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In search of success: Projects governance through the Norwegian state project model

Path for Public Finances

Irish Fiscal Advisory Council

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Concept Research Programme

Presentation outline

1. Background
2. The Norwegian state project model
3. Some experiences with the model
4. Advice

Background

Governments carry out many investment projects every year



But not all are successful...

euro news. Latest Europe World EU Policy Business Euroviews Next Green Health

News > World > Germany

Berlin airport opens 10 years late and three times over budget




The Economist Menu Weekly edition The world in brief Search

Britain | Getting nowhere fast

The horror story of HS2

How a flagship project became a parable of Britain's problems



Australian major projects face delays and cost overruns

Labour shortages and rising materials costs may force postponement.



TOKYO 2020 OLYMPICS

Tokyo Olympics cost doubles to \$13bn on COVID and overruns

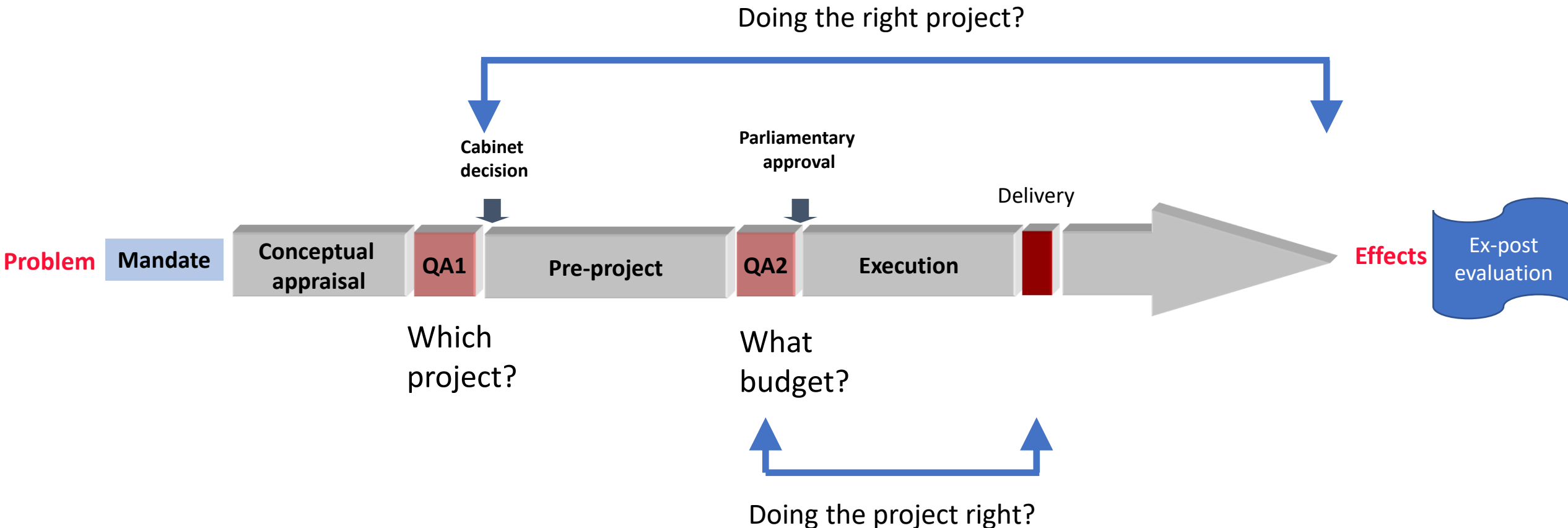
Snowballing budgets raise questions about taxpayer burden



