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How to Manage Long Term Industrial Capex Programmes That Get Approved Piecemeal

Owners sometimes decide to proceed on a series of successive industrial capital expenditure projects that form a full and consistent programme but get approved progressively. This can reflect particular financing constraints or a general approach to allow more flexibility and adaptation to the market circumstances. When individual projects get approved, the consistency with the overall programme must also be checked and maintained.

In this White Paper we investigate practices needed to ensure sufficient control is maintained by the owner.

Introduction

In certain circumstances, capital investment programmes can be split and approved piecemeal. This is actually quite a common practice in certain cases. Examples include upgrades to a number of existing facilities along a full industrial value chain (such as for mining and chemical value chains that may involve several sites across the world), or a number of upgrades within a single industrial compound. This can also apply to greenfield projects, for example, development of a mine first without a processing plant, and later or separate development of the processing facilities, or the progressive development of an oil field through successive Capex projects. This will also apply if the financing schemes of the various projects in the programme are different.

Proceeding with such an approach will allow progressive investment and possible adaptation of individual projects scopes to the current condition of the economy and other external factors that may warrant flexibility and adaptation.

Irrespective of the successive approval of several projects within an overall programme, it is still essential to maintain a view on the overall consistency of the scopes including standardisation and interfaces between projects. Therefore, a sufficient minimum programme management oversight must still be implemented.

Risk of poor programme oversight

Insufficient programme oversight across all projects may create the following issues:

- Missing the synergies between project outcomes in particular at their interface in terms of product specification or pure mechanical interface, thus diminishing substantially the overall benefits,
- Missing synergies in terms of project execution (for example, saving mobilisation costs or learning curve costs for certain contractors, which in certain cases may be very significant; this case may require framework agreements to be put in place across several projects),

- Inadequate alignment with the company strategy of the result of the set of projects,
- Poor timing of projects and suboptimal usage of shared resources (internal or external).

In extreme cases of lack of coordination at programme level, individual projects may not complement each other and be excessively subject to market circumstances without aligning with a longer-term strategy. This issue is particularly important in the case of industrial facility projects, as facilities will be there for the long run. Decisions on projects should therefore not be taken without having a longer-term strategy.

When individual projects within a programme get approved piecemeal over time, it is still essential to preserve the overall value and strategic intent to maintain a programme vision.

Minimum programme oversight

We believe that in those circumstances a sufficient programme coordination needs to be developed and coordinated by a small specific team. This would typically include production and maintenance of:

- Overall programme statement of intent, scope, economics (cost, financing and business plan) and expected benefits, taking into account that it will be updated regularly taking into account adaptations of scopes and approaches,
- Overall high-level programme schedule,
- Identification of synergies and key interfaces between projects
- Change and interface management processes,
- Cross-programme standard specifications and expectations for relevant aspects,
- Actual evaluation of the benefits achieved by the programme.

Of course, the reference documents forming the baseline of the programme will need to be updated at least prior to the approval of each individual project within the programme to ensure that a consistency is properly maintained across the programme irrespective of the adaptation to current circumstances for each project.

Each individual project will still have its own economic justification, schedule, etc to justify its approval. Nevertheless, it is essential to maintain these also at programme level because, thanks to synergies across the value chain, the addition of several projects should be expected to produce more added value than the sum of each project's individual benefits. If different projects involve different partners or financing arrangements, each individual project still needs to demonstrate its return on investment and risk profile. However, the programme owner should also maintain an overall programme benefits vision which may not be shared with each project individual partners.

Programme director and team

A programme director must be formally nominated and should participate in the governance body of each individual project in addition to coordinating cross-project exchange of knowledge and ensuring consistency is maintained. He/she should be supported by a very small team working out the high-level programme view. At key

project decision gates, the programme should also have the opportunity to assess the alignment of the project with the overall programme objectives and indicate what adaptations should be considered to maximise overall programme value.

In some instances, the programme director also acts as the project sponsor for each project or at least for the most important ones.


Summary

When individual projects within a programme get approved piecemeal over time, it is still essential to preserve the overall value and strategic intent to maintain a programme vision. This only requires a limited effort and team, however, the voice of the programme must be formalised and heard as part of all those projects' governance and key decision gates to make sure the organisation actually reaps the expected benefits of the full programme.

Insufficient programme oversight across all projects may create severe issues

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