

Future of Government Series

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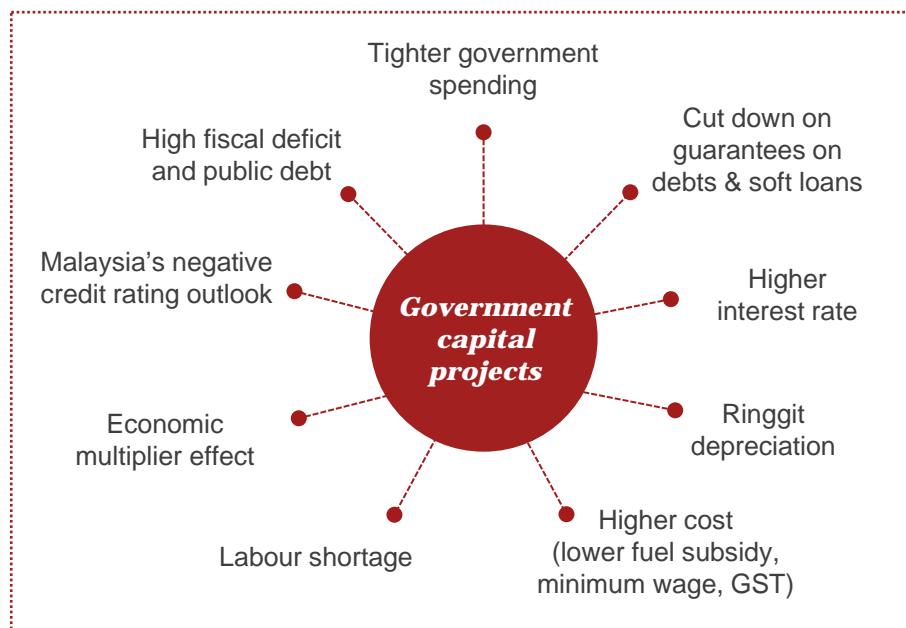
Government capital projects and challenges

Although investments in the Economic Transformation Programme (ETP) are led by the private sector, the government plays a primary role in the award of Malaysia's capital projects and infrastructure. In the first nine months of 2013, 54% of the total construction contracts awarded in Malaysia were related to the government¹.

Viability of capital projects under threat

Fitch Ratings' move to downgrade Malaysia's sovereign credit rating outlook to negative from stable had repercussions on capital projects. It accelerated the government's fiscal reforms agenda which ultimately means fewer government guarantees on debts and soft loans. This puts the viability of upcoming capital projects at stake.

Figure 1: External factors affecting related government capital projects



¹ Source: Alliance Research. Note 'government' relates to federal or state government, its related entities or government link companies (GLCs).

