Project delays and cancellations
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Summary

The decision on whether or not to proceed with a committed project is a complex one. It involves consideration of a range of factors such as:

- Immediate affordability;
- Long term affordability;
- Whether delays will yield actual savings;
- Whether it is the right project for the present time;
- Whether the project will meet future requirements;
- The project's connection with other projects or policy areas;
- How urgent are other calls on public or corporate finances.

A decision to delay or cancel a project without reference to wider policy issues or requirements can generate more problems than it solves. Therefore, decisions on spending should be made with reference to the bigger picture.

Of particular concern is the potential impact on private sector competitiveness. Private industries that traditionally depend on the public sector for a significant proportion of their business can be impacted particularly badly by cuts to public programmes. This can cause – in the short term at least – wider issues such as job loss.

Background

The 2010 emergency Budget and Comprehensive Spending Review are likely to increase pressure on the public sector to make real terms savings in expenditure. To do this, it is almost inevitable that projects or programmes will have to be re-scoped, rescheduled or cancelled completely.

However, delays, postponements and cancellations may not yield significant real term savings. They may result in significantly more being spent over the longer term, particularly if the need for the project remains.

Why delays and cancellations are attractive

One potential means of making immediate savings in public sector budgets is to delay projects. This would have the advantage of moving the cost into a future budgeting period, thereby generating a headline saving.

In February 2010, for example, the Utah legislature identified a number of road projects which, it asserted, could be delayed to save approximately US$100 million.[1]

Why delaying projects may be less than effective

Political pressure to reduce public spending over a budget cycle can make such economies attractive. However, this approach can lead to poor decision making, with projects cancelled only to be revived at a later date – at greater expense overall.

The length of time needed to implement an infrastructure project influences its cost. Delays to projects may result in added costs when the project is restarted, potentially in excess of the savings generated.

Flyvbjerg et al[2] suggest that longer implementation phases typically translate into larger percentage cost escalations. The same paper estimates the cost of delay of a programme the size of the Channel Tunnel to be around US$1 million per day. This is likely to be higher when finance costs are factored in.

[1] http://www.deseretnews.com/article/700012798/Utah-Legislature-State-may-delay-road-projects-to-save-money.html

[2] Flyvbjerg B, Skamris Holm M and Buhl S (2004). *What causes cost overrun in transport infrastructure projects?* Transport Reviews, vol 24, no 1. http://flyvbjerg.plan.aau.dk/COSTCAUSESASPUBLISHED.pdf

There are multiple reasons why delaying a project can result in additional costs. These include:

- The need to re-do certain parts of the project, e.g. environmental impact assessments.
- The need to re-tender for suppliers.
- Compensation events triggered by the delay.
- Escalating interest payments.
- Changing regulatory and legislative demands, such as security, environmental or health and safety requirements.

The Channel Tunnel provides a useful case study of the issues surrounding project delays. Upon completion, the project was approximately 80 per cent over its original estimated budget, due to regulatory requirements and increased financing costs.

Other business sectors also illustrate the financial risks of project delays. Research by the Customer Experience Foundation[3] found that delays in projects to refresh contact centre technology lead to an average increase in project costs of 90 per cent.

Reforming projects can be more effective than cancelling

Delays and cost overruns can be caused by poor management throughout the project life cycle. Issues can arise at every stage, from the initial scoping of the project through to the procurement process, form of contract used and construction management.

A poorly scoped project can become an easy option for abandonment as a cost saving measure. In such a case, a valuable improvement can be lost simply because the project was not properly managed in the first instance. In such a case, it can be more appropriate to press on with the programme as opposed to cancelling outright.

[3] http://www.customerexperiencefoundation.org/wp_costissues_lowres_091609.pdf

The modernisation of the West Coast Main Line initially proposed by Railtrack in the mid-1990s envisaged a significant capacity and quality enhancement to one of the busiest railway lines in the country. The programme was originally estimated to be completed by 2005 at a cost of £2 billion. However, the programme was eventually completed in December 2008, at a total cost closer to £9 billion.

A Parliamentary committee[4] later concluded that the original aims of the programme were over-ambitious, and recommended improvements to procurement processes, project management and the Office of Rail Regulation's oversight of Network Rail.

In this case, the modernisation programme was continued following the bankruptcy of Railtrack. Although the modernisation project overran severely, it is possible that abandoning the programme would have led to greater overall costs. These could, for example, include the loss of economic performance by continuing to operate an overstretched railway through to more urgent, radical works that may have been needed if the project had been resumed some years later.

Conclusion

The decision whether to proceed, delay or cancel a project should be based on a multitude of factors. In some cases, concerns over immediate affordability may make the decision inevitable.

In other cases, better options may exist. This could involve reforming the way that the programme is managed, returning the focus onto the core objectives of the programme.

Care should be taken to ensure that, wherever possible, greater long term costs are not generated unnecessarily through short-term decision making.

[4] http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/189/189.pdf