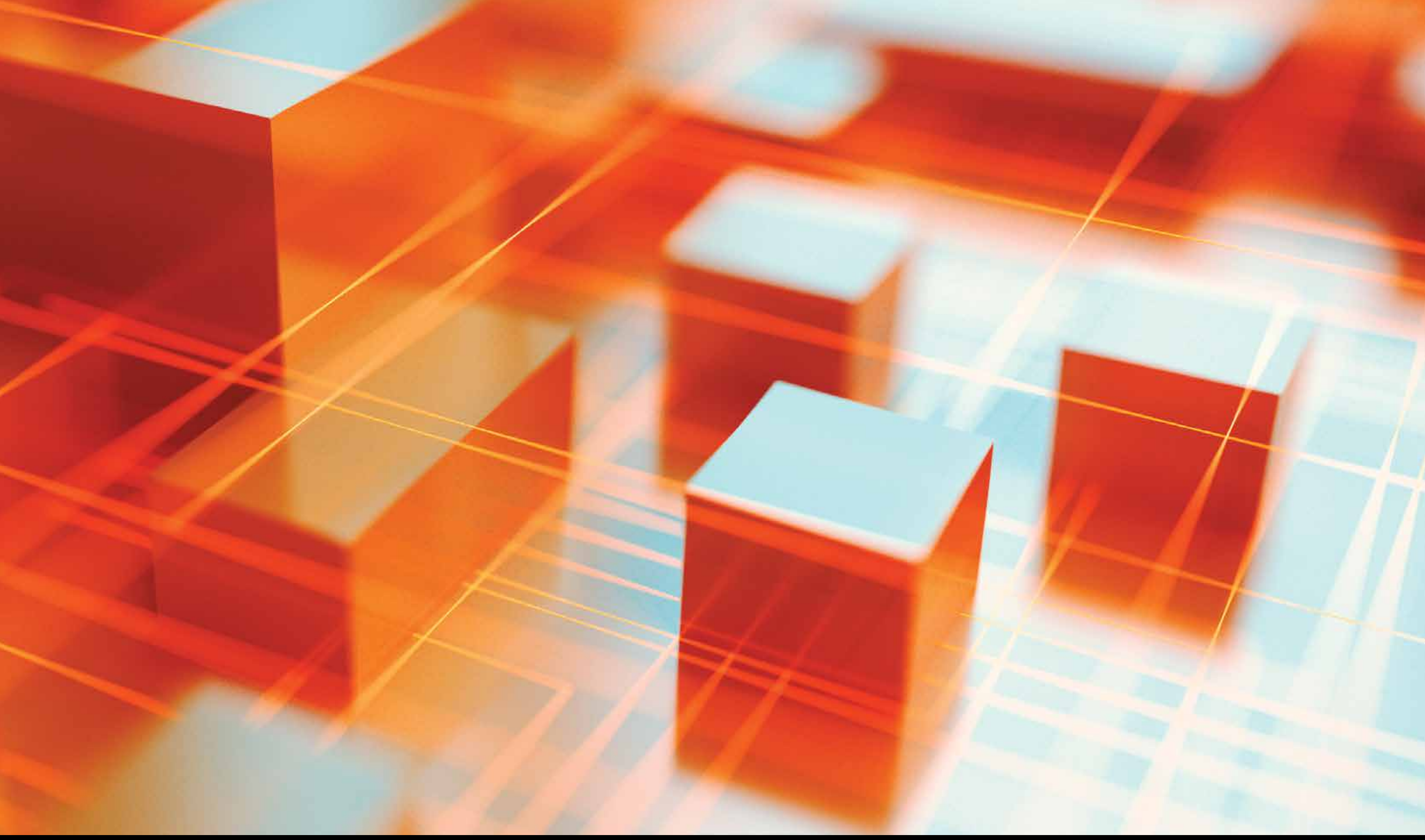


SageBush public finance resources

Prioritising expenditure proposals

SageBush's public finance resources support public sector leaders to understand and manage financial challenges.

sagebush.co.nz

SAGEBUSH STRATEGIC (FINANCE) PARTNERS

Funding in the public sector is constrained. Proposals for new initiatives always exceed the available pool.

