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**Northwest Construction Consumer's  
Council**

**Cost Controls Relating to  
Capital Project Plans**

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# Costs Controls for Capital Project Plans

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## Question -

Does an Owner need costs controls for Capital?

## Answer -

- A. Always
- B. Sometimes
- C. Never
- D. What are cost controls? (None of the above)
- E. What is capital



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## Correct Answer –

Only if you capital dollars are important to your company

The importance of cost control in capital project plans is paramount to the ability to wisely invest capital for continued growth



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From an owner's perspective, cost control for the execution of capital projects requires three distinct phases

- Capital Plan Concept Development
- Design development of the project and total capital plan
- Construction Phase execution of the project

Each phase has different approaches, challenges and critical factors.

We will focus on the Capital Plan Concept Development portion of cost control



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## Capital Plan Concept Development

The development of a capital project plan involves the ability to see into the future to understand the companies needs and direction. Effects on these needs include:

Local / National / Global Economy

Industry Changes

Product Mix Changes

Environmental and Geographic Changes

Company Financial Stability

Company Management Philosophy



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Depending on a number of factors, a plan is developed that looks into the future for capital for a number of time periods, such as:

- ✓ 5 Years
- ✓ 3 Years
- ✓ 1 Years
- ✓ Tomorrow or...
- ✓ Yesterday



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## Challenges to Capital Plan Concept Development

The concepts have no scope for the projects, usually just a concept of the finished manufactured products or operations

- ✓ The scope of the projects may be greater than the addition of the operations
- ✓ The concepts of the operations or products may be incomplete
- ✓ The Return-On-Investment for the operations may have been done without you
- ✓ Limited process or concept experience (for new products)



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## Challenges to Capital Plan Concept Development

Dynamic elements in the time from development of the plan to execution

- ✓ Permitting changes
- ✓ Project construction cost change
- ✓ Product need changes - Other projects arise that replace or modify existing projects
- ✓ Sudden economic changes
- ✓ Corporate structure changes, buyouts, mergers, etc



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## Challenges to Capital Plan Concept Development

Effect of one project to another within the plan

- ✓ Total capacity due to cumulative production changes
- ✓ Timing of execution of related plans
- ✓ Phased upgrades for the increased capacity included in projects
- ✓ Higher priority projects / Longer lead processes or operations



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**That can be a daunting task, so how do you bring it together?**

Communicate with the groups on needs that drive the plan

- ✓ Develop relationships with firms that can help assemble the plan
- ✓ Settle on the style of contracts that you plan to use on each project
- ✓ Understand the details of the plan that was assembled
- ✓ When you get a plan, review it frequently
- ✓ Have a champion for the plan
- ✓ Track and report the projects through execution



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Get In step with the groups that develop the operation or products

- ✓ Work with marketing / operations to understand what their needs are
- ✓ Communicate the implication of those needs / help to define the scope of need
- ✓ Feed back the implications and seek compromise on the operation versus the capital investment
- ✓ Stay involved in the ROI's of the operations and products
- ✓ Keep in touch with the groups as their needs change and your budget changes



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Develop relationships with reliable firms that can help you develop the plan:

Designers / Engineers / Real estate groups /  
Contractors

- ✓ They should understand that it is capital plan development project
- ✓ The skill sets of they players should match your need
- ✓ Understand what they need from the arrangement
- ✓ Understand what commitment you will get in return



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Develop contracting styles up front based on project size, mix and complexity

- ✓ Design / Build
- ✓ CM/GC
- ✓ Lump Sum – Design / Bid / Build
- ✓ Target Price with Contractor / Engineer
- ✓ Cost Plus Fixed Fee



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Understand the details of the plans and how they change through the approval

- ✓ The project plans need be condensed for presentation, but the details need to be available
- ✓ The risks and contingency values are very important in capital plans and need to be identified
- ✓ Even with the use of partners in developing the plans, complete understanding is required
- ✓ The capital plan is a working document that is dynamic and needs to be tracked
- ✓ Have a champion of the Capital project Plan



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When you get a plan, review it frequently as the plan progresses

- ✓ Track and report the projects through execution
- ✓ Schedule periodic reviews to make certain that the direction of the plan is consistent with the company direction
- ✓ Understand the Financial Year End Boundaries and how they effect the plans
- ✓ Document the project execution for historical databases and future projects



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