DELIVERING HIGH-PERFORMING ASSETS

Highlights from the Major Projects Association event held on 7th September 2016

Infrastructure assets have long life cycles, and the value created by these is complex to define and measure in a changing environment. The value created by major projects varies widely from direct, quantifiable economic benefits to wider qualitative benefits such as regeneration and behavioural change. In the delivery of major projects the value of the asset is typically explored and established at the initiation stage but as projects move into delivery mode the focus shifts to the management of costs, time and quality. Frequently, little thought is given to the impact that decisions made at this stage will have upon the long-term value of the asset. This Major Projects Association breakfast meeting explored a number of questions about some key issues relating to the delivery of high-performing assets:

- How might decision-making differ if asset value had primacy over cost?
- Who is responsible for ensuring value is delivered over the life of assets?
- What skills, governance structures and incentives are required to drive value in major projects?

> *'Surely when we're developing and building assets the focus should be on the customer, the passenger and the end user. How often do we focus on the benefit and enhancing the value as opposed to the cost? How different would the decisions we make be, if value had primacy over cost?'*
> Ross Agnew, Director, KPMG LLP

VALUE VS COST

The way in which the media reports on major projects highlights the fact that focus is very much on their costs rather than the value of benefits delivered – for example, the '£18bn Hinckley Point C', or the '£50bn HS2 railway'. There is an expectation that projects should declare costs early on in projects, and they are held accountable to these numbers. It was suggested that perhaps a degree of vagueness about cost in the early stages would enable projects to focus more upon the outcomes they will deliver for customers and on maximising the value instead of just trying to minimise cost to boost the benefit cost ratio.

Taxpayers, however, may be less tolerant of 'cost vagueness' in public projects. Although it is necessary for taxpayers to understand that the lowest build-cost for an asset may not be the best long-term solution when considering the whole-life cost of infrastructure. The complexity of quantifying wider benefits realised over a long period is seen as one of the reasons that indirect benefits of major projects are typically underestimated, and why cost often has primacy over value. Being value-led instead of cost-led requires a compelling case to government and stakeholders to ensure value is not diminished by trying to reduce cost.

> *'Although value is difficult, cost is not simple either. We need to consider cost-cost trade-offs; the upfront cost compared with the whole-life cost, which is more difficult to determine. There is an issue with the transparency of long-run costs to taxpayers, which often means we don't make the right decisions in the immediate term for the best long-term outcome. We defraud the taxpayer by arguing that the minimum spend now is the best long-term solution.'*
> Richard Threlfall, Partner, KPMG LLP

HOW CAN WE SHIFT THE FOCUS TO VALUE?

Shifting from being cost-focused to value-focused in delivering major projects is a fundamental mindset change. Value of assets can be eroded in a number of different ways throughout the delivery process. For example:

- Delivery silos, each considering the cost and value of their 'part' rather than 'the whole', rarely achieve overall maximum value of the assets produced.
- The need to make speedy decisions during the delivery phase without sufficient time to explore long-term costs and value implications.

Overcoming these challenges requires strong leadership from project sponsors and governance throughout the project lifecycle. It was suggested that major projects could benefit from a 'custodian' role at the initiation stage to promote the consideration of value within the procurement process.

There is also an opportunity to focus more on the potential upside in realising value, compared with the current focus on minimising the downside through risk management.

The integration of assets within the wider environment is another factor of maximising value. For example, we heard that in some oil and gas producing countries the allocation of resources is considered at a portfolio level to factor in maximum value for the economy as well as continuity of resources for the full portfolio of projects.

It was noted that there is a disconnect between appraisal and evaluation in case studies of major projects, which means we do not learn from previous projects as well as we could. Further work in the area of appraisal and monitoring of benefits is needed. If we are able to shift our collective mindset towards this direction, perhaps in future we may refer to major projects in terms of the outcomes and value they deliver for users rather than simply how much they cost.

> *'If a project seems a no-brainer, it is often done without brains.'*
> Nekkhil Mishra, Deputy Director, Oil & Gas, IPA Global

> *'It would be better to be consistently imperfect rather than everyone trying to be individually perfect. I believe there is potential to be 25% more productive by adopting a common, good practice approach.'*
> Keith Waller, Senior Advisor, Infrastructure and Projects Authority

THE CUSTOMER IS KEY

Putting the customer, or end user, at the centre of decision-making is critical to altering how we assess, develop and deliver major projects. Examples of major projects which have successfully articulated the long-term vision and benefits for customers include:

- Thames Tideway
- Expo 2020
- Mersey Gateway Holton bridge
- Southern Water's Peacehaven wastewater treatment works

The common success factor in these projects was their customer engagement and the integration of that work within long-term strategic plans. Focusing on the customer naturally shifts the focus of projects to value instead of cost, but does not mean an increase in cost. Technology has a key role to play in how we engage with stakeholders and measure value as well as how we integrate delivery and manage the operation of assets.

> *'Customers often feel as if infrastructure is being done to them, they are not a part of it. The vision is missing or not communicated to stakeholders.'*
> Claire Gordon, Managing Director, Copper Consultancy

CASE STUDIES: WHERE VALUE AND CUSTOMERS ARE THE FOCUS

There are several examples of delivering outcomes that maximise value and put end users at the centre of decision-making, including:

- The water and energy sectors – regulatory requirements for customer consultation has led to outcome-based delivery incentives causing companies to change their approach to decision-making on assets, reinforced by the 'totex' mechanism. There has also been a shift in procurement and supply chain engagement to encourage behavioural change that supports the delivery of outcomes which are valued by their customers.
- Crossrail – a documented learning legacy and active sharing of lessons aims to shape the future of smart infrastructure and construction.
- Retail sector – the use of an established methodology based on the expected value enables organisations to make informed investment decisions on assets.

> *'There is a need for clearer role definitions for project sponsors. Sponsors should be focusing on strategic alignment, setting requirements and delivering overall value while the Programme Director is responsible for delivery to cost and schedule.'*
> Lisa Kelvey, Associate Director, KPMG LLP

POINTS FOR FURTHER DISCUSSION

- How could changes to the procurement of major projects impact the value delivered?
- What role does the supply chain play in delivering value on major projects?
- How could appraisal and evaluation of the benefits delivered by assets be used more effectively to inform future decision-making? Could benchmarking help?

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