

# Project Assessment Framework

**Preliminary Evaluation**

July 2015



Queensland  
Government

# Component of the Project Assessment Framework (PAF)

This document forms part of the Project Assessment Framework, as outlined below.

Overarching policy document	
	<i>Policy overview</i>
Guidance material	
	<i>Strategic assessment of service requirement</i>
✓	<b>Preliminary evaluation</b>
	<i>Business case development</i>
	<i>Supply strategy development</i>
	<i>Source supplier/s</i>
	<i>Establish service capability</i>
	<i>Deliver service</i>
	<i>Benefits realisation</i>
Supplementary guidance material	
	<i>Cost-benefit analysis</i>
	<i>Alliance establishment and management</i>
Related policy documents	
	<i>Queensland public private partnership supporting guidelines</i>
	<i>Guidelines for the assessment of market-led proposals</i>

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# 1

## Purpose

This document provides guidance regarding the range of issues to consider when conducting a preliminary evaluation of the project options identified in the *Strategic assessment of service requirement* pre-project stage.

The purpose of the *Preliminary evaluation* stage of the project lifecycle is to provide sufficient information to government decision makers (e.g. the Cabinet Budget Review Committee (CBRC) or other project-specific governing body) to enable them to make an informed decision as to whether to proceed further with the project by investing in developing a business case.

The *Preliminary evaluation* stage facilitates an assessment of the priority and affordability of the project options and the strategic decision of whether or not to invest in fully developing a business case. If it is determined that the project should proceed to the *Business case development* stage, the decision made at this stage determines whether private sector investment is possible (including as a potential public private partnership (PPP) project) or whether traditional delivery is most appropriate.

As the costs associated with fully developing a business case can be significant, particularly for large or complex projects, only those projects deemed affordable and a priority should be progressed. Therefore, the information that is generated in the *Preliminary evaluation* stage should be sufficiently detailed to assist decision makers to determine the priority and likely affordability of the potential project and, if it is to proceed, the form it should take to deliver best value for money.

Agencies should refer to the Project Assessment Framework (PAF) Policy Overview for further information about the PAF's application and the roles and responsibilities that may apply.

### 1.1 Affordability and priority

The priority of the potential project should be determined according to its contribution towards the achievement of agency and government priorities and outcomes. This requires considering the project in terms of competing priorities initially at the agency level and then at the whole-of-government level. Consultation with central agencies at this stage is necessary to consider alignment with strategic government priorities.

If it is determined that a project is a priority, the next issue to address is affordability. Since all priority projects cannot

be funded where there are budgetary constraints, it is fundamental that cost estimates and delivery options are realistically assessed. Section 2.3.2: *Preliminary financial and economic analyses* of this document provide further guidance on preliminary cost estimates.

### 1.2 Delivery model

Based on the characteristics of the potential project, an evaluation must be made during the *Preliminary evaluation* stage regarding the opportunity for private sector investment (including the potential as a PPP project) or whether traditional delivery is most appropriate. To assist this decision, a qualitative assessment should be undertaken on the range of possible delivery options. An example of this qualitative assessment is provided in *Appendix A*.

Assessment of potential options involving the private sector should consider the whole-of-life (construction and operations) implications, with a focus on the overall cost and risk profile that may be achieved. Agencies should consult with Queensland Treasury in relation to private sector investment and whole-of-life assessment in the *Preliminary evaluation* stage to ensure all potential options are appropriately considered.

At the end of the *Preliminary evaluation* stage, if a project is deemed to be affordable, a priority and potentially appropriate for delivery as a PPP, the project would proceed to follow the *National PPP Guidelines* in conjunction with the *Queensland PPP supporting guidelines*.

If the project is not deemed potentially appropriate for PPP delivery (but is still viewed as a priority and affordable) it would proceed to the *Business case development* stage of the PAF. In this situation, the business case will need to compare in detail, at a minimum, two possible delivery options so as to provide a comparative assessment of the better value for money delivery option.

The decision made at this point does not constitute funding approval for project delivery. Such decisions will be made on completion of the *Business case development* stage.

# 2

## Process

The key activities undertaken during the *Preliminary evaluation* stage are to:

- re-confirm the outcome sought identified in the *Strategic assessment of service requirement* pre-project stage
- define the options to be evaluated in the *Preliminary evaluation* stage to achieve the outcome sought
- conduct a preliminary evaluation of the costs, risks and benefits associated with the identified project options
- determine the extent of private sector involvement and/or potential for private sector investment (including as a potential PPP project) for the project
- establish initial project organisation and governance arrangements for leading and managing the project
- develop a detailed plan and budget for progressing to the next stage in the project lifecycle (*Business case development*)
- consult with central agencies
- re-assess the prioritisation of the project (on the basis of relevant government policy) and alignment with strategic government priorities.
- confirm the project framework that has and will be applied, including any necessary approvals or endorsements
- seek approval from CBRC or other project-specific governing bodies to progress to the *Business case development* stage of the project lifecycle.

### 2.1 Re-confirm the outcome sought

The outcome sought (as defined in the *Strategic assessment of service requirement* pre-project stage) should be reviewed, and if necessary, further developed to ensure that it is stated in clear and measurable terms. Any criteria for success should be reviewed to ensure that the most efficient and effective response can be identified.

#### What you need to do:

- review, and if necessary, further develop the outcome sought that was identified in the *Strategic assessment of service requirement* pre-project stage
- review and re-confirm the potential benefits identified during the *Strategic assessment of service requirement* pre-project stage
- re-confirm the prioritisation and alignment with strategic government priorities
- define the outcome sought in clear and measurable terms.

### 2.2 Define the options to be evaluated in the *Preliminary evaluation* stage

A key product from the *Strategic assessment of service requirement* pre-project stage is a description of the solutions with the greatest potential to achieve the outcome sought. These options should be reviewed, re-confirmed and, if necessary, further developed to finalise the shortlist of options to be evaluated in this project stage.

A large number of options may have been identified in the pre-project stage and reduced to a small number of alternatives with the greatest potential to provide value for money solutions. During the *Preliminary evaluation* stage it is important to confirm the initial decisions about the inclusion or exclusion of particular options for further analysis, prior to finalising the shortlist of options to be evaluated. Agencies should consult with Queensland Treasury in relation to the options for private sector investment.

As the status quo is not producing the outcome sought, it should only be considered in the *Preliminary evaluation* stage as the base against which to compare the net impact of each option (refer to section 2.3.2: *Preliminary financial and economic analyses*). However, this does not preclude the Government deciding to remain with the status quo based on affordability or value for money considerations.

For projects that require an infrastructure element as part of the solution, the infrastructure component is often identified as a project in its own right. In these situations a number of technical solutions should be canvassed that explore a range of engineering possibilities, and the extent to which the private sector may be involved in project delivery must be considered.



The potential benefits identified in the *Strategic assessment of service requirement* pre-project stage should be reviewed and used to inform a benefits management plan and supporting benefit profiles.

