

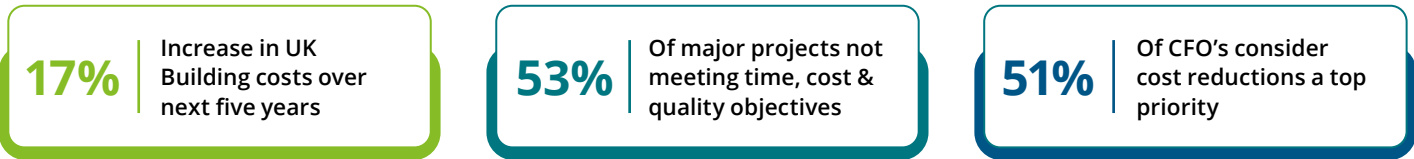


## Maintaining Commercial Control

Distressed Major Capital Programmes



# Market Direction And The Commercial Challenges Clients Are Facing



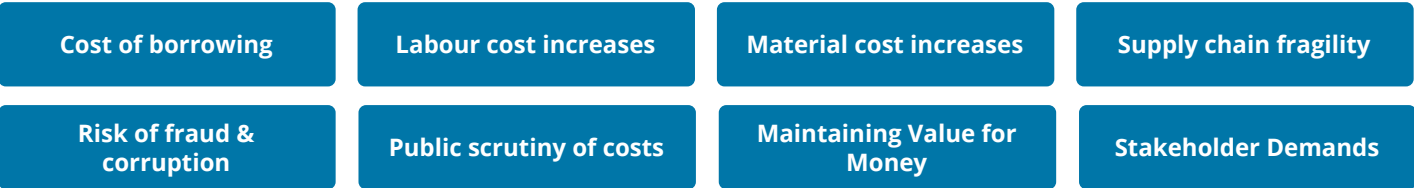
The UK is considered one of the most expensive places in the world to build, emphasising the pressing need for innovation investment. In addition, London specifically has emerged as the most expensive city in which to build real estate and infrastructure<sup>1</sup>. Recent data suggests that UK building costs will continue to rise by 17% over the next five years, while tender prices will increase by 19% over the same period<sup>2</sup>. Economic pressures stemming from skills and labour shortages, the cost of borrowing and fluctuating material costs are some of the drivers reinforcing the challenges faced by clients. Geopolitical factors have also exacerbated these cost challenges, making it difficult for clients to maintain value for money and achieve business case outcomes.

In today's market, the stakes for successful project delivery have never been higher. The commercial impact of getting the delivery wrong is therefore substantial. There have been numerous calls in recent years for the UK to get better at driving down costs and ensuring major projects deliver better value. Increasingly, we have seen a drive to reduce costs as a top priority for client c-suites within the UK<sup>3</sup>

However, the UK isn't alone in facing these challenges. Strikingly, a recent global survey with over 700 participants suggests that only 47% of major infrastructure projects are meeting their time, cost, and quality objectives<sup>4</sup>. Consequently, the impact to broader society can be wide ranging from social, environmental, and economic benefits not being realised through to supply chain insolvencies and job losses.

In this piece, Deloitte shares insights on the [warning signs of a major programme in commercial distress](#). We also share our thoughts on the [measures clients may adopt to mitigate against these challenges](#), focussing on a programmes structure and operations.

## Example Commercial Pressures Clients & Sponsors Regularly Face



# The Complexities of Major Capital Programmes

Construction and infrastructure projects are inherently complex by nature, with challenges that can arise at each stage of delivery from ‘Visions & Strategy’ through to ‘Construction’ and ‘Handover’. Equally, challenges can arise across the numerous delivery functions including planning, scheduling, procurement and cost, linking directly to how they operate and integrate.

Summary stages of delivery							
	Vision & Strategy	➡	Design, Development & Procurement	➡	Construction	➡	Handover
Common Functions that underpin delivery	Planning	●		●		●	●
	Scheduling	●		●		●	●
	Design & Engineering	●		●		●	●
	Cost & Estimating	●		●		●	●
	Procurement	●		●		●	●
	Value Management	●		●		●	●
	Risk Management	●		●		●	●
	Change Control	●		●		●	●
	Health & Safety	●		●		●	●

