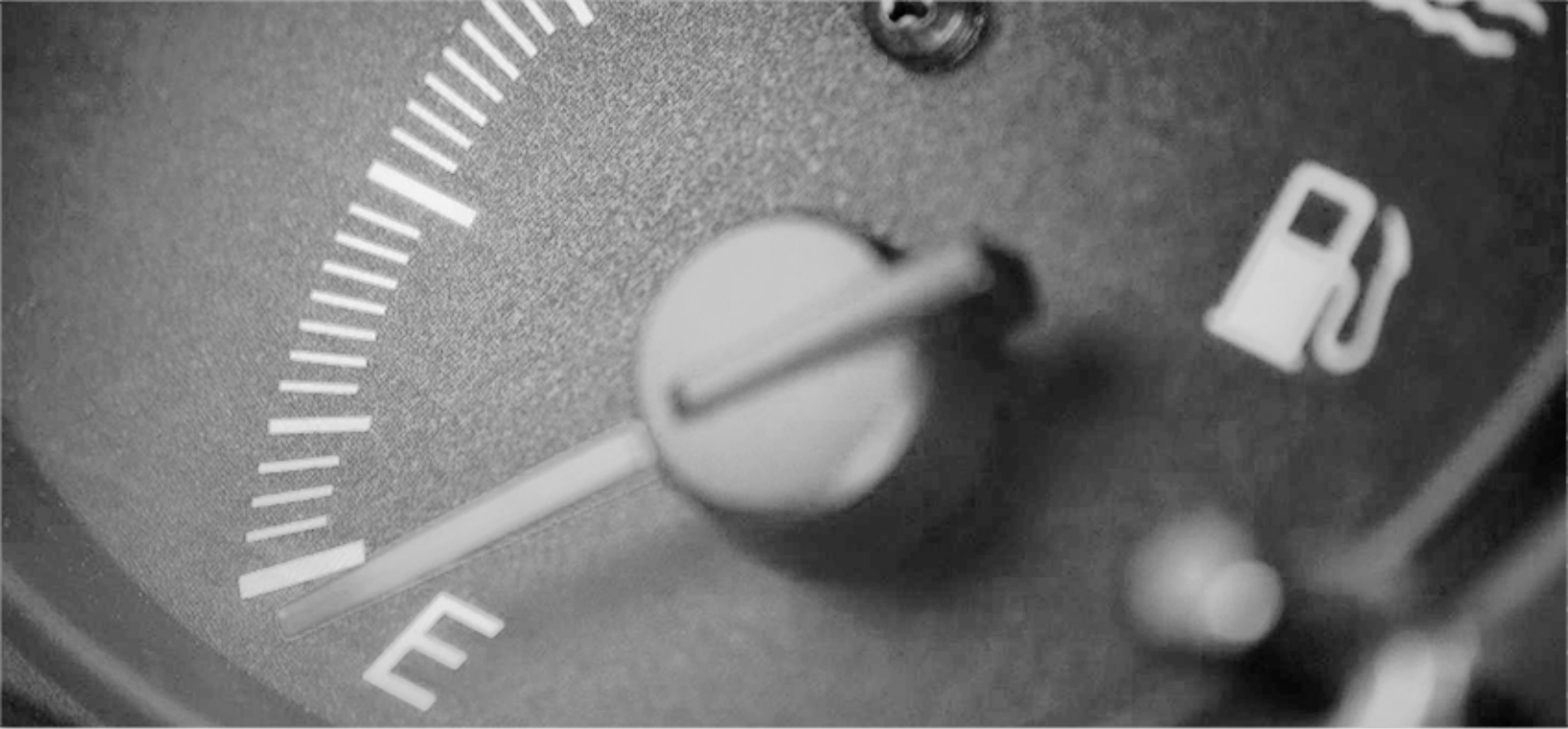




# Making Project Finance **Work**

by Martin Densham





Have you ever got halfway through a project and run out of funds and resources? Have you got to the end of a project only to find you had surplus funds that you could have used elsewhere? Read on to discover how you can apply specific project finance principles to avoid these outcomes. By following these five steps, you will be able to convert financial uncertainty into certainty, financial risk into reward and innovation into opportunities that will ensure success for your project.



# MINIMIZE FAILURE

One of the most significant examples of failure in financial governance and transparency was the Enron scandal. In the early 2000s this large energy company used dubious accounting techniques to make its project finances appear better than they were. By hiding losses and misrepresenting revenue, the company ultimately failed.

In large industries such as Utilities and Telecommunications, where hundreds of projects run concurrently, a lack of governance and transparency can cause portfolio and departmental budgets to overrun. As a result, entire organizations can potentially miss their quarterly financial targets and find themselves in a negative spiral of constant budget re-balancing.



A background image featuring various financial charts, including a candlestick chart and a line graph, with a magnifying glass focusing on a specific data point.