Source: PwC Malaysia

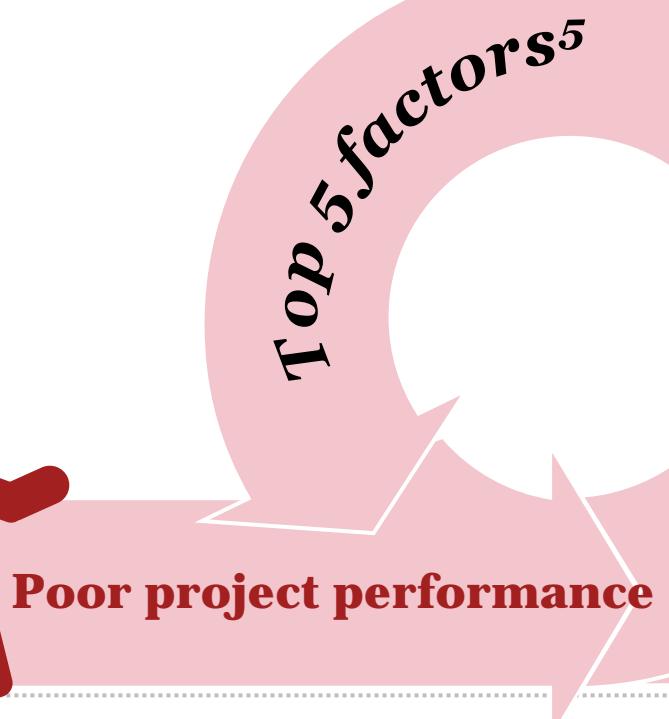
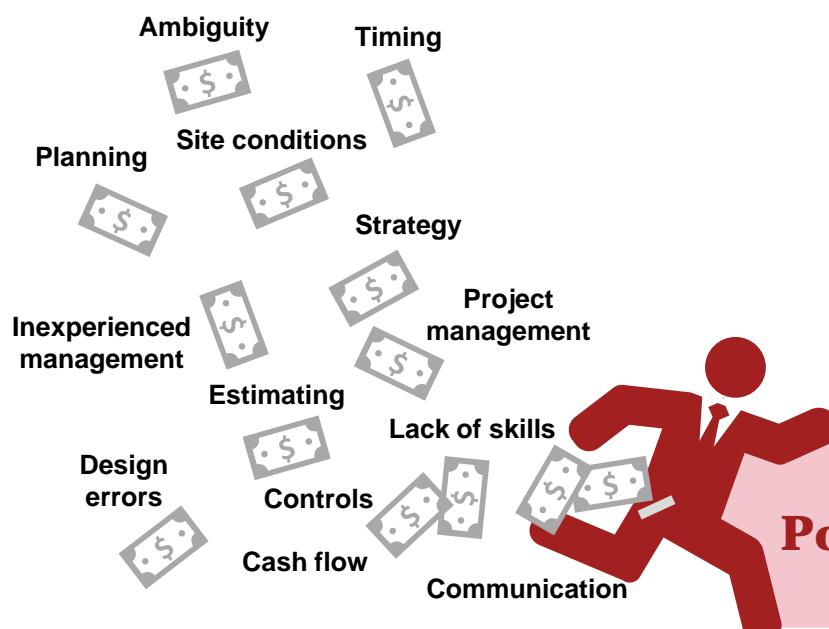
Most projects miss their mark

According to our recent study², only 2.5% of companies have delivered their capital projects on time, on budget, in-scope, and meeting the benefits expected by the business. 92% of 'failed' projects traced the failure to managerial matters² - including poor planning, unclear objectives and inadequate resources.

In Malaysia, survey findings³ show that time and cost overruns are prominent amongst capital and construction projects. For example:

- *70% - 80% of capital and construction projects suffer time overruns.*
- *50% - 60% of capital and construction projects have cost overruns.*

Causes and contributors to project failures



Why cost overruns⁴

² PwC, 2012, 'Are you ready to dig?, Looking beyond current market conditions'

³ Endut, I. R., 2013, 'Structural modelling of cost overrun factors in construction industry' and Endut, I. R., Akintoye, A., & Kelly, J., 2009, 'Cost and time overruns of projects in Malaysia'

The true cost of failing to meet project budgets, and delivery goals goes beyond increased costs or schedule delays. They can also result in:

- Inefficient use or wastage of public funds and need for additional short term financing.
- Loss of public trust and confidence.
- Strained relationships with delivery partners/supply chain.
- Claims and disputes with vendors/contractors.

1 Poor estimates/
missed deadlines

2 Lack of executive
sponsorship

3 Poorly defined
goals/objectives

4 Change(s) in
scope mid-project

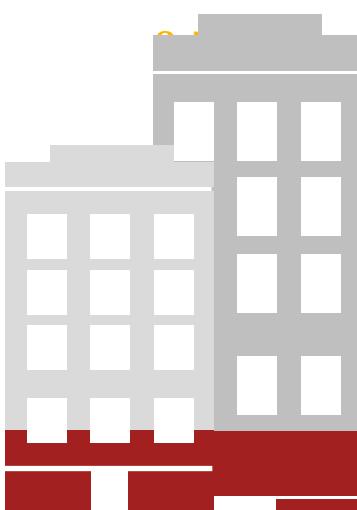
5 Insufficient
resources

Many projects experience problems along the way because they didn't start properly. There could be ill-defined cost and schedule estimates, as well as failure to define scope clearly and set reasonable expectations.

According to PwC's Global Project Management Survey⁵, 'poor estimates during project planning and missed datelines' are the largest contributors to project failure.

Only
2.5%

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scope.