Most agencies have developed prioritisation matrices to guide decisions on capital proposals, but little has been done for operating proposals. Decisions on new operating proposals therefore tend to be adhoc, or they are shoehorned into existing capital expenditure decision processes.

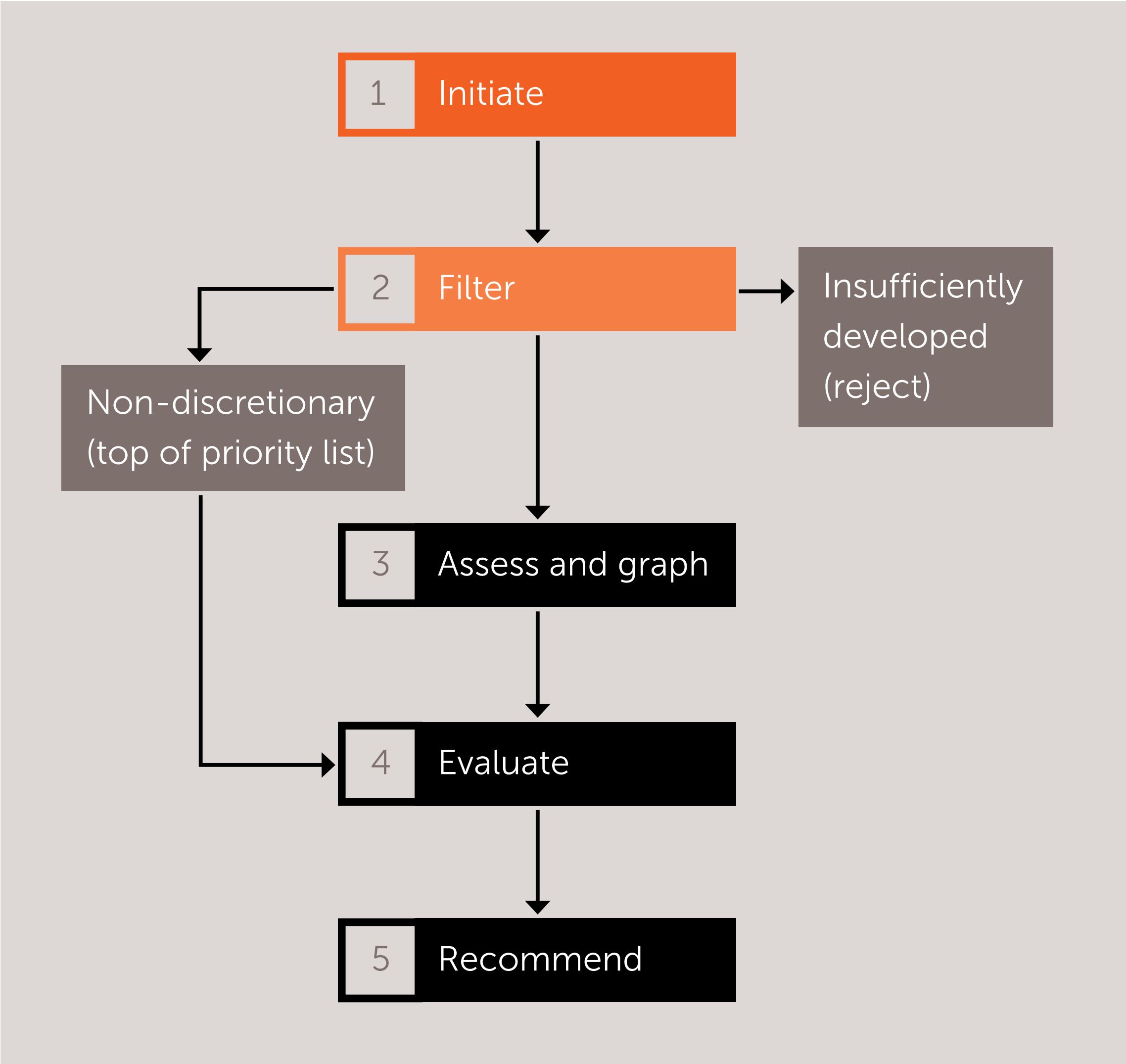
Capital expenditure decision processes are typically linear. Proposals are scored against agreed criteria and listed in descending order. The list is assumed to represent the relative importance of proposals and is used for funding allocation decisions. A line is draw where the funding runs out. Proposals at the top of the list get funded: those at the bottom of the list do not.

