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Keep projects sailing through cash peaks and troughs

When cash flow is both volatile and unpredictable, organizations must be ready to use money when it is available. That calls for smarter, more flexible financial planning.

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A series on operations transformation in a public-sector organization

With demand for services rising faster than tax revenues, public entities around the world face unprecedented pressure to do more with less. Many think they must make a stark choice: cut service quality, cut availability—or cut both. This series of articles follows a large US public agency that chose another option: find radically better ways to deliver services by completely transforming its operations. Within 36 months, the agency booked nearly $2 billion in cost efficiencies, while also building the capabilities of more than 10,000 people to make those changes sustainable.

Budgeting is always hard, but in the public sector the pressures can be even greater. When funding comes from the public purse, its availability depends on policy and public opinion, both of which can swing erratically. At a large US agency, that meant that the cash available for infrastructure construction and maintenance could halve or double from year to year.

Shortfalls might seem like the greater problem, but sudden influxes of cash create their own complications as an organization scrambles to mobilize people, contractors, and equipment to use that money before it is taken away. Additionally, the projects that have the greatest long-term impact often require many years (sometimes more than a decade) of planning and construction. Committing the funds and other resources necessary to sustain and deliver these projects is difficult to do when funding volatility is high and policy makers want quick results.

Boxed in by these constraints, the agency understandably followed an all-too-common strategy. To show short-term impact and use up cash when it became available, leaders focused the agency's efforts on smaller projects with shorter turn-around times, while larger, more strategic undertakings remained in limbo. Those projects that moved forward were often rushed into construction, with execution started before sufficient planning and preparatory work was complete. Consequently, scope inflation and cost overruns became almost unavoidable.

Predicting potential funding levels

The agency's first step in its effort to manage its finances and its project portfolio more effectively was to devise a new financial-planning approach.

Its longstanding practice had been to commit to working only on projects whose total value equaled the amount of funding the agency had been allocated. Ostensibly, that kept the agency from overspending—but it actually left planners less able to respond cost-effectively when extra funds came in.

The agency realized that planning needed more flexibility, but it also wanted to limit the risk of overcommitting. Under the new approach, the agency designed a computer model that used statistical analysis of past funding levels and information on the legislature's current plans to create a range of likely future funding scenarios. Planning targets were then adjusted to allow for the development of projects to the maximum likely amount of funding—a level that still managed risk, but ensured ample development time for larger projects.

Investing in better planning

A second big change better prepared the agency's various operating units to execute projects against those planning targets when funding became available. Previously, operating units did not have access to funding to begin planning, engineering, environmental, or land-acquisition work until a project was within the cashflow forecast.

The finance division now created special funding categories to provide its operating units with money to conduct the planning and preparatory work needed to prepare for the full range of funding scenarios represented by their planning targets. The operating units could use this money to prioritize projects, fully develop their scope, and complete necessary preparatory work, such as negotiating access rights or securing appropriate permits. If the actual funding provided was closer to the lower end of the funding scenarios, projects could be postponed to the following year without impacting the quality of development to date.

Tracking preparatory activities

Finally, the agency's finance department took a more active role in ensuring that the agency's operating units were making the best use of their new financial flexibility. It created dashboards that showed whether each unit had enough projects in development, whether they were investing enough in the development of those projects to be prepared for upcoming injections of funding, and whether their pipeline contained the right mix of projects to meet the planning targets and make best use of the funding through efficient operations.

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These changes transformed project development at the agency. The value of its development pipeline doubled, so it was ready to deliver twice the number of projects per year without rushing or reprioritizing. Furthermore, the percentage of strategic projects delivered every year increased by a third■

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