Project outcomes²

⁴ PwC, 2013, 'Correcting the course of capital projects'

⁵ PwC, 2012, 'Insights and Trends: Current Portfolio, Programme, and Project Management Practices'

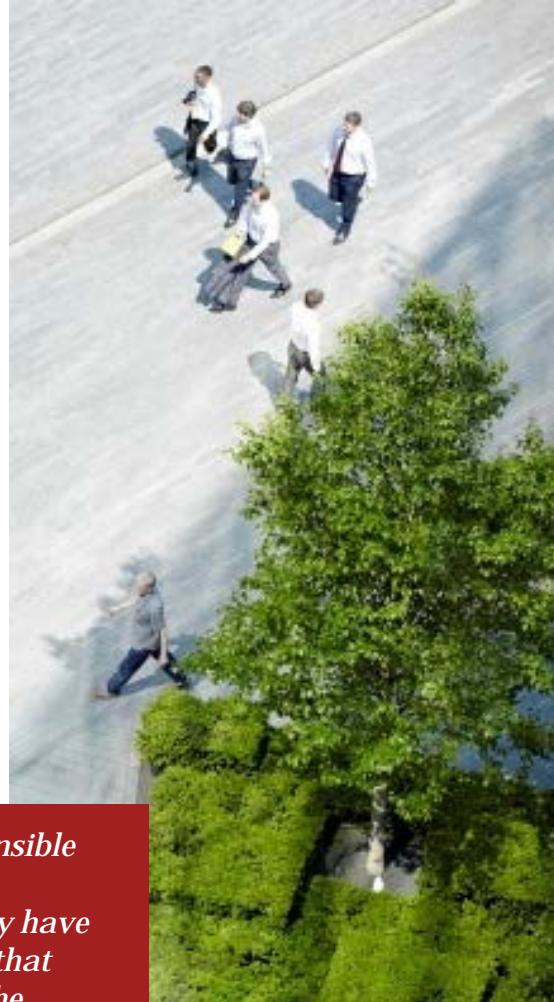
Keeping projects on track

One of the main challenges organisations face in developing and delivering capital projects is the increasing size and complexity of these projects.

There are many touch points and dependencies within and outside the government. This requires managing numerous people, processes and technologies to collaborate and work towards a common objective. Figure 2, further illustrates the scope of work involved in undertaking capital projects.

To help keep capital projects on track and manage their complexities, there are two broad areas the government and public sector bodies should focus on:

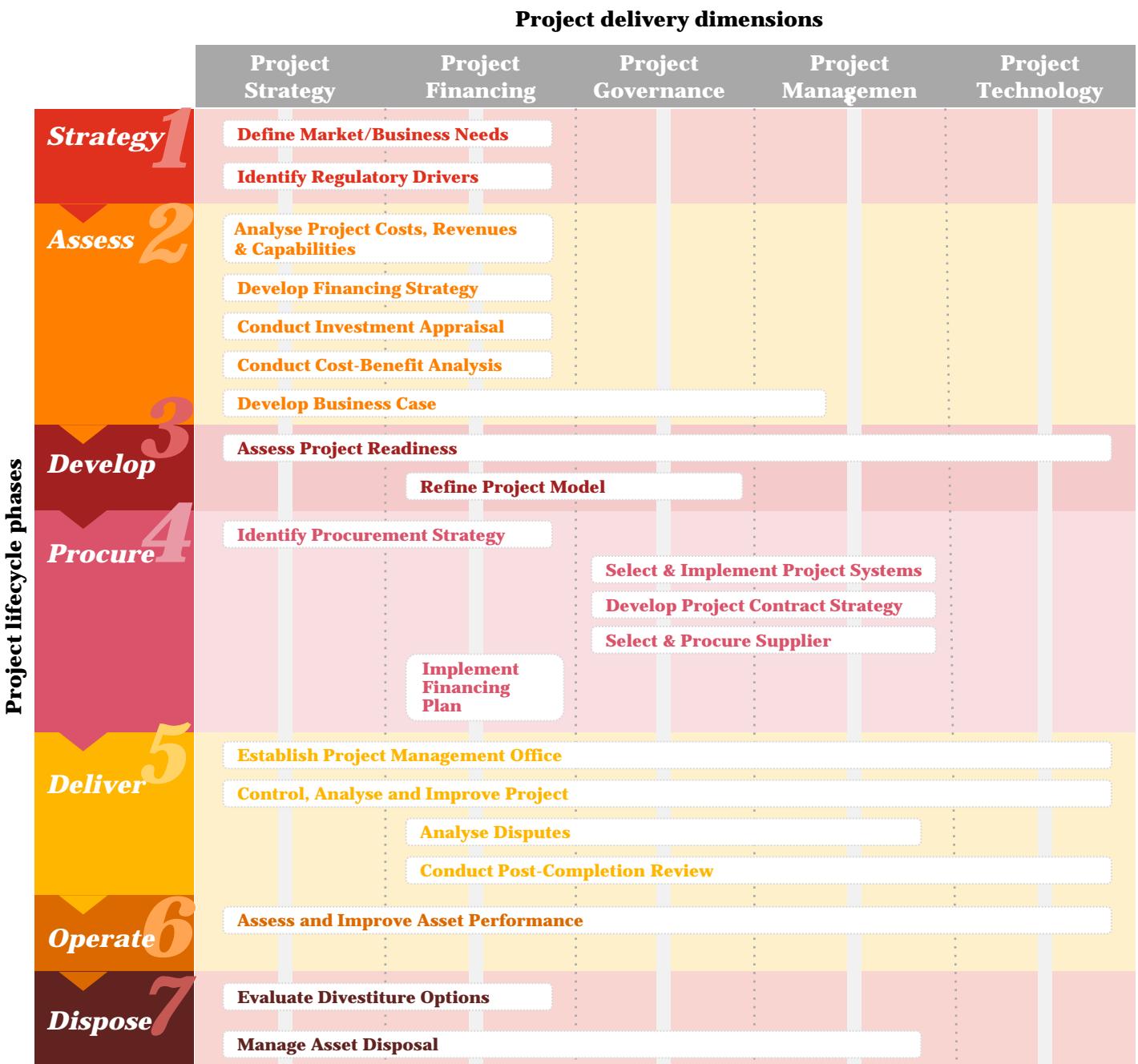
- I. In the strategy and assessment phase – ensure projects generate the greatest value for money, economic, social and environmental benefits.
- II. In the project governance delivery phase – ensure strong frameworks and controls are in place.



“Governments are ultimately responsible for the delivery and operational performance of capital project. They have to pro-actively manage the parties that have been contracted to construct the capital projects.”

Andrew Chan,
Executive Director PwC Malaysia

Figure 2: Capital projects delivery framework



Source: PwC Capital Projects and Infrastructure Global Delivery Framework

I. Strategy and assessment

The strategy and assessment phase is critical to achieving a project's desired outcome. The ability to influence the success and value of the project is greatest at the start and drops rapidly as implementation draws near. The cost of change also rises dramatically the closer the project gets to implementation.

The key objective here is to get the right capital projects in place to implement. This is done through:

- Evaluating and prioritising proposed projects based on their benefits to the public.
- Evaluating the government and public sector bodies' capabilities and funding availability.

Governments also ought to assess projects based on the criteria below.

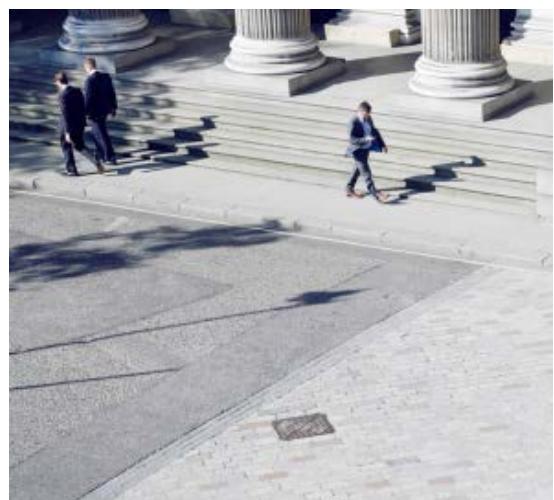
- Minimise budget impact - for example, ability to get private sector to invest in the project.
- Recycle government capital - for example, does the project has an independent revenue stream.