## 2.2.1 BENEFITS MANAGEMENT PLAN

Similar to project costs and risks, potential benefits are reviewed and refined over the project lifecycle.

For each potential option identified for achieving the outcome sought, a benefits management plan should be developed to outline what potential benefits are expected to occur, where and when they will occur, and who will be responsible for their delivery. This should also be performed for the status quo.

Primarily, a benefits management plan will provide an overview and summation of the benefits profiled for each potential option and how they will be measured and reported (refer to sections 2.2.2: *Potential benefits profile* and 2.2.3: *Developing measures and quantifying benefits opportunities*).

Planning for benefits management should include:

- identifying and prioritising tangible and intangible benefits for the potential option
- assigning ownership of, and commitment to, the benefits from stakeholders
- developing measures and quantifying benefit opportunities
- identifying the activities, timelines, responsibilities, interdependencies and resources required to achieve the benefits
- developing an ongoing benefits monitoring, tracking and reporting process
- agreeing how information on benefits (delivered and undelivered) will be used to inform future projects as well as portfolio and program decision making.

### What you need to do:

- develop a benefits management plan for each potential option (including the status quo)
- assess the prioritisation of the project (on the basis of relevant government policy) and alignment with strategic government priorities.

## 2.2.2 POTENTIAL BENEFITS PROFILE

For each potential benefit, a profile should be developed. The purpose of a profile is to outline all aspects of the benefit, including responsibility and measurement. The level of detail should be tailored to requirements however, it is essential that profiles are dynamic and updated throughout the project lifecycle to reflect changes.

Information contained in a benefit profile may include:

- a unique identifier/number
- responsible officer(s)

- profile agreement date
- date profile was last reviewed
- benefit overview (i.e. a high-level description which may include linking it to the strategic benefit of the outcome sought)
- a detailed description of the main attributes of the benefit, its relationship with other benefits and the eventual outcomes.

### What you need to do:

- develop a profile for each benefit outlining all aspects including responsibility and measurement relevant to the costs.

## 2.2.3 DEVELOPING MEASURES AND QUANTIFYING BENEFIT OPPORTUNITIES

Measurement effort should be concentrated on key benefits. That is, those that contribute most directly to the priority and affordability of the potential option for achieving the outcome sought. If feasible, all benefits should be tracked. However there are diminishing returns in trying to quantify every benefit at too great a level of detail. Some projects generate agglomeration and other wider economic benefits. The PAF includes supplementary guidelines in relation to what to include in the cost-benefit analysis, including in relation to agglomeration and wider economic benefits.

When a benefits management plan is agreed upon, measurement can commence. The fundamental principles of this process should include:

- keeping measurement systems simple and easy to use and understand
- where practical, using existing agency information sources or performance measurement systems
- alternatively, adapting or adding to existing agency systems
- constructing (as a last resort) new measurement systems, making sure to include development and operating costs in the business case
- documenting and revisiting assumptions
- concentrating on key benefits and establishing key performance indicators.

### What you need to do:

- review and if necessary, further develop the options identified in the Strategic assessment of service requirement pre-project stage
- define the options to be evaluated in this project stage
- ensure the measurement process for the benefits and costs remains fit-for-purpose according to the potential option and agency specifications.

## 2.3 Conduct a preliminary evaluation of the costs, risks and benefits associated with the identified project options

The shortlist of potentially viable options (refer to section 2.2 above) should be evaluated to enable CBRC or other project-specific governing bodies to make an initial determination on their priority, affordability and suitability for further investigation. However, only a preliminary evaluation of the options is conducted at this stage as more detailed analysis will be conducted during the next project stage, *Business case development*.

The preliminary evaluation should include:

- preliminary risk analysis
- preliminary financial and economic analyses (including sensitivity analysis)
- preliminary market sounding
- preliminary consideration of legislative approval issues
- preliminary consideration of whole-of-government policy issues
- preliminary consideration of regulatory issues
- preliminary public interest assessment
- consideration of procurement strategies.

The preliminary evaluation should facilitate a ranking of the alternative options (including the status quo) in terms of cost, benefits, risk and their ability to meet the outcome sought, and the nomination of the options to be subject to more detailed analysis during the *Business case development* stage. The preliminary evaluation may also result in modifications to, or abandonment of, some or all of the options.

It should be noted that while the analyses can be prepared sequentially, they are interrelated and it will be necessary to return to earlier analyses in order to make adjustments for information that becomes apparent throughout the process. The focus of the *Preliminary evaluation* stage is a comparative analysis of the effectiveness and relative attributes of the possible options for delivering the outcome sought.

These analyses should be brought together in a summarised form to allow a decision on whether to invest in fully developing a business case and, if successful, whether there is potential for private sector investment (including whether the project should proceed as a potential PPP project) or if traditional delivery mechanisms offer the most value for money for Government.

### What you need to do:

- conduct a preliminary evaluation of the options that includes a preliminary:
  - risk analysis
  - financial and economic analyses
  - market sounding
  - consideration of legislative approval issues
  - consideration of whole-of-government policy issues
  - consideration of regulatory issues
  - public interest assessment
  - consideration of procurement strategies
- summarise the results of the preliminary evaluation
- rank the options (including the status quo) in terms of cost, benefits, risk and their ability to meet the outcome sought
- nominate the options to be the subject of more detailed analysis during the *Business case development* stage.

### 2.3.1 PRELIMINARY RISK ANALYSIS

The preliminary evaluation of options must take into account circumstances which may occur resulting in future (actual) benefit and cost streams being different from those assumed when forecasting project benefits and costs. This potential variation in assumptions ('risk') should be addressed in the *Preliminary evaluation* stage.

A preliminary risk analysis should be conducted to identify and assess the risks involved with each project option. Information generated from the preliminary risk analysis should be documented in a comparative analysis of the different risks associated with each option, and reflected in the value of the costs and benefits considered in the financial and economic analyses (refer to section 2.3.2: *Preliminary financial and economic analyses*). A summary document demonstrating how each risk has been factored into a cost or benefit should also be prepared.

The preliminary risk analysis should involve the following activities:

- identification – identifying and documenting the key risks to which each option could be exposed
- assessment (qualification and quantification) – conducting an initial assessment of the materiality of the risks (qualification) and the likelihood and consequences of the risks occurring (quantification)
- allocation – giving some initial consideration to identifying the parties likely to be best able to manage the identified risks
- mitigation – developing preliminary strategies to mitigate the risks.

The conduct of a preliminary risk analysis may be aided by conducting risk identification and assessment workshops. These workshops should be attended by the project team and any external advisors that the project team has engaged to ensure that a broad base of knowledge and experience is utilised (e.g. technical advisors, if appointed at this stage).

Agencies can consult with Queensland Treasury or Building Queensland (if appropriate) to determine the need for consultants at this stage, and if required, their scope of services.

Using a facilitator who is not part of the project team can make the workshops more efficient. For significant project proposals, several workshops may be necessary during the *Preliminary evaluation* stage to work through all the activities associated with the preliminary risk analysis.

