



COSTING THE WHOLE SYSTEM

Nick Bennett

DG (Scrutiny & Analysis)

Where are we now?

- **Major Projects Review 2003**

“Optimism continues to govern the initial appraisal of projects and there are signs that risks are not always sufficiently understood when committing to the main investment at Main Gate. The costs and in-service dates for more than two thirds of projects have drifted away from those planned towards, and in a very few cases beyond, the highest acceptable approved limits”

Where are we now?

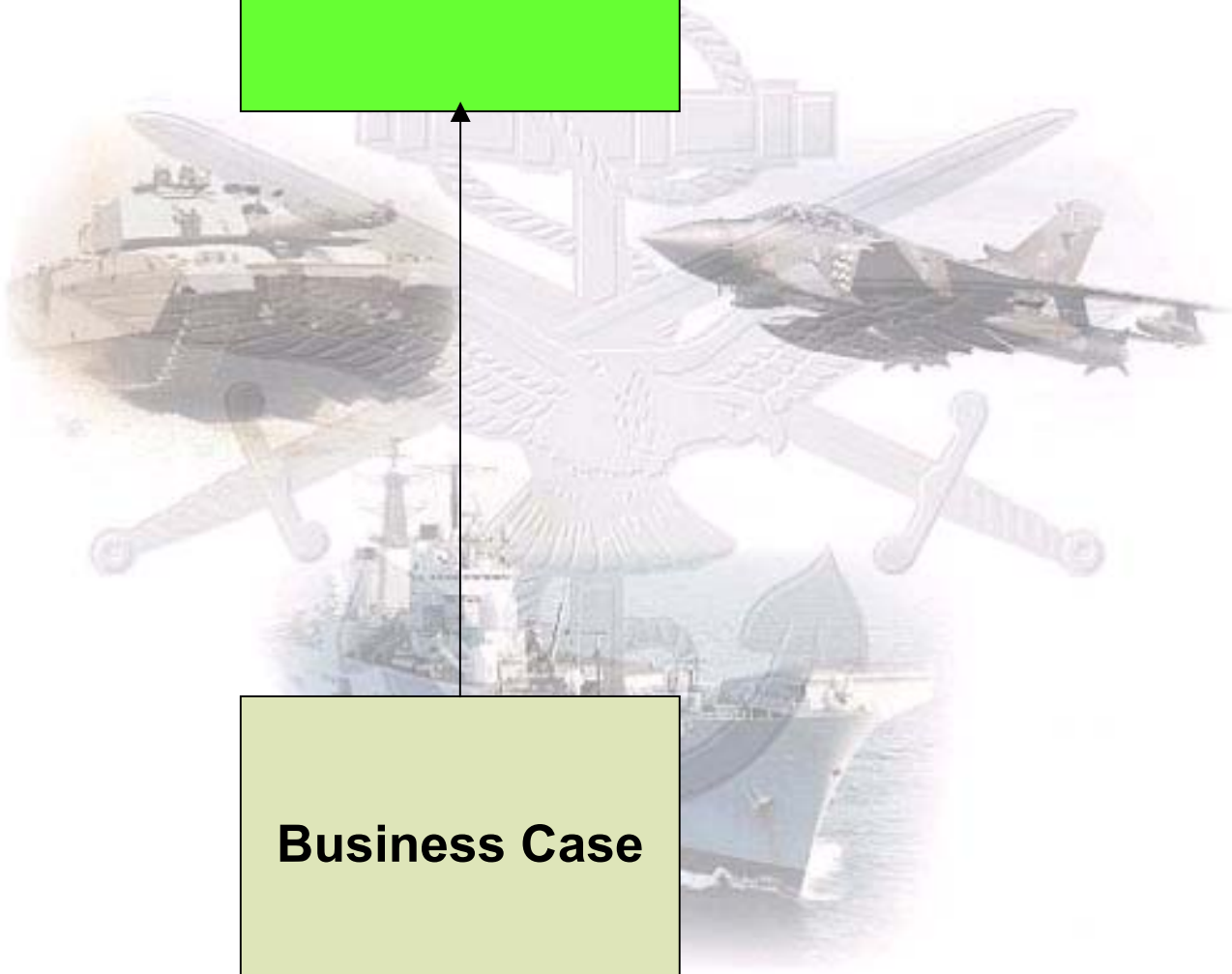
- IAB Experience

Almost all Cat A projects have to be resubmitted as they breach cost and/or timescales.



