



Government of **Western Australia**
Department of **Treasury**

Strategic Asset Management Framework

Options Analysis



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Introduction

This module provides guidance on the evaluation of the investment options that are included in an application for concept approval (ACA) and a business case, regardless of the type of agency business or assets involved.

Importance

Senior planners and decision-makers have an obligation to ensure that recommendations for the State to invest in assets are in the public interest and provide net benefits to the community in the most efficient way.

Investment options must be evaluated properly, using an approach which:

- facilitates better decision-making by presenting a balance between the social, financial and economic issues involved;
- ensures objective examination of all feasible alternatives;
- clarifies the up-front costs and recurrent obligations; and
- provides a sound basis for review in an agency and by Treasury.

Sound options analysis contributes to cost-effective resource allocation decisions by the Government, to maximise the State's economic growth and service delivery to Western Australians.

Model

A model for the document that contains the options analysis is provided separately as part of the Strategic Asset Management Framework (SAMF) guidance. The model highlights the main sections in which the analytical advice and evidence is consolidated, as summarised at **Appendix A**.

Agencies should have such a document on hand to support their ACA and business case. This will help to improve an agency's internal investment planning, the quality of debate with internal reviewers, and discussions with external reviewers, including with Gateway Review teams and Treasury.

The model is designed to:

- improve the quality of analysis performed by agencies to assess options in business cases that request investment funding;
- encourage agencies to evaluate options using a consistent approach;
- enable the potential impact of options to be assessed in terms of their benefits and costs to the community;
- enable the potential impact of an option on the performance and financial position of an agency to be fully understood; and
- assist agencies to consolidate the analysis and evidence in order to strengthen their own investment planning and review systems.

The options analysis model is provided as a primer to assist analysts, particularly when dealing with complex investments. For such tasks, the model helps to identify the key aspects and to support agencies in managing the input from specialist consultants.

Agencies are encouraged to produce their own internal guidelines when the nature of an agency's activity generates unique issues and agency-specific case studies and examples. Treasury supports the development of internal guidelines, provided they are consistent with the universal SAMF guidance.

Approach

Proposals and Options

Under the SAMF approach, a clear distinction is made between an overall investment proposal and the definition and comparison of feasible options to achieve its purpose. Clarity is also important on the point at which a proposal achieves formal status as a project.

An investment proposal may be made broadly for various reasons, including to:

- sustain or replace existing assets that are used to deliver services;
- invest in assets that would be used to produce new services; and
- dispose of surplus assets.

By contrast, an option is a means to achieve the objectives of an investment proposal. By definition, an option is one of various potential means. Examples include:

- alternatives for the location, scale or standard of major infrastructure or non-residential buildings; and
- the use of private services, infrastructure, intellectual property, Government grants to private parties, or outsourced services.

At the time that options analysis is conducted, a project does not exist because decision-makers have not yet taken a favourable investment decision. This occurs after the business case has been considered, an option has been selected, and decisions have been taken on the scope, cost, risk, schedule and other parameters that apply.

ACA and Business Case

Investment options are first presented for consideration in broad conceptual terms in an ACA that supports an agency's strategic asset plan. If the Minister endorses all, or some of the early options identified in the ACA, then the agency develops a rigorous business case focused on those options.

For both an ACA and a business case, the options analysis helps to identify and compare the best alternatives from the following perspectives:

- Strategic Justification: why should we invest (drawn from the logic in an agency's strategic asset plan)?
- Scope: what scale and functions are appropriate for the investment proposal, as a point of reference for each option?
- Social Impact: who would gain and who would lose from each option?
- Agency Financial Evaluation: what would be the net cash impact of each option on the financial position of the agency?
- Agency Performance Evaluation: how would each option improve service delivery?
- Economic Evaluation: what quantifiable costs and benefits would result from each option for the community?

Scale

It is important to note that the level of rigour and detail involved in the options analysis at the ACA stage will be significantly less than that required in a business case. Given that an ACA provides early, initial advice on long-term investments beyond the State's four-year Asset Investment Program, it is sufficient to conduct desktop analysis from the above perspectives; rather than to engage, for example, in detailed cost benefit analysis supported by consultants.

At the business case stage, the options analysis will be comprehensive, but will also depend on the scale of the investment proposal and the extent of the costs and risks involved.

Short List Result

The main result of options analysis is to provide a compelling basis to recommend the options that offer the greatest potential value for money – as well as the alternatives that should be excluded from further consideration, and why.

For either an ACA or business case, the two main steps are the:

- transition from the long list of options to the short list of (say) two to three options that are put to decision-makers for consideration; and
- analysis and prioritisation of the options in the short list itself, including the recommended option.