Project governance through the Norwegian state project model

A mandatory project model from year 2000

– aimed to ensure successful projects on several levels



Doing the right project wrong is better than doing the wrong project right

The Norwegian State Project Model – aimed at ensuring quality-at-entry

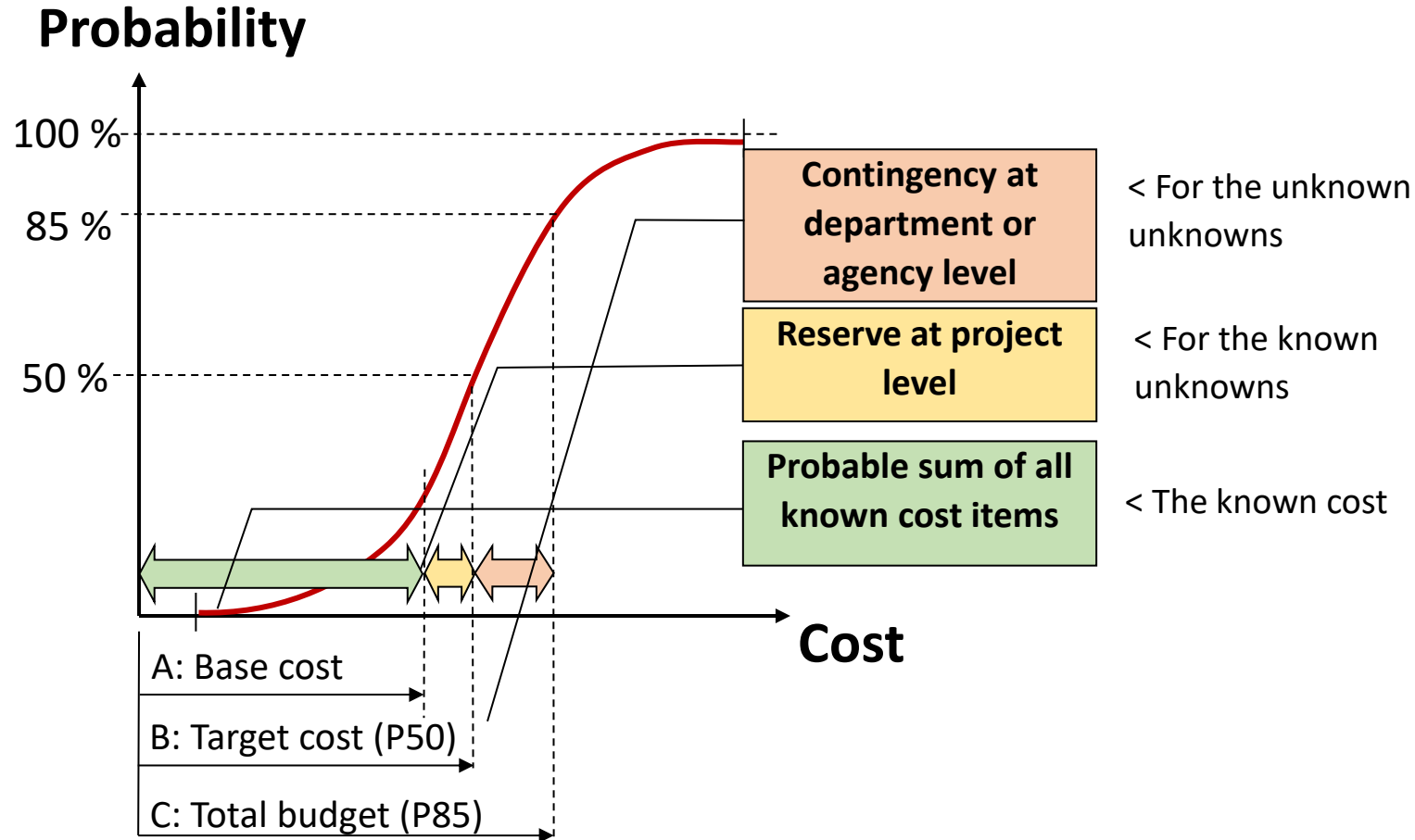
QA1: The choice of concept for further development and (potential) funding (before government decision)

- Needs/problem analysis
- Strategic assessment
- Opportunity space
- CBA of conceptually different alternatives

QA2: Budget and business case sufficiently robust for efficient project delivery (before parliament decision)

- Quantitative risk analysis
- Budget (including contingency, P85), and target cost (P50)
- Contract strategy

