Today

- Context and background
- What’s in it for Queensland local governments
- Outline of the Framework
- Tools and Templates
- Case Studies
- Summary
Russky Bridge
Hindmarsh Soccer Stadium Redevelopment (Adelaide)
“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.”

- Abraham Lincoln
Local Governments face significant challenges as they seek to balance competing priorities:

- the need to replace ageing infrastructure
- affordability considerations
- community needs and expectations
- political considerations

All in the context of diminishing State and Federal grants

Challenges in project selection / project management across many councils
Background

- Minister’s 2013 Round Table – request for assistance
- Poor project selection across many councils (Australia wide) is a cause of significant cost blow outs & financial duress
- Lack of governance arrangements for meritorious project selection
- Capital and operational considerations made separately, therefore not accounting for whole-of-life costs
- Tendency to leap to a solution without scenario testing (eg, build/purchase new assets rather than extend life of existing assets)
Background

- QTC developed a ‘Project Decision Framework’ to address this need
- Consulted many local governments to see:
  - What works and what doesn’t
  - Where the opportunities for improvement are
  - Expectations of the PDF
- Simplifying the process and making it specific to the LG sector & scalable
- Aims to:
  - Empower councils to adopt a formal decision making process for all major projects
  - Provide a framework, tools and templates to guide councils through a robust process
What’s in it for you?

- Accountability and transparency
- Building discipline into the project selection process (fairness, equity and consistency)
- Evidence-based selection to determine which projects proceed and which to abandon
- Early consideration (and therefore mitigation) of risks
- Linking project selection to strategic objectives
- Accounting for whole-of-life costs
- Portfolio view of all proposals to prioritise those with highest need
What’s in it for you?

- Donated assets / grants and subsidies can be a double-edged sword
- While there’s no initial capex spend, the whole-of-life costs are often far greater than the up-front cost
- Use the PDF to negotiate arrangements for long-term costs
- It’s ok to say ‘no’ – empowering Councils when the evidence doesn’t stack up
What’s in it for you?

- ‘Funnel effect’ for selecting most viable projects against available budget
Outline of the Project Decision Framework
The Solution – Project Decision Framework

‘Why’
- Aspirational
- Whole-of-council commitment
- Adopt a consistent approach

Policy

‘What’
- Phased for simplicity
- Governance structures
- Stage gates for decisions

Process

‘How’
- Simple & scalable
- Fit for purpose
- Documented decisions

Tools and templates

The Integrated Approach
The Solution - Project Decision Framework

Policy

- Aspirational
- Whole-of-council commitment
- Adopt a consistent approach
The Solution - Project Decision Framework

The Process

Typical project life cycle

**In scope**

**Planning:** Are we doing the right project?

**Delivery:** Are we doing the project right?

- **Stage 1:** Concept selection
- **Stage 2:** Pre-feasibility
- **Stage 3:** Feasibility
- **Stage 4:** Planning
- **Stage 5:** Delivery
- **Stage 6:** Operate and maintain
- **Stage 7:** Abandon
Staged approach

The Process

- Provides accountability and rigour by stepping out phases in a stage gate approach with key decision points and appropriate governance and approval structures

- Ensures resources are applied prudently and efficiently

- Assists council staff to justify decisions to stop projects that do not support the organisation’s strategy
Governance

- Suggested governance structure – decision making versus delivery
  - should be fit for purpose (to fit council’s resource availability)
  - might typically involve CEO, CFO, Risk, Comms, Infrastructure
  - consistency in decision making group for transparency and accountability
  - adaptable – elected member involvement at end, or throughout if preferred
  - once project is approved, dedicated implementation group formed (ie, PMO)
Scalability

‘When should I follow the PDF?’

- Recognise that PDF needs to be scalable
- Definition of major/high value project likely to be different for each council
- Therefore provides guidance to determine level of effort, according to project complexity, risk profile and value

![Diagram showing a matrix for project complexity and risk, with four quadrants indicating different governance requirements: Moderate governance required, Major governance required, Minimal governance required, Moderate governance required.]

