



New South Wales

TREASURY

TREASURY APPRAISAL/MONITORING FOR CONSTRUCTION PROJECTS

Treasury's role in assessing and monitoring major capital works projects (those valued at \$1 million or more) is dependent on the size and risk of the project, the risk being assessed using the Gateway Risk Profile Assessment tool.

A strong emphasis is placed on the quality of the business case supporting any funding/investment decision and service delivery objectives of the agency concerned.

Agencies need to demonstrate clearly that:

- the project supports its service delivery objectives;
- the initial business case that triggers any funding is sound; and
- the project, as it is delivered, either remains consistent with the original business case or properly informed decisions are made in terms of the project's future if this is not the case.

Agencies are required to submit specific information and reports to Treasury at key decision points, dependent on the risk and value of the project as outlined below:

High Risk Projects and All Other Projects valued more than \$50 Million:

- Project Appraisal Report to demonstrate the Business Case is properly developed prior to going to the Budget Committee of Cabinet or internal funding approval. This will include copies of the project Risk Profile Assessment using the Gateway tool, Mandatory Business Case Gateway Review and Economic Appraisal
- Procurement Strategy Report and Pre-Tender Estimate to reconfirm the Business Case prior to calling tenders
- Post Tender Review Report to reconfirm the Business Case prior to contract award
- Material Variations Report highlighting major changes to scope, cost and time after contract award as they occur

Projects Not High Risk and valued between \$10 Million and \$50 Million:

- Copy of the project Risk Profile Assessment using the Gateway tool, Mandatory Business Case Gateway Review and Economic Appraisal prior to submission to the Budget Committee or internal funding approval.
- Procurement Strategy Report and Pre-Tender Estimate prior to calling tenders

Projects Not High Risk and valued between \$1 Million and \$10 Million:

- Summary of Economic Appraisal prior to submission to the Budget Committee

A flow-chart illustrates the interaction of the agency accreditation scheme, Gateway Reviews and Treasury's monitoring role.

An outline of material which may be required for the above reports is attached.

TYPICAL DOCUMENTATION REQUIREMENTS FROM AGENCIES

Part 1 lists the documents that Agencies will be required to provide to Treasury for capital construction projects at various stages of project development. Not all documentation requirements will apply to all projects. Part 2 summarises the documents to be submitted to Treasury by type of project.

PART 1: DOCUMENTATION REQUIREMENTS

The following lists the documentation that Agencies shall provide to Treasury for new capital construction projects at various stages of development.

BUSINESS CASE

(to be submitted to Treasury prior to Agency seeking Budget Committee approval of investment decision)

Note: For purposes of Agency submissions to Treasury in support of budget funding bids, this list of requirements supersedes the Business Case requirements covered by Premier's Department Circular 2000-79 (21 December 2000).

- ◆ Scope and objectives of project, and analysis of how the project fits into:
 - the Government's strategic planning outcomes and priorities;
 - the Agency's strategic objectives and Results and Services Plan (RSP) – e.g., explanation of the services the project will support; the results or outcomes these services will contribute to; and the gap in that service delivery at present;
 - the Agency's Total Asset Management Plans, an integrated set of five documents comprising:
 - (1) the Asset Strategy, which is supported by:
 - (2) the Capital Investment Strategic Plan;
 - (3) the Asset Maintenance Strategic Plan;
 - (4) the Asset Disposal Strategic Plan; and
 - (5) the Office Accommodation Strategy.

TAM Policy, Guidelines and reporting requirements are accessible on Treasury's Website www.treasury.nsw.gov.au. Separate guidance material on the 2005-06 Budget Process and the preparation of RSPs will be issued shortly.

- ◆ Economic Appraisal report, including but not limited to:
 - Demand studies, pricing analysis, surveys;
 - Costs – capital, operating, maintenance;
 - Benefits, where quantifiable;
 - Basis for assumptions, methodology - data sources, references.