In selecting the right projects, there are three aspects the government and public sector bodies need to be aware of that will have an impact on the project success.

a. *Providing clear and unambiguous articulation of:*

- *Capital project's scope and outcomes.*
- *How the project will meet the government's objectives and strategies.*

These steps help to ensure alignment between project scope and government priorities.



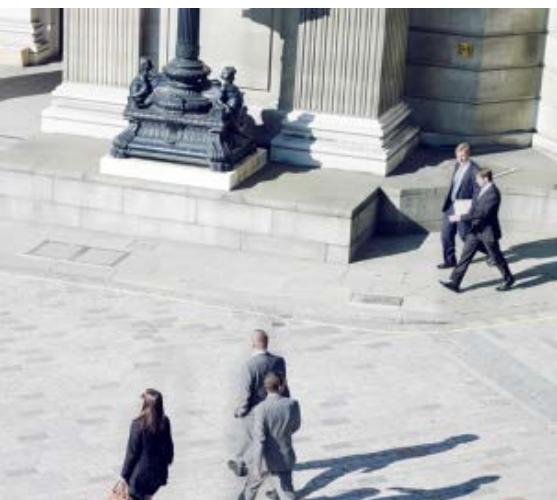
b. Getting relevant stakeholders buy-in and support, especially for large capital projects which involve multiple departments and ministries.

Based on PwC's Global Project Management Survey⁵, approximately 84% of respondents reported that a contributing factor to their project success is having the support from senior management.

The government and public sector bodies also need to get buy in and support from other stakeholders such as the public, private sector, subject matter experts, non-government organisations (NGOs) and other government ministries. These stakeholders will also need to be actively engaged throughout the life cycle of the project.

c. Assessing the government's existing resources and capabilities to undertake proposed projects - such as budget availability and talent requirement on ongoing work.

The government and public sector bodies need to be realistic of their existing positions and, whether they have the resources to take on new projects.



⁵ PwC, 2012, 'Insights and Trends: Current Portfolio, Programme, and Project Management Practices'

II. Project governance

After projects have gone through the rigorous assessment and planning phase, project success is still not a guarantee. Many projects still fail to achieve their cost, schedule and quality commitments because of inadequate controls. Common project challenges include:

- Unclear project definition.
- Inappropriate or poorly defined contracting and project procurement strategies.
- Lack of project transparency and internal accountability.
- Poor communication and reporting.

To mitigate these challenges and ensure the selected projects are delivered on time and on budget, it is essential that the government and public sector bodies establish a rigorous governance structure at the outset. Its purpose is to facilitate transparency, internal accountability and set contractual expectations.

The following section discuss the key characteristics of a strong control and governance structure.

a. *Clear definition of roles and responsibilities of people and organisations involved in the project. Communicating these roles and responsibilities throughout the organisation.*

This will help:

- Minimise risk of overlap or gaps in key management areas, and support personal accountability on project outcome.
- Identify the controls and procedures needed to manage project delivery and risks - and set out who is responsible for those controls and procedures.



b. Putting the right people on the job, with the right incentives and right training.

- Project owners need to ensure people assigned to these roles and responsibilities are up to the task and that experienced staff, with established track records lead critical parts of the project.

Based on PwC's Global Project Management Survey⁵, 87% of respondents who reported successful project budget management within their organisation, also reported that their project managers have the relevant and suitable experience managing projects similar in industry, project size, and business.

- Careful design of an incentives and penalties system to make sure project scope, budget and schedule objectives are met.
- Training and people development is another important area to enable project success.

With the current talent shortage, training and development is a major priority area to address talent gaps. In addition, PwC's Global Project Management Survey⁵ showed that 67% of participants agreed that project management training contributed to business performance.

⁵ PwC, 2012, 'Insights and Trends: Current Portfolio, Programme, and Project Management Practices'

c. Clear and timely reporting and communication of project performance, with control processes in place to track actual performance and highlight any potential issues.

The goal is to ensure top officials have access to complete, real-time information so timely decisions can be made to mitigate problems at the start when they are still manageable.

