

Capital Programmes
Orchestrating Success



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Making a success of multi-billion pound projects that extend over several years is 50% competence and 50% confidence. Deloitte provides clients with both.

We are witnessing huge growth in the volume of large-scale complex projects, fuelled by the growing global demand for energy, natural resources, major event venues, transportation and infrastructure.

In the UK, the London 2012 Olympics has a budget of £9.3 billion, while the Crossrail project will cost £16 billion and involve up to 14,000 people at its peak. In Brazil, Petrobras and partners are exploring newly-discovered hydrocarbon fields, committing around \$240 billion in new capital projects over the medium term. Infrastructure UK estimates that demand for investment in UK infrastructure projects between now and 2020 will be £40-50 billion per year. Meanwhile, renewable energy projects are forecast to be worth a total of £500 billion over the next 30-40 years.

Major projects on this scale have a capital value greater than the turnover of many FTSE 250 companies, and have similar requirements in terms of financial, technical and operational expertise.

It is invariably a high-wire act to lead large, complex, multi-stakeholder capital projects to a successful conclusion. Common challenges include:

- Managing increasingly diverse stakeholder relationships
- Catering for greater shareholder/public scrutiny of investments, risks and results
- The breadth of skill set required to deliver complex programmes
- Accessing new sources of funding to maintain competitive advantage and managing the associated challenges
- Carrying out appropriate tax planning
- Managing projects with unique cultural, regulatory, legal and contractual risks

The Capital Programmes advisory business harnesses expertise from across Deloitte to create a portfolio of skills that gives our clients the power to deliver major projects with confidence. These skills include business case and strategy, financing, cost optimisation and capital allocation, project governance and regulatory advice, systems integration and operational readiness.

Deloitte is in a unique position to offer a bespoke service that provides an exceptional level of insight and an over-arching view of the issues that will block or drive success.

Our approach focuses on five key areas:

- Making the right case for investment
- Using capital efficiently, effectively and safely
- Setting up to succeed
- Creating and maintaining oversight and foresight
- Delivering an operation, not just an asset



Making the right case for investment

It is an increasingly complicated process to access and structure the appropriate finance for large capital projects. Organisations are competing for a finite pool of funds, projects now frequently involve a mix of public and private finance, and funders are demanding ever-higher levels of involvement and scrutiny over the capital they invest.

Deloitte has deep cross-sector experience of developing robust, realistic business cases that satisfy internal and external decision makers and are aligned to corporate strategy. We have extensive networks that enable us to identify and filter opportunities, and we challenge assumptions to ensure that organisations select the right projects to suit their strategic goals.

A business case for a capital programme which is to be delivered over several years cannot be static and unchanging. We draw up business cases that anticipate changes in the economy, industry and markets, and are flexible enough to adapt to fluctuations in schedules and demands. These will typically include fundamentals such as cost of finance or regulation. Our comprehensive approach seeks to mitigate key market and developing market risks, for example minimising future carbon liabilities, as well as potential changes in taxation and transfer pricing regimes over the project delivery period, or currency fluctuations for cross-border collaborative enterprises.

Deloitte services in this area include:

- Analysing markets and feasibility
- Developing the business case
- Constructing and testing financial models
- Optimal tax structuring options
- Carbon consulting and planning advice

Deloitte insight

Involve finance in project control

The finance function should not be relegated to a glorified book-keeping role, but should play a key part in ensuring a project's success. Throughout the project, the finance function should focus on minimising the operations and maintenance budget and maximising human capital potential to create ROI.

Deloitte offers a unique blend of financial, operational and technical services to support complex, large-scale projects throughout their lifecycle.



Optimising the capital investment portfolio

Once an organisation has secured funding for a large capital investment programme, a new series of decisions comes into play. Managers need to be sure they allocate capital efficiently to maximise benefits and shareholder value, identify and mitigate risks, and remove waste wherever possible.

Deloitte helps clients prioritise capital projects efficiently by using a transparent mechanism that evaluates corporate objectives and viability. This ensures that only the projects that add most value and are most strategically aligned will be selected for capital allocation.

We mitigate risk by carrying out independent 'health checks' that identify the major risks of failure of a capital project and maximise the probability of delivering to time, cost and quality.

Meanwhile, our private equity approach to cost reduction constitutes a genuine step change compared to traditional cost containment techniques. We focus on 'ownership' of finance commitment and the use of innovative and realistic risk transfer mechanisms.

Deloitte's experience in capital efficiency makes us the ideal partner to help organisations decide when and where to allocate capital, when and how to refinance a project, and how to hedge risks against a range of project-specific exposures. As a result, organisations can be confident that they will derive maximum value from capital spending and that capital projects will deliver the projected return.

The challenge of articulating and making the right first steps to achieve key strategic objectives has seldom been greater.

Deloitte services in this area include:

- Finding and structuring traditional and 'new' sources of funding
- Advising on joint ventures
- Prioritising allocation of capital
- Hedging financial, interest rate and commodity price risks
- Cost reduction and optimisation of Capital Programmes

Deloitte insight

Evaluate third party risks

Many owners think they have transferred risk to a third party and only discover this is not the case when the project encounters a problem. We carry out a thorough evaluation of counterparty credit risks for our clients to ensure that contracts are constructed to protect shareholder value.

