Public choices: Making better project-funding decisions

A rigorous, regular portfolio-planning process makes trade-off decisions among projects more effective and transparent—and makes it easier for organizations to achieve their strategic goals.

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McKinsey&Company
Operations Extranet

August 2017

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.

The combination of a multi-billion-dollar annual construction budget, a wide geographic scope, and a highly decentralized structure made portfolio planning a continual challenge for one large US public agency. Competing objectives and priorities among the agency's numerous stakeholders only exacerbated the problem. At its core: tension between the agency's overriding remit to deliver services for all citizens, while regional units also faced great pressure to prioritize local requirements.

This environment sometimes resulted in suboptimal planning and budget-allocation decisions. The agency never had the funding or the people it needed to meet every project request, and it also lacked an effective mechanism to manage the inevitable trade-offs between different stakeholders. That meant that simpler or cheaper projects sometimes were approved at the expense of ones that were more costly or complex, but strategically important. Worse, when additional funding became available, the agency wasn't always ready to spend it. Delays in planning and preparatory work meant that, on average, the agency underspent its capital budgets by double-digit percentages each year.

Bringing planners together

The agency therefore chose to adopt a new planning process. Its goal was twofold. First, develop a healthy funnel of prospective projects. The funnel's size would be set by budgetary constraints, while the rate that projects flowed through it would be determined by the effectiveness of the agency's project-delivery capabilities. Second, ensure that all funds, including windfalls, are allocated to the right projects in the funnel so each regional unit gets the resources it needs to meet its strategic goals.

At the heart of the new approach is a cadence of quarterly review meetings that bring together all the relevant stakeholders, including central and regional planning leaders and representatives from the operational divisions that are responsible for project delivery.

In line with the agency's annual budget cycle, each quarterly meeting has specific objectives:

- In the "**Review**" meeting at the beginning of the year, regional and operating units evaluate the previous year's planning performance against the applicable targets, and plan any necessary adjustments to processes or the project funnel to deliver better performance in the coming year. At the same meeting, the agency shares its initial projections for the budget available in the next financial year, together with the criteria for projects that could be eligible for ring-fenced strategic funding.
- In the "**Revise**" meeting in the second quarter of the year, the agency agrees on the overall planning targets for the coming year and identifies candidate projects for additional strategic funding.
- In the "**Build**" meeting in the third quarter, the agency shares detailed planning targets with its regional and operational units, and works with them to build project portfolios that meet those targets. By synchronizing regional portfolio planning, the agency can build an aggregate picture of likely resource requirements over the coming year. That helps it identify potential bottlenecks where demand threatens to exceed the resources available, and allows regions to work together in adjusting project timing to smooth peaks in demand for essential resources.
- In the "**Approve**" meeting in the fourth quarter, regional portfolio plans, which have been refined and built out by the individual units, are finalized, checked against the agency's strategic targets, and signed off for execution.

In addition, each meeting reviews the regional units' performance in meeting their plans to date—providing a useful early warning of issues that could result in plan deviations, and creating a forum for problem solving or plan adjustment.

Making decisions transparent and fair

The introduction of the quarterly review process has given the agency the structure it needs to evaluate project portfolios and address resource constraints in a transparent and fair way. Bringing all the relevant stakeholders together makes problems easier to address.

The new approach has other benefits too. A common portfolio-planning process with fixed timing and information requirements helps align the activities of regional units, while keeping data collection and reporting burdens to a minimum. And because all stakeholders have access to the full funding and planning picture, there are fewer concerns about unfair funding allocation.

Since the introduction of the new planning process, the agency has been able to use more of its available funding: a full project funnel has helped it to significantly cut its annual underspend. As important, it has been able to spend that money more wisely, on more of the projects that deliver the most value for citizens■

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