This type of process is easy to administer and understand, and is appealing in its simplicity. But it results in a yes/no decision which is highly dependent on criteria scores and weightings. Small changes to scores or weightings can flip a proposal above or below the cut-off line. It therefore encourages applicants to manipulate their scores and can lead to poor funding decisions.

This guide proposes an alternative way to assess both capital and operating proposals. It recognises that the prioritisation process is an art rather than a science, and identifies clear winners, clear losers and a group of “maybe’s” that sit in the middle. It enables clear winners to proceed while management time is focussed on debating those in the middle... which is where their time is best spent.

The assessment process

Assessing expenditure proposals is a five-step process as shown below:



Step 1: Initiate

The first step is to initiate the process by collating a comprehensive list of expenditure proposals. If this information is not already on hand, a request for bids should be made across the agency and a template circulated for submission of bids. This should contain sufficient information to enable the prioritisation process to be undertaken. It should include a description of the proposal and how it would deliver on the assessment criteria (refer below).

Depending on capability, it may be ok to request business groups to complete an initial assessment against the criteria. Alternatively, the initial assessment may need to be undertaken centrally.

Step 2: Filter

The purpose of the filtering step is to identify proposals that are non-starters or not sufficiently developed, and proposals that are non-discretionary. The non-starters should be rejected. Proposals that are non-discretionary should be removed from the prioritisation process and added to the top of the list that comes out of the assessment process.

Non-discretionary proposals will fall into two groups:

- **Directives** – proposals that have been directed by Cabinet or Ministers, or are part of a coalition agreement, a treaty obligation, or Government priority.
- **Compliance** – proposals that are specifically required by legislation or regulation.

The filtering step will produce a long list of proposals which should be progressed to step 3.

Step 3: Assess and graph

The long list should be assessed against a set of criteria which reflects both the value of the proposal and the ability of the agency to successfully implement it. There is no generally agreed way to do this. This guide recommends that expenditure proposals be assessed against the two dimensions of value and constraints as follows:

Value

1. Strategic alignment – contribution to the strategic objectives, priorities and goals of the agency.
2. Return on investment – financial benefits relative to costs and resources required (measured in net present value terms).
3. Benefits – non-financial benefits to customers, stakeholders and the agency (including the impact of the proposal on the efficiency and effectiveness of agency processes).
4. Enablement – whether the project will enable other initiatives, and whether these are of high value.
5. Addresses known issues – whether the project responds to recommendations in external reviews or addresses existing service delivery issues and/or prevents service delivery failure.