### 2.3.1.1 Risk identification

Risk identification involves determining and understanding how events could prevent, degrade, delay or enhance the project outcome. Examination of common risks within generic categories may be useful to help determine a range of potential risks to which the option may be exposed.

Some major generic risk categories and common project risks include physical project risks, operational risk, market/finance risks, and process risks. Identification of these generic risks, as well as risks that are more specific to the type of project option being considered, should involve personnel with relevant technical or operational experience.

### 2.3.1.2 Risk assessment (qualification and quantification)

Risk assessment involves determining, for each identified risk, the sources of the risk, their positive and negative consequences, and the probabilities that those consequences will occur. The combination of the likelihood of the risk occurring and its consequences determines the materiality of the risk, and the level of risk analysis undertaken, including the need for mitigating strategies.

Risks should be quantified (where possible) as the product of:

- likelihood of actual project costs and/or benefits being different from the expected values
- the consequences (i.e. the quantum of the difference between the actual and expected values).

Risk assessment techniques range from subjective assessment based on experience with similar projects, to computer-based simulations. The risk assessment approach adopted for a particular option or risk should depend on the significance and complexity of the option and the relative impact of the risk. In the *Preliminary evaluation* stage, it is not anticipated that there will be any need for complex multi-variable simulations as these will be carried out in the *Business case development* stage.

### 2.3.1.3 Risk allocation

Where the implementation of a project is expected to involve a number of parties (including non-government parties), efficient risk management dictates the allocation of each specific risk to the party best able to manage the occurrence and/or consequences of that risk.

In the *Preliminary evaluation* stage, initial consideration should be given to identifying the parties likely to be best able to manage the identified risks.

### 2.3.1.4 Risk mitigation

Risk mitigation strategies should be identified to reduce the likelihood of the risk eventuating, or the consequences if it does eventuate. Mitigation strategies can either seek to prevent the occurrence of the risk (e.g. through specific project structuring) or deal with the risk once it has materialised (e.g. through appropriate contingency planning). Mitigation strategies should seek a balance between the potential cost of the risk occurring and the cost incurred in preventing it or preparing for it.

#### What you need to do:

- conduct a preliminary risk analysis for each option
- document the information generated in a comparative analysis of the risks associated with each option
- reflect the risks in the values of costs and benefits considered in the financial and economic analyses (refer to section 2.3.2: *Preliminary financial and economic analyses*)
- develop a summary document demonstrating how each risk has been factored into a cost or benefit in the financial and economic analyses.

#### Sources for further information

The guidance material on Cost-benefit analysis provides more detailed guidance around conducting a risk analysis.

Additional information on risk management is available through publications of SAI Global, including: *Risk Management* (AS/NZS ISO 31000:2009) and *Risk Financing* (SAA HB141-2011).

## 2.3.2 PRELIMINARY FINANCIAL AND ECONOMIC ANALYSES

The results of financial and economic analyses have a significant impact on the ultimate determination of a project's priority and affordability. The financial analysis determines the financial impact of each alternative project option on the Government, and the economic analysis assesses which option will create the largest net economic benefit to the State.

It is important to understand the distinction between a financial analysis and an economic analysis. Financial analysis considers the cash flow consequences of the project options from an internal financing perspective while the economic analysis looks at the overall impacts of the project options on the economic welfare of the community. The economic analysis builds on the financial analysis, with the addition of other impacts and benefits that are not cash-based or are not directly captured or incurred by the Government.

Queensland Treasury can advise on the appropriate discount rate and/or discount rate methodology to use for each project.



### 2.3.2.1 Preliminary financial analysis

The purpose of a financial analysis is to consider the financial impact of each alternative option on the Government. It is undertaken from the point of view of the Government as an investor in the project. It considers cash flows in relation to the options in order to determine the net cash impact of the options from the point of view of the entity being asked to invest funds in the project.

Essentially, the financial analysis should involve a reasonably robust examination of cash flows in order to identify cash flow impacts in each year over the project horizon. Preliminary consideration should also be given to budgetary impacts, as well as potential funding sources. For project options with costs and revenues extending over long periods, calculation of the net present financial value will enable a practical comparison of the options.

While the status quo is not an active option under consideration, a comparison of net cash impacts under each option against the cash flow impact of the status quo, is used to highlight the additional costs of implementing the required service or policy change. Financial analysis should consider the whole-of-life cashflow implications.

The financial analysis conducted during the *Preliminary evaluation stage* will form the basis for determining the funding framework in the *Business case development stage*. The funding framework will identify the timing, mechanisms and sources for cash flows, and consequent impacts on agency budgets over the full life of the selected option.

A critical component of financial analysis is reasonably robust preliminary cost estimates.

#### 2.3.2.1.1 Preliminary cost estimates

Preliminary costs should be estimated to return a minimum confidence level in the order of the P50 interval (50 per cent probability) when later measured against the more detailed costs presented for investment decision on completion of the business case. For probability-based estimates, there may be alternative methods which achieve the same outcome in terms of providing an overall level of confidence about estimated project costs. Where alternative cost estimate methods are adopted, agencies will need to document these arrangements to verify their methodology.

The time horizon for estimating costs should capture whole-of-life costs and, accordingly, estimates of the following should be made for:

- initial capital expenditure requirements
- lifecycle maintenance and refurbishment costs
- lifecycle costs of operation.

Care should be taken to ensure whole-of-life costs are included in the assessment of each option. The option with the lowest capital cost may not necessarily deliver the best value for money over the life of the project.

For infrastructure projects, the preliminary estimate of whole-of-life costs should involve an initial assessment of raw engineering and operating costs based on a preliminary (or schematic) design. It should also include a first iteration of a contingency cost estimate of those significant risks which could impose a material cost impact on the project.

This preliminary raw cost estimate requires an adequate understanding of the particular project conditions (e.g. the nature of the site, specialist equipment requirements and the quality of finishes likely to be required).

The preliminary contingency estimate is generated from the development of an initial risk matrix sufficient to identify the high volatility risks, their likelihood and their potential cost impact. The quantification of risk should recognise the possibility that some raw engineering costs have a contingency element built in. As a result, care needs to be taken to avoid double counting of risk.

It is essential that cost estimates are subject to appropriate cost escalation where the analysis uses current rather than constant prices. Agencies need to have in place a robust process for estimating future project cost escalation. The proposed cost escalation methodology is to be agreed between the agency and Queensland Treasury prior to implementation.

For non-infrastructure components of projects, cost estimates should be based on benchmarks that have been externally validated to the largest extent possible.

For all cost estimates, the basis of derivation and major underlying assumptions should be clearly documented.

#### 2.3.2.1.2 Preliminary financial benefit estimates

The financial analysis includes estimates of cash inflows to the Government. To the extent that the option being evaluated is intended to generate cash inflows, the basis of derivation (e.g. benchmarks) and major underlying assumptions should be clearly documented. Similar to the treatment of preliminary costs, preliminary financial cash inflow estimates should be estimated to return a minimum confidence level of the P50 interval when later measured against the more detailed cash inflows presented for investment decision on completion of the business case. For probability-based estimates, there may be alternative methods which achieve the same outcome in terms of providing an overall level of confidence about estimated cash inflows. Where alternative estimate methods are adopted, agencies will need to document these arrangements to verify their methodology.