To assist agencies, the SAMF model clarifies the method that is used to transition from the long list to the short list of options. The model also shows how the final results of the analysis can be presented in concise terms.

Quality

Objectivity

The purpose of options analysis is not to support or promote a particular option or a preconceived project.

While an agency should provide a recommended option, sole focus on an 'obvious', preferred solution would deprive decision-makers of the opportunity to consider the relative benefits and risks of alternatives that may also meet their service delivery objectives and provide value for money for the taxpayer. Such alternatives may include non-asset initiatives and less expensive approaches such as the improved maintenance or refurbishment of existing assets.

The impact of an ACA or business case that concentrates primarily on a preferred option will depend on whether sound, evidence-based thinking has been demonstrated in the options analysis, where the full range of feasible options should have been addressed, before the majority was rejected.

While the recommended option may be attractive at face value, the analysis should clearly demonstrate its strengths and reveal its weaknesses on an objective basis. As with the alternatives, the recommended option must be subject to analysis from each of the four perspectives outlined above: social impact; agency financial; agency performance; and broader economic.

Rigour and Detail

The SAMF options analysis model is applied at the level of rigour and detail that reflects the maturity and materiality of the investment proposal.

For an ACA, it is appropriate to conduct an initial, objective analysis across all perspectives. This desktop analysis is based on early benefit and cost information. It provides sufficient analytical support to identify the feasible options in an investment proposal for priority beyond the State's four-year Asset Investment Program.

It is acknowledged that the early appreciation of the costs and benefits of an option in an ACA will improve as a proposal draws closer to an investment decision on whether to include it in the Asset Investment Program, that the relative strength of the benefits and costs may change, and that an option may be replaced by a more compelling one (for example, if technology improves).

By contrast, the analysis in support of a business case is detailed and robust, including the explanation of the logic and assumptions. Complex analysis by technical specialists in the public and private sectors would only be appropriate to support a business case for a high cost and high risk proposal.

Development

The agency is responsible for determining the level of resources that are applied to meet the SAMF standards for options analysis in support of an ACA and business case, respectively.

The main objectives are to provide the best advice and information available at the time, to support early advice to Ministers and the Treasurer, and to enable focused early planning in an agency.

It will be important to get the balance right, in order to provide the best possible advice to decision-makers without over-investing, for example, in specialist cost benefit analysis too far ahead of the investment decision.

The best way to establish the extent of the options analysis required for a particular ACA or business case is to liaise early with Treasury and to establish an agreed work plan before the analysis starts.

Evidence

The quality of the options analysis is made clear, for example, in terms of:

- the extent of resources applied, including the number and experience of the analysts and consultants involved;
- the relevance and date of the benchmarking data and the information from industry, including on costs and risks; and
- any qualifications (for example, if the information from industry was provided on an informal or formal basis, and with a 'use by date' after which the advice would no longer be valid).

While the ACA and business case focus on the short list at that point in time, the options analysis for each provides an audit trail that demonstrates that all feasible options were considered and prioritised carefully.

Feedback

When reviewers in an agency and Treasury conclude that the options analysis does not yet meet the SAMF standards, they should be clear about the reasons. Examples include:

- contrasting only the best aspects of the recommended option against the worst aspects of the short-listed alternatives;
- comparing the recommended option against the short-listed alternatives without reference to related non-asset initiatives that would make the alternatives stronger value-for-money contenders;
- comparing the recommended option on an upfront capital cost basis, without reference to the through-life implications, including recurrent costs; and
- providing a cost benefit analysis that is based on a single, favourable discount rate, with a high consequent risk of optimism bias.

Summary

Options analysis is conducted in a transparent and systematic way, so that everyone can understand the results.

Often qualitative information and judgements will be crucial, particularly when quantitative techniques such as net present value analysis return similar, close results for various options.

Detailed micro-analysis and large amounts of quantitative data in support of a business case will not of itself be convincing. Instead, the analysis should be holistic (covering the main qualitative and quantitative aspects), concise and communicated clearly. The SAMF Options Analysis model explains how.

Appendix A: Options Analysis – Overview

EXECUTIVE SUMMARY

Recommended Option
Alternative Options

STRATEGIC JUSTIFICATION

SAP Connection
Service Delivery Objectives and Model
Investment Priorities

INVESTMENT SCOPE

Proposal and Functions

LONG LIST

Feasible Options

SHORT LIST

Social Impact

Categories and Significance

Agency Financial Evaluation

Key Parameters and Relationships
Cash-Flow
Discount Rate
Sensitivity Analysis
Budgetary Implications

Agency Performance Evaluation

Outcomes and Services
Effectiveness and Efficiency

Economic Evaluation

Objectives
Benefits and Costs