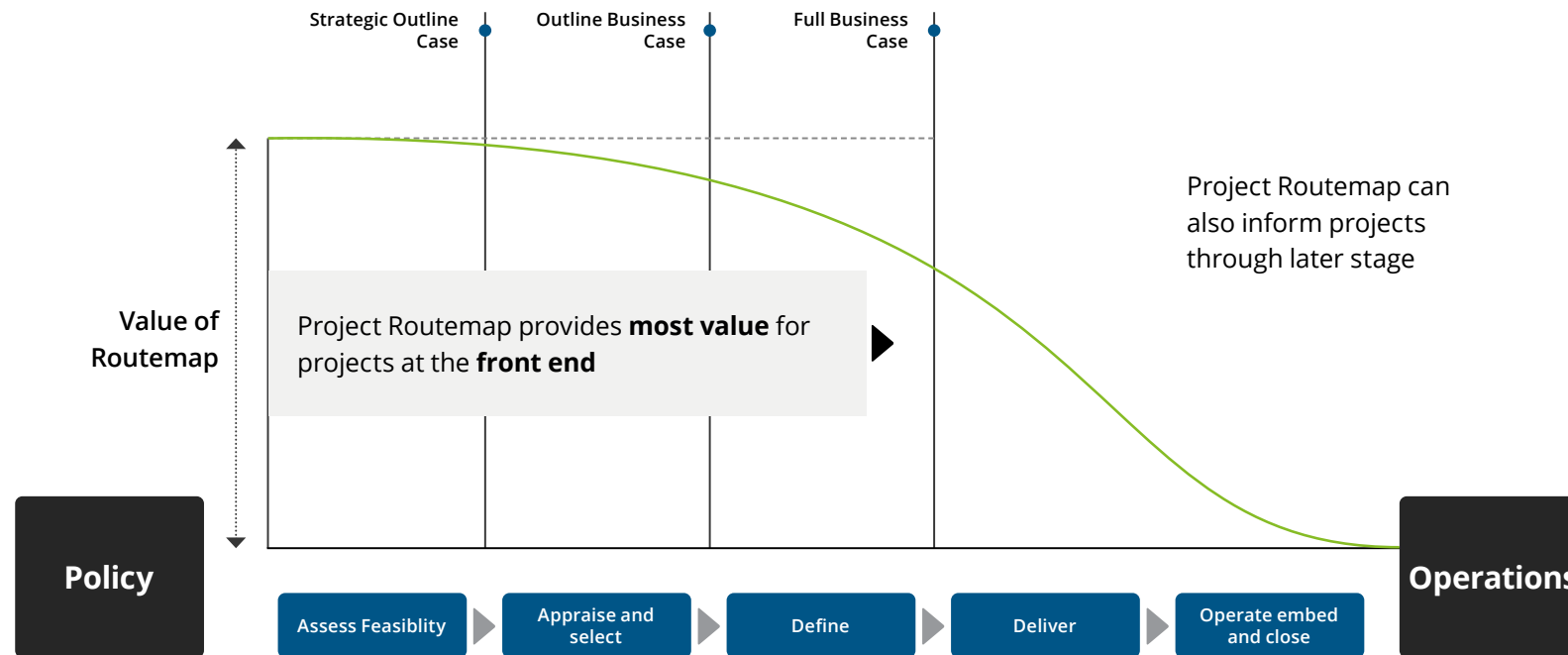
🖱️ (Click on the button to know the challenges)

# The Complexities of Major Capital Programmes

## What about the IPA project route map for major projects?

To combat the high-risk environment of major programmes, the UK government developed a structured route map for complex projects. Its route map, which captures best practice and lessons from over £300bn of government major projects, seeks to provide a methodology intended to set up projects for success at the very beginning (i.e. during the early vision and strategy phases). Specifically, the 'Infrastructure and Projects Authority' (IPA) advises that the route map is at its most effective when applied during the feasibility and business case development stages<sup>5</sup>.

Therefore, sponsors and clients seeking to commence a new project on the right footing, may seek to align themselves with the [guidance provided in this government tool](#).



Despite plenty of early planning, projects may still experience commercial distress as they progress through the delivery phases. In these instances, how do clients and sponsors spot the warning signs, seek to identify the root causes and implement successful transformation? At any stage it will be important to leverage experienced insight to successfully understand and navigate some of the more common commercial complexities faced in the industry.

# “What are the signs my project may be in commercial distress?”

## Before discussing the “treatment” we must first consider the “Symptoms” & “Diagnosis”

Often, the simplest way to carry out an assessment of potential distress is comparable to conducting a “health check”. A detailed assessment of all key aspects of the project enables the client to understand the “symptoms”. This provides a good basis for understanding the potential root cause(s) of an issue “the diagnosis”, before assessing the possible solutions.

The Illustration below highlights some of the common signs that may be visible across the functions at an operational level, indicative of a programme that may be experiencing commercial challenges in its delivery.