### 2.3.2.2 Preliminary economic analysis

An economic analysis involves an economic evaluation of the expected costs and benefits associated with each alternative project option. By identifying and estimating as many costs and benefits of an option as can reasonably be measured, including those which can be thought of as social and environmental, it is possible to rank project options according to their net benefit-cost ratio and/or net present value relative to the base case.

At the *Preliminary evaluation stage*, the key benefits and costs for each option should be identified and valued in cash terms wherever possible. This allows project options to be compared on the same basis and hence allows the determination of the greatest net benefit to the community and/or the most economic use of resources. When commencing this process it is important to remember that the costs and benefits are for society as a whole rather than the private individual. It is also important to identify the spatial reference area of analysis at either the local, state or national level.

A cost-effectiveness analysis may be used where benefits can be identified but it is impracticable to place a monetary value on a major proportion of them. Instead, benefits may be expressed in outcome statistics or physical units (e.g. number of hospital beds, lives saved, increased literacy rates). Project options are compared in terms of their relative effectiveness and their relative costs. While a cost-effectiveness analysis will facilitate identification of a least cost option, it will not show whether benefits outweigh costs.

As with the preliminary financial analyses, there should be a moderate degree of certainty (P50) surrounding initial estimates of economic costs and benefits. The basis of derivation (e.g. benchmarks) and major underlying assumptions should be clearly documented. For probability-based estimates, there may be alternative methods which achieve the same outcome in terms of providing an overall level of confidence about estimated economic costs and benefits. Where alternative cost estimate methods are adopted, agencies will need to document these arrangements to verify their methodology.

### 2.3.2.3 Preliminary sensitivity analysis

A range of factors can lead to significant variations in costs and benefits of a project assumed in the financial and economic analyses of a project option. This uncertainty can be addressed by undertaking a sensitivity analysis, which enables an examination of how sensitive the financial and economic outcomes are to specific assumptions in the evaluation.

A sensitivity analysis involves the following actions:

- identifying the variables which can have a significant impact on the outcomes of the project
- identifying a likely range for these variables, centred on the most likely assumed values
- calculating the impact of different combinations of worst and best case assumptions for these variables
- identifying the minimum set of changes in key assumptions which would reduce the net financial or economic benefit to zero, and assess the likelihood of these events occurring (also known as break-even analysis).

This process can lead to the development of several case scenarios for each project option:

- develop a benefits management plan for each potential option (as well as status quo)
- develop a profile for each benefit outlining all aspects including responsibility and measurement
- ensure that the measurement process for the benefits remains fit-for-purpose according to the potential option and agency specifications, and the highest level in the range of probable costs.

The economic analysis conducted during the *Preliminary evaluation* stage will be further developed in the next project stage (*Business case development*). In the *Business case development* stage, additional emphasis will be placed on identifying all costs and benefits for the relevant options, and conducting a more comprehensive sensitivity analysis on the options being assessed.

#### What you need to do:

- conduct a preliminary financial analysis for each option
- conduct a preliminary economic analysis for each option
- conduct a preliminary sensitivity analysis on the options being evaluated
- consult with Queensland Treasury regarding the discount rate and/or discount rate methodology, and escalation factors.

#### Sources for further information

The guidance material on Cost-benefit analysis provides more detailed guidance on conducting economic and financial analyses, including sensitivity analysis.

## 2.3.3 PRELIMINARY MARKET SOUNDING

The nature and extent of private sector involvement in the delivery of government projects can vary significantly from project to project. For example, private sector involvement could range from being involved in designing a part of the infrastructure solution, to the private sector financing and operating the asset. Where assumptions have been made about private sector involvement, these assumptions should be validated through market sounding. Market sounding is undertaken to explore the potential range of solutions and determine the market appetite for involvement in the potential project. Feedback may also be received on ways the project can be packaged and presented to the market.

The initial assessment of private sector interest in the potential project should be based on expertise and knowledge of the market that exists within the project team or agency. In all cases, agencies must consider the opportunity for private sector investment in the potential project. Agencies should consult with Queensland Treasury for further assistance when assessing the appetite and potential for private sector funding and/or financing.

For major projects, project teams will generally retain external advisors to assist in the preliminary evaluation. These advisors should be able to provide up-to-date information on the market position of the private sector. To ensure that advisors have sufficient experience to provide this information it should be specifically stated in the terms of reference section of their request for offer document.

One area that is particularly pertinent in the early analysis of private sector interest is the ability of consortia to set up innovative financing structures for projects with a high potential for delivery as a PPP. This information is not readily available from market participants and is generally only available from advisors that have experience over a range of deals of a similar type.

Agencies should consult with Queensland Treasury to determine if external advisors are required, and if so, the scope of their services at this stage.

Once all information has been collected from the internal and external project team (if appointed) a market sounding exercise can be undertaken. This market sounding should aim to further explore the potential range of solutions to a service proposal, and determine the actual market capacity and appetite for involvement in the potential project.

Market sounding should be conducted without prejudice given the early stage of the Government's investigation. All parties should be cognisant of probity issues throughout this process. The market sounding process must be focused on obtaining information from the correct party. For example, if information is required on how a deal may be financed, it is the bank that will actually decide if a deal is bankable and not the construction company. In this case it would be the bank that would need to be sounded out and not the construction company.

Interactions with market participants need to provide sufficient details about the proposed project options to obtain meaningful responses, without raising participants' expectations about the Government's commitment to implementing particular project or delivery options. For high-risk and/or highly sensitive projects the use of an independent probity advisor can assist in the provision of appropriate types of information to market participants.

To ensure the market sounding occurs in a professional manner, a succinct market sounding plan should be completed before there is any contact with the market. Assistance can be given with these plans by Queensland Treasury.

In completing the market sounding plan and undertaking a process of market sounding, agencies should also ensure they focus their enquiries to avoid burdening private sector parties. Various industry associations may provide a useful reference point for coordinating private sector input.

#### What you need to do:

- validate assumptions made about potential private sector involvement and/or investment through market sounding.

#### Sources for further information

The Procurement Guidelines, *Ethics, Probity and Accountability in Procurement* and *Use of Probity Auditors and Advisors in Procurement*, available at [www.hpw.qld.gov.au](http://www.hpw.qld.gov.au), also provide advice on applying probity principles in dealing with market participants and the use of probity specialists.

## 2.3.4 PRELIMINARY CONSIDERATION OF LEGISLATIVE APPROVAL ISSUES

Each alternative project option should be assessed to identify relevant legislative approval issues. This assessment may identify issues or risks that may impact on the option under consideration, and may need to be reflected in the risk analysis and associated values of costs and benefits in the financial and economic analyses (refer to section 2.3.1: *Preliminary risk analysis* and 2.3.2: *Preliminary financial and economic analyses*).