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Guidance documents
Overview for leaders

- Benefits of Framework
- High level overview
- Checklist
Guidance documents

User Guide

- Comprehensive Outline of Framework
  - Context
  - Overview
  - Stage gate process
  - Governance arrangements
- For Leaders and Practitioners
Guidance documents

Governance

Stage 1: Concept selection
Stage 2: Pre-feasibility
Stage 3: Feasibility
Stage 4: Planning

SG1: Senior mgmt team
SG2: Senior mgmt team
SG3: Council

Terms of Reference – Project Decision Making Group

Guiding Principles for the Evaluation of Project Proposals

Terms of Reference

Guiding Principles for the Evaluation of Project Proposals
Tools & templates

- Whole-of-Council policy
- Terms of Reference for Decision Making Group
- Guiding principles for evaluation of proposals
- Suite of templates and tools

Stage 1: Concept selection
  1. Concept Approval template

Stage 2: Pre-feasibility
  1. Options Analysis template
  2. Project Risk Assessment Tool (Initial)
  3. Whole-of-life Costing Tool

Stage 3: Feasibility
  1. Business Case template
  2. Project Portfolio Tool
  3. Project Risk Assessment Tool (Comprehensive)

Stage 4: Planning
  1. Project Plan template
Concept Selection Template

- **Purpose:** Provides for initial shortlisting of concepts for further analysis and consideration

- **High level overview of concept:**
  - source of concept
  - community needs and rationale
  - alignment with Strategic Plan
  - initial cost estimate and risk identification
Options Analysis

- Purpose: Preliminary (but sufficiently detailed) assessment of proposal against alternative options to inform a Council management decision on whether to:
  - proceed to feasibility
  - bypass feasibility, or
  - abandon the project
Business Case

- **Purpose:** A detailed analysis of the proposed project to inform a Council decision on whether or not to proceed to planning.

- A more comprehensive assessment involving:
  - project outcomes against community/business needs
  - options analysis
  - evaluation of policy issues and public interest issues
  - an in-depth cost benefit and sensitivity analysis
  - detailed risk assessment
Project Plan

- Purpose: Clearly define the project’s scope and activities required to successfully implement the project

- Blueprint for achieving project outcomes
  - objectives
  - deliverables and schedule
  - costs and funding
  - risk management
Resources - excel-based tools

- Project Portfolio Tool
- Project Risk Assessment Tool
- Whole-of-Life Costing Tool
Project Portfolio Tool

- **Key Features**
  - Project on a Page
  - Compares multiple projects
  - Provides key project valuation metrics
  - Risk-based approach

### General Information

- **Project name:** Library services update
- **System ID:** 211118-141152
- **Highest approved stage:** Planning
- **Business unit:** Commercial Management
- **Asset type:** Building
- **Primary contact:** John Citizen
- **Sponsor:** Jane Citizen
- **Project origin:** Member of public

### Problem description / project purpose

Library services unable to be supported in existing location

### Project Risks

<table>
<thead>
<tr>
<th>Key</th>
<th>Overall Risk Score</th>
<th>Extreme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Polit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Econ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Org</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Top 5 Project Risks

- **E** - Technical—Description of risk goes here...
- **H** - Organisational—Description of risk goes here...
- **H** - Commercial—Description of risk goes here...
- **M** - Economic—Description of risk goes here...
- **M** - Technical—Description of risk goes here...

### Cost

- **Total CAPEX:** $10.0
- **Contingency Value:** $20.0
- **Total Funding Requirement:** $30.0
- **Contingency %:** 10%
- **Ongoing O&M Per Annum:** $5.0

### Value

- **Net Present Cost:** 5
- **Net Present Value:** n/a
- **Payback Period:** 1.5 years

### Funding

- **Internal Funding Required:** $16.0
- **External Funding Total:** $4.0
- **Primary External Funding Amount:** $2.0
- **Secondary External Funding Amount:** $1.0
- **Other External Funding Amount:** $0.0
- **QTC Funding Amount:** $1.0
- **Total Funding Requested:** $20.0

### Timing

- **Start Date:** 7-May-15
- **End Date:** 7-May-17
- **Total days:** 366

### Resourcing

- **Internal Contractors:** 10
- **Total FTE commitment:** 12
### Project Portfolio Tool - contd

#### Option Comparison

<table>
<thead>
<tr>
<th>Option Details</th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk (post treatment)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum risk rating in each risk category</td>
<td>Tech</td>
<td>Econ</td>
</tr>
<tr>
<td>Risk count by rating</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total CAPEX</td>
<td>$5.0</td>
<td>$20.0</td>
</tr>
<tr>
<td>Contingency Value</td>
<td>$4.0</td>
<td>$5.0</td>
</tr>
<tr>
<td>Total Project Allowance</td>
<td>$9.0</td>
<td>$25.0</td>
</tr>
<tr>
<td>Contingency Percent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing O&amp;M Per Annum</td>
<td>$2.5</td>
<td>$5.0</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Present Cost</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Net Present Value</td>
<td>$5.0</td>
<td>$4.0</td>
</tr>
<tr>
<td>Payback Period</td>
<td>3 years</td>
<td>3 years</td>
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<tr>
<td><strong>Funding</strong></td>
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<td></td>
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<tr>
<td>Total Internal Funding</td>
<td>$7.2</td>
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<tr>
<td>Primary External Funding Amount</td>
<td>$0.6</td>
<td>$10.0</td>
</tr>
<tr>
<td>Secondary External Funding Amount</td>
<td>$0.5</td>
<td>$5.0</td>
</tr>
<tr>
<td>Other External Funding Amount</td>
<td>$0.5</td>
<td>$5.0</td>
</tr>
<tr>
<td>QTC Funding Amount</td>
<td>$0.7</td>
<td>$3.0</td>
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<tr>
<td>Total External Funding</td>
<td>$1.8</td>
<td>$20.0</td>
</tr>
<tr>
<td>Total Funding Required</td>
<td>$9.0</td>
<td>$25.0</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start Date</td>
<td>1-Jul-15</td>
<td>1-Aug-15</td>
</tr>
<tr>
<td>End / Commissioning Date</td>
<td>1-Jul-17</td>
<td>1-Dec-15</td>
</tr>
<tr>
<td>Total Days</td>
<td>732</td>
<td>1219</td>
</tr>
<tr>
<td><strong>Resourceing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal FTEs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External FTEs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total FTEs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Risk Assessment Tool

