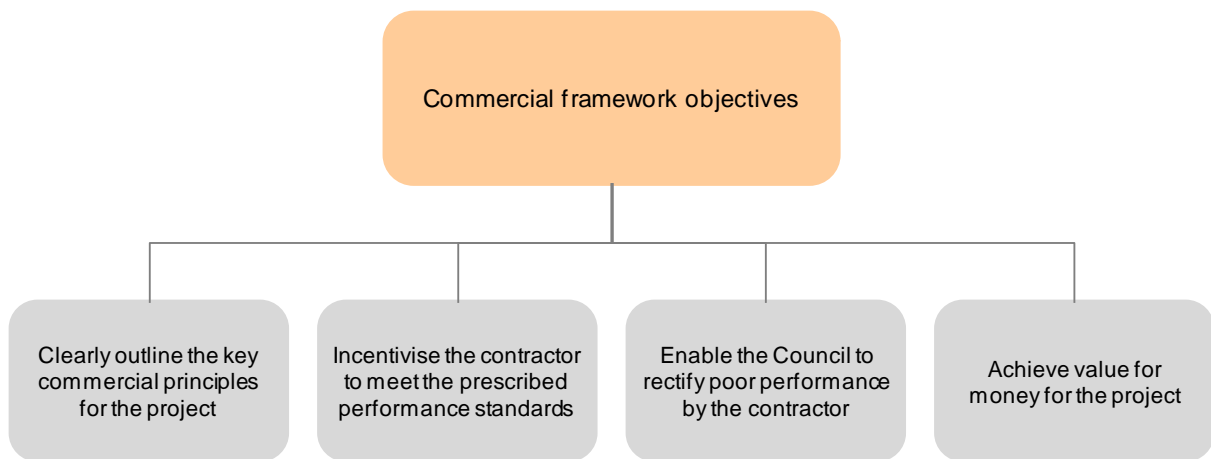
The business case should include a high level commercial framework for the project, with the detailed development of the commercial framework taking place during the project development phase. See section 6 of Part C, *Commercial framework*.

What is the commercial framework?

The commercial framework represents the commercial arrangement that the Council is seeking for the project. In other words, the commercial framework is 'the deal' between the Council and the other project participants – identifying what the Council is giving away and what it is getting in return.

The objectives of the project team in developing the commercial framework are illustrated in Figure 12.

Figure 12: Objectives of the commercial framework



It is imperative that the Council documents the commercial framework for the project early in the project planning process. The project team should not proceed to the project development stage until this high level commercial framework has been established. This is the critical step that is often missing in local government projects. A well-developed commercial framework will give the Council greater clarity as to commercial drivers for the Council in undertaking the project and the financial viability and costs of the project.

Where to begin?

The commercial framework should be built around the project objects and scope, any financial modelling undertaken and consideration of socio-economic impacts for the project. This will form the starting point for developing the commercial framework. The project team will then need to collate and assess all information relevant to the project, taking into consideration the following:

- funding strategy and project delivery method selected
- market conditions
- wider policy conditions
- project risks
- performance standards that are necessary for the Council to achieve its objectives

- input from advisers.

Some of these are explored in more detail below.

Funding strategy and procurement method

The funding strategy and procurement method adopted by the Council will have a significant impact on the commercial framework. The impact of the funding strategy will be more evident in the context of non-traditional procurement models such as Design, Build, Finance and Maintain (DBFM) or Build, Own, Operate, Transfer (BOOT) arrangements where project specific structures need to be put in place.

The procurement method adopted by the Council will dictate the high level commercial arrangements for the project. For each model, there are basic assumptions about who will bear certain risks, responsibilities and liabilities. For example, under a design and construct contract, the contractor is usually paid progressively on the basis of work completed or milestones achieved, whereas under a DBFM arrangement the contractor is often not paid anything by the Council until the asset is complete and operational.

Market conditions

It will be necessary for the Council to have a sound understanding of the prevailing commercial environment in order to develop a sufficiently robust commercial framework, which is flexible enough to accommodate changes due to a shift in the market.

Interface with wider policies

The Council is encouraged to consider environmental and social impacts in its commercial framework and to use strategic and sustainable procurement processes to achieve an outcome that contributes to the strengthening of the community – provided the approach continues to demonstrate value for money.

Some suggestions for how this can be achieved include:

- requiring the strategic use of local labour by the contractor, either directly or indirectly through the use of sub-contractors, to encourage economic development in the local area
- encouraging tenderers to create local employment opportunities
- requiring or encouraging contractors to purchase goods and services that are 'environmentally friendly', or engaging the services of subcontractors or who use suppliers demonstrating social responsibility, ethical business practices and employment processes that promote equal opportunity and diversity
- promoting or seeking sustainable development and/or sustainable service delivery
- collaborating with neighbouring Councils and government bodies for collective purchasing to maximise value for money through economies of scale
- incorporating a community/social benefit criterion in the tender evaluation.