Project owners also need to have document control processes in place such as audit trails to:

- Make sure people are performing their required roles effectively.
- Prevent disputes and stay out of the courtroom.
- Support or defend any claims should a project go wrong and end up in dispute.
- Capture lessons learned from post-mortem analysis.



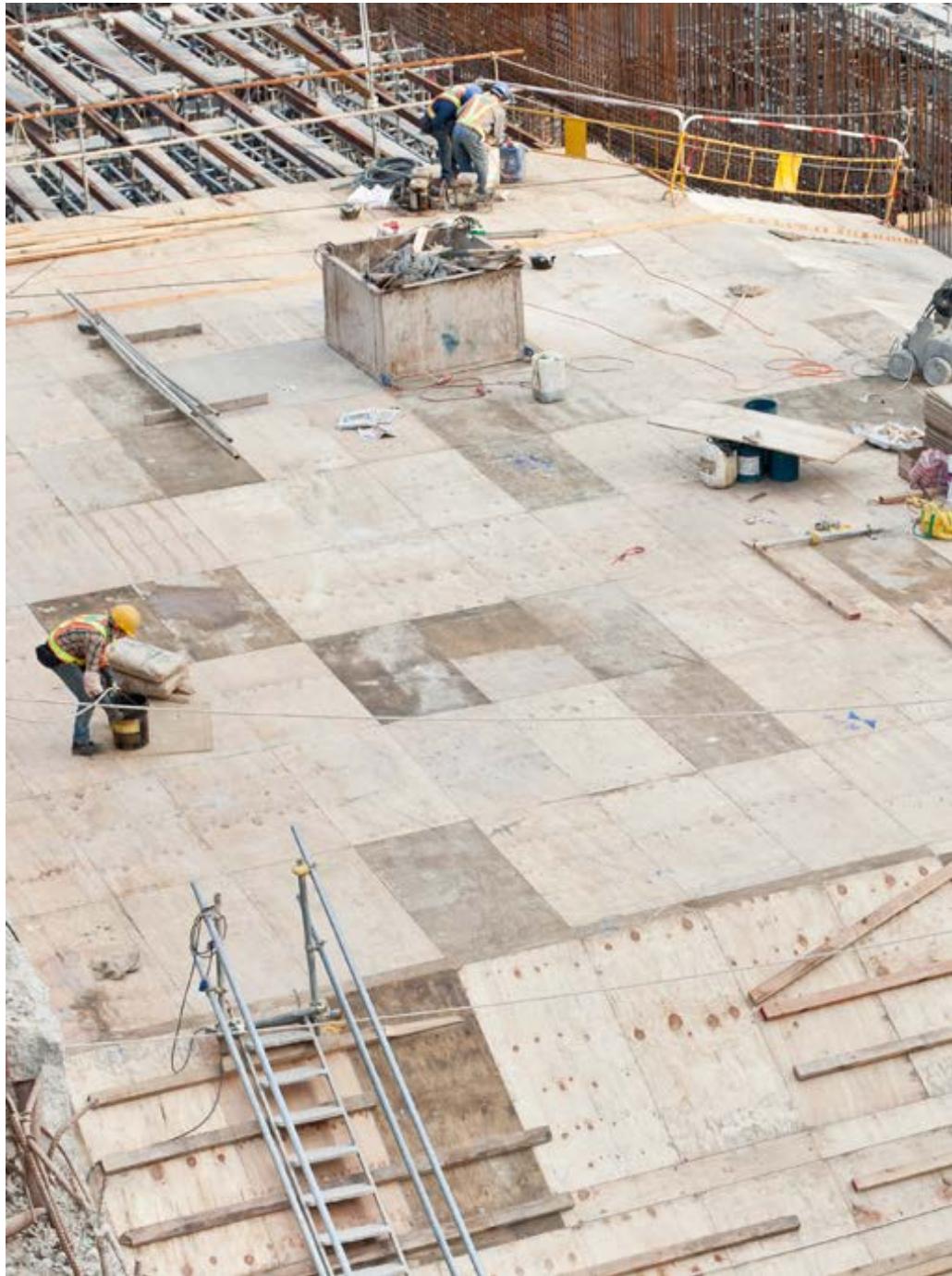
d. Having a contractual framework.