Project Risk Assessment Tool
Version 1.1

Instructions:

STAGE | HYPERLINK TO SHEET | TASK
--- | --- | ---
Identification | PR-RiskAssessment | Identify the project and describe its purpose including the desired outcome. Name and describe each project option. Describe the type of asset in each option. Provide an indicative budget of each option.

Inputs
- PR-RiskAssessment
- Definitions

Definitions

Mitigation Strategy
Outline a mitigation strategy for each risk. Clearly define the strategy as either risk prevention, risk transfer, impact mitigation or risk acceptance (through the mitigation strategy may involve a combination of these). Definitions of each strategy are listed in the Definitions sheet.

Inputs
- PR-RiskAssessment
- Definitions

Definitions

Assessment
Assess the residual likelihood and consequence of each risk occurring (i.e., after implementing the risk mitigation strategy). Likelihood and consequence definitions are detailed in the Definitions sheet under Assessment of Residual Risk. These definitions can be adjusted as required. The spreadsheet will automatically calculate a risk rating for each risk based on the risk rating matrix outlined under Assessment of Residual Risk.

Inputs
- PR-RiskAssessment
- PR-RiskAssessment
- PR-RiskAssessment

Definitions

Assign a contingency for each risk (if applicable), based on its expected likelihood and consequence. Once all risk have been assessed, review the contingency based on the risk assessment. If required, adjust the contingency to be applied.
## Case study – Pre-feasibility

Populate Risk Assessment Tool (high level risks only)

### Lease Hall as Community DayCare Pre-feasibility

#### Risk assessment

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Category</th>
<th>Mitigation Strategy</th>
<th>Description of mitigation strategy</th>
<th>Likelihood</th>
<th>Consequence</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal: Public liability and indemnity in the event of an accident resulting in death or injury</td>
<td>Commercial</td>
<td>Risk transfer</td>
<td>Transfer risk to CDC in lease agreement</td>
<td>Unlikely</td>
<td>Catastrophic</td>
<td>High</td>
</tr>
<tr>
<td>Non-compliance: Failure to comply with State and National laws for child care (e.g., National Quality Framework, Education and Care Services National Regs)</td>
<td>Commercial</td>
<td>Risk transfer</td>
<td>Seek legal advice on owner versus tenant responsibilities &amp; transfer risk to CDC in lease agreement</td>
<td>Possible</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Increased costs: Cost of building alterations escalate due to ageing nature of building, material change in use, limitations in building envelope</td>
<td>Economic</td>
<td>Risk prevention</td>
<td>Rigorously assess building works and secure firm quotes prior to proceeding</td>
<td>Possible</td>
<td>Minor</td>
<td>Moderate</td>
</tr>
<tr>
<td>Increased costs: Scope is not fully known prior to commencing alterations</td>
<td>Technical</td>
<td>Risk prevention</td>
<td>Consult engineering services to assess suitability of hall for community daycare centre and advise of any changes required</td>
<td>Unlikely</td>
<td>Minor</td>
<td>Low</td>
</tr>
<tr>
<td>Safety: Building does not meet safety requirements for small children and injury or death occurs</td>
<td>Organisational</td>
<td>Risk prevention</td>
<td>Conduct a full safety assessment on building and determine any actions required to make hall fit-for-purpose</td>
<td>Rare</td>
<td>Major</td>
<td>Moderate</td>
</tr>
<tr>
<td>Complaints to Council: Additional traffic in the area and the noise from children upsets neighbouring residents</td>
<td>Political</td>
<td>Impact mitigation</td>
<td>Conduct stakeholder consultation by way of letter box drop, door knock, community meetings etc</td>
<td>Possible</td>
<td>Insignificant</td>
<td>Low</td>
</tr>
<tr>
<td>Complaints to Council: Disgruntled residents not able to access hall during week days</td>
<td>Political</td>
<td>Risk acceptance</td>
<td>Offer residents alternative options</td>
<td>Possible</td>
<td>Insignificant</td>
<td>Low</td>
</tr>
</tbody>
</table>