IAB

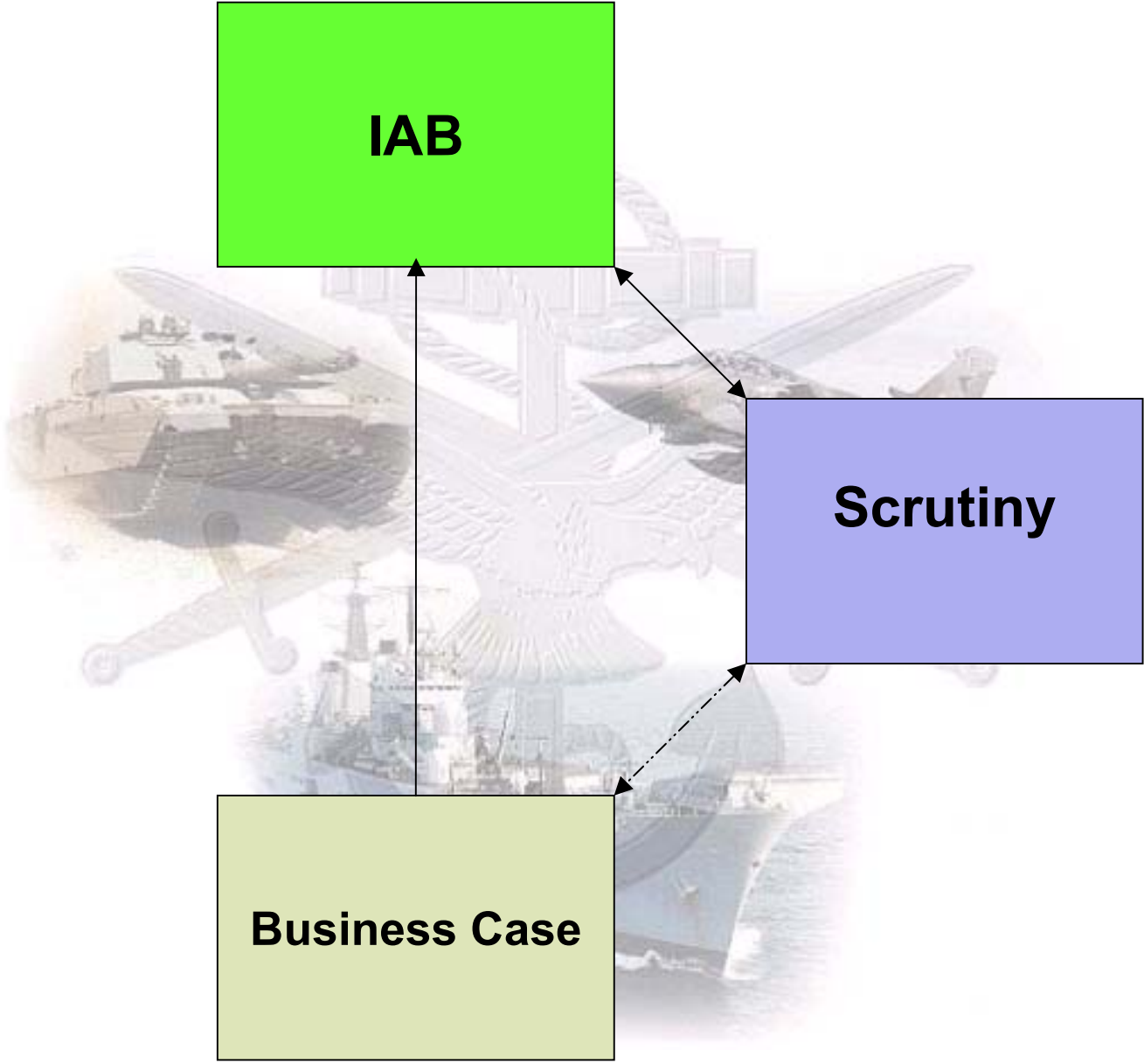
Business Case

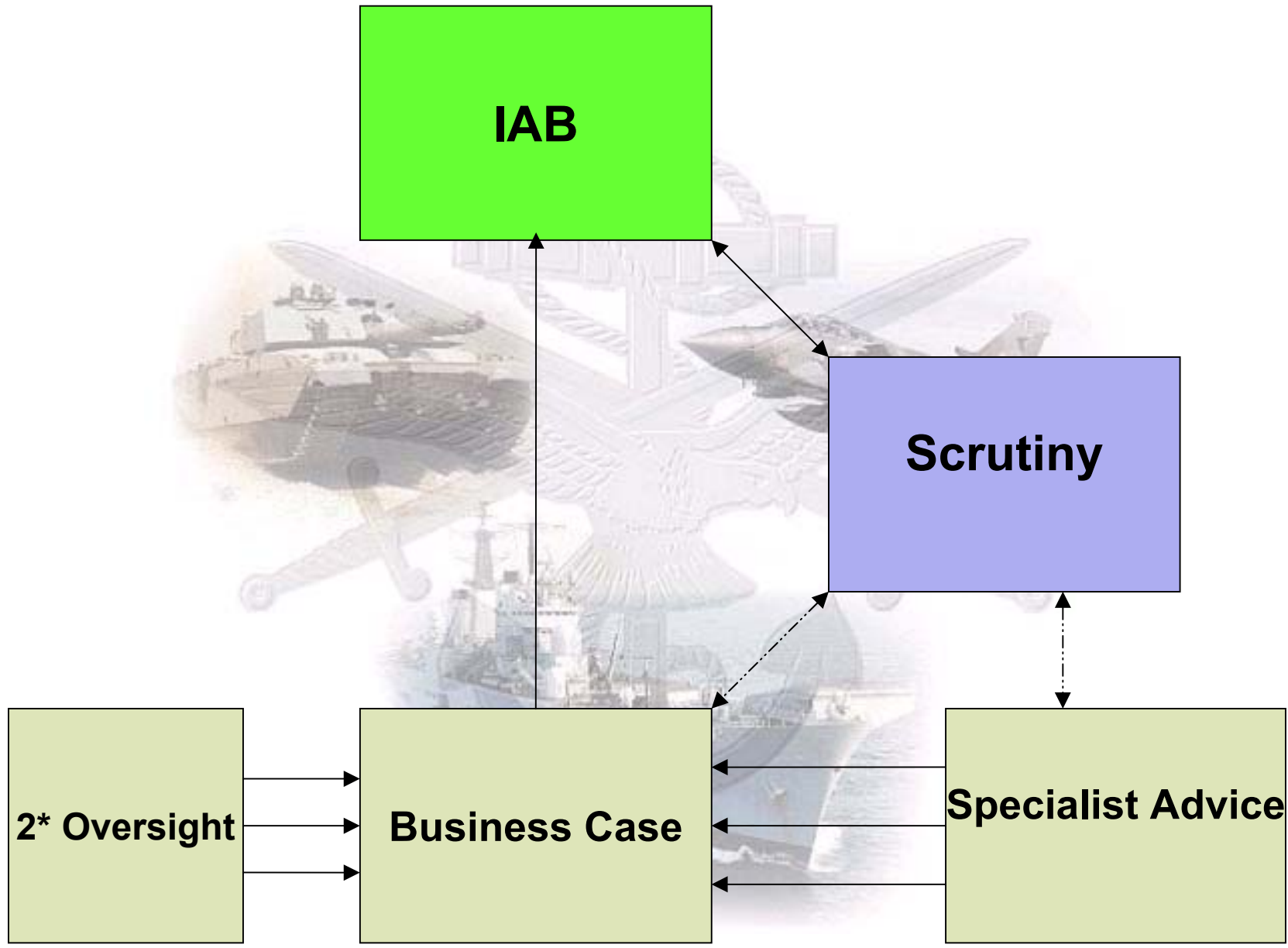


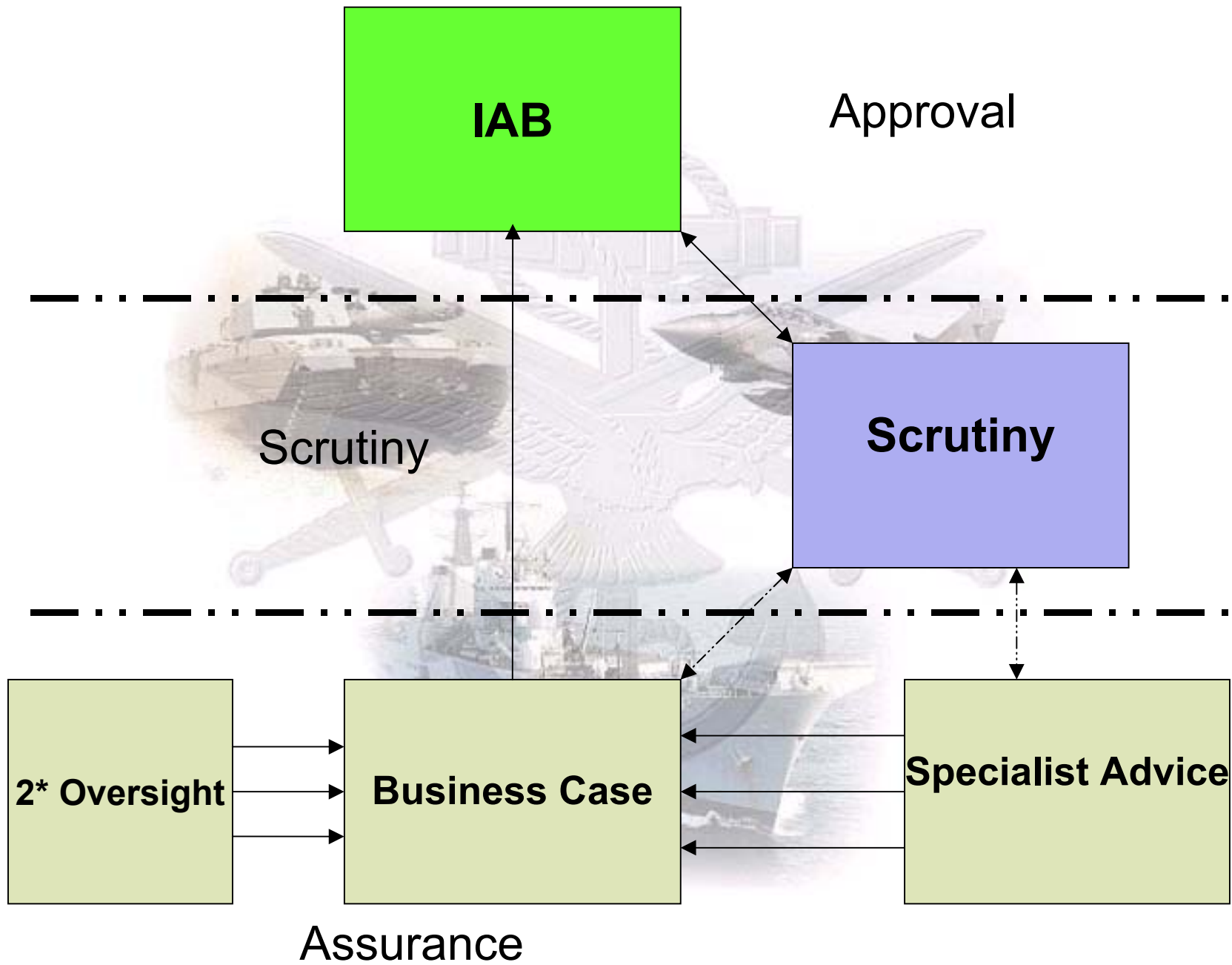
IAB

Scrutiny

Business Case







Getting it right



- **Assurance**
 - **Build in quality**
 - **Use consistent approach**
 - **Start early!**
 - **Methodology**
- **Specialist Advisers**
 - **Key role**
 - **Not just equipment**

Typical Problems



- **In Service Date determines programme**
- **Funding line determines costs**
- **Acceptance of industry advice**
- **Fear of loss of programme**
- **Lack of coherence between risk assessment, procurement strategy and performance estimates**

Estimates must be:

- **Factual**
 - founded on analysis of facts not aspirations, prejudices
 - avoid appeals to subjective judgement
- **Interpretable**
 - can I understand what the key drivers are in this
- **Versatile**
 - consistent estimates for multiple options
 - include analysis of risk and uncertainty
- **Auditable**
 - open to checking and revision

Estimates must be:

- **Timely**
 - most important decision is whether to begin or not
 - most influential estimates made when information is least
- **Comprehensive**
 - Caveats and exclusions do not pay the bills
- **Unbiased**
 - correct decisions demand the truth
- **Balanced**
 - do not concentrate only on what can be defined in detail
 - cost everything - even the unknown

Areas to focus on

- **WLC receiving more scrutiny than before**
- **Improved cost/time estimates early in projects is crucial**
- **More focus on absolutes not just comparisons**
- **Challenging, testing and refining assumptions must be part of any methodology**

...not to forget - predicting the future is never easy

"Peace in our time"
Chamberlain, 1938



"Crisis, what crisis?"
Callaghan, 1979



**"Anyone who thinks
the ANC will rule South Africa
is living in cloud cuckoo land"**
Thatcher, 1987