Example indicators at an operational level (Can be applicable to multiple functions)

Supply Chain Alignment & Performance

Example indicators across supply chain delivery

(Click on the button to know more)

The ongoing impact to programme delivery If left untreated, the impact to programme delivery will result in mounting cost pressures that continue to spiral out of control. For example, challenges regarding payment processes and procedures may result in undue delay to supplier payment application processing. Consequently, clients may then incur late payment interest charges (subject to contract terms), increasing pressures on the budget. In extreme (but not uncommon) cases, suppliers may also be within their rights to withdraw their labour, causing programme delay. This too can attract additional costs associated with lost productivity, remobilisation of existing resources and/or the re-procurement of work packages.

Equally, insufficient resourcing within a function’s organisational structure can quickly see the delivery teams overloaded for extended periods. Not only does this lead to sentiments of “burn-out” and the risk of talent loss (which can be costly to replace), clients subsequently also limit their ability to forward plan. As a result, this inability means clients have less capacity to act strategically to minimise ongoing cost and risk exposures.

The reality is that indicators can be wide ranging. It takes experienced professionals to spot the signs and more importantly connect the dots to safeguard clients against broader ramifications, which can often be intricate in nature.

# What's the root cause of my commercial problems?"

## Arriving at a “diagnosis”, having spotted the warning signs.


Seeking to deal only with the “symptoms”, without addressing the root cause, will not lead to a lasting solution. This is particularly true when dealing with complex issues that require a deeper understanding of the underlying factors. As such, upon identifying the warning signs, clients should seek to consider the possible central cause(s) to make a “diagnosis”.

Getting to the root cause can be easier said than done. The process can often involve a combination of desk top studies of key project outputs (e.g. cost and risk reports), as well as stakeholder engagement workshops with functional teams to better understand key pain points and blockers. Deloitte's experience suggests that stakeholders responsible for function operations can be a client's greatest asset when seeking to deepen their understanding of the challenges being encountered at the face of delivery. Their Insights can also be a great foundation for forming practical solutions to be developed and tested. Most importantly however, engaging stakeholders early in the review process provides the client with the opportunity to bring key members of the integrated project team along the journey, allowing for a smoother transition into any new proposed ways of working.

When engaging stakeholders and reviewing documents, clients should consider if the pain points and blockers encountered exist around a particular programme area(s). For example, is there an ongoing issue with a specific function or output that is impacting multiple areas of delivery? By considering these factors, clients can approach problem-solving in a more strategic and effective manner. It may be that a single efficient solution could address several programme challenges.

To facilitate a strategic review with the bandwidth necessary to consider challenges across multiple functions, we recommend that clients seek to mobilise a dedicated team (either internal or external). This also allows for an accelerated programme, rather than relying on existing teams to balance their current programme activity against the added responsibility of driving an internal review. In addition, this approach would underpin impartiality of any findings and recommended outputs.

## Example causes linked to core operational layers of delivery

 (Click on the button to know more)



# What's the quick fix?" (What every client wants to know!)

Clients are keen to know the "quick fix" solution. Often, the reality can be a combination of small quick wins that may seek to stabilise some of the more immediate threats together with longer term strategic solutions to address the broader "diagnosis". Equally, there are no "one size fits all" solutions to the specific complex challenges that each major programme may encounter. However, there are some guiding principles that clients can consider that underpin the success of any transformation initiatives.

## Set Clear & Realistic Goals

Ensure goals & objectives are clearly defined (i.e. where you are vs where you want to be).

## Secure Endorsement

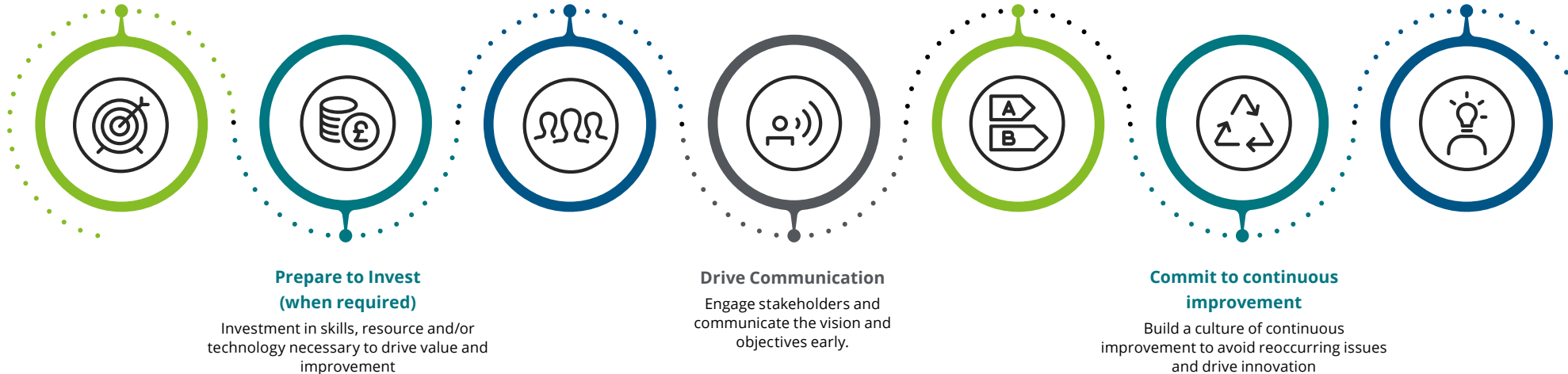
Senior leadership endorsement is essential to driving successful change.