The governance transparency structure, mentioned earlier, needs to be equally applied to contractors.

The government and public sector bodies typically appoint contractors to design and construct projects. Too often, public sector bodies assume they can abdicate their responsibilities for project execution, relying on their contractors to bring the project to a successful close. This is rarely successful and a highly risky approach.

Some of the key contractual features include:

- Clearly defined contract and project delivery strategies.
- Carefully spell out contractors':
 - Responsibilities and define their performance metrics.
 - Responsibilities to report on defined performance metrics and that the project owner has the right to access and audit the underlying project information provided.
- Carefully design incentives and disincentives to ensure contractors achieve their intended goals.
- Having in-house resources to monitor contractors' performance and direct their performance.



Getting projects back on track

The best way to get back on track is to be on high alert for red flags. Such signals mean it's time to investigate whether the project is truly in trouble and if so, how to fix the problems.

Ironically, one of the early indicators of project trouble is a lack of indicators. There may be no clear signs of failure because nobody has an understanding of where the project really stands.

To get back on course, the government and public sector bodies need to be alert to some of the red flags which include:

1. Time extension
2. Cost variations
3. Scope creep

Projects can be brought back in line - and sometimes even exceed original goals. There are several ways to move from a position of fear and uncertainty to one of confidence and control.



Take a time-out to regroup

- When a project is running late, one of the most important but difficult things to do is to stop and get all the key people together to discuss where they are at.
- The primary goal is to quickly figure out where cost and schedule overruns are coming from, what is driving them, and what the corrective options are.



Balance cost, quality and time

- Put projects that have fallen behind schedule and budget back on track by modifying project sequence, reducing project scope or accelerating the projects by adding crew or longer working hours.



Seek experienced project managers

- Strengthen your project management team by filling in gaps or bringing in different people with greater experience.



Seek outside help

- A third party may be called in because internal teams aren't equipped for the scope of work and analysis is needed to develop a road map for reining in costs and stabilising the project.

Source: PwC, 2012, 'Correcting the cause of capital projects'



How we can help

Capital Projects and Infrastructure

For governments, infrastructure transformation offers a real chance to build jobs and fuel ongoing economic prosperity.

The hope of government leaders is that every dollar invested in infrastructure will yield many fold returns for the government, public and investors.

PwC works with many governments to help realise their planned improvements. We provide advise on:

- Project finance
- Feasibility studies
- Financial modelling/ structuring
- Advice on fundraising
- Economic Advisory Services

PwC offers a strong global network, with presence in key regions and in Malaysia, which enables us to assemble multidisciplinary teams with a wide range of industry specialisation to help meet governments' specific needs.

Our consulting professionals include financial, project management, risk management and engineering specialist allows us to put together a fully integrated team of professionals who have the experience making capital projects and infrastructures work better.

Government and Public Sector Services

As the government embarks on its economic and own transformation initiatives, it is experiencing unprecedented changes. Public sector organisations must adapt to this increasing change of pace by equipping themselves with the right skills, knowledge and capabilities needed to meet the public's evolving expectations and transformation targets.

PwC's government and public sector practice works with a broad range of public sector bodies to meet these expectations. PwC delivers services that support the government's move towards a more citizen-centric, and performance and outcome based delivery model.

With our global network, we have worked with government organisations to solve complex business issues, manage risk and improve performance through our comprehensive service offerings in:

- Human capital
- Information technology
- Enterprise effectiveness
- Financial management
- Financial reporting
- Governance, risk and compliance
- Program management

***Our capital projects and
infrastructure track record***

1,000 *professionals across the*

PwC global network

800 *infrastructure projects*

being worked on

US\$99b *and*

333

*global deals closed in the
last 10 years**

* According to Project Finance International, PwC is the number one adviser globally, by value (US\$99billion) and by volume (333), for global closed deals for 10 years ending December 2012.

Publications



Correcting the course of capital projects



Successful capital projects: The integrated risk framework



Insights and trends: Current portfolio, program and project management practices



Funding infrastructure: Time for a new approach



Cities of opportunity



Strategic infrastructure: Steps to prioritise and deliver infrastructure effectively and efficiently

Let's talk



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