### 2.3.4.1 Environmental, planning, cultural heritage and native title

While it is not practical to resolve environmental, planning, cultural heritage and native title matters at this stage, any material issues that are likely to arise should be identified to ensure that:

- there are no insurmountable issues that would render any of the options unworkable
- appropriate modifications can be made to the options to accommodate specific matters.

Early identification of significant issues will assist with project planning and resourcing during the *Business case development* stage.

#### What you need to do:

- assess each option to identify relevant legislative approval issues.

## 2.3.5 PRELIMINARY CONSIDERATION OF WHOLE-OF-GOVERNMENT POLICY ISSUES

Each alternative project option should be assessed to ensure consistency with existing whole-of-government policies, including consideration of how the option aligns with strategic government priorities.

This assessment may identify issues or risks that may impact on the option under consideration, and may need to be reflected in the risk analysis and associated values of costs and benefits in the financial and economic analyses (refer to section 2.3.1: *Preliminary risk analysis* and 2.3.2: *Preliminary financial and economic analyses*).

### 2.3.5.1 Employee, employment and skills development issues

At the *Preliminary evaluation* stage it is important to commence the identification of any likely significant industrial relations, employee relations, employment and skills development issues and impacts that may need to be addressed when considering the options (e.g. employment security, preservation of employment conditions and entitlements).

This identification should involve appropriate stakeholder consultation to ensure effective change management mechanisms can be developed and implemented during the project's development. This consultation may include individual employees, focus groups and delegated representatives.

Agencies should identify and evaluate:

- the consistency of the proposed options to the relevant government policies and directives pertaining to employment terms and conditions
- any possible structural effects to the agency, which may result from a transfer of employees under the potential options
- the direct impact on employment
- substitution/displacement effects
- regional and social impacts
- training issues
- any indirect flow-on effects on wages.

#### What you need to do:

- assess each option to identify whole-of-government policy issues.

## 2.3.6 PRELIMINARY CONSIDERATION OF REGULATORY ISSUES

Where a project involves changes to legislation or regulations, options may have the potential to influence market competition, or the potential to regulate economic or other activity in the community. Potential regulatory impacts should be identified and included for resolution in the plan for business case development.

Specific activities to plan for in the *Business case development* stage include the development of regulatory impact statements and public benefit tests.

#### What you need to do:

- for options that have the potential to influence market competition or to regulate economic or other activity in the community, identify the potential regulatory impacts.

## 2.3.7 PRELIMINARY PUBLIC INTEREST ASSESSMENT

For projects that have a direct impact on the community, each option should be considered in terms of:

- its effectiveness in meeting the service requirement
- its impact on stakeholders
- accountability and transparency
- public access and equity
- consumer rights
- security
- privacy.

#### What you need to do:

- for options that have a direct impact on the community, conduct a preliminary public interest assessment.

## 2.4 Consider procurement strategies (traditional delivery or potential PPP project)

In all circumstances, the opportunity for private sector involvement must be considered, including private sector funding and/or financing options. Delivery models with private sector funding and/or financing options must be progressed as the preferred delivery model, unless there is demonstrable evidence that this will not deliver the best value for money for the Government, in which case traditional delivery models may be considered.

#### Sources of further information

For further information on the assessment of procurement options, refer to the Procurement Options Analysis guidance, volume 1 of the National PPP Guidelines, available at [www.infrastructureaustralia.gov.au](http://www.infrastructureaustralia.gov.au)

At this stage of project evaluation, consideration should be given to effective contract management requirements as it is critical to the project delivery and ensures the potential benefits identified are capable of being achieved.

### 2.4.1 PRIVATE SECTOR INVESTMENT OPTIONS

In all circumstances, the opportunity for private sector involvement must be considered. Delivery models with private sector funding and/or financing options include, but are not limited to, PPP projects.

#### 2.4.1.1 PPP defined

Broadly defined, PPP is a risk-sharing relationship between the public and private sectors to deliver public infrastructure (and associated services) with private sector financing.

#### 2.4.1.2 Threshold test for PPPs

Initially, projects should be considered against the PPP threshold test. As a general rule, projects with a capital cost equal to or more than \$100 million must be considered as potential PPP candidates.

Information and communication technology (ICT) projects are generally exempted from consideration as PPPs.



It should be noted that the threshold and exemptions are not absolute and PPP delivery could be considered if strong value for money drivers are identified for delivering a particular project as a PPP. For example, a project that is marginally below the \$100 million threshold could still be considered as a potential PPP project. Also, a project should not be automatically exempted if ICT is only a small component of the overall project.

#### What you need to do:

- assess the project against the PPP thresholds and value for money drivers (refer to section 2.4.1.4: Value for money drivers).

### 2.4.1.3 Establish process to assess PPP potential

Where a project, or potential bundle of projects, meets the threshold for being considered as a PPP, Queensland Treasury should be involved from the earliest stage in assessing the project for PPP suitability.

The scope for a PPP to generate additional value should be weighed up against the potential for additional costs, to ensure that projects proceeding to PPP *Business case development* under the *Queensland PPP supporting guidelines* are genuine candidates.

#### What you need to do:

- establish the process for assessing the suitability of the project as a PPP candidate.

### 2.4.1.4 Value for money drivers in PPPs

In considering a project's potential suitability for delivery as a PPP, projects should be assessed against the value for money drivers and other considerations outlined below. This assessment should essentially be a qualitative assessment of the potential for greater value for money to be achieved under a PPP delivery option, as compared to other private sector investment options (if applicable) or traditional delivery methods.

#### 2.4.1.4.1 Output based service requirement encouraging innovation

Output based service requirements tend to create an environment that encourages innovation from the private sector. For example, it is difficult for the private sector to innovate when the requirement is input focussed (e.g. to provide a room of set dimensions, made of specified materials, with certain light fittings and air conditioning equipment). However, where the private sector is required to provide facilities to meet an output based service requirement (i.e. a space requirement to a certain standard, including standards of lighting and temperature), it is possible for the private sector to provide innovative solutions to meet these requirements.

Therefore, in determining the potential for value for money to be derived in this area, key questions include:

- is the project suited to an output based specification
- are the output requirements easily defined and able to be measured in terms of performance
- is there potential for the private sector to provide innovative solutions to the State's requirements?

#### 2.4.1.4.2 Risk allocation

Value for money is maximised by optimal risk allocation. Risk should be allocated to the party best able to manage it. Such optimal allocation reduces individual risk premiums and the overall cost of the project, because the party in the best position to manage a particular risk should be able to do so at the lowest price.

Therefore, in determining the potential for value for money to be derived in this area, key questions include:

- are the risks well understood and able to be articulated
- are there risks that are able to be better managed by the private sector under a PPP solution
- is it possible to achieve optimal risk transfer (e.g. price certainty) under a PPP delivery option or are there likely to be subsequent significant variations or scope changes
- will the private sector be able to price the risks efficiently or is it likely that there will be a significant risk premium included in the private sector's pricing under a PPP solution?

