

Guidelines on Community Service Obligations

Introduction

These Guidelines are designed to assist Public Trading Bodies (PTBs) in determining whether a proposed activity fits within the Government's policy on Community Service Obligations (CSOs) and, if so, how to complete an application and /or respond to a direction from the Responsible Minister. The Guidelines provide information on how to cost CSOs, how CSOs may be funded, the process for documenting CSOs, and how implementation and performance monitoring will be undertaken.

New CSO Rules and Regulations

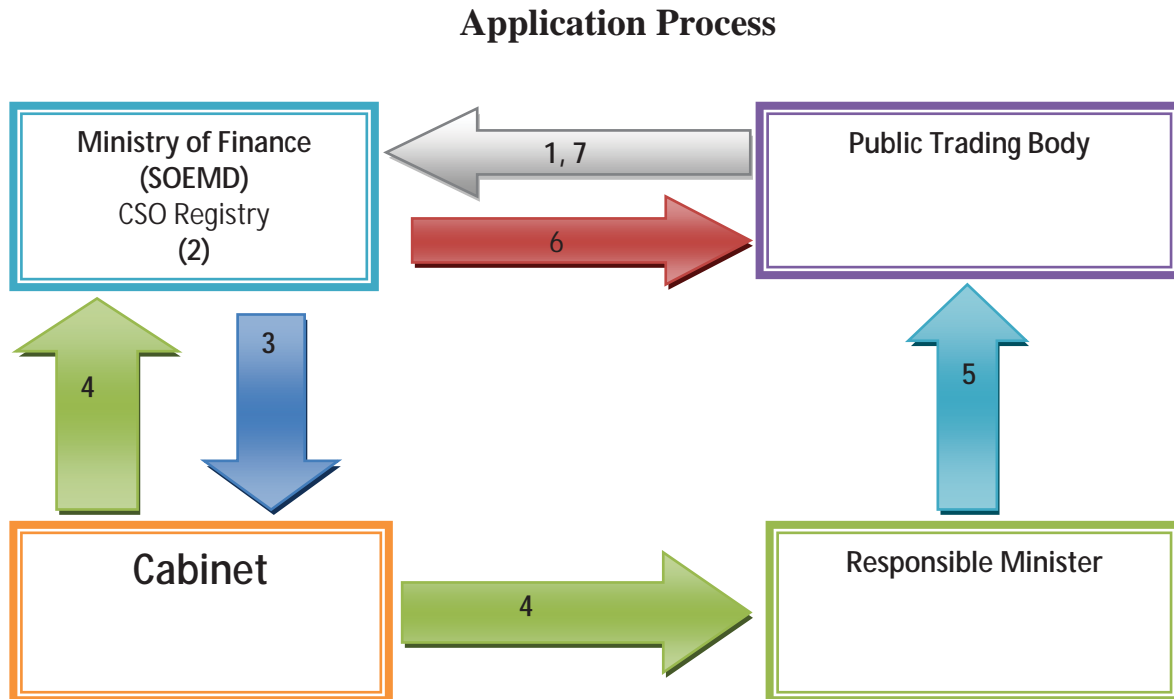
The State Owned Enterprise Monitoring Division (SOEMD) has recently reviewed the CSO provisions in the Public Bodies Act (Act) and Public Bodies Regulations (Regulations) and made several recommendations to Cabinet. This paper has been prepared to be consistent with the recommendations for change which have been approved by Cabinet. Drafting instructions have been given to the Attorney General to draft changes to the Act and Regulations, but the legislation has not yet been amended. The guidelines contained in this paper are therefore based on the existing legislation, but also identify where changes are expected and comments on how those changes will effect application, approval and monitoring of CSOs.

The new rules will introduce the following major changes:

1. Definition of CSO: The definition of CSOs will be tightened to make it clear that an approved CSO must demonstrate how it will contribute to the target "Alleviate Hardship in Samoa".
2. A prioritisation process will be established with the requirement that a CSO show;
 - First that it is aligned with the priorities as established in the Strategy for the Development of Samoa (SDS)
 - Second that it can be shown to alleviate hardship in the areas of basic needs, such as food and water, shelter, electricity, public safety, education and health.
 - Third that it contributes towards the development of Samoa and Samoan society in one of the following areas; religious, rural development, tourism, agriculture, manufacturing, environment and communications.
3. All approved CSO must be within the approved budget envelope for CSOs
3. A register will be established for all approved CSOs. The register will be maintained by the SOEMD.
4. There will be a streamlined application process which will align the timing with the budget cycle. All CSO applications must be with the MoF no later than 3 months before the end of the financial year (i.e. submitted before end March).
5. The Budget division of the MoF will allocate a pool of funds for CSOs every financial year. SOEMD will review the CSO proposals in accordance with the register, prioritisation guidelines and the budget allocation.
6. Documentation for approved CSOs will be in the form of an output agreement or purchase agreement, rather than a contract enforceable through the courts.
7. The new policy will include costing guidelines to assist the PTBs complete their application forms and to ensure greater standardisation of CSOs.
8. There will be enhanced monitoring and reporting including implementation monitoring (is the CSO being established as required?), performance monitoring (is the PTB meeting the government's delivery expectations for the CSO at the agreed cost?) and output or outcome monitoring (has the CSO delivered the anticipated benefits?).