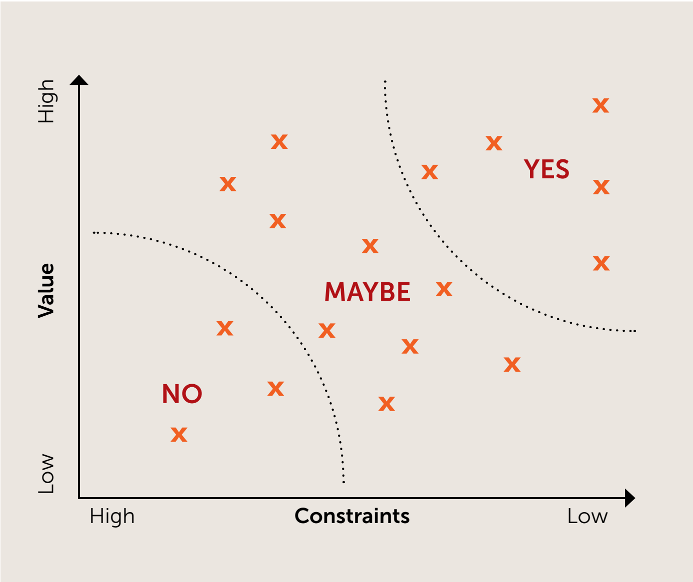
Constraints

6. Net cost – cost of the project less any savings or direct monetary benefits.
7. Funding availability – whether funding has been ring-fenced for this project, it is competing against other projects from a confined pool, or new funding is required.
8. Capacity/resources – capacity of the agency to undertake the project and availability of appropriate resources.
9. Project risk – risk of project failure (i.e. risk of the project not being delivered within time or budget, or not achieving desired outcomes).
10. Risk of adverse impacts – risk of the project adversely affecting the agency and services during or after implementation.

A weighting should be assigned to each criteria to reflect its relative importance to the agency. The weightings will be agency specific and should be debated and agreed within the agency. The weightings used in this guide are for indicative purposes only.

Each proposal in the long list is then assessed against the ten criteria using a scoring matrix. This will result in a raw score for each criteria from 1 to 5. For the Value criteria: 1 = low value; 5 = high value. For the Constraints criteria: 1 = high constraints; 5 = low constraints.

The criteria weighting is then applied to give a weighted score for each criteria, and summed to give a total weighted score for the dimension. Each project then ends up with a total weighted score for Value and a total weighted score for Constraints (refer appendix 1 for sample scoring matrix). These are used to develop a graph of all proposals in the long list as follows:



- Proposals in the **YES** area are assessed as being of high value and face few constraints. These proposals should be accepted.
- Proposals in the **NO** area are assessed as being of low value and face many constraints. These proposals should be rejected.
- Proposals in the **MAYBE** area do not have a clear-cut YES or No response. Management time is best spent evaluating these proposals.

Step 4: Evaluate

Proposals in the **MAYBE** area should be considered in detail by a management group. The group should review each proposal and assessment in detail. It should focus on the parts of the assessment which are not clear-cut and may want to revisit whether some criteria are more important for some projects than others. Consideration should then be widened to include the following factors:

a) Funding

Investment decisions will depend on the availability of funding. Although funding availability is one of the constraints criteria, the nature of the funding may allow the proposal to be marked as a clear YES or NO. The availability of funding will be influenced by factors such as:

- Fees/levies – is the proposal wholly or partly cost-recovered from fees or levies? Will fees or levies need to be increased?
- New funding – will new funding need to be sought through a budget bid? Will the Minister and Government support a proposed budget bid?
- Existing funding – is funding available from existing baselines and/or from cash held? Can lower value spend be reprioritised to fund higher value projects?

b) Wellbeing

An assessment of how proposals will contribute to the wellbeing of New Zealanders is now required by Treasury for all budget bids, but may also be of use to assess proposals funded from other sources. Proposals having a significant impact of the wellbeing of New Zealanders could be moved from a MAYBE to a YES. The assessment should be made against the three components of Treasury's Living Standards Framework:

- Wellbeing domains – consider the value to New Zealand, magnitude and timeframe of the project in terms of the wellbeing domains being targeted.
- Four capitals – consider the impacts on the four capitals (physical, social, natural, human) resulting from funding the initiative.
- Risk and resilience – consider how the project will adapt to or absorb risk and/or how it will build resilience.

c) Sustainability

Some proposals may be critical to the ongoing sustainability or stewardship of the agency. This may not have received sufficient weighting in the assessment process and may move the proposal from a MAYBE to a YES.

