

Prioritising strategically important projects



Balancing the
tension between
rigour and vision

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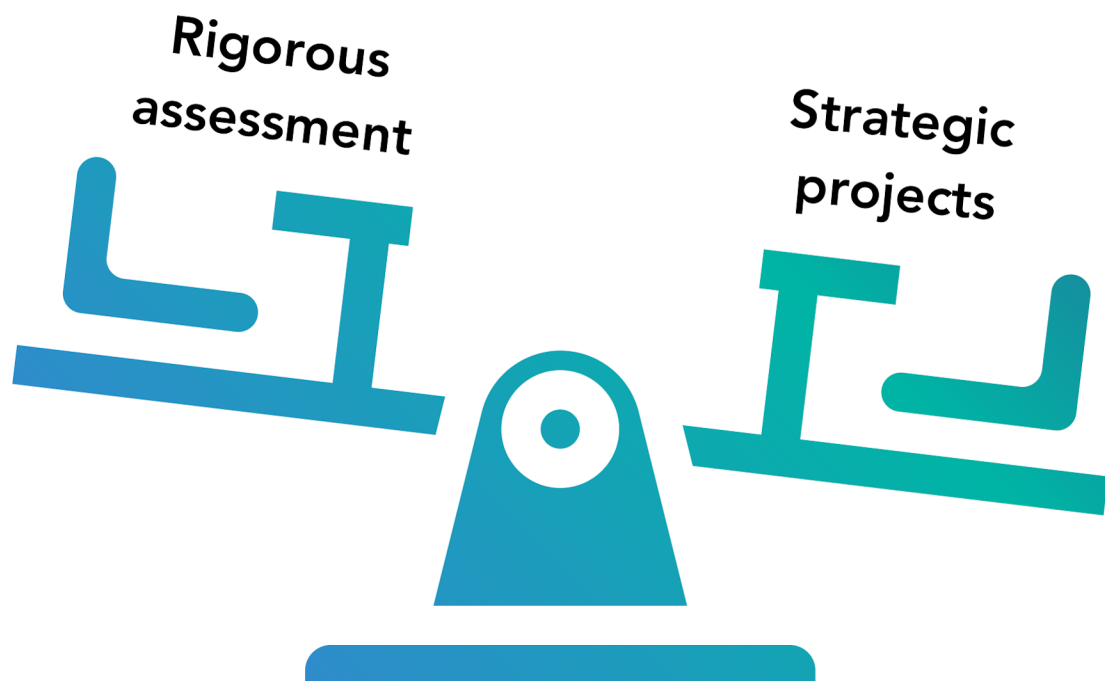
Balancing rigorous assessment and transformational projects

There is often a tension between rigorous assessment and projects that are seen as 'strategically important' or 'transformational'.

Our team has worked in project assurance and prioritisation at both a federal and state government level and has seen this time and time again. In many cases projects are truly strategically critical and transformational, but in some cases this is just an optimistic claim.

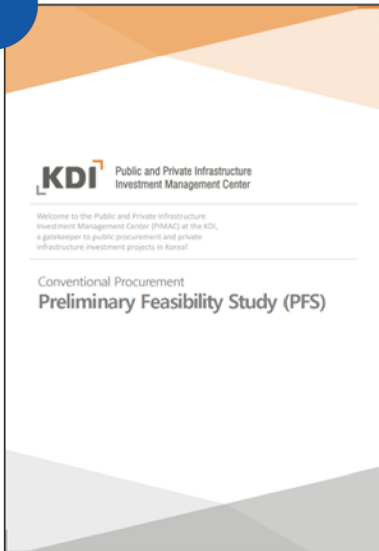
How can we make sure we will use taxpayer dollars wisely when assessing these projects?

We have identified five ways to tackle common issues in this type of assessment based on five national and international prioritisation and assessment frameworks.