Application process

The current application process for CSOs, as set out in Regulation 2 of the Public Bodies Act is recorded in Appendix 1. The application process that will apply under the amended Regulations is set out below:



Action:

1. Application by Public Trading Body or Instruction from the Responsible Minister – Must be received no later than 31 March to be included in main Estimates *(new)*

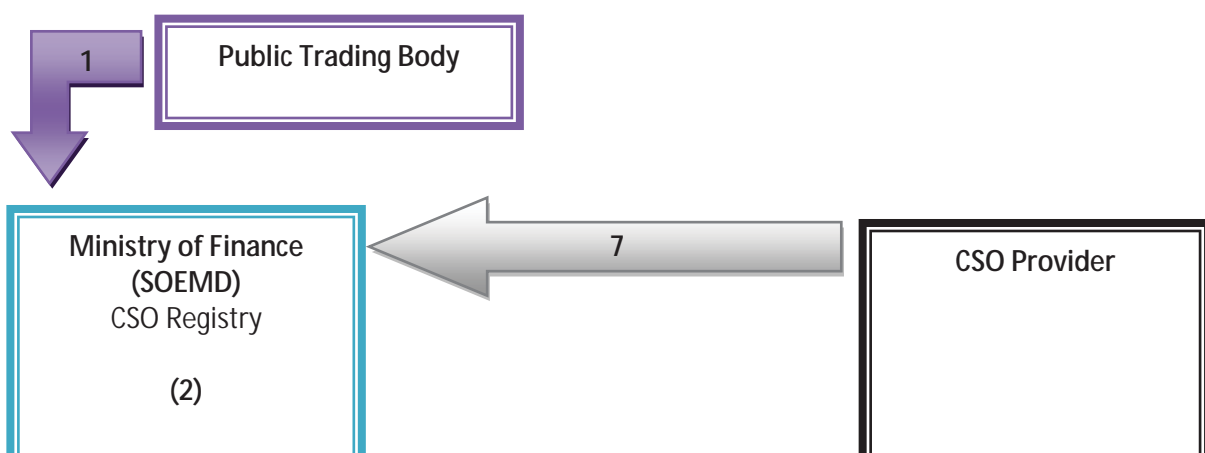
Applications must include:

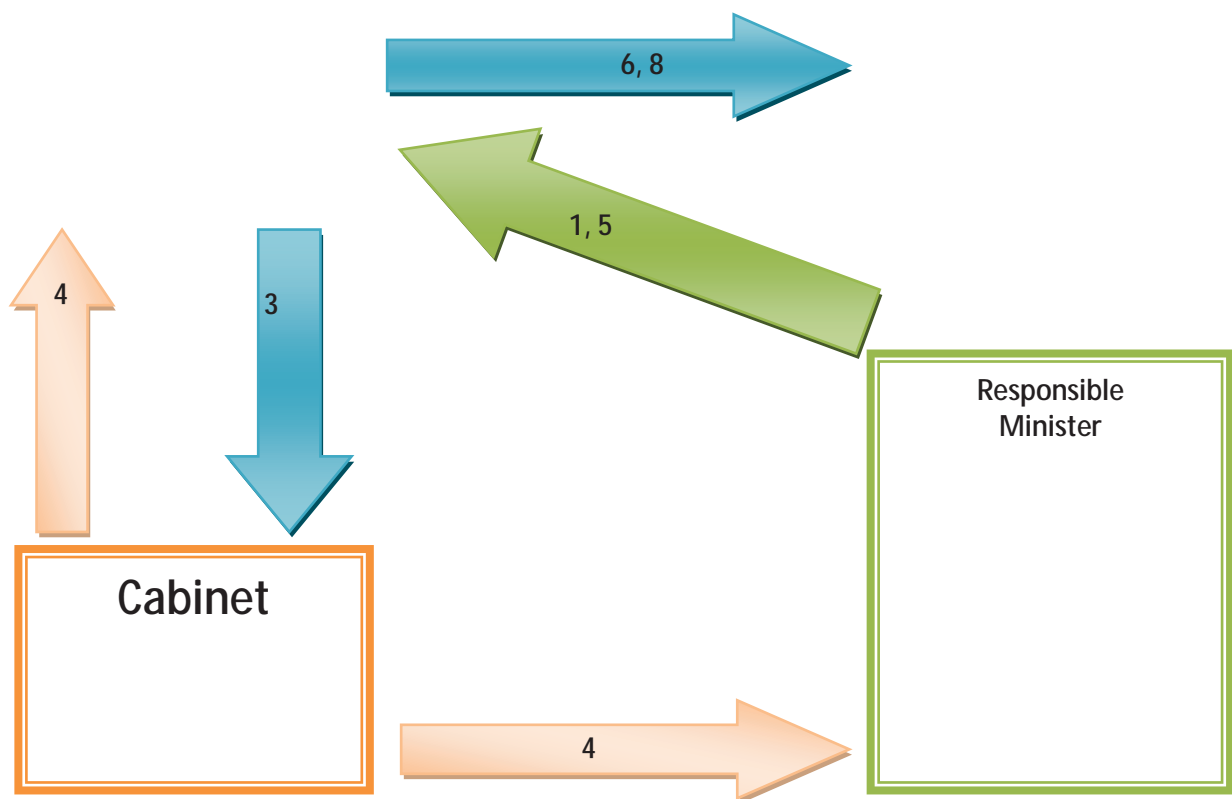
- (a) The scope of the CSO (*this section shall provide a description of the function to be performed, service provided or concession allowed*); and
- (b) The legislative authority under which the CSO is being provided (*this section shall demonstrate how the CSO will alleviate hardship in Samoa and is consistent with the government's CSO priority*); and
- (c) Any other Government objective being pursued that is not covered in the Act (*this section shall provide what outcome the Government is achieving from the delivery of this CSO and how it is consistent with and supports the government's Strategy for the Development of Samoa. The implications for this objective of not continuing the CSO should also be examined*); and
- (d) The past or intended results of the CSO (*This section shall provide details of the past results or intended results of the CSO activity. It shall (i) identify the beneficiaries (ii) cost the benefits from providing the CSO; and (iii) state the activity or program of the Public Trading Body that would be effected in the performance of the CSO; and (iv) identify the effect on the Public Trading Body of providing the CSO*); and
- (e) The total cost of the delivery of the CSO; and
- (f) Details of any revenue associated with the CSO (*This section shall provide the details of the revenue sources associated with providing the CSO, for instance, Government funding or other funding*); and

(g) The performance measures for delivering the CSO. *(This section shall show how the ongoing cost/benefit of delivering the CSO will be measured together with an assessment of the quality and effectiveness of the delivery of the CSO in achieving the stated objects/outputs from the CSO i.e the cost effectiveness of the intervention).*

2. (a) Ministry of Finance Budget division will process the application to include it within the proposed CSO budget for the upcoming financial year.
(b) SOEMD will review to ensure that the application contains all of the required information and fits within the approved prioritisation process.
3. The Ministry of Finance (SOEMD) shall forward to Cabinet for review and approval:
 - a) The application for the CSO; and
 - b) Ministry of Finance report (SOEMD) and advice on its review of the application The SOEMD report will summarise the information contained in the application and provide Cabinet with an assessment of the cost and benefits of the CSO and an assessment as to whether the application meets the approval requirements. The briefing paper will also discuss the benefits of tendering the provision of the CSO to parties other than the PTB applying for the CSO funding; and
 - c) Ministry of Finance advice on the availability of Government funding (MoF will provide Cabinet with a copy of the Main Estimates showing the availability of Government Funding);
4. Cabinet may or may not approve the application and the issuance of a direction for a CSO. In the process of approving the application, Cabinet may select the most appropriate body, organization or business to perform the CSO through a competitive tendering process complying with the normal tendering procedures of Government.
5. If Cabinet approves the application, the Responsible Minister shall issue the direction for the provision of the CSO by the Public Trading Body in accordance with the requirements stated above. Ministry of Finance will initiate the preparation of the direction. The direction will include clear performance objectives, ongoing monitoring requirements (including post implementation effectiveness reviews) and sanctions covering non-performance such as withholding payment and transferring CSO to an alternative service provider.
6. SOEMD will monitor the CSO implementation (supported by sector Ministry). SOEMD will also ensure that the CSO is added to Registry.
7. A full report of the performance of the CSO and its effectiveness will be provided to Cabinet no later than 2 months after the end of the financial year.
8. PTB provides reports so that SOEMD can monitor CSO performance (supported by sector Ministry) as indicated in (5) above. The CSO provider will be required to report on a regular basis, but probably as least every quarter.

