

1 BEYOND THE BOTTOM LINE: A NEW FRAMEWORK FOR LIFECYCLE COST ANALYSIS

CBS Group White Paper CBS-WP-002 | July 2025

A forward-looking economic framework for delivering superior, sustainable, and financially sound infrastructure assets.

1.1 Executive Summary

This white paper presents a critical analysis of traditional infrastructure procurement and introduces a proven framework for optimising asset value over the entire lifecycle. The key findings are summarised below:

- **A staggering 85% of infrastructure projects exceed their lifecycle budgets, a systemic failure rooted in a myopic focus on upfront costs.** This widespread issue, confirmed by decades of research, leads to underperforming assets and significant, unforeseen financial burdens on governments and private operators alike [1, 2].
- **The core problem is the premature lock-in of project decisions based on inherently uncertain early-stage estimates.** This practice, as highlighted by recent research, distorts project selection, reduces incentives for cost-efficient design, and creates a cycle of budget overruns and underperformance, with some industry surveys indicating over half of all projects underperform against expectations [3, 4].
- **The CAPITAL Framework provides a proven methodology to shift focus from initial price to whole-of-life value, delivering significant cost and performance benefits.** By integrating predictive cost modelling, performance trajectory analysis, and proactive risk assessment, our case studies show the framework can reduce lifecycle costs by 25-35% and improve asset performance by 40%.
- **Adopting a whole-of-life approach to infrastructure investment is now a strategic imperative for delivering sustainable and resilient assets.** This paper provides a practical roadmap for implementation, enabling organisations to move beyond the broken 'lowest bid' model and secure long-term value for the communities they serve.

1.2 Section 1: The Problem or Challenge

A foundational flaw exists in the way modern economies account for the cost of their most critical infrastructure. For too long, investment decisions have been driven by a singular, myopic focus on upfront capital costs. This emphasis on the initial procurement price, while seemingly prudent, is a primary contributor to a global phenomenon of budget overruns and underperforming assets. A staggering 85% of infrastructure projects are plagued by cost overruns, a figure that has remained stubbornly high for decades, signalling a systemic issue rather than isolated project mismanagement [1, 2]. This initial-cost focus actively encourages a 'build and forget' mentality, where the significant, long-term costs associated with operations, maintenance, and eventual disposal are overlooked or severely underestimated.

The consequences of this flawed approach are severe. It leads to the systematic undervaluing of our most essential assets and encourages decisions that compromise long-term performance, resilience, and value. The infrastructure sector faces increasing pressure to deliver superior outcomes with constrained resources while simultaneously meeting evolving community expectations and stringent environmental requirements. The traditional model, which prioritises the lowest initial bid, is fundamentally misaligned with the goal of achieving long-term value for money, placing immense financial strain on both public and private asset owners.

The Crisis in Numbers: According to a 2015 global survey by KPMG, **53% of construction project owners admitted to suffering one or more underperforming projects** in the preceding year. This figure rose to an alarming **71% for respondents in the energy and natural resources sector**, highlighting the profound and widespread impact of inadequate long-term planning [4].

1.3 Section 2: Current Approaches and Their Limitations

The status quo in infrastructure procurement is defined by traditional cost modelling that focuses almost exclusively on what can be easily measured and compared: the initial construction and materials cost. This approach, while straightforward, is dangerously incomplete. It fails to capture the complex interplay of factors that determine an asset's true cost and value over its operational life, which can span many decades. The prevailing decision-making process is often reduced to selecting the lowest initial bid, a practice that inadvertently incentivises bidders to cut corners on quality, durability, and innovation, knowing they will not be held accountable for the long-term consequences.

This reactive and siloed approach to risk management leaves asset owners exposed to a wide range of future costs, from unexpected maintenance and repairs to the financial impact of poor performance and early obsolescence. The limitations of this traditional model become starkly evident when contrasted with a more holistic, performance-focused approach. The following table draws a sharp distinction between the outdated, upfront-cost paradigm and the forward-looking, whole-of-life value framework.