Probability based estimates

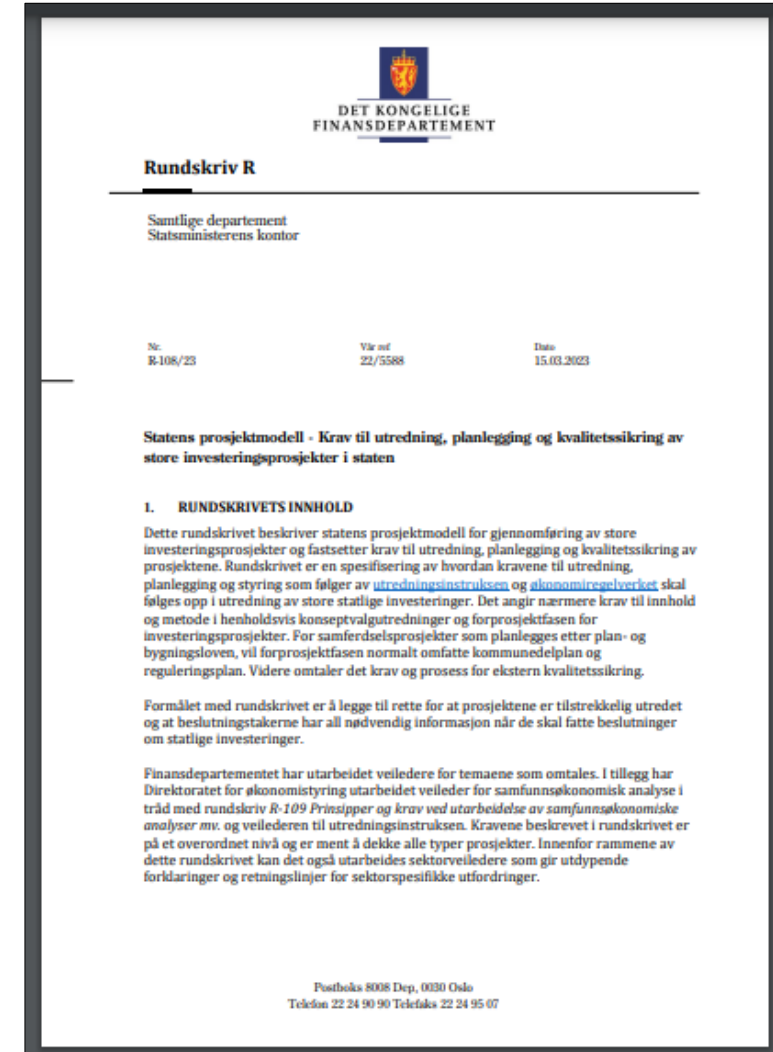


The “Scandinavian way”

- Good preparations
- Good analysis process
- Stochastic method for calculation
- Openness in communication
- Accept and expose uncertainty
- Open discussion in group
- Good report to the decision makers
- Transparency and sharing of data and results

The State Project Model is owned by the Ministry of Finance – mandatory for all ministries

- Key decisions anchored in the government and parliament
- External, independent review by professional experts