Tender Process





Action:

1. Application by Public Trading Body or Instruction from the Responsible Minister – Must be received by 31 March to be included in main Estimates

Applications must include:

- (a) The scope of the CSO (*this section shall provide a description of the function to be performed, service provided or concession allowed*); and
- (b) The legislative authority under which the CSO is being provided (*this section shall demonstrate how the CSO will alleviate hardship in Samoa and is consistent with the government's CSO priority*); and
- (c) Any other Government objective being pursued that is not covered in the Act (*this section shall provide what outcome the Government is achieving from the delivery of this CSO and how it is consistent with and supports the government's Strategy for the Development of Samoa. The implications for this objective of not continuing the CSO should also be examined*); and
- (d) The past or intended results of the CSO (*This section shall provide details of the past results or intended results of the CSO activity. It shall (i) identify the beneficiaries (ii) cost the benefits from providing the CSO; and (iii) state the activity or program of the Public Trading Body that would be effected in the performance of the CSO; and (iv) identify the effect on the Public Trading Body of providing the CSO*); and
- (e) The total cost of the delivery of the CSO; and
- (f) Details of any revenue associated with the CSO (*This section shall provide the details of the revenue sources associated with providing the CSO, for instance, Government funding or other funding*); and

(g) The performance measures for delivering the CSO. *(This section shall show how the ongoing cost/benefit of delivering the CSO will be measured together with an assessment of the quality and effectiveness of the delivery of the CSO in achieving the stated objects/outputs from the CSO i.e the cost effectiveness of the intervention).*

2. (a) Ministry of Finance budget division will process application to include it within the proposed CSO budget
(b) SOEMD will review to ensure that the application contains all of the required information and fits within the approved prioritisation process.
- 3 The Ministry of Finance (SOEMD) shall forward to Cabinet for review and approval:
 - a) The application for the CSO; and
 - b) Ministry of Finance report (SOEMD) and advice on its review of the application The SOEMD report will summarise the information contained in the application and provide Cabinet with an assessment of the cost and benefits of the CSO and an assessment as to whether the application meets the approval requirements. The briefing paper will also discuss the benefits of tendering the provision of the CSO to parties other than the PTB applying for the CSO funding; and
 - c) Ministry of Finance advice on the availability of Government funding (MoF will provide Cabinet with a copy of the Main Estimates showing the availability of Government Funding);
- 4 Cabinet may or may not approve the application for the direction of a CSO. In the process of approving the application, Cabinet may select the most appropriate body, organization or business to perform the CSO through a competitive tendering process complying with the normal tendering procedures of Government.
- 5 If Cabinet approves the application and requires a tender process, the Responsible Minister shall issue the direction for the provision of the CSO to the Ministry of Finance in accordance with the requirements stated above. The Ministry of Finance will initiate the preparation of the direction which in turn will form the basis of an Expressions of Interest (EOI). A competitive tender will be undertaken in accordance with normal government processes.
- 6 Once a preferred tendered has been selected an agreement will be drafted which will include clear performance objectives, ongoing monitoring requirements (including post implementation effectiveness reviews) and sanctions covering non-performance such as withholding payment and transferring CSO to an alternative service provider, plus the ability to sue for non-performance.
- 7 SOEMD will monitor the CSO implementation (supported by sector Ministry). SOEMD will also ensure that the CSO added to Registry.
- 8 A full report of the performance of the CSO and its effectiveness will be provided to Cabinet no later than 2 months after the end of the financial year.
9. The CSO provider will provide reports to SOEMD so that SOEMD can monitor CSO performance (supported by sector Ministry) as indicated in (6) above. The CSO provider will be required to report on a regular basis, but probably as least every quarter.

Prioritisation Process

The Government has determined a prioritisation process to assist in determining which application will be approved. This recognises that money is a scarce resource and the Government must be satisfied that it is gaining maximum benefit for each Tala spent.

To be approved as a CSO the activity or service must:

- (a) Be consistent with the overall Strategy for the Development of Samoa (SDS) targets and priorities, and
- (b) Be able to be funded within the approved CSO budget for the year. This budget will be set by Cabinet at the time of setting the annual whole of Government budget through approval of the Main Estimates.

If the application meets the tests set out in (a) and (b) above, it will need to fall within one of the following two categories. Applications that fall within category one will be given a higher priority than applications that fall within category two. Applications that cover both categories will receive an even higher priority, for example, an application that achieves tourism development outcomes, while also providing water to disadvantaged community will achieve a higher priority ranking (all other things being equal) to a project that provides water to a disadvantaged community.

Category 1

Alleviate hardship in the areas of basic needs, such as food and water, shelter, electricity, public safety, education and health.

Category 2

Contribute towards the development of Samoa and Samoan society in one of the following areas; religious, rural development, tourism, agriculture, manufacturing, environment and communications.