The five frameworks we explored

1



The Republic of Korea's Preliminary Feasibility Study

2



The Republic of Chile's Sistema Nacional de Inversiones Framework

3



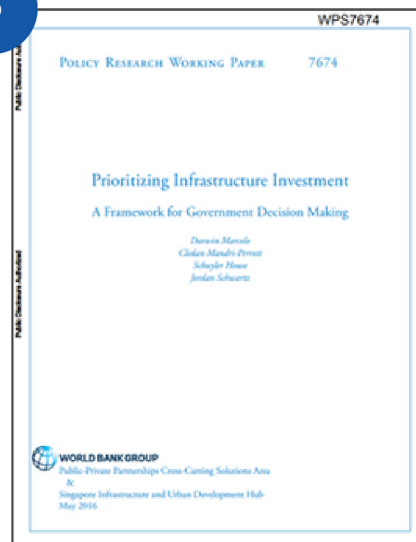
Infrastructure NSW's Infrastructure Investor Assurance Framework

4



Infrastructure Australia's Assessment Framework

5



The World Bank's Infrastructure Prioritization Framework

Key issue

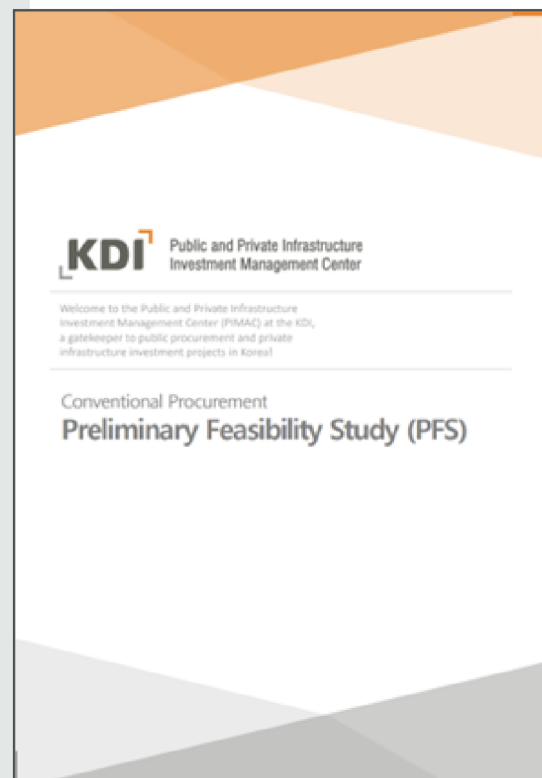
“Strategically aligned”

This is a claim on almost every business case, but how do we actually test this?

In most frameworks this is tested qualitatively and is highly subjective. It's made harder by the fact that across the different layers of government and vast number of policies, plans, and strategies, there's always something a project can 'align' with.

Korea's PFS was the most rigorous approach we found, with:

- Policies and plans segmented into relative importance (e.g. key nation-wide documents vs. local plans)
- Assessors explicitly assigning a rating against each from a set criteria (e.g., not, somewhat, mostly or fully contributing) item
- This could be strengthened by defining key metrics or outcomes for these documents, which projects could be tested against

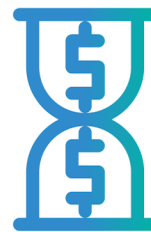


**The Republic of Korea's
Preliminary Feasibility Study**

Key issue

"CBA doesn't work for these types of projects"

CBA is often criticised for not working on 'strategically important' projects, particularly in regional or remote areas. It can also be costly, data-intensive, and time consuming.



As a result, many projects lean heavily on multi-criteria analysis (MCA), with their own unique criteria and weightings. Sometimes these use quantitative data, sometimes not. This makes it extremely difficult to compare projects and to ultimately have confidence in the overall merit of a project, or how it compares to other projects.

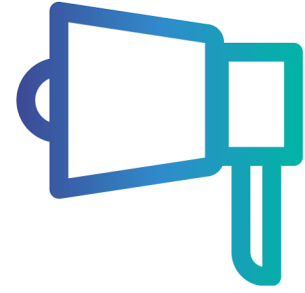
Can we strengthen the way MCA is being used?