- All reports are generally open and available to the public
- Developed over time, supported by facts and knowledge from the Concept Research Programme
- Experiences shared across departments, agencies and industry



Successful projects rely on relevant guidelines, good practice, robust scrutiny and efficient delivery

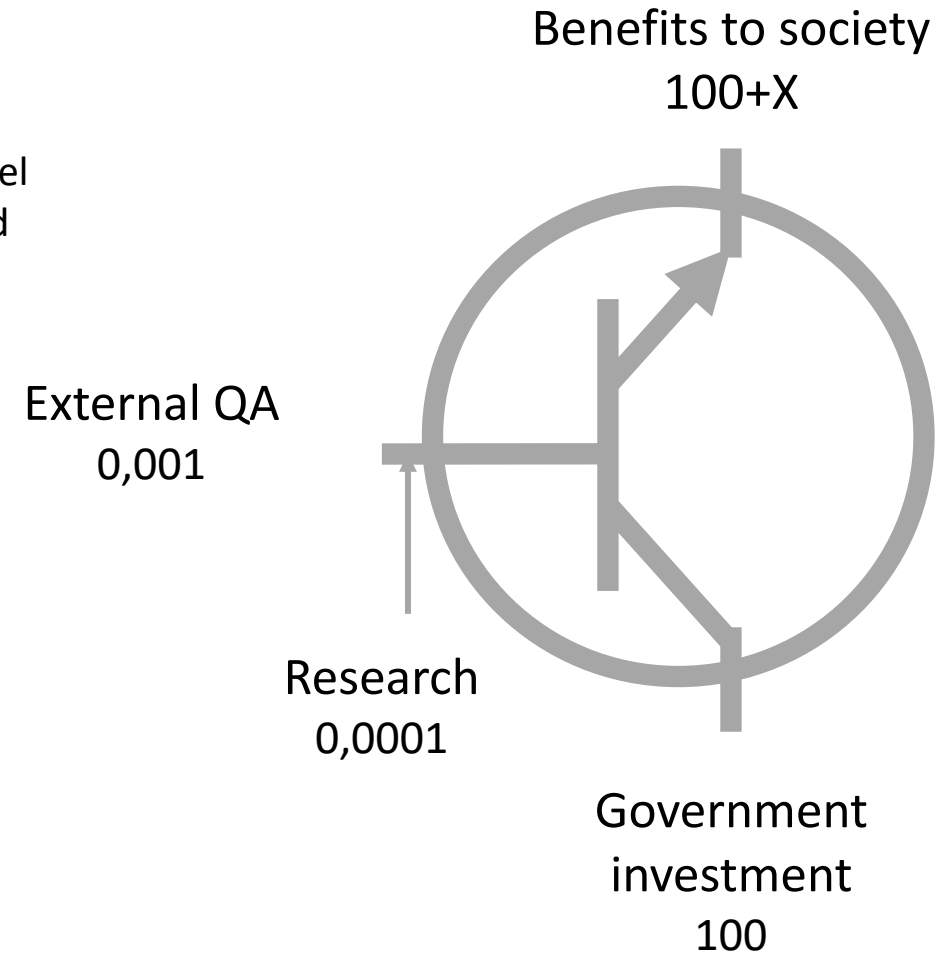
- It's not just about cost estimation, CBA or quality assurance
- It is the combination of efforts and transparency that builds a culture of quality that permeates government