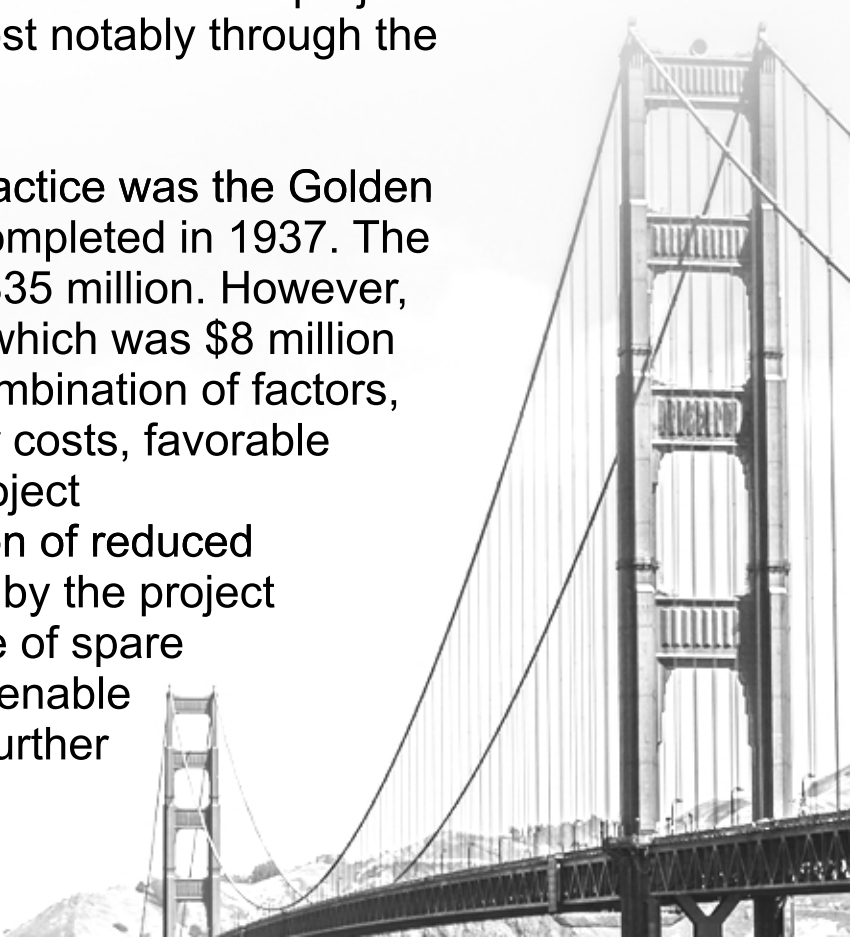
## How can you avoid being caught in this kind of situation?

The first step is to ensure full transparency of all your project's finances. This includes resources, expenditure, contingency and planned spend. To fully understand how your estimated costs compare with actual costs throughout the project lifecycle, you must utilize accurate, timely and consistent forecasting methods that will help to minimize the likelihood of failure.

## CREATE OPPORTUNITY

Many financial opportunities can be created when project finances are managed correctly, most notably through the re-deployment of unused funds.