Chile's SNI recommends CBA for most sectors, but prescribes **quantitative** MCA, with specific indicators and weightings, for **rural water projects**. Indicators range from economic analysis outputs to social aspects such as community relocations and Indigenous community impacts. As a result, rural water projects can still be compared on a like-for-like basis.

The World Bank's IPF uses an MCA approach to develop a **social-environmental index score and financial-economic index score for projects**, based on common metrics. These kind of indices can then be used to compare projects and consider different investment objectives. The IPF was designed for sectoral investment programs where full CBA may not be feasible.

Key issue

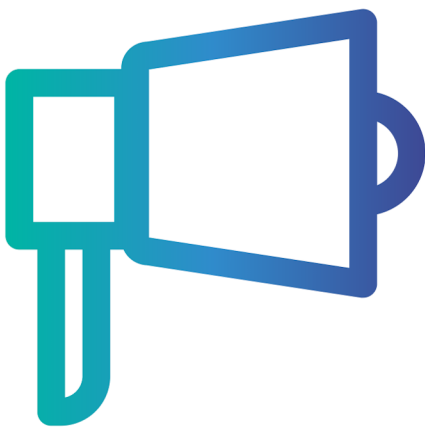
“It has already been announced”



One of the biggest threats to proper project assurance and selection is when a decision on a project has already been made – implicitly or explicitly.

When announcements have been made it's easy to get overly focused on solutions rather than the underlying problem that needs solving. Often the actual problems could be addressed through a more cost effective approach and therefore free up funding for other important investments.

For infrastructure assessment there needs to be a focus on assessing problems and opportunities early and ensuring that all the right options are put on the table.



Infrastructure Australia's framework requires proponents to quantify the scale of problems and opportunities at its first stage. This depth of analysis helps reveal the full range of problems/opportunities, their potential size and how they may change over time. These insights can then feed directly into identifying different options that can (fully or partially) address the problems and opportunities.

Key issue

“It’s just more red tape”

Assurance processes can be time consuming and costly. They can cause delays and, in some cases, end up not adding much value.

However, ultimately these processes should be helping decision makers fund the right projects – meaning better outcomes for the money spent.

So how do we get this balance right?



Infrastructure NSW's
Infrastructure Investor Assurance Framework

Infrastructure NSW's framework provides an example solution for this, as their gateway requirements are based on a **cost and risk matrix**. Projects are rated based on their expected cost and potential risks, which determine mandatory and optional gates. This helps focus assurance efforts on those projects that have the most at stake, and ideally, help add value or mitigate risks to the project and its desired outcomes.

Key issue

“There’s little appetite for that”



We rarely do post-completion reviews, whether it be due to perceived risk, cost, or simply needing to focus on delivering the next priority

However, we believe that strategic and transformational projects are the type of projects that would benefit most from undertaking more post-completion reviews. Building a better evidence base on how projects can transform communities and outcomes can help pave the way for more of these types of projects.

So how do we actually get these to happen in our investment systems?

Chile’s SNI system includes an ongoing annual budget for simplified ex-post analysis of a **representative sample of projects**. In-depth ex-post analysis of particular projects are also undertaken, but much less frequently.

The benefits of this approach:

- A focus on broader system strengths or issues rather than individual project performance
- The practice is institutionalised and is seen part of normal practice, as opposed to a project audit
- It is embedded within the decision-making system and can help inform the future development, selection, and delivery of projects

A summary of the key takeaways

1

Introduce structured assessments for strategic alignment that actually test the contribution of projects towards policies or strategies, and how important those policies and strategies are

2

Strengthen MCAs with consistent criteria and weightings across sub-sectors or programs to improve comparability across projects and confidence in scoring outcomes

3

Focus assessment processes on the early stages of a project, where there is a greater opportunity to understand the problems and opportunities that need solving

4

Ensure assurance requirements transparently reflect project cost and risk, focusing efforts on the projects that have the most at stake

5

Establish ongoing funding for post-completion reviews, with a focus on understanding portfolio performance over critiquing individual project performance

Questions? Hadron Group can help.



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