## Have a Plan

Have a detailed plan for implementing changes including timelines and resourcing

## Seek Honest Solutions

Resolutions that seek to truly address the issue and not just "kick the can down the road".



Leveraging our experience in major capital project delivery, Deloitte have also identified five golden rules for good practice that help organisations realise operating and capital cost efficiencies which can be accessed here: [Cost efficiency for public infrastructure | Deloitte UK](#). Our Cost Efficiency Framework is designed to help clients identify, value and realise achievable cost efficiencies across their capital programmes.

# Why Clients Value Deloitte Infrastructure & Real Estate (I&RE)

## Unrivalled Industry Expertise

We have a team of over 300 multi-disciplinary property, construction, and infrastructure professionals. Combining surveying and engineering skills with financial and business advisory expertise, we offer a breadth of solutions and an innovative approach unequalled in the market.

## Proven Capability & Experience

Our Infrastructure & Real Estate business has a strong track record of undertaking high profile and complex projects for a diverse set of clients across a wide range of industries. We have particularly strong experience in the Government & Public Services and Financial Services industries.

## Depth of Service

We frequently mobilise multidisciplinary teams to provide clients with comprehensive solutions that address their most pressing business challenges. Our internal network of business specialisms outside of I&RE include Advisory Corporate Finance, Forensic, Risk Advisory, Tax and Legal Advisory as well as audit and assurance.

## Depth of Technical Knowledge

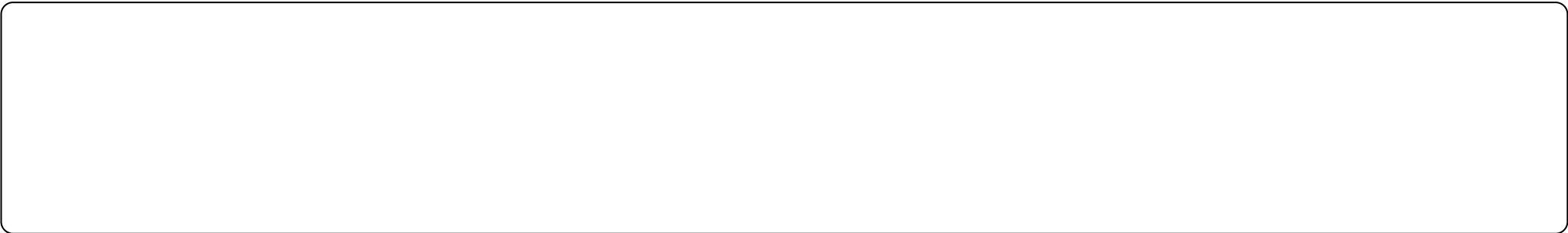
We bring our thorough experience and deep technical knowledge of real estate, construction and infrastructure processes, materials and technology to address complex client challenges. This provides an unparalleled depth of service and enables us to collaborate effectively with architects, engineers, contractors and other stakeholders.


## Digital & Technology Enablement

We offer clients independent real estate digital and technology enablement services in combination with our broader offerings. We also support clients transform their organisations with new technology and provide data maturity and standardisation strategies that enable greater automation.

## Global Presence

We have a global network of member firms that operate in 150+ countries. This presence enables us to provide clients with local knowledge and insights as well as access to a vast network of resources. Our UK I&RE team have successfully delivered numerous projects for clients across this network.



 To view the client, click on the Sectors.



# Contact Us – Deloitte Infrastructure & Real Estate (I&RE)

If you would like to discuss any of the areas raised in this paper in more detail, please do get in touch with one of our team.



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