Isn't this just “red tape”?

- Average time QA1: 290 days
 - *Share of delivery time: 9%*
- Average time QA2: 195 days
 - *Share of delivery time: 6%*
- Average cost QA1: € 0.27 million
- Average cost QA2: € 0.23 million
- Total cost of QA compared to project cost $\approx < 0.2\%$

Often done in parallel with other front-end activities



The model is supported by research and knowledge-sharing

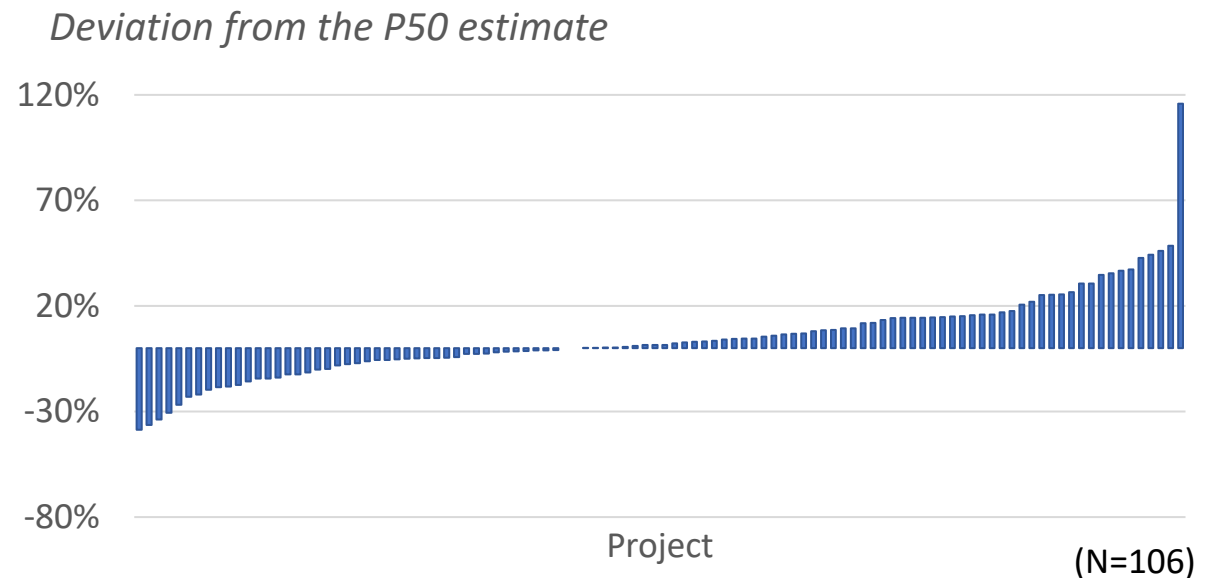
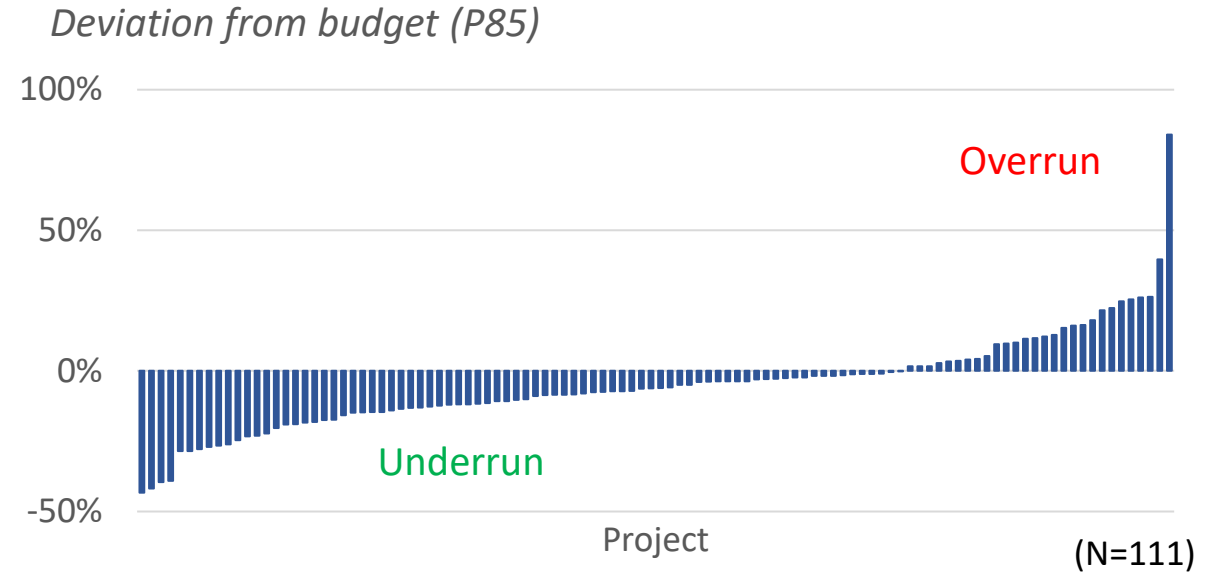
- Webinars, seminars, workshops, and other types of dialogue with ministries, agencies and consultants
- Conferences (bi-annually)
 - Forum for the state project model
 - Concept International Symposium on Project Governance
- Collaboration with international networks in academia and government
- LinkedIn account (new!)