#### 2.4.1.4.3 Whole-of-life costing

Integration between design, construction, operations and maintenance under PPP delivery can provide the incentive to achieve lower whole-of-life costs. The basic principle is that, under traditional delivery, if the design and construction roles are separated from the operations and maintenance roles, there is no incentive for one to minimise the costs of the other. Under a PPP arrangement, the central contractor has an incentive to ensure an optimal mix of construction and operating costs. In determining the potential value for money to be derived in this area, key questions include:

- will a PPP solution offer the opportunity for a more efficient capital versus operating expenditure mix due to the PPP solution being viewed as a package, rather than as separate projects (e.g. design and construction; operation and maintenance and so on)
- does the project include a significant operating expenditure component?

Projects with a significant operating expenditure component offer the most opportunity to achieve greater value for money through PPP delivery.

#### 2.4.1.4.4 Asset utilisation

An assessment of the potential and scale of the private sector to achieve additional revenue should be undertaken (e.g. selling access to space that would otherwise be under-utilised by the public sector).

#### 2.4.1.4.5 Competitive market

A key mechanism for achieving value for money is a competitive bidding process. In determining the potential for value for money to be derived in this area, key questions include:

- are there a number of private sector bidders for this type of project
- is there a strong market appetite to participate in the project?



### Consider the overall scope for additional value generation

A simple scale can be used to assess the scope for value generation for each driver. For example:

- ✗ represents no scope for value generation
- ✓ represents some scope for value generation
- ✓✓ represents reasonable scope for value generation
- ✓✓✓ represents excellent scope for value generation.

This should result in a table that allows an overall assessment as to the extent to which a project is likely to generate additional value under a PPP arrangement.

#### What you need to do:

- assess the project against the value for money drivers.

### 2.4.1.5 Other considerations

The preliminary qualitative assessment should take into account potential benefits as well as additional costs arising under a PPP arrangement. For example:

- the potential benefits of the private sector assuming project risks on a whole-of-life basis
- the additional costs associated with transferring project risks to the private sector. These additional costs relate to all aspects of a project where risks have been transferred including construction costs, operations and maintenance costs, and financing costs.

It is also important to consider whether the project is suited to a long-term contract (e.g. 20 to 30 years), as this timeframe is required to support whole-of-life management and costing.

Learnings from other similar projects (i.e. history of performance for similar projects via PPP and traditional delivery) should also be considered.

#### What you need to do:

- consider scope for additional benefits and costs under a PPP
- consider timeframes and learnings from other projects.

## 2.4.2 TRADITIONAL DELIVERY

Where private sector investment does not demonstrate value for money, traditional delivery can be used.

Under a traditional form of contract, different parties have specific individual obligations, with associated commercial/legal consequences where a party performs poorly or should they fail to properly fulfil its obligations. Risks are allocated to the party considered best able to manage them.

Alternative procurement strategies and innovative contracting models are becoming more common, particularly in the transport infrastructure field. Under these delivery arrangements, the alignment between project and commercial objectives drives behaviours that can deliver good results in terms of time, cost and quality.

The sections below briefly describe the following variations of traditional delivery as well as the types of projects to which they are most suited:

- construct only
- design and construct
- construction management
- managing contractor
- project alliance.

### 2.4.2.1 Construct only

In this approach, the Government is responsible for design and documentation, and engages a design team separately to develop the project design. The building stage is a separate contract.

This model may be used where a project option has the following characteristics:

- the scope is well-defined and scope creep or significant change to the client's requirements are unlikely
- the client has little need for innovation from the contractor
- it is desirable to complete design documentation prior to tendering.

### 2.4.2.2 Design and construct

In this approach, the Government develops a design brief outlining key requirements for the construction component of a project, and engages a contractor to complete the design and undertake construction.

This model may be used where a project option has the following characteristics:

- the scope of the project is well-defined, but some innovation in the design and construction would be desirable
- time imperatives in delivery of the project would result in a benefit from starting construction before design documentation has been completed.

### 2.4.2.3 Construction management

In this model, the Government engages a design consultant, and separately hires a construction manager to undertake the coordination role of the construction work.

This model may be considered for project options with the following features:

- the Government needs to maintain direct control over the works
- complex projects where work needs to start on one element of the project before design can commence on another.

#### 2.4.2.4 Managing contractor

In this approach, the Government engages a head contractor which engages subcontractors to deliver the works. The managing contractor is responsible for managing the completion of design and construction of the works.

This model may be considered for project options with the following features:

- the project option is complex or high-risk, with uncertain scope or technology
- a high degree of expert government input is available
- early contractor involvement is beneficial.

#### 2.4.2.5 Project alliance

Under the project alliance model, overall performance targets for the project are agreed between participants who then assume collective ownership of all risks associated with delivery of the project, with equitable sharing (in pre-agreed ratios) of the 'pain' or 'gain' depending on how outcomes compare with the pre-agreed targets. Although risks (and opportunities) are collectively owned, the impact of risks/benefits is precisely allocated based on the collective performance of the alliance and not directly linked to the performance of individual participants. All participants either 'win' or 'lose', depending on outcomes actually achieved.

In this approach, the Government collaborates with one or more non-owner parties to share the risk and responsibilities in delivering the construction phase of a project. All project delivery risks are shared by the alliance participants.

Alliances may be suitable for project options with the following characteristics:

- risks which are complex and difficult to specify or quantify
- complex stakeholder issues
- external risks or opportunities which can only effectively be managed collectively
- tight timeframes for delivery which result from project characteristics
- output specification which cannot be defined fully initially, or a high likelihood of scope changes during design and construction
- a need for owner involvement to add value through the construction phase.

There is considerable risk and complexity associated with the effective implementation of a project alliance, or other forms of relationship-based models, and expert advice should be sought prior to committing to these approaches.

#### Sources for further information

National policy and guidance on project alliances is available from the Australian Government's Department of Infrastructure and Regional Development at [www.infrastructure.gov.au](http://www.infrastructure.gov.au).

The PAF also contains supplementary guidance on *Alliance establishment and management*.

#### What you need to do:

- consider a range of procurement strategies
- for projects that are largely infrastructure based, or where the infrastructure component is significant, determine the extent to which there is potential for a PPP arrangement (or other private sector investment solutions) to deliver better value for money than a traditional delivery option.

## 2.5 Establish initial project organisation and governance arrangements for leading and managing the project

Initial project organisation and governance structures should be established for the project, focusing on the *Preliminary evaluation* stage of the project lifecycle. In doing so, all individuals and groups that have a role in this stage of the project should be identified, as well as their lines of accountability, responsibility, authority, reporting and control processes.

The initial project organisation and governance structure established in the *Preliminary evaluation* stage can be formalised, or amended if required, in the Business case development stage.

The governance structure and processes will depend on the scale and risk of the project, and the number of agencies which have significant responsibilities in delivering the project.