Setting up to succeed

Establishing the right governance structures and delivery models

Major projects involve multiple clients, funders, suppliers, contractors and other stakeholders who are impacted by the programme and have an interest in seeing it is delivered on time and to budget. Projects often run into trouble when there is ambiguity over roles and responsibilities, which can lead to decision gridlock, a lack of delegation, or decisions being delegated inappropriately.

The size and complexity of these programmes also means that there is likely to be a heightened degree of public scrutiny, particularly concerning regulatory, legislative and environmental aspects.

Deloitte has extensive experience of designing and managing appropriate structures and mechanisms of accountability, responsibility, decision-making, engagement and communication to provide effective leadership and governance.

The delivery model should describe how the capital asset will be built and operated, how the supply chain will be managed, and how procurement will be run and the project delivered as an operating entity generating ROI. Governance and the delivery model must work together and be tailored to suit the specific project and the levels of complexity and risk.

Setting up for success involves anticipating changes throughout the lifecycle of the project, creating a dynamic project environment and allowing the right people to make quick decisions in real-time. Deloitte's open design process encourages people to address issues and build a foundation of trust that supports effective project leadership.

Deloitte services in this area include:

- Designing effective governance
- Creating appropriate delivery models
- Planning strategic procurement
- Carrying out strategic risk management
- Designing and deploying intelligent Project Management Offices
- Designing sustainability and environmental strategies

Deloitte insight

Aligning concept and delivery

The level of scrutiny around capital programmes is growing, in both the public and private sector. In times of financial constraint, where there is a desire for "more for less", delivering projects right, first time, is critical. However, recent high profile project failures across all UK sectors only go to illustrate how ineffectively planned, governed and controlled projects can result in assets and operations with significant delivery issues.

It is invariably a high-wire act to lead large, complex, multi-stakeholder capital projects to a successful conclusion.



Creating and maintaining oversight and foresight Investing in information management

The right level of management information and business intelligence allows the right people to make informed decisions at the right time. It enables project managers to demonstrate control over the project, which gives stakeholders confidence that the programme will be delivered successfully. This is even more important in the context of major projects that involve billions of pounds of investment, where it is vital that programmes are brought in on time and on budget.

However, programmes often struggle to provide robust and relevant management information. This is due to the scale and pace of capital projects, the lack of industry standards, the number of parties involved, multiple contractual interfaces and the breadth and depth of technical disciplines involved. Together, these factors create a highly complex risk environment.

Deloitte has an excellent track record of working with clients to deliver bespoke information management solutions for large and complex capital programmes. We have an accelerated approach that delivers the quick results that a large capital project requires. We start with a clear view of the delivery scope, based on an analysis of the current environment, an understanding of programme data requirements and assessing the capability of key project partners to deliver the required level of management information.

We develop the design and data management principles up front, design the solution to fit the programme requirements, build upon existing experience and focus on scalability, flexibility and reusability. This approach provides our clients with a high level of oversight and foresight and helps organisations to achieve a greater return on investment.

Deloitte services in this area include:

- Developing information and technology strategy
- Specification and selection of management information systems
- Specification and selection of project control and project support systems
- Implementation of finance, HR, procurement, project control, planning and document management systems
- Delivery of consistent methodologies, processes and standards across complex projects

Deloitte insight

Avoid the gold-plated solution

It is commonly assumed that greater investment in information management brings greater control. This is not necessarily true. Deloitte helps clients to understand precisely what their solution should deliver so their information management system delivers exactly what they need – not more than they need.

Deloitte is in a unique position to offer a bespoke service that provides an exceptional level of insight and an over-arching view of the issues that will block or drive success.



Delivering an operation, not just an asset

Effective operational transition

Major projects are frequently high-profile and involve significant investment. We believe it is vital to plan, design and deliver for operational readiness from the outset, underpinned by a common vision and a clear line of sight.

It is an expensive, yet common, mistake to create an asset and only consider the operational aspects at the end of the project. This can result in delays, additional costs and reputational damage. Instead of focusing only on the construction and engineering aspects of the project, we take a holistic view of the programme as an integrated design of assets, processes, systems, people and organisation.

In our experience, it is key to engage with those that ultimately operate and use the assets early in the process. We can understand their requirements and build them into the design and talk to architects or design authorities to understand the physical aspects of the asset, influencing the design to optimise operating efficiencies, whilst minimising operational and maintenance cost.

Our Human Capital team advises on the necessary people skills, and we establish governance structures in the initial stages. At this stage, we also investigate potential security risks and give advice on procurement options.

Throughout the lifecycle of the project, we undertake extensive integrated testing, running pilots while implementing change, and incorporating learning accordingly. We carry out risk management both for the build and for operational aspects of the programme, as well as operational readiness checks.

Our teams provide co-ordinating roles to integrate all these elements and set programmes up for successful operational transition.

Deloitte services in this area include:

- Ensuring readiness for operational transition
- Providing advice on human resource requirements
- Applying Lean Six Sigma techniques in operational design
- Carrying out integrated testing of operational readiness
- Assessing and managing risk
- Providing programme management of commissioning

Deloitte insight

Anticipate the unexpected

While individual stakeholders focus on their own priorities, it is easy to overlook critical information that affects the overall success of the project. What are the key laws or regulations that impact a project? How far can contractors delegate responsibility? Do you have adequate security? Have you comprehensively assessed potential technology and operator risks? Deloitte's experience of complex global projects means we can provide an over-arching view that anticipates and resolves potential risks.

Deloitte recognises that there are key organisational challenges to how major capital investments can succeed.

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Notes

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