At the end of the evaluation step the list of **MAYBE**s should be divided into two groups: those that the group would recommend and those they wouldn't.

Step 5: Recommend

A paper should be prepared for the Executive Leadership Team (ELT) which documents the outcomes of the filtering, assessment and evaluation processes, and seeks approval for a list of projects to progress to the next stage. Depending on the size and complexity of the projects, the next stage could be a business case, budget bid or project initiation.

The list of projects which the management group recommends for approval would include:

1. **Non-discretionary** – with an explanation of why they are in this category.
2. **YES** – with a summary of the features which result in a positive assessment.
3. **MAYBE**s – proposals initially assessed as MAYBEs that the management group now recommends for approval. This should include a clear rationale for changing the assessment.

The paper should also include a summary of all projects received and assessed, and the outcome of the process.

Note: Scorings and weightings are for indicative purposes only

Appendix 1: Sample scoring matrix

Assessment of funding proposals – scoring matrix | Proposal name: Xxxxx

Criteria	Score = 1	Score = 2	Score = 3	Score = 4	Score = 5	Raw score	Weighting	Weighted score
Value	Low Value				High Value			
1 Strategic alignment	Proposal does not contribute to the agency's strategic objectives or goals		Proposal contributes to a wider programme of work which supports the agency's strategic objectives or goals		Proposal makes a critical contribution to agency's objectives and to wider government or sector goals	4	25%	1.00
2 Return on investment	Non-monetary benefits low or not identified; costs significantly exceed monetary benefits		Significant non-monetary benefits; monetary benefits break-even with costs		Significant non-monetary benefits; monetary benefits significantly exceed costs	3	25%	0.75
3 Benefits	Minor benefit(s) have been identified but are uncertain		Medium level benefit(s) are likely but measurement is not defined		Significant benefit(s) are likely and measurement is defined	3	20%	0.60
4 Enablement	The proposal is entirely self contained		The proposal is complimentary to other initiatives		The proposal is critical to other initiatives	3	15%	0.45
5 Addresses existing issues	Existing service delivery issues can be managed through work-arounds		Existing service delivery issues cannot be managed through work-arounds and quality of services deteriorates		Not proceeding with the proposal has high risk of service delivery failure	4	15%	0.60
Total						17	100%	3.40
Constraints	High Constraints				Low Constraints			
6 Net cost	High net cost (cost less monetary savings)		Medium net cost (cost less monetary savings)		Low net cost (cost less monetary savings)	2	20%	0.40
7 Funding availability	Funding is not idenfied: new funding is required and it is not a government or ministerial priority		Competes with other projects for funding from a defined pool		Funding has been ring-fenced and it does not compete with other projects	2	30%	0.60
8 Capacity/ resources	The agency does not have the capacity and skills/experience to sucessfully implement the project and would have problems sourcing these externally		The agency does not have the capacity and skills/experience to sucessfully implement the project but could source these externally		The agency has the capacity and skills/experience to sucessfully implement the project	4	20%	0.80
9 Project risk	The project is complex and the agency has limited capability and/or capacity to deliver		The project is average complexity and the agency has average capability and/or capacity to deliver		The project is simple and the agency has high capability and/or capacity to deliver	3	15%	0.45
10 Risk of adverse impacts	High risk and significant potential adverse impacts on agency and services		Medium risk and mid-level potential adverse impacts on agency and services		Low risk and minimal potential adverse impacts on agency and services	2	15%	0.30
Total						13	100%	2.55

Values for graph

Please contact us
if you would like to talk
about specific challenges
your agency is facing.

Ben Bush 021 208 5432
ben.bush@sagebush.co.nz

Brian Sage 027 223 0541
brian.sage@sagebush.co.nz

SAGEBUSH
STRATEGIC
(FINANCE)
PARTNERS

SAG7905 August 2020