All projects will have to show that they are achieving a positive cost benefit and will be ranked in order of the extent to which the benefit outweighs the cost.

Attached as appendix three is an example of how projects will be prioritised.

Costing CSOs

There are a number of different methods to cost CSOs. Applicants should adopt a costing method that is most appropriate for the activity or service for which CSO funding is sought and which produces the most accurate result. Examples of different costing methods are set out in the table in Appendix 4. Applicants must clearly state the costing method used and the reason why that costing method had been adopted in that application. Note: In the tables below, CSA stands for Community Service Applicant.

As PTBs are commercial enterprises and they have a statutory obligation to operate as a successful business, applicants should include in their costing a reasonable margin to recover their cost of capital. This is to ensure that the provision of the CSO is financially neutral for the PTB. This capital recovery margin should be clearly identified in the application.

As the PTB is permitted include a recovery of its cost of capital in its pricing or costing, the provision of the CSO should be seen as being an attractive additional source of business and as such the Government would expect to see the PTB price "competitively". The Government reserves the right

to test the competitiveness of the pricing by seeking competing tenders for the provision of the CSO on the contract expiry date.

The PTB should clearly establish how it has accounted for capital and operating costs within its costings and provide full reasons and justifications where it seeks to recover full capital and/or operating costs.

Funding CSOs

There are different methods to fund CSOs. The table below provides examples of the most common methods. Applicant should, as part of the application process identify the funding method most preferred and reasons. The Government may provide a CSO, but use a funding method different to that identified in the CSO application. This is because choice of funding method is ultimately a decision for the funder (Government) and has implications beyond the simple decision to fund or not to fund a particular CSO, as can be seen by the examples in the table in Appendix 5.

Register of CSOs

The Ministry of Finance (SOEMD) will establish and maintain a registry of CSO. The registry will list all CSOs, the provider, term, copy of the direction (or agreement in the case of a tender), a summation of the cost benefit analysis, duration of the CSO and intended outcome or output sought.

The Registry will be available to the public to view and the public may obtain copies of the documentation held on the registry. However, SOEMD may charge any reasonable out of pocket expenses incurred in responding to a request for information and/or copies of documentation.

If a CSO is registered the provider will not need to reapply each year for a continuation of the CSO. If however the scope, costs, revenues or other important aspects of the CSO change then the provider will have to notify SOEMD. If the change is material (as determined by SOEMD) then cabinet approval for a continuation of the CSO will be required.

The CSO will have to provide regular reports on the provision of the CSO as well as ongoing cost / benefit analysis to justify continuation of the CSO. The SOEMD may seek information on the performance of the CSO, its effectiveness and cost/benefits of the CSO from any source it deems appropriate.

The Government reserves the right to cancel any CSO on its anniversary date.

Monitoring of CSOs

CSOs will be monitored in two main ways

1. **Implementation Review**

The establishment of the CSO will be subject to review. The direction (or agreement in the case of a tendered CSO) will contain key implementation performance measures such as a description of the services that must be provided, when they should be available, key milestones and a description of the activity or services that must be provided. Where funding covers the provision of capital equipment, there will be a clear description of the equipment required. Regular reviews will be undertaken by the sector Ministry responsible for the sector within which the CSO will be undertaken, for example if the CSO is related to the provision of water, roads for power the sector Ministry will be the Ministry of Works,

Transport and Infrastructure. The relevant sector Ministry will be identified in the direction (or agreement in the case of a tendered CSO). The reviews will ensure that the CSO being established is consistent with the direction (or agreement).

The funding of the CSO will be staged to allow funds to be withheld if the CSO is being established in a manner not consistent with the direction (or agreement). In the case of capital equipment, the review will also ensure that equipment being purchased or installed is as specified in the direction (or agreement) and is fit for purpose.

The sector Ministry will provide regular reports to SOEMD on the implementation progress and expenditure of establishment funding.

2. Service delivery monitoring

SOEMD, supported by the sector Ministry as necessary, will be responsible for monitoring the ongoing performance of the CSO. Performance measures will be set out within the direction (or agreement if the CSO is tendered) and the CSO provider will report against these performance expectations.

SOEMD is responsible for dispersing funding for the CSO and funding may be withheld for serious performance breaches.

Monitoring will involve site inspections, progress reports from the CSO provider and public surveys where appropriate. SOEMD will provide regular reports to cabinet (at least quarterly) on the delivery of the CSO including funding applied against budget, reports on performance (including reports on site visits) and an update of the CSO registry. The report will highlight any performance issues and remedial action being undertaken to correct underperformance.

Output/Outcome Monitoring

Two months after the end of each year or prior to the CSO being renewed, rolled over, retendered etc, SOEMD will undertake a cost/ benefit audit to ensure the benefits sought from the CSO are being delivered and the costs are no greater than those budgeted. The review will also ensure that the anticipated outcomes or outputs that were sought to be achieved have indeed been achieved.

