The development of options starts with a clear specification of the issue being addressed and the objective of an intervention.

Whether you are developing policy, a business case or regulatory impact statement / legislative impact assessment, you will need to:

* define the problem and specify the objective of intervention before identifying options
* identify options which represent a good range of available policy levers – e.g. for a regulatory proposal, identifying non-regulatory options; and for infrastructure options, identifying demand management or behaviour change options
* where possible use a simplified cost-benefit analysis to help short-list options, in addition to considering other measures such as value for money and feasibility.

Regardless of which process is being followed, this guidance note seeks to provide high‑level advice on how to identify and analyse options.

Define the issue to be addressed

The first stage in the development of any new policy, regulation, or investment proposal is defining the problem or issue to be addressed and undertaking any supporting analysis of the underlying causes and potential benefits of intervention.

This may take the form of economic analysis to help understand the nature and extent of the problem. For example, economic analysis can quantify the costs to the market, community or the environment of continued inaction. Economic analysis can also help illustrate areas of market failure where there is a potential role for government.

Analysis of economic data can be used to understand the relationships between key variables including possible correlation or causality.

Define the objective

If an intervention seems worthwhile, then the objectives of the proposed new policy, program or project need to be stated clearly. This will guide the identification of the full range of alternative options that government may adopt.

The objectives of individual proposals should be consistent with statements of government policy, departmental or agency objectives, departmental strategies, and wider macro-economic objectives.

The following questions may help to set suitable objectives and targets:

* What are we trying to achieve? What are our objectives? What would constitute a successful outcome or set of outcomes?
* Have similar objectives been set in other contexts that could be adapted?
* Are our objectives consistent with strategic aims and objectives as set out, for example, in your department’s strategy documents?
* Are our objectives defined to reflect outcomes (e.g., improved productivity, inclusive employment or sustainable economic growth,) rather than the outputs (e.g. operations, prosecutions or job placements), which will be the focus of particular projects?
* How might our objectives and outcomes be measured?
* Are our objectives defined such that progress toward meeting them can be monitored?
* What factors are critical to success?
* What SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) targets can we then set? What targets do we need to meet?

Consider the range of options

All policy, regulatory impact statement / legislative impact assessment and business case processes require the identification of options after problem definition and objective setting.

Identifying options is a critical part of developing a positive net benefit, value for money solution that meets the objectives of government action.

Some processes require that ‘options’ are considered multiple times in different levels of detail. For example, the requirements for High Value High Risk business cases include:

* Stage 1 ‘Conceptualise’ – includes identifying and assessing a reasonable spread of ‘strategic options’ to address the defined problem with a focus on feasibility and value for money, and identifying ‘solution options’ to implement preferred solutions
* Stage 2 ‘Prove’ – includes analysis of the whole of lifecycle costs and benefits for at least two or three options as part of a full business case.

In considering any set of options it is important to consider whether there are alternative solutions to the problem to help decision-makers understand the potential range of actions that they may take and ensure the highest net benefit option is identified. In the case of a regulatory proposal, this may include non-regulatory options. Alternatively, in the case of an infrastructure investment, it may be important to consider ‘non-build solutions’ such as pricing or cost recovery mechanisms.

The range of options depends on the nature of the problem being addressed and the stated objectives of intervention. For most investments, a wide range of options should be considered before short-listing for detailed appraisal. Both new and current policies, programs and projects should be included as options. At the early stages, it is usually important to consult widely, either formally or informally, as this is often the best way of creating an appropriate set of options.

In this stage, it is important to clarify the ‘intervention logic’, or the clarity of the link between a policy instrument and the behaviour change that is desired, and to consider all of the possible behavioural responses to any proposed instrument.

How many options should be assessed?

To start with, you need to define a realistic reference case against which all other options can be assessed. This may not necessarily be a ‘do nothing’ case, but could reflect expenditures that have been funded, such as operating or maintenance expenditure. Defining this ‘counterfactual’ appropriately (i.e., what the world would look like without the intervention), is critical to accurately assessing the benefits and costs of any intervention option.

From there, the options should include a ‘do-minimum’ scenario. The ‘do-minimum’ scenario could reflect actions or expenditures that are over and above business as usual. An alternative definition of a ‘do-minimum’ option is the least cost option that ensures compliance (i.e. with a legal or regulatory requirement).

Once options have been identified it may be useful to create a shortlist, partly to keep the appraisal process manageable. While feasibility and value for money might be an important component of this assessment (as in the High Value High Risk process), a ‘back-of-the-envelope’ cost-benefit analysis or even multi-criteria analysis may also be valuable. This may be in the preliminary stages of a policy appraisal, or during the conceptualise stage for a capital investment appraisal. However, there is a risk that the process of short-listing will eliminate the optimal solution before it is given full consideration. Therefore, shortlists should still try to cover a wide range of potential action, and reasons behind the rejection of each excluded option should be recorded.

In sum, it is leading practice to consider at least three to five options, encompassing a business-as-usual scenario, a do-minimum scenario, and a handful of project options and alternatives. It is most important, however, that the number of options considered reflects a realistic set of distinct options, each of which has a strong rationale, rather than hitting any particular ‘quota’. That said, consider more options for investments that are of significant scale and/or risk and a smaller number for those that are less so. The High Value High Risk guidelines specify that at least two to three options must be fully explored at the business case stage.

How to consider options when your investment interacts with others

An option may affect, or be affected by, other expenditure across the public sector (for example, where its outputs or costs depend upon another project or the implementation of a related policy, perhaps in another department). Where a number of expenditures or activities are linked together and the costs or benefits are mutually dependent, the proposal must be appraised as a whole. However, the contribution of the component parts of each proposal to achieving overall value for money must be taken into account.

In the first instance, you should discuss with your manager or director to confirm how the project interacts with other departmental work areas. If relevant, the project could be considered by a relevant departmental executive committee to discuss the potential interactions with other areas of the department or other departments.

Once authorised, there is still the question of how to assess investments and their options as part of a ‘network’ or ‘ecosystem’ of investments.

Tools and further guidance

There are a range of tools available to help you specify the issues, define objectives and identify options. The Department of Treasury and Finance provides guidelines for the [‘Investment lifecycle’](https://www.dtf.vic.gov.au/infrastructure-investment/investment-lifecycle-and-high-value-high-risk-guidelines), which includes five generic stages for developing and implementing investments. The first stage is called ‘Conceptualise’. The tools available to help you define the problem and identify options include:

* Investment Logic Maps
* Strategic options analysis
* Benefit mapping
* [Investment decision-makers’ checklist](http://www.dtf.vic.gov.au/sites/default/files/2018-02/Investment%20assessment%20checklist%20-%2016%2B%20questions_0.docx).

Each of these are described in the [Conceptualise guidelines](https://www.dtf.vic.gov.au/investment-lifecycle-and-high-value-high-risk-guidelines/stage-1-conceptualise). Templates are also provided.

The [Victorian Guide to Regulation](http://www.betterregulation.vic.gov.au/Guidance-and-Resources) also provides guidance on the definition of the problem and identification of options.