



Pilot Scheme for Benchmarking Cost Forecasting

Human judgment tends to be optimistic when developing initial cost forecasts for major projects. Overconfidence, focusing on the specific project instead of actual outcomes of similar projects can lead to underestimates of the costs, completion times and risks of projects, and an overestimation of the benefits.

The use of historical performance when forecasting future performance is known as 'reference class forecasting' (RCF). The methodology and data needed for employing reference class forecasting were developed by Oxford University Professor Bent Flyvbjerg and has found widespread support in public and private sector policy and management in the last few years.

In December 2010, Evans & Peck invited Professor Flyvbjerg to provide the keynote address

at its annual risk management conference in Sydney. Evans & Peck consultants from across Australia and Hong Kong attended the conference, which focused on the cause of optimism bias in forecasting for projects.

Professor Flyvbjerg also visited Evans & Peck's Hong Kong office and met key clients such as MTR and the Hong Kong Development Bureau, where the UK Government 'Green Paper' on RCF has caught departmental attention.

During the visit, the Hong Kong Development Bureau displayed interest in developing a process for reference class forecasting to improve their ability to analyse cost estimates and avoid cost overruns. This involves three separate stages:

- benchmarking a number of projects
- due diligence to apply lessons learnt
- scaling the data to develop the project cost estimate.

The Hong Kong Development Bureau is the Government Secretariat with overall responsibility for all construction and development in Hong Kong, which are delivered through the relevant government departments (water, highways, etc).

FACTS AND FIGURES

Client: Development Bureau of Hong Kong

E&P involvement: 2011

Evans & Peck's role

Evans & Peck have been working with the Hong Kong Development Bureau to develop a process for assessing benchmarking on cost forecasting based on Professor Flyvbjerg's research.

In developing a pilot scheme for benchmarking cost forecasting, Evans & Peck is working with the Bureau to compile the data from a number of Hong Kong projects to get a good understanding of whether the Hong Kong data fits Professor Flyvbjerg's 200 projects that have been drawn from all over the world. This has involved evaluating past performance on projects in Hong Kong to see whether the data fits, and the scaling of numbers to be applied to forecast future performance of projects.

Results

As a result of the pilot benchmarking scheme, the Hong Kong Development Bureau will be able to rely on historical performance to help evaluate or forecast future performance.

Benchmarking past performance on projects to forecast future performance