Annual Audit

The external auditor for the CSO provider must undertake an annual audit (as part of the annual audit process) on the CSO spending and revenues relating to that CSO. SOEMD will seek permission from the Controller and Chief Auditor to be allowed to directly question CSO provider's external auditor on any matter covered by the audit relating to the CSO. If SOEMD has residual concerns with any matters arising from the CSO audit they will also seek permission to be able to give the auditor directions to undertake any reasonable additional work, which will be to the account of the CSO provider.

Failure to comply with CSO rules and regulation

There are significant penalties that arise from failure to follow the CSO rules and regulations as set out in the Public Bodies Act and Regulations. In particular note section 13 of the Act, which is set out in appendix 2 below.

Appendix 1

Procedures for the issuing of a direction applied for by the Board of Directors of a Public Trading Body or a Minister (other than the Responsible Minister), for the performance of a Community Service Obligation (CSO)

2.1 Before the Responsible Minister issues a direction the following procedures have to be complied with:

2.1.1 The Board of a Public Trading Body under Schedule 1 or a Minister, (other than the Responsible Minister) may apply to the Responsible Minister to issue a direction for the performing of a CSO.

2.1.2 An application under sub-clause 2.1.1 for a direction of a CSO shall include:

- (a) The scope of the CSO (*this section shall provide a description of the function to be performed, service provided or concession allowed*); and
- (b) The legislative authority under which the CSO is being provided (*this section shall refer to the legislative authority in section 10 of the Act given to a Public Trading Body to perform the CSO*); and
- (c) Any other Government objective being pursued that is not covered in the Act (*this section shall provide what outcome the Government is achieving from the delivery of this CSO. The implications for this objective of not continuing the CSO should also be examined*); and
- (d) The past or intended results of the CSO (*This section shall provide details of the past results or intended results of the CSO activity. It shall state the: (i) beneficiaries and benefits from providing the CSO; and (ii) activity or program of the Public Trading Body that would be effected in the performance of the CSO; and (iii) effect on the Public Trading Body of providing the CSO*); and
- (e) The total cost of the delivery of the CSO; and
- (f) Details of any revenue associated with the CSO (*This section shall provide the details of the revenue sources associated with providing the CSO, for instance, Government funding or other funding*); and
- (g) The performance measures for delivering the CSO

2.1.3 Every application in sub-clause 2.1.1 containing any estimated funding by Government shall be subject to the performance budgetary process and submitted to Treasury at a time necessary for the application to be considered in the Estimates but not later than 3 months before the end of the Government financial year.

2.1.4 Every application in sub-clause 2.1.1 shall be forwarded to the Responsible Minister and, where applicable, to the Public Trading Body likely to perform the CSO for an assessment report to be provided no later than one month after receiving the application and including their costing of the delivery of the CSO and, at the same time, to Treasury for an independent review.

2.1.5 Treasury shall provide a report and advice on the independent review of the application in sub-clause 2.1.1 to the Responsible Minister no later than one month after receiving the application.

2.1.6 The Responsible Minister shall forward:

- a) The application for the CSO; and
- b) The CSO assessment report (if applicable) from the Public Trading Body likely to perform the CSO; and
- c) Treasury's report and advice on its independent review of the application in sub clause 2.1.1; and
- d) Treasury's advice on the availability of Government funding (if applicable); to Cabinet for review and approval.

2.1.7 Cabinet may or may not approve the application for the direction of a CSO.

2.1.8 In the process of approving the application, Cabinet may select the most appropriate body, organization or business to perform the CSO through a competitive tendering process complying with the normal tendering procedures of Government.

2.1.9 If Cabinet approves the application, the Responsible Minister shall issue the direction for the provision of the CSO by the Public Trading Body in accordance with the requirements stated in this Schedule.

2.2 Procedures for the issuing of a direction for Community Service Obligations applied for by the Responsible Minister:

2.2.1 In the case where a Responsible Minister requires the performance of a CSO by a Public Trading Body, the Minister must:

- a) Make an application in accordance with all the requirements in subclause 2.1.2; and
- b) Forward the application to Treasury for an independent review; and
- c) Comply with the performance budgetary process, if such application contains any estimated funding, and submit the application to Treasury within the time limit set for the application to be considered in the Estimates but not later than 3 months before the end of the Government financial year; and
- d) Where applicable, forward the application to the Public Trading Body likely to perform the CSO for an assessment report to be provided no later than 1 month after receiving the application; and
- e) Forward the application for the CSO, together with the advice provided by Treasury in sub-clause 2.2.1 (b) above and a CSO assessment report from the Public Trading Body likely to perform the CSO, if applicable, to Cabinet for review and approval.