### 2.5.1 SINGLE AGENCY RESPONSIBILITY

Some projects will be the responsibility of a single agency. These projects would include infrastructure or service delivery projects which are part of an agency's core responsibilities (e.g. less complex road building or maintenance projects, extension of an existing service to new areas).

In these cases, the Minister or CEO for the agency would have the key approval powers for the project. The governance of the project could be the responsibility of a senior management group in the agency, which would have the following powers:

- making recommendations to the Minister or CEO on policy or management issues for the project which require high-level approval
- considering the position on policy or management issues for the project
- providing advice and direction to the project manager and project team
- overseeing the procurement and delivery processes for the project (if required).

A project manager, appointed from within the agency, or recruited specifically for the project, would have overall responsibility for day to day management of the project.

## 2.5.2 MULTI-AGENCY RESPONSIBILITY

Higher-value or more complex projects may involve several agencies in project delivery and application of relevant policies to the project.

In these cases, Cabinet or CBRC approval may be required at key decision points. The governance of the project could be the responsibility of an inter-agency senior officials group (a steering committee or project control group), which would have the following powers:

- making recommendations to the Minister or CBRC/ Cabinet on policy or management issues for the project which require high-level approval
- considering the position on policy or management issues for the project
- providing advice and direction to the project director and project team
- overseeing the procurement and delivery processes for the project.

A project director, appointed from within one of the participating agencies, or recruited externally for the project, would have overall responsibility for day to day management of the project.

### What you need to do:

- develop initial project organisation and governance arrangements.

## 2.6 Develop a detailed plan and budget for progressing to the *Business case development stage*

At the conclusion of the *Preliminary evaluation stage*, if a project is deemed to be affordable, a priority and potentially appropriate for delivery as a PPP, the project would proceed to the PPP business case development stage. If the project is not deemed potentially appropriate for PPP delivery (but is still seen as a priority and affordable) it would proceed to the *Business case development stage* of the PAF. The same level of rigour will be required, irrespective of which business case is developed.

The purpose of the *Business case development stage* is to enable project decision makers to reliably and confidently make a decision on whether to invest in the proposed project. Development of the business case builds on the work undertaken in the Preliminary evaluation stage and facilitates the recommendation of a preferred option.

In order to maximise the success of the Business case development stage, it is important that agencies plan for the conduct of this stage. Specifically, agencies should review the appropriate Business case development guidance material to ensure they possess a full understanding of what is required, and develop a detailed plan and budget that identifies:

- the timeframe and approach to be taken
- the financial resources required, including budget and funding source
- key skills and capabilities required (confirming their availability).

### What you need to do:

- develop a detailed plan and budget to fully develop a business case.

## 2.7 Seek approval to progress to the *Business case development stage*

At the end of the *Preliminary evaluation stage*, a submission should be presented to CBRC or other project-specific governing body seeking initial determination of:

- the priority and likely affordability of the potential project
- approval to proceed to either the PPP or PAF *Business case development stage*
- allocation of appropriate resources to fully develop a business case.

The submission should summarise the characteristics of the project, and report on the outcomes of the risk, financial, economic and policy evaluations undertaken. It should nominate the option/s to be considered in the business case, and include the plan and budget for fully developing the business case.

The decision made at this point does not constitute funding approval for project delivery. Such decisions will be made on completion of the *Business case development stage*. Experience suggests that the cost of developing a business case can be significant for major projects. It is therefore important that only potential projects intended to be implemented as a priority should be progressed to this stage.

As a general rule, a project should not be publicly referred to as a potential PPP project until CBRC or other project-specific governing body has approved the project as a priority and a potential PPP.

### What you need to do:

- develop a submission to the appropriate decision makers seeking initial determination of:
  - the priority and likely affordability of the potential project
  - approval to proceed to either the PPP or traditional delivery *Business case development stage*
  - allocation of appropriate resources to fully develop a business case.

# 3

## Products

The following key products from the *Preliminary evaluation stage* will form the basis for the preparation of a detailed business case:

- outcome sought defined in clear and measurable terms
- a list of potentially viable options to achieve the outcome
- for each option, a summary of the following:
  - preliminary risk analysis
  - preliminary financial and economic analyses (including sensitivity analysis)
  - preliminary market sounding
  - preliminary consideration of legislative approval issues
  - preliminary consideration of whole-of-government policy issues
  - preliminary consideration of regulatory issues
  - preliminary public interest assessment
  - consideration of various procurement strategies
- the initial project organisation and governance arrangements
- a detailed plan and budget for fully developing the business case
- the results of consultation with central agencies
- confirmation of the framework applied (and any necessary approvals and endorsements)
- a CBRC or other project-specific governing body submission and decision.

# 4

## Checklist

As each project is unique, the checklist below should be used as a guide to a range of appropriate project assurance questions, not as a full checklist of mandatory items. Where a 'no' or 'not applicable' response is recorded in the checklist, it is good practice to provide justification in some form, such as in the stage products listed below.

## 4.1 Products

Have the following products been completed in accordance with quality standards as agreed via relevant (internal agency) assurance processes?	Guideline Ref	Yes	No	N/A
Outcome sought defined in clear and measurable terms	2.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A list of potentially viable options to achieve the outcome	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A benefits management plan with supporting benefit profiles for each potentially viable option	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For each option, a summary of the following: <ul style="list-style-type: none"> <li>preliminary risk analysis</li> <li>preliminary financial and economic analyses</li> <li>preliminary market sounding</li> <li>preliminary consideration of legislative approval issues</li> <li>preliminary consideration of whole-of-government policy issues</li> <li>preliminary consideration of regulatory issues</li> <li>preliminary public interest assessment</li> <li>consideration of procurement strategies</li> </ul>	2.3 2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Initial project organisation and governance arrangements	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A detailed plan and budget for fully developing the business case	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A CBRC or other project-specific governing body submission and decision	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## 4.2 Process

Have the following processes been completed in accordance with quality standards as agreed via relevant (internal agency) assurance processes?	Guideline Ref	Yes	No	N/A
<b>Can project decision makers be assured that the outcome sought has been defined in clear and measurable terms?</b>				
Has the outcome sought and criteria for success identified in the Strategic assessment of service requirement pre-project stage been reviewed and confirmed?	2.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Has the outcome sought been defined in clear and measurable terms?	2.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that a sound shortlist of options for evaluation has been developed?</b>				
Have options identified in the Strategic assessment of service requirement pre-project stage been reviewed and, if necessary, further developed?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have the options to be evaluated in this project stage been clearly defined?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For each potential option (including status quo) that has been identified for achieving the outcome sought, has a benefits management plan been developed to include: <ul style="list-style-type: none"> <li>identification and prioritisation of tangible and intangible benefits for the potential option</li> <li>assignment of ownership of, and commitment to, the benefits from stakeholders</li> <li>development of measures and quantification of benefit opportunities</li> <li>identification of the activities, timelines, responsibilities, interdependencies and resources required to achieve the benefits</li> <li>implementation of an ongoing benefits monitoring, tracking and reporting process</li> <li>development of a plan and budget for performance of the Benefits realisation post-project stage</li> <li>agreement on how information on the benefits (delivered and undelivered) will be used to inform future projects as well as portfolio and program decision making?</li> </ul>	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