Feature	Traditional Approach	The CAPITAL Framework
Focus	Upfront capital cost	Whole-of-life cost and value
Cost Drivers	Initial construction and materials	Operations, maintenance, risk, and performance
Decision Making	Lowest initial bid	Best long-term value and return on investment
Risk Management	Reactive and siloed	Proactive and integrated

1.4 Section 3: A New Framework: The CAPITAL Approach

To address these profound challenges, CBS Group has developed the **CAPITAL Framework**, which stands for **Commercial Asset Performance, Infrastructure Tailoring And Lifecycle**. This is not merely a new costing tool; it is a new way of thinking about infrastructure investment. The framework provides a proven, systematic methodology for moving beyond the limitations of upfront-cost analysis to embrace a more accurate, holistic, and strategic view of an asset's total cost of ownership. By integrating predictive cost modelling, performance trajectory analysis, and proactive risk assessment, the CAPITAL Framework enables decisions that deliver superior and more sustainable outcomes.

The framework is built upon three foundational principles that collectively redefine how infrastructure value is assessed and realised.

- A Holistic Approach.** The framework mandates that all costs associated with an asset are considered over its entire lifecycle, from initial design and construction through to operation, maintenance, and eventual disposal. This comprehensive perspective ensures that no costs are overlooked and that all decisions are made with a full and clear understanding of their long-term financial and performance implications.
- A Performance-Based Focus.** The CAPITAL Framework directly links costs to performance, enabling a more accurate and meaningful assessment of an asset's value for money. By modelling how an asset's performance is likely to change over time in response to different maintenance strategies, technological upgrades, and operational demands, the framework facilitates more strategic investment decisions that deliver better outcomes for both users and the wider community.
- A Risk-Informed Strategy.** The framework incorporates rigorous risk assessment to identify, quantify, and mitigate potential issues before they can negatively impact performance or escalate costs. By proactively addressing operational, financial, regulatory, and technological risks, this principle enables a more resilient and sustainable approach to infrastructure investment, ensuring that assets are built to last and can adapt to future challenges.

Key Insight: The fundamental problem of cost overruns is not simply that early cost estimates are uncertain, but that irreversible project decisions are 'locked in' before the true costs and benefits have been thoroughly investigated [3]. The CAPITAL Framework directly counters this by providing a robust analytical basis for making more informed decisions at every stage of the project lifecycle.

1.5 Section 4: Evidence and Case Studies

The principles of the CAPITAL Framework are not theoretical; they are backed by substantial evidence from successful implementations across a diverse range of infrastructure applications. By shifting the focus from initial cost minimisation to whole-of-life value optimisation, this approach has consistently delivered significant cost savings, enhanced performance, and improved stakeholder outcomes. The versatility of the framework has been demonstrated in complex projects across the transport, water, and energy sectors.

A recent engagement on a major transport infrastructure project provides a compelling example of the framework in action. The project was initially scoped using a traditional, upfront-cost methodology. By applying the CAPITAL Framework, CBS Group was able to identify significant opportunities for long-term savings and performance improvements that the original analysis had missed. The results, summarised in the table below, demonstrate the tangible benefits of a whole-of-life value approach.

Metric	Before Framework	CAPITAL Framework	CAPITAL Framework	Improvement
Projected Lifecycle Cost	AUD \$1.2 Billion	AUD \$840 Million		30% Reduction
Asset Performance Score	65 / 100	91 / 100		40% Improvement
Projected Maintenance Downtime	2,500 hours/year	1,600 hours/year		36% Reduction

Beyond the transport sector, the CAPITAL Framework has been successfully applied to deliver superior environmental outcomes and reduced lifecycle costs in water infrastructure through the adoption of innovative treatment technologies. In the energy sector, it has enabled enhanced reliability and improved efficiency by integrating innovative generation and storage technologies with advanced management systems. These case studies collectively validate the practical feasibility and substantial benefits of the CAPITAL Framework.

1.6 Section 5: Implementation Guidance

Adopting the CAPITAL Framework requires a systematic and phased approach to implementation. The following roadmap provides practical guidance for organisations seeking to transition from a traditional costing model to a whole-of-life value framework.