Some experiences with the model

A significant improvement compared to 25 years ago

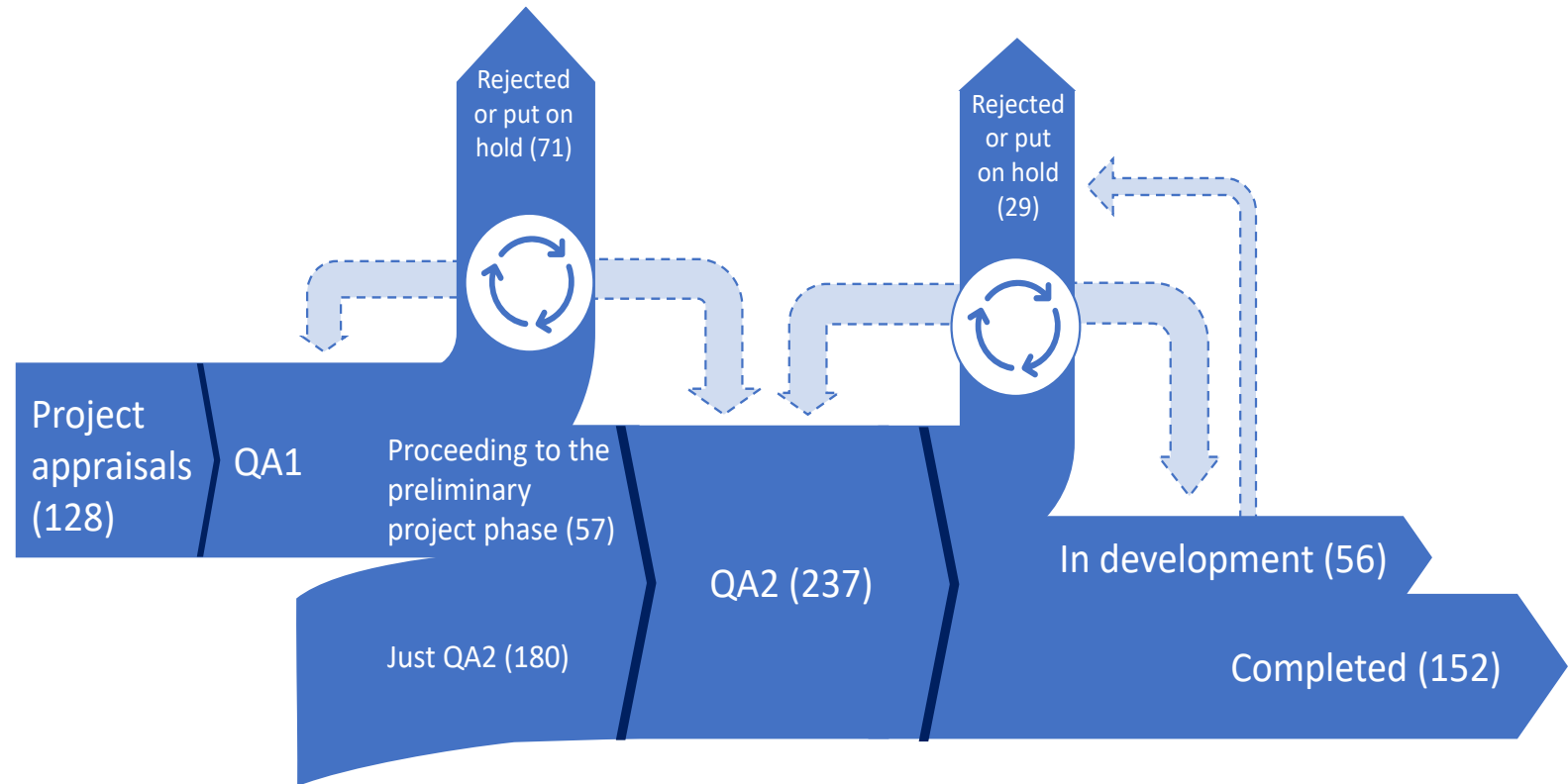
- Good cost performance at portfolio level
- Most projects are completed within budget (but there is room for improvement)
- Large cost overruns are rare
- This is good news for risk-averse decision-makers



The process supports rational decision-making, and may stop weak project proposals

Impacts of the scheme:

1. Better projects
 - a) Fewer cost overruns
 - b) Higher BCRs
2. Better decision-making
 - a) Political strategic decisions early (“the fox doesn’t watch the geese”)
 - b) Limit the number of candidate projects
 - c) Transparency
3. Wider impacts
 - a) Build skills in departments and agencies
 - b) Sharing of knowledge: Practice and academia
 - c) Ripple effects to local and regional authorities



I may make a political decision that is wrong from a professional point of view, but now I at least know that I'm wrong.