- At least one risk from each TECOP category
- Identifies critical mitigation actions
Project Risk Assessment Tool

Risk profile reports

**Number of risks for each risk rating**

- **Build new dam**:
  - Extreme: 1
  - High: 2
  - Moderate: 3
  - Low: 2

- **Upgrade existing dam**:
  - Extreme: 0
  - High: 1
  - Moderate: 1
  - Low: 1

- **Demand management**:
  - Extreme: 0
  - High: 1
  - Moderate: 1
  - Low: 1

- **Dam upgrade & Demand mgmt**:
  - Extreme: 0
  - High: 0
  - Moderate: 2
  - Low: 4

**Maximum risk of each category**

- **Extreme**
- **High**
- **Moderate**
- **Low**

The risk categories include Technical, Economic, Commercial, Organisational, and Political.
Whole-of-life costs and local government
Whole-of-life costing and LGs

- Local governments are responsible for providing a range of services to the community, many of which:
  - are highly capital-intensive
  - have a significant fixed cost component, and
  - incur ongoing maintenance and operating costs.

- It is imperative that the financial implications of any capital project decision are assessed **not only** from an up-front capital expenditure decision now, but also from a **whole-of-life** perspective.
Questions to consider

- Have we only looked at the initial capital cost?
- Is there a better or more optimal use of funds that would achieve the same outcome?
- Should we replace, refurbish or consider other options?
- Has the project been thoroughly assessed?
  If not:
  - could Council support additional debt or potential cost blowouts?
  - would the community accept a reduced level of service?
Millennium Dome, London
Whole-of-Life Costing Tool (WOLC)

Based on user inputs, the model provides high level:

- cash flow profile over the life of an asset
- breakdown of total capital, maintenance, operating, other (renewal) and disposal costs
- nominal and discounted whole of life costs
- whole of life cost multiple based on up-front capital costs of an asset, and
- impact on materials and services for the purpose of long term financial forecasting

A case study later today will demonstrate its application!
What’s in the kit?

Outline for Local Government Leaders

User Guide for practitioners

1. Council policy
2. Terms of Reference
3. Guiding Principles
4. Concept Approval template
5. Options Analysis template
6. Business Case template
7. Project Plan template
8. WOLC Tool & User Guide
11. Quick Reference Guide (A5 card)
Available on QTC Connect

Local Government Tools

Local Government Forecasting Model

QTC has upgraded its Local Government Forecasting Model (LGFM) with major enhancements that will support your council’s journey towards financial sustainability. Version 3.0.2 includes significant enhancements to its power and features, incorporating client feedback and the latest thinking on local government financial sustainability.

Read more

Whole-of-Life Costing Tool

QTC’s Whole-of-Life Costing Tool is an easy-to-use model, designed to provide local government decision makers the indicative whole of life costs (WOLC) associated with proposed or forecast capital projects.

Read more

Cash Flow Monitoring Tool

QTC’s Cash Flow Monitoring Tool is an easy-to-use spreadsheet that will enable local governments to accurately forecast cash movements over time, and to ensure sufficient funds are available to support core operations and fund capital projects.

Read more

Project Decision Framework

QTC’s Project Decision Framework has been developed specifically for Queensland local government clients to help adopt a best-practice approach to project selection. The Framework contains tools and templates that are fit-for-purpose and scalable according to the size, risks and complexity of projects being assessed.

Read more
Case Studies
Case Studies

The following case studies were considered:

1. Construct a new Dam
2. Community Hall
3. Swimming pool
4. Replace versus refurbish decision
In summary…the PDF

- A decision making tool with focus on up front planning stages – not delivery
- An overarching system through which decision making for new projects can be disciplined, robust and in best interests of the community
- Recognises that local government finances are strained so it helps with prioritising projects against available budget
- Not just about ‘approving’ or ‘rejecting’ projects – it’s about best social, financial and wider economic outcome (finding the sweet spot)
- Specific to LG sector and is simple and customisable
- The Framework is provided for guidance only and is scalable
- Good business practise – due diligence to support borrowing applications
Questions

Jan Xanthopoulo, Acting Director
Local Government and Statutory Bodies Group
Telephone: 07 3842 4757
Email: jxanthopoulo@qtc.com.au

Raveen Perera, Senior Advisor
Local Government and Statutory Bodies Group
Telephone: 07 3017 6362
Email: rperera@qtc.com.au
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