Refer to NSW Government: Economic Appraisal Guidelines (TPP No.97-2, June 1997). An abbreviated version of the Economic Appraisal guidelines is provided in Economic Appraisal: Principles and Procedures Simplified (TPP 99-1, March 1999). The full text of these guidelines is available on the Treasury website: <http://www.treasury.nsw.gov.au/tppdex>

- ◆ Supporting information underlying the Economic Appraisal, which may take the form of Technical/Impact Reports – including but not limited to:
 - Site Evaluation Report, including any geological or heritage related reports;
 - Land and/or property valuation reports;
 - Engineering reports;
 - Market studies, traffic studies, other relevant material providing information on utilisation/demand/supply of the service;
 - Environmental reports;
 - Social impact studies;
 - Value Management Studies - to develop options for an Economic Appraisal, not to produce a preferred option.

- ◆ Financial Appraisal (Agency perspective) – including but not limited to:
 - Costs – capital, operating, maintenance; provision for contingencies;
 - Data sources, references for assumptions (e.g., CPI, building price index, wage increases; internal rate of return/hurdle rate; assumed Government contribution if any; and so on);
 - Financial impacts, including the retiring of older assets and associated operating and maintenance savings;
 - Any third party revenues, source for revenue assumptions (e.g., for a road project, could include basis for traffic forecasts and alternative tolling regimes);
 - Justification for assumed discount rate.

Refer to NSW Government: Financial Appraisal (TPP No.97-4, July 1997) on the Treasury website <http://www.treasury.nsw.gov.au/tppdex>

- ◆ Financial Impact Statement (impact on the State Budget)
 - Agency financial impact (savings and costs): broad implications for the agency, such as additional staff, equipment, and so on;
 - Financial impacts on other agencies;
 - Preliminary Accounting Treatment - Impacts on Statement of Financial Performance and Statement of Financial Position.

- ◆ Risk Assessment, Mitigation and Valuation (if appropriate):
 - Identify key sources of risk;
 - Information sources, including probability and impact of certain risks occurring or not occurring on similar projects.

For an indicative list of possible sources of risk in construction projects, refer to the NSW Working with Government Guidelines on Privately Financed Projects on <http://www.treasury.nsw.gov.au/wwg/>

- ◆ Gateway Review Report

For more detail on the Gateway Review process and documentation, refer to Treasury's Website www.treasury.nsw.gov.au.

PROCUREMENT STRATEGY REPORT **(to be submitted to Treasury prior to tender)**

- ◆ Contracting Methodology to be pursued based on an analysis of the risk, cost, benefits and value for money aspects of pursuing the various procurement methods. Analysis may take into account:
 - the success or otherwise of previously used contracting methods;
 - the technical expertise of the Department, particularly in the case of alliances;
 - whether to use an input or output specified contract;
 - whether procurement will be done with multiple or sequenced contracts rather than a single contract.

- ◆ Proposed Procurement Process
 - Steps in approaching the market and justification (e.g., one or two stage tender);
 - Governance Arrangements;
 - Roles and Responsibilities and reporting procedures for project team;
 - Probity Plan;
 - Tender Evaluation Process.

- ◆ Project Delivery timetable, highlighting key dates.

- ◆ Development Approval Process and consenting authority (for construction projects only).

- ◆ Accounting treatment and implications for economic/financial appraisal.

- ◆ Treasury/Treasurer approvals that may be required – e.g., under the *Public Authorities (Financial Arrangements) Act 1987* (PAFA).

- ◆ Any other relevant information.

Refer to the Treasury's Website www.treasury.nsw.gov.au for details on procurement policy

PRE-TENDER ESTIMATE **(to be submitted to Treasury prior to tender)**

- ◆ Letter from Agency to Treasury:
 - Providing a copy of the Pre-Tender Estimate Report -
 - this document would be a copy of the Pre-Tender Estimate report (usually internal to the Agency) that normally forms the basis for approval of the Agency's Executive to proceed to contract; or
 - alternatively, this document could be prepared by the Agency in the format of Pre-Tender Estimate reports normally provided to the State Contracts Control Board.
 - Certifying that the Pre-Tender Estimate does not vary from the estimate previously approved by Budget Committee of Cabinet.

- ◆ Where the Pre-Tender Estimate varies from the estimate previously approved by Budget Committee, the Agency must provide:

- (1) A report on the major sources of variation (e.g., which expense items?) and amounts; and
 - (2) An explanation of the reasons for the variation. For example:
 - If risk related:
 - Was this risk previously identified? What was its assessed likelihood of occurring? How was it to be mitigated?
 - Are there any new sources of risk arising from the change, and which were not previously identified?
 - What are the possible implications of the change in risks for contractual arrangements under the project?
 - If scope or design related:
 - Why was the scope/design changed (e.g., change in service specifications/requirements? change in service delivery method? and so on), and who approved the change?
 - Provide a comprehensive explanation of the reasons for the change.
- ◆ Any other relevant information.