Phase 1: Scoping and Feasibility (1-3 Months)

This initial phase focuses on building organisational commitment and establishing the business case for change. Key activities include conducting a diagnostic of current costing methodologies to identify gaps and limitations, securing leadership buy-in, and identifying a suitable pilot project where the framework can be applied and its benefits clearly demonstrated.

Phase 2: Pilot Implementation and Capability Building (3-6 Months)

During this phase, the CAPITAL Framework is applied to the selected pilot project. This involves comprehensive data gathering, the development of predictive cost and performance models, and rigorous risk assessment. A core objective of this phase is to build internal capabilities by training a cross-functional team in the principles and application of lifecycle cost analysis.

Phase 3: Framework Refinement and Organisational Rollout (6-12 Months)

Leveraging the lessons learned from the pilot project, the framework is refined and tailored to the specific needs and context of the organisation. A comprehensive change management program is initiated to support the

broader rollout of the framework across all relevant business units. This includes developing new standards, processes, and tools to embed whole-of-life value principles into the organisation's DNA.

1.7 Section 6: Addressing Common Concerns

Transitioning to a new investment framework naturally raises questions and concerns. The following section addresses some of the most common objections to adopting a lifecycle cost analysis approach.

"This seems too complex and data-intensive for our organisation."

While the CAPITAL Framework is analytically rigorous, its implementation can be scaled to match an organisation's current capabilities. The phased approach allows for a gradual build-up of data and expertise, starting with a manageable pilot project. Furthermore, the long-term benefits of more accurate forecasting and improved decision-making far outweigh the initial investment in data collection and analysis.

"Our procurement rules require us to select the lowest initial bid."

This is a common institutional barrier that requires proactive engagement with policymakers and regulatory bodies. The evidence from the CAPITAL Framework and other lifecycle cost analysis studies provides a powerful case for procurement reform. By demonstrating that the lowest upfront cost often leads to higher total costs and poorer outcomes, asset owners can advocate for more flexible, value-based procurement models.

"The future is too uncertain to accurately predict long-term costs."

The CAPITAL Framework is explicitly designed to manage uncertainty. It does not claim to predict the future with perfect accuracy. Instead, it uses probabilistic modelling and scenario analysis to understand the range of potential future costs and performance outcomes. This risk-informed approach enables the development of more resilient and adaptable strategies that can better withstand future shocks and changing conditions.

1.8 Conclusion

The traditional approach to infrastructure cost analysis, with its deeply ingrained focus on upfront expenditure, is fundamentally broken. It has created a legacy of budget overruns, underperforming assets, and a systemic failure to deliver long-term value for money. The evidence is clear: a paradigm shift is required. The CAPITAL Framework offers a proven and practical pathway for this transformation, moving beyond the short-term allure of the lowest bid to embrace a more holistic, performance-based, and risk-informed approach to infrastructure investment.

By understanding and optimising the total cost of ownership, organisations can unlock significant financial savings, enhance asset performance, and deliver more resilient and sustainable infrastructure. The implementation of a whole-of-life value framework requires commitment, capability development, and a willingness to challenge the status quo. However, for infrastructure owners, operators, and service providers, the imperative for change is undeniable. The future of our infrastructure depends on making smarter, more strategic decisions today.

1.9 Key Takeaways

- ✓ The traditional focus on upfront costs is a major contributor to budget overruns and underperforming assets in the infrastructure sector.
- ✓ A more holistic approach to lifecycle cost analysis is needed, one that integrates predictive cost modelling, performance trajectory analysis, and risk assessment.
- ✓ The CAPITAL Framework provides a proven methodology for achieving this, delivering significant cost savings and performance improvements.
- ✓ By adopting a whole-of-life approach to infrastructure investment, we can create a more sustainable and prosperous future for all.
- ✓ Case study evidence shows that lifecycle cost reductions of 25-35% and asset performance improvements of 40% are achievable.

✓ The transition to a value-based framework is a strategic imperative for all infrastructure stakeholders.

1.10 References

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1.11 Further Reading

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1.12 About CBS Group

CBS Group is a premier infrastructure advisory firm revolutionising value creation in asset-intensive industries. We partner with government agencies and private sector clients to deploy innovative technical solutions that deliver measurable performance and financial outcomes. Our mission is to improve our client's asset performance for less money over the whole of life.

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