

COST FORECASTING - HELPING THE DECISION PROCESS

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3 POINT ESTIMATES

- Renewed emphasis in MoD on better use of three-point estimates for project time and cost
- Projects already mandated to provide 10, 50 and 90 percentile points
- But recognition that things could be improved



3 POINT ESTIMATES

- Convenient to use the 50 percentile point
- But is this the most likely figure ?
- How do IPTs use three-point estimates ?



3 POINT ESTIMATES

- Have risks been fully identified ?
- Technology risks often well covered but contractor and programme risks not so well
- Have risks been adequately quantified ?
- Is there an audit trail ?



RECENT ACTIVITIES

- New guidance has been produced for the AMS (at one level for Senior management and a more detailed one for Practitioners)
- Projects now required to submit 3 point estimates on a quarterly basis so that the DPA Executive Board can better track risk mitigation



RECENT ACTIVITIES

- Can we have faith in the figures in the Initial Gate and Main Gate submissions ?
- Investment Approvals Board (IAB) requires better risk quantification
 - PFG now has a pan-MoD risk quantification assurance role
 - equipment and non-equipment projects
 - IAB recognises this cannot happen overnight



RECENT ACTIVITIES

- Assistance to IPTs in establishing a robust risk and uncertainty assessment for their project:
 - Process looked at by PDG, the Procurement Development Group
 - Practice (including quantification) looked at by PFG, the Pricing and Forecasting Group



PROCESS

Risk Maturity Assessment

- Some 10 projects examined in a pilot study
- Projects assessed by PDG to determine risk maturity levels
- Mixed results
- It is proposed that IPTs will be required to reach a certain level of risk maturity in the next few years



RISK QUANTIFICATION

- PFG has examined risk quantification in the pilot study projects
- Mixed results
- Need to improve data verification and risk capture
- Pilot study confirms the need for better schedule risk assessment
- Over the past few years it has become the norm for IPTs to carry out their own schedule risk assessment



RISK QUANTIFICATION

- PFG is now taking a greater interest in schedule risk
- It has developed a greater understanding of modelling schedule risk and uncertainty, particularly the commonly used Risk Controller/Analyser models
- Looking at an alternative approach



PFG STRENGTHS

- The pilot work has shown IPTs possess a varied understanding of risk and uncertainty
- PFG can bring its strengths to bear:
 - Depth of understanding of risk and uncertainty
 - Analytical and technical ability of PFG staff
 - Deep understanding of contractor risks through resident pricing staff
 - Good corporate knowledge through visibility of all major projects
 - Already involved in the approvals process, so know what the Scrutineers want



SUMMARY

- Exciting times ahead
- Greater opportunity to ensure senior decision-makers are better informed