POST-TENDER REVIEW

(to be submitted to Treasury before contract is awarded)

- ◆ Letter from Agency to Treasury:
- Declaring/confirming that the price, scope of works and contract are –
 - as previously agreed and approved by Budget Committee, and
 - consistent with the Pre-Tender Estimate.
 - Declaring that the best price was received from one out of xxx tenderers (how many?), and that this price is at or below the Pre-Tender Estimate.

Note that, due to commercial-in-confidence considerations, it is not necessary for the letter to identify the preferred tenderer or the contract price – only to certify that (i) there was a clearly preferred tenderer out of a given field of bidders, and (ii) that price and other terms of the contract are consistent with the Pre-Tender Estimate.

- ◆ Where the preferred bid/contract differs from the Pre-Tender Estimate, Agency letter should state this and provide a reconciliation between tendered cost and Pre-Tender Estimate, including a comprehensive explanation for variations.

Note that where latest contract price exceeds the Pre-Tender Estimate, consultations between the Agency and Treasury will be required in order to establish the reasons for variation, and for Treasury to determine whether the variation requires the project to be brought again to Budget Committee. .

- ◆ Summary of key features of Commercial Arrangements:
- Final Risk Allocation, illustrating any departures to that previously advised
 - A contract summary, if different from standard Design and Construct (D&C) arrangements, highlighting:
 - Obligations of each party

- Default, termination and step-in rights
- Any other key features likely to affect financial risk associated with the project.
- ◆ Any updates regarding Accounting Treatment;
- ◆ Project Delivery timetable;
- ◆ Any other relevant information.

*Note that in **all** cases (that is, whether or not the price, scope of works and contract are consistent with the Pre-Tender Estimate), the Agency will be required to enter into consultations with Treasury on the results of the Post-Tender Review **before** contract signing. Following submission of the Post-Tender Review, Treasury will issue a letter indicating that the Agency can go ahead with the contract.*

Agencies are not to enter into a contract without concurrence in writing from Treasury.

MATERIAL VARIATIONS REPORT **(to be submitted to Treasury during project delivery)**

- ◆ As any material variation occurs (scope, cost or time related), the Agency must submit to Treasury:
 - An estimate of the cost variation;
 - A revised timetable for delivery, highlighting any changes from the original timetable;
 - Comprehensive explanation of why the variation has occurred. For example:
 - If risk related:
 - Was this risk previously identified? What was its assessed likelihood of occurring? How was it to be mitigated?
 - Are there any new sources of risk arising from the change, and which were not previously identified?
 - What are the possible implications of the change in risks for contractual arrangements under the project?
 - If scope or design related:
 - Why was the scope/design changed (e.g., change in service specifications/requirements? change in service delivery method? and so on), and who approved the change?
 - Provide a comprehensive explanation of the reasons for the change.
 - Explanation of how the change in cost is to be funded
- ◆ Any other relevant information.

PART 2: CATEGORIES OF PROJECTS TO WHICH DOCUMENTATION REQUIREMENTS APPLY

The following table summarises the documents that must be submitted to Treasury by type of project.

SUMMARY OF DOCUMENTATION REQUIREMENTS BY TYPE OF PROJECT

| TYPE OF PROJECT /a | Business Case & Economic Appraisal | Procurement Strategy | Pre-Tender Estimate | Post-Tender Review | Material Variations Report |
|--|------------------------------------|----------------------|---------------------|--------------------|----------------------------|
| TYPE OF PROJECT | | | | | |
| - High risk projects (irrespective of cost) and all other projects costing more than \$50m | ✓ | ✓ | ✓ | ✓ | ✓ |
| - Projects not high risk valued between \$10m and \$50m | ✓ | ✓ | ✓ | | |
| - Projects not high risk valued between \$1m and \$10m | # | | | | |

- Requires only a Summary of the Economic Appraisal prior to submission to BCC for investment decision.

(a) Level of risk (high, medium, low) is to be determined using the Gateway review risk assessment tool. For more details, see the Department of Commerce website <http://www.smarterbuying.nsw.gov.au>