Whilst social and environmental impacts are important, the Council should be mindful that the insistent imposition of such requirements might not always be beneficial in the context of major infrastructure projects. For example, insisting that the preferred tenderer uses local resources to construct a new facility may result in an increase in the tender price to the Council, and the hiring of a subcontractor who may not possess the requisite skills and/or qualifications for the task. In this scenario the Council

needs to consider whether efficient use of public monies and commissioning of relevant experience outweighs the benefit of promoting local employment.

11.6 Value for money and cost comparator models

The financial analysis undertaken for the business case provides a baseline component for the evaluation of value for money. Value for money is a concept that takes into account quantitative and qualitative factors associated with a project. Whether or not a particular project represents value for money will depend on a range of factors, including whether the project option selected maximises the net social benefit, and whether the selected delivery model optimises project outcomes.

Value for money does not necessarily refer to the lowest cost option. However, the business tension created through a competitive tender process is likely to increase the prospect of the Council obtaining value for money.

While the business case may assess the value for money potential of a project, the value for money assessment will ultimately need to be considered prior to contractual close. For some projects, the requirement to undertake a quantitative value for money assessment involves the development of a cost comparator.

A cost comparator is a quantitative tool that can assist the Council in weighing up whether a project represents value for money.

A preliminary cost comparator may be incorporated into a business case and further refined prior to the receipt of the bids for the project. In this instance, a cost comparator can be used as a quantitative benchmark to evaluate private sector bids. It should be updated to reflect the outcome of the project's risk assessment (see section 10, *Risk analysis*). The assistance of external consultants may be required to develop an accurate cost comparator.

For further information on the development of cost comparators see *National Public Private Partnership Guidelines, Volume 4: Public Sector Comparator Guidance*.

12. Funding strategy and budget analysis

The business case should consider the funding options available for the project and analyse the consequential budgetary impacts for the Council associated with each funding option. Funding and budgetary considerations are an integral part of the project development process. Failing to adequately address these aspects during the development phase can lead to financial difficulties during the delivery phase, which in turn will have negative impacts on project delivery and value for money outcomes.

12.1 Funding options

A key component of any major capital works project is identifying how the project will be funded. Funding sources available to the Council include:

- rates
- grants from Federal, State or Territory Governments
- special rates and charges schemes/developer contribution
- fees and charges.

For more information on the above funding sources, refer to Part B3, *Funding and financing options*.

The Council should explore various funding and financing options for the project, in light of the project’s procurement model and commercial structure. In doing so, the Council should consider any legislative or policy requirements or restrictions needed to obtain various forms of finance. As the project moves into the project development stage, it will be useful for the Council to create a project funding plan which outlines the key actions and timelines associated with securing funding for the project.

Identifying the ideal capital structure for a project will depend on the Councils’ individual financial circumstances including credit quality. It will also depend on the nature of the project, its risks, and any revenue it may generate. Value for money considerations should drive the project’s funding model.

12.2 Budgetary impacts

The Council will need to consider how the project’s funding option(s) will impact on the Council’s future budgets. It is critical that the project team fully understands the budgetary frameworks that govern the Council’s expenditure. All budgetary frameworks will be based on the underlying premise of affordability, with the Council needing to be confident that all project costs will be able to be accommodated within budget. Any revenue generated by the project should also be taken into account.

A project should only proceed to the project development stage if the Council can afford the project within its forward budget. All financial implications associated with the project should be incorporated within the Council’s forward budget, including an estimate of all costs to be incurred during the construction and operation phases of the project.

12.3 Developing a project budget

The business case should present an indicative budget to identify how much the project is likely to cost the Council in terms capital expenditure and ongoing operations and maintenance expenses. The components of the project’s budget are set out in Table 14.

Table 14: Project budget components	
Component	Description
Base capital cost estimate	<p>Includes the following components, and does not incorporate any contingencies or cost escalation:</p> <ul style="list-style-type: none"> ▪ direct costs: estimate of the cost of labour, plant, materials and subcontract work required to deliver the asset ▪ indirect costs: project costs necessary to support the direct costs including the site facilities, project insurances, site management and supervision ▪ contracting parties' fees: contractors' profit margin and corporate overheads ▪ project development and associated costs such as: <ul style="list-style-type: none"> ▪ fees or taxes ▪ insurance ▪ administration costs ▪ payments to private sector partners ▪ advisers and consultants.