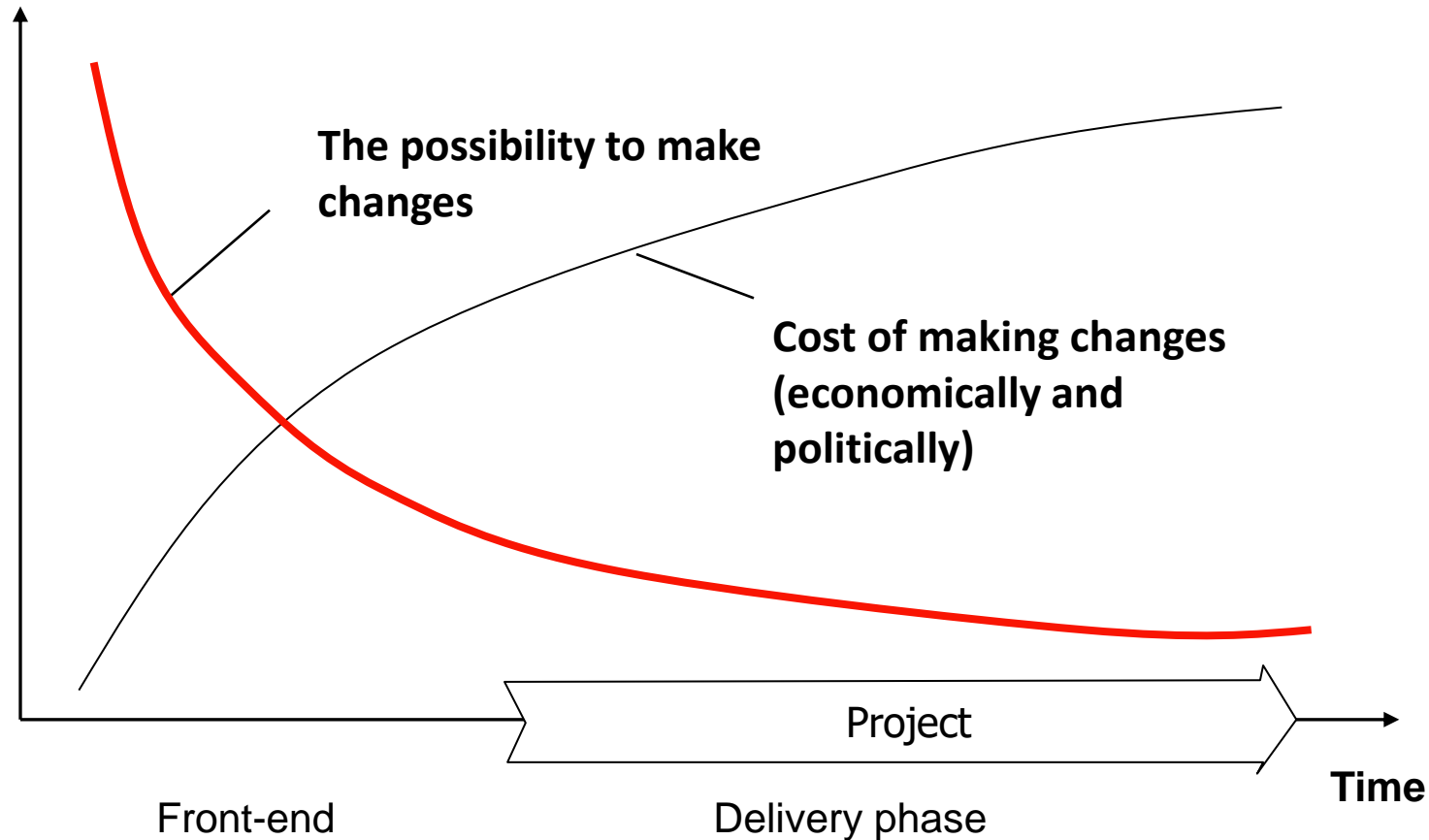
Remaining challenges

- Cost escalation before formal funding decision
- Increasing no. of (ongoing) “mega-projects”, some with mega problems
 - *E39 Rogfast* (sub-sea tunnel), €2,200 million: +19%
 - *Life Science Building*, € 1,100 million: +84%
 - *E8 Sørbotn-Laukslett* (bridge/tunnel/road), € 340 million: +37%
 - *Viking Age Museum*, € 330 million: +41%
- Poor selection efficiency (decreasing returns to investment?)
- Lack of benefits management, sound theory of change
- Limited use of results from ex-post evaluations



Advice based on our experiences

Appraisal and QA is cheap, delivery is expensive



- Appraisal ≠ planning
 - Appraisal = what could be done
 - Planning = how to do it
- Don't be tempted to start construction without proper appraisal and scrutiny to “get things done” – that is a certain pathway to cost overrun and misallocation of resources
- Keep an open mind and acknowledge that there are always several solutions to a problem
- Focus on the change that you need, not the project that you want to do

Ministries must act as gate keepers

- **Realistic planning** – limitations on how many projects that can be funded by the government
- **Timing** – what problems can wait?
- **Potential** – which proposals have the highest potential for positive benefits?
- **Legal obligations** – are there national or international orders that require action?



YOU SHALL NOT PASS!

Advice to improve project success

- Keep it simple, quality \neq quantity
- Project success starts at the front-end
- Cost-efficient solution to a problem (not all your needs and desires)
- Capture and communicate uncertainty of costs and benefits
- Outside view through external quality assurance
- A critical view on project initiation
- Facilitate learning and accountability through ex-post evaluation



Thank you!

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