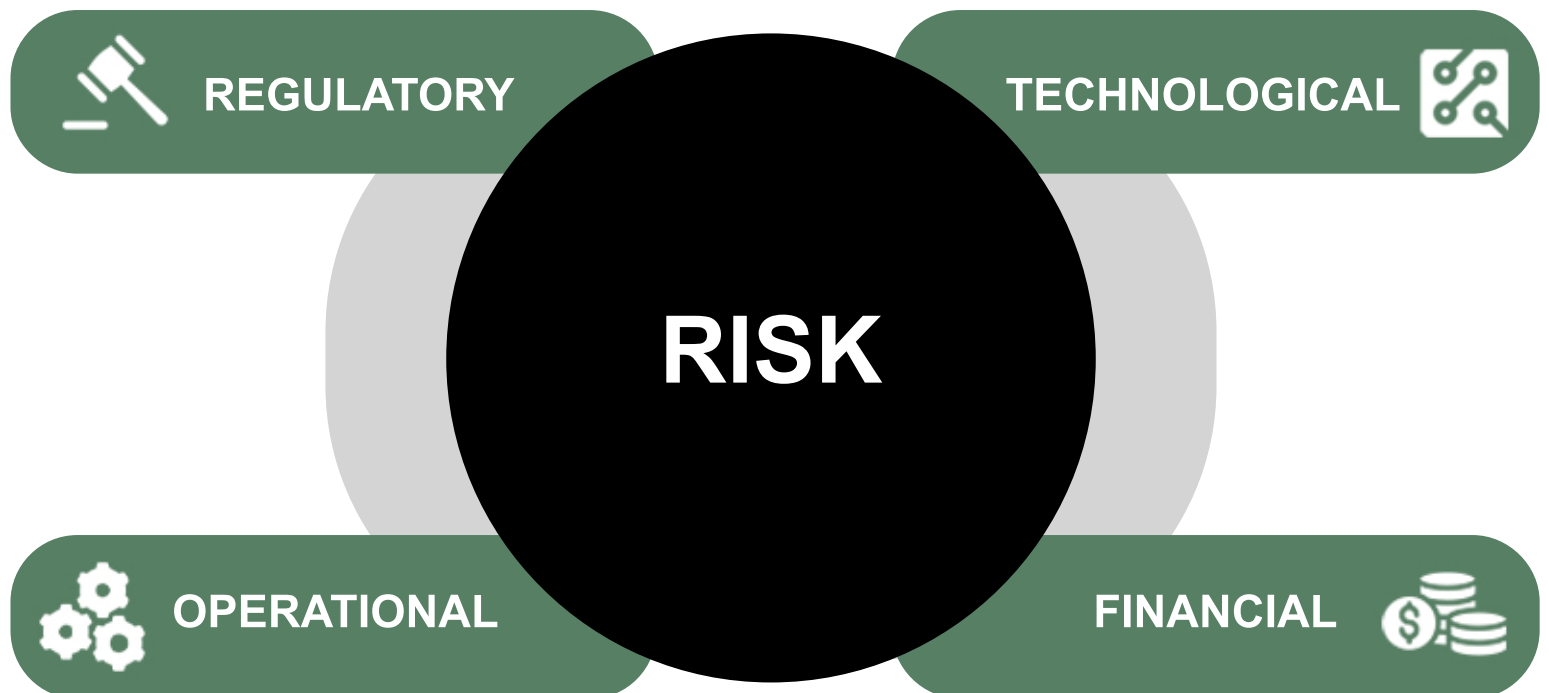
One of the best examples of this practice was the Golden Gate Bridge construction project, completed in 1937. The original budget for the project was \$35 million. However, the final cost was only \$27 million, which was \$8 million under budget. This was due to a combination of factors, including lower-than-expected labor costs, favorable weather conditions, and efficient project management. The early identification of reduced labor rates and environmental risks by the project finance team was key to the release of spare funding to bring forward scope and enable delivery ahead of schedule, which further minimized costs.

A background image of the Golden Gate Bridge, showing its iconic suspension towers and cables.

# MINIMIZE RISK

We know Risk Management is a challenge, especially on multi-year projects. There are many factors that can jeopardize project success such as increased labor costs, adverse regulatory changes and technological challenges. One of the primary aims of project management is to identify the opportunities that will help to offset financial risks.

Allocating the appropriate amount of contingency is critical to this process and can be determined by the combination of a comprehensive cash flow analysis and innovative predictive spending tools. Customized reporting tools can be used to track expenditure recorded in a company's general ledger and compare it to the latest budget forecasts. This real-time monitoring of vendor, resource, and hardware charges can provide an early indication of extreme cost variance and helps to ensure project budgets stay on track. The use of detailed variance analysis also provides qualitative evidence of the causes and helps the project team to identify risks and rectify them before they have an adverse impact.





## USE THE RIGHT TOOLS

Creating an automated system of governance for project financials can help you achieve the desired levels of efficiency and transparency. In order to be effective, the governance system must provide the requisite exposure to the critical areas of:

RESOURCE MANAGEMENT

CONTINGENCY MANAGEMENT

MULTI-LEVEL BUDGET TRACKING

COST BREAKDOWNS

Appropriate technology can be used to capture these data points within a common operating platform, which enables transparency across multiple portfolios. Budget managers can then be held accountable to a universal standard which gives senior management the assurance that all costs are being reported in a consistent manner.

Greencastle developed the **Project Financial Operations Tool (PFOT)** to assist one of America's leading energy providers in achieving these levels of financial transparency and efficiency. This customized tool was used to manage up to **\$2.8B of project finances across 311 projects**. This PFOT subsequently became the standard platform for planning and controlling project finances for the organization. It has also been adapted to meet the specific requirements of other industries, including life sciences and telecommunications.







## USE THE RIGHT PEOPLE

It is an obvious advantage to have a dedicated financial management resource on your project, but this expertise is not always readily available. Greencastle's experienced budget controllers fully integrate at the project or the portfolio level to ensure project teams work seamlessly together to minimize the financial risk to projects. In doing so we help create opportunities that enable organizations meet their financial targets and chart a course towards success.



Greencastle Associates Consulting is a 100% veteran-owned and operated implementation consulting firm that tackles critical projects with a unique, military-precision approach. Founded by veterans in 1997, Greencastle provides metric-driven results to businesses looking to maximize growth. We are experts in change management, process improvement and project management. Using Implementation Management as the foundational approach to every project—we help our clients meet and exceed their definition of success. Our team is mission-focused, adaptable, and ready to get stuff done—all while saving you time and driving operational efficiencies.