2.2.2 Cabinet may or may not approve the application for the direction of a CSO.

2.2.3 In the process of approving the application, Cabinet may select the most appropriate body, organization or business to perform the CSO through a competitive tendering process, complying with normal tendering procedures of Government.

2.2.4 If Cabinet approves the application, the Responsible Minister shall issue the direction for the provision of the CSO by the Public Trading Body in accordance with the requirements stated in this Schedule.

2.3 Requirements to be included in the issuing of a CSO by the Responsible Minister

2.3.1 Any direction to be issued under this Schedule by the Responsible Minister for the provision of a CSO must state:

- (a) The scope of the CSO (*this section shall provide a description of the function performed, service provided or concession allowed*); and
- (b) The legislative authority under which the CSO is being provided (this section shall refer to the legislative authority in section 10 of the Public Bodies (*Performance and Accountability*) Act 2001 given to a Public Trading Body to perform the CSO); and
- (c) The date or time within which the CSO is to be performed; and
- (d) The performance measures for delivering the CSO; and
- (e) The standards to be achieved in delivering the CSO; and
- (f) That the annual cost of the provision of every CSO shall be published in the Public Trading Body's audited accounts; and
- (g) that upon signing the Agreement for the provision of the CSO, the signed Agreement shall be tabled in Parliament within 14 days if the Legislative Assembly is then in session, and if not, within 7 days of the next ensuing session.

2.4 Transitional arrangements for Public Trading Bodies which are currently performing non-commercial services to turn them into CSOs

2.4.1 The Public Trading Bodies providing existing non-commercial services shall apply to the Responsible Minister to have the future delivery of these services embodied within the CSO framework. A deadline of 12 months from the date of this Schedule coming into force shall be set for the Public Trading Bodies to either embody these services within the CSO framework or have these services delivered under an alternative arrangement.

Appendix 2

The Public Bodies (Performance and Accountability) Act 2001

COMMUNITY SERVICE OBLIGATIONS

9. Definition of Community Service Obligation - (1) For the purposes of this Act a Community Service Obligation means:

- (a) The provision of a good or service by a Public Trading Body to a consumer or user on any terms other than normal commercial terms applying from time to time; or
 - (b) The entering into an agreement by a Public Trading Body on any terms other than normal commercial terms applying from time to time; or
 - (c) The forbearance by a Public Trading Enterprise to exercise a right or entitlement other than on normal commercial terms applying from time to time; or
 - (d) The forgiveness or reduction by a Public Trading Body of a debt or an amount of money owed to the Public Trading Body other than on normal commercial terms applying from time to time.
- (2) Nothing in this part shall prevent a Public Trading Body from exercising a commercial judgment to make donations to worthy causes or to price goods and services at or below the cost of their production.

10. Minister may direct Community Service Obligation - Subject to this Part the Responsible Minister may direct a Public Trading Body to provide a Community Service Obligation if the performance of the obligation is necessary to ensure:

- (a) That there is universal access to a necessary good or service; or
- (b) The promotion of a policy vital to the national interest as declared by the Head of State acting on the advice of Cabinet; or
- (c) That there is a proper and timely response to a local, regional, national or international emergency; or
- (d) The correction of an injustice as declared by the Ombudsman.

11. Minister to follow procedure concerning Community Service

Obligation - (1) In performing any power or duty under this Part the Responsible Minister shall follow the procedures provided in Schedule 2 concerning the issuing of a direction to a Public Trading Body to provide a Community Service Obligation;

(2) Any direction by a Responsible Minister under this Part which fails to follow the procedures provided in Schedule 2 shall be null and void.

12. Procedure for the issuing of a direction for a Community Service

Obligation - (1) The procedures to be followed by a Responsible Minister concerning the issuing of a direction to a Public Trading Body to provide a Community Service Obligation are provided in Schedule 2.

(2) Schedule 2 may be amended from time to time by regulation made by the Head of State acting on the advice of Cabinet.

(3) Any regulations made pursuant to this section shall be laid before the Legislative Assembly within fourteen days of the making of the regulations or, where the Legislative Assembly is not sitting, within seven days of the commencement of the next sitting after the promulgation of the regulations.

13. Offence to unlawfully direct Director or Board of Directors - (1) Any person who knowingly directs or attempts to direct a Director or the Board of Directors of a Public Trading Body to perform a Community Service Obligation other than in accordance with the provisions of the Act is guilty of an offence and shall be liable to a fine of up to 100 penalty units [ST\$10,000].

(2) Any person who, whilst acting in the capacity of a Director of a Public Trading Body, knowingly makes or takes part, or attempts to make or take part, in the making of a decision to perform a Community Service Obligation, other than in accordance with the provisions of the Act is guilty of an offence and shall be liable to a fine of up to 100 penalty units WST\$10,000].