<b>Have the following processes been completed in accordance with quality standards as agreed via relevant (internal agency) assurance processes?</b>	<b>Guideline Ref</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Has a profile been developed for each benefit outlining all of its aspects (including responsibility and measurement)?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have benefits been expressed in financial terms, or (if impracticable to place a monetary value on the benefit) at least quantified in some other way?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the measurement process for benefits fit-for-purpose according to the potential option and agency specifications?	2.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that a sound preliminary evaluation of each shortlisted option has been completed?</b>				
In conducting the preliminary evaluation of the identified options, is there evidence of sound: <ul style="list-style-type: none"> <li>• preliminary risk analysis</li> <li>• financial and economic analyses</li> <li>• preliminary market sounding</li> <li>• preliminary consideration of legislative approval issues</li> <li>• preliminary consideration of whole-of-government policy issues</li> <li>• preliminary consideration of regulatory issues</li> <li>• preliminary public interest assessment</li> <li>• consideration of procurement strategies?</li> </ul>	2.3 2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Given the findings from the preliminary evaluation, have the alternative options been ranked in terms of cost, benefits, risk and their ability to meet the outcome sought?	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have the option/s subject to more detailed analysis during the <i>Business case development</i> stage been nominated?	2.3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that alternative procurement strategies have been considered?</b>				
Has a qualitative comparative assessment of procurement strategies been considered?	2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For projects that are largely infrastructure based, or where the infrastructure component is significant, has the project been assessed against: <ul style="list-style-type: none"> <li>• the PPP thresholds</li> <li>• the value for money drivers</li> <li>• other considerations?</li> </ul>	2.4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that the initial project organisation and governance arrangements for leading and managing the project are suitable?</b>				
Have all individuals and groups that have a role in the project, their lines of accountability, responsibility and authority, and initial reporting and control processes been identified?	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can project decision makers be assured that a sufficient plan and budget for progressing to the Business case development stage has been completed?</b>				
Does the plan for progressing to the Business case development stage address: <ul style="list-style-type: none"> <li>• timeframe and approach to be taken</li> <li>• financial resources required (budget and funding source)</li> <li>• key skills and capabilities required (and availability)?</li> </ul>	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Can decision makers be assured that a sufficiently detailed submission seeking approval to proceed to developing a business case has been prepared?</b>				
Does the submission summarise: <ul style="list-style-type: none"> <li>• the priority and likely affordability of the project</li> <li>• proposed allocation of funds to prepare a business case</li> <li>• the results of consultation with central agencies</li> <li>• confirmation of the framework applied (and any necessary approvals and endorsements)?</li> </ul>	2.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Appendix A – Qualitative evaluation

The following matrix is an example of qualitative analysis of delivery / procurement models required at the *Preliminary evaluation* stage. When completed, this matrix should provide a basis for rank-ordering possible delivery methods in order for two shortlisted models to be considered in further detail at the *Business case development* stage.

The key issue to consider when undertaking this assessment is that the process uses informed judgement as to the reasons for a particular rating, which should be documented and agreed to by the relevant parties. Also, the results of this qualitative assessment should be compared against the overall project objectives so as to ensure the shortlisted procurement / delivery models support the project's objectives.

**Table 1: Example of a qualitative matrix**

No.	Evaluation	Priority (High / Medium / Low)	Rating Scale	Construct Only	Design & Construct	Construction Management	Managing Contractor	Alliance	PPP
1.	Quality								
2.	Timeline								
3.	Budget								
4.	Whole-of-life design and maintenance								
5.	Market appetite, capability and competition								
6.	Stakeholder and scope management								
7.	Risk management								
8.	Variations								
9.	Cost minimisation								
10.	Innovation								
11.	Complexity of staging and decanting								
			Ranking						

To assist the preparation of the above matrix, the following two tables provide guidance on interpreting the suggested evaluation criteria (refer to *Table 3*) and a qualitative rating system (refer to *Table 2*).

**Table 2: Suggested rating system**

Evaluation criteria analysis ratings		
Analysis rating	Rating scale	Description
✓✓✓	4	Procurement model fully or almost fully satisfies the evaluation criteria by meeting all or substantially all criteria requirements.
✓✓	3	Procurement model is effective in satisfying the criteria requirements.
✓	2	Procurement model just satisfies the evaluation criteria by meeting minimum criteria requirements.
✗	1	Procurement model is ineffective in meeting the criteria requirements.
N/A	0	Not applicable

**Table 3: Description of evaluation criteria**

<b>Evaluation criteria for procurement options</b>		
<b>No.</b>	<b>Evaluation Criteria</b>	<b>Key elements analysed</b>
1.	Quality	The ability of the model to deliver the required outcomes in terms of: <ul style="list-style-type: none"> <li>• quality of the design and the constructed facility</li> <li>• meeting service specifications/requirements</li> <li>• robustness and functionality of the design</li> <li>• allowing for future proofing and flexibility</li> </ul>
2.	Time	The ability of the model to deliver the project in the required timeframes and enable effective management of risk around delays focussing on: <ul style="list-style-type: none"> <li>• certainty regarding achievement of project completion dates (potential pass/fail criterion)</li> <li>• providing progressive delivery and completion throughout the construction timeframe</li> <li>• commencing construction as early as possible.</li> </ul>
3.	Budget	The ability of the model to provide budget certainty in respect of the construction and maintenance of the facility and remove unexpected funding requirements.  The timing of achievement of budget certainty is also of importance here.
4.	Whole-of-life design and maintenance	The extent to which the model promotes a whole-of-life management solution, including incentive to optimise life-cycle, general maintenance and inter-related service provision.
5.	Market appetite, capability and competition	Market appetite (i.e. existence of players with the relevant skills, expertise and capacity).  The extent to which the model achieves competitive tension.
6.	Stakeholder and scope management	Ability of the model to ensure that delivery of the project is consistent with stakeholder interest and stakeholder expectations are effectively managed.  Ability of the model to effectively manage scope change requests by stakeholders and to minimise impact on cost, time and quality.
7.	Risk management	The extent to which the procurement model allows for: <ul style="list-style-type: none"> <li>• appropriate allocation of risks to the party best placed to manage the risk at the lowest cost</li> <li>• efficient risk management and/or mitigation</li> <li>• ability to manage the procurement process and contractual arrangements.</li> </ul>
8.	Variations	Ability of the model to deal effectively with any future changes and development due to changed operational needs.
9.	Cost minimisation	The ability of the model to reduce capital cost and where appropriate reduce operational costs.  The extent to which the model achieves cost optimisation through competitive tension.
10.	Innovation	The ability of the model to achieve innovation in design, construction methods, construction program, life-cycle and ESD considerations, achievement of requirements, etc.
11.	Complexity of staging and decanting	Ability of the model to deal with complexity and potential flexibility of construction program in respect of staging and decanting.