Table 14: Project budget components

Component	Description
Life cycle capital cost estimate	Provision of major life cycle maintenance upgrades of the asset(s) over its economic life.
Operations and maintenance	Provision for ongoing operating and soft maintenance costs.
Escalation	The project's budget should incorporate a specific allowance for a general increase in prices throughout the life cycle. Specific parts of the project's budget may be escalated at different times e.g. consumer price index, wage cost index, building price index etc.
Project risks	The budget should incorporate an additional allowance for project risks – refer to section 10, <i>Risk Analysis</i> .

13. Forward planning

13.1 Project plan and timetable

The Council will need to develop a project plan for the purpose of implementing the project.

The project plan should incorporate items such as:

- the activities being undertaken
- milestones to meet deliverables
- decision points for the Council
- review processes
- specific skills and levels of resources required (internal and external resources)
- acquisition of sites (if required)
- purchase of equipment and materials (if required)
- consultation with stakeholders
- planning approval processes
- tender process timetable
- obtaining committed funding/finance.

The Council must consider the likely project planning implications, as these will support the Council's capacity and capability to achieve the deliverables of the project. Key deliverables will often include time, cost, quality, risk, procurement, safety, change management and realising service benefits or objectives.

13.2 Governance for project development

Having undertaken the tasks involved in developing the business case, the project director/project team should revisit the governance plan and update it for the purposes of implementing the project development tasks. At this stage, the aspects specific to the project development stage may be high level, but should be sufficiently detailed to give the Council a clear idea of the structures proposed to guide the project through the next stage.

The key elements of a governance plan are discussed in section 6.4 of Part A, *Governance plan*.

13.3 Key resource requirements for delivery

Ensuring a project is adequately resourced is critical to its success. The Council will need to identify the key resources required for project implementation and delivery. This includes internal and external resources. Complex projects may also require specialist expertise including commercial, financial, technical, operational and legal expertise. The exact expertise and experience needed will vary depending on the nature of the project.

A high level resource plan should be developed for the project development stage. For guidance on developing a resource plan, see section 6.5 of Part A, *Resource plan* and section 2.3 of this Part B1, *Allocating resources*.

13.4 Planning and approvals required

The Council will need to identify the approvals required for the project. These include planning approvals, environmental approvals, budgetary approvals, and other statutory approvals. For more information, see section 5 of Part C, *Statutory approvals and controls*. It is important that the necessary approvals required are identified and factored into the timetable for project delivery.

Where a project is subject to a gateway review process, the project team will need to ensure that those reviews are carried out at the times required (this differs between jurisdictions). For further information see Annexure 4, *Gateway review process*.

14. Further resources

Commonwealth

National Public Private Partnership Policy and Guidelines, Council of Australian Governments (November 2008).

Public Private Partnerships: Business Case Development, Financial Management Guidance No. 17, Commonwealth of Australia, Department of Finance and Administration (December 2006).

Victoria

Good Practice Guidelines Developing a State Purchase Contract Business Case, Strategic Sourcing, Government Services Group, Department of Treasury and Finance (July 2011).

Victorian Local Government Best Practice Procurement Guidelines, Victorian Department of Planning and Community Development (2013).

Investment Lifecycle and High Value/High Risk Guidelines: Prove, Victorian Department of Treasury and Finance (2012).

Investment Management Standard, A Guide for Victorian Government Departments and Agencies, Victorian Department of Treasury and Finance (2012).

New South Wales

NSW Public Private Partnerships Guidelines, NSW Treasury (2012).

Guidelines for Capital Business Cases, NSW Treasury (December 2008).

Guidelines for Capital Business Cases, Office of Financial Management, Policy & Guidelines Paper (TTP 08-5), NSW Treasury (December 2008).

Business Case Gate Review Workbook, Gate Two, NSW Treasury (June 2011).

Queensland

Project Assurance Framework, Queensland Treasury and Trade website (6 August 2012).

Gateway Review, Readiness for Market, Gate 2, Projects Queensland, Queensland Treasury and Trade (2013).

Gateway Review, Investment decision, Gate 3, Projects Queensland, Queensland Treasury and Trade (2013).

Public private partnerships guidance material, Supporting document, Business case development, Department of Infrastructure and Planning (2008).

South Australia

LGA Guide Procurement Policy, Local Government Association of South Australia (7 August 2012).

Northern Territory

Building the Future: Northern Territory Government 10 Year Infrastructure Strategy, Northern Territory Government, Department of Lands and Planning (2010).

Procurement Directions, Northern Territory Government, Department of Business (March 2013).

Tasmania

Code for Tenders & Contracts, Local Government Association Tasmania (June 2005).

Tasmanian Government Project Management Guidelines Version 7.0, The Department of Premier and Cabinet (July 2011).

Western Australia

Gateway: Business Case Workbook, Government of Western Australia, Department of Finance, Government Procurement (undated).