Appendix 3

Prioritisation matrix

Step	1	2	3	4	5	6	7	8
Test	Does the application clearly demonstrate that the activity or service is consistent with and will support the achievement of the SDS?	Does the application clearly demonstrate how it will alleviate hardship in one of the following areas: 1) Food & Water 2) Shelter 3) Electricity 4) Public safety 5) Education 6) Health	Does the application clearly demonstrate how it will alleviate hardship in one of the following areas: 1) Religious 2) Rural Development 3) Tourism 4) Agriculture 5) Manufacturing 6) Environment 7) Communication	Does the application demonstrate how it will achieve the outcomes/ outputs In both (3) and (4)	Does the application clearly show benefits which exceed costs	Net score	Calculate the extent to which benefits exceed costs and multiply net score by this factor i.e. benefits exceed costs x2, multiply net score x2	Total Score
Score	Yes – advance No – decline	Yes – score 1 point No – score Zero	Yes – Score 0.5 point No – Score Zero	Yes – Score 2 points No – Score Zero	Yes – advance No – decline	Value of 2,3,4	Weighting factor	

Budget Process Step 9

All weighted applications will be submitted to the Budget review committee who will determine the total funds available for CSOs. If total funding available is less than the total funding sought then applications will be dropped out with the lowest score applications being declined until total funding sought equals total funds available.

If total funding sought exceeds total funding available, Cabinet may in its absolute discretion, offer applicants the opportunity to review their costs to determine whether they can deliver the activity/services sought at a lower cost. If an applicant indicates that they can identify cost savings, then steps 7, 8 and 9 will be repeated.

Appendix 4

Costing option	Description	Comment
Stand alone cost	The method assumes that there are no shared costs between commercial and non-commercial activities.	This method is suitable if the CSA is providing only non-commercial obligations. If both commercial and non-commercial obligations are provided this approach does not recognise shared costs of service provision and so is likely to provide a relatively high cost estimate.
Fully distributed cost	The method takes all direct costs of the non-commercial obligation plus a pro-rata share of the authority's indirect costs (e.g. overheads, shared staff, rent, assets).	Governments often use the FDC method because it can be relatively simple to implement.
Average cost	The average unit cost of providing all activities (i.e. both commercial and non-commercial) is calculated. This is then applied to the non-commercial activities.	This provides a less accurate measure than other approaches but could be adopted if there was no way of separating (even by estimation or approximation) an authority's costs across the services it provides.
Marginal cost	The method is used to estimate the cost of producing an additional unit of a service.	Setting price equal to marginal cost promotes economic efficiency as it represents the opportunity cost of providing the additional unit. Marginal costs can be particularly difficult to define and estimate in practice.
Avoidable costs	The method measures all costs associated with the provision of an additional block of output.	The avoidable cost concept is similar to marginal cost, but tends not to have the same level of difficulty in application. This concept is commonly used due to its similarity to the marginal cost concept and reduced difficulties in practical application.

Appendix 5

Financing option	Description	Comment
Cross-subsidies	CSAs charge prices that do not reflect the cost of providing the service, but overall generate enough revenue to cover the total cost. Under this option, some customers will pay a price higher than cost, some customers will pay a price lower than cost. This approach is often implemented using a 'uniform' price where all customers pay the same price.	The approach is often simple to administer, but will reduce economic efficiency by distorting price signals to all consumers.
Levies	CSAs could place an explicit levy on some users. This would be over and above the standard price.	This is a more transparent approach than cross-subsidisation.
Direct transfers to consumers	The Government provides funding directly to those people that are to be assisted. The recipients can then use that funding to access services.	This approach gives the final customer total flexibility about the use of the financial transfer, including the final provider of the service. However, governments are often reluctant to use this method as it does not guarantee that customers will purchase the goods or services they intended (unless the transfer is provided through a 'voucher' mechanism).
Acceptance of a lower rate of return by the shareholder	The Government as shareholder acknowledges the cost of delivering the non-commercial obligations by accepting a lower rate of return on capital from the CSA.	This option works only for CSAs that provide both commercial and non-commercial outputs.
Direct funding of the CSA	The Government provides direct funding to CSAs for the non-commercial activity.	This is a very transparent means of funding the CSA but it may be difficult to change funding amounts over time and to encourage innovation and best practice delivery of NCOs.
Payment on a contestable basis	This approach will minimise the costs to government by introducing a degree of competition for the concessions, but only works well if there is a sufficiently deep market of providers.	Payment for non-commercial activities may be made available on a contestable basis to the CSAs and other private companies in a reverse (i.e. Dutch style) auction or through other tender methods.