

UK Project Management Round Up



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INTRODUCTION

Here in UK, we are enjoying an unusually mild autumn. Despite a severe storm as the month closed, the rain has largely held off and temperatures are still very pleasant, at least here in the South although there has been a lot of wind and rain in the last few days. Scotland and Northern England have not fared quite so well and the first serious snow of the winter fell at the end of the month. In the Project World, the 'weather' is similar – mainly good but the odd storm, some quite severe. On the stormy front, High Speed 2 (HS2) rumbles on in the Press as well as Parliament. The whole infrastructure debate has taken a worryingly political turn too so there is quite a lot of rain on some project parades. On the sunny side, there are encouraging signs in the power industry, especially in New Nuclear programmes and some project successes to report.

RUMBLINGS FROM THE RAIL INDUSTRY

For a change, the rail project news is not all about High Speed 2, although there have been developments on that front. The major news concerns Network Rail's funding allocation. The Government funds Network Rail through the Office of the Rail Regulator (ORR) via a 5 year financial plan called a Control Period (CP). The latest issue is CP5.

The process employed to determine funding is somewhat arcane to an outsider but the Government sets out its requirements the High Level Output Specification (HLOS). The current HLOS was published in the summer of 2012, and detailed what the Government wanted the rail industry to deliver in Control Period 5, 2014-2019. Network Rail responds by working out its Strategic Business Plans which it issued in January 2013. In its Strategic Business Plan, Network asked for £37.5bn to fund its operation, maintenance and enhancement (net of property and other income) for CP5. In the Draft Determination the ORR assumed a total of £35.0bn, a cut of around £2.4 Billion. In the Final Determination this has increased to £35.5bn so a compromise has been reached with Network Rail receiving an increase as a result of its proposals in reaction to the original determination.



Photo courtesy *Daily Mirror*

Details of the full allocation can be found at <http://www.rail-reg.gov.uk> but the headlines include the closure of around 500 level crossings and safety improved at hundreds more as funding for level crossings was increased by £32m to a total of £109m. Nine people died on level crossings last year, more than double the year before. This sum is included in the £12bn allocated for "major enhancement projects", such as lengthening platforms and electrification.

Network Rail's proposals in its Strategic Business Plan have been scrutinized by ORR a URS / Nichols / Turner & Townsend Review Team to 'check whether Network Rail's Strategic Business Plan (SBP) submission for CP5 enhancement portfolio is robust and represents an efficient cost'. The review investigated 67 enhancement projects valued at some £7.2 Billion and concluded that:

- For the £1.9bn of Blue and Red projects it is not robust, given uncertain outputs, scope and costs
- For £5.3bn of Green and Amber projects an efficient cost of £4.7bn was proposed.

High Speed 2 (HS2) also featured in the Nation's media with the issue of a new Business Case causing serious debate at various levels. At the top level (or bottom depending on your perspective of our Leaders), the Labour party threatened to withdraw support for the programme it created. Others were quick to pounce on the apparent reduction in benefit that has eroded the cost/benefit ratio from £2.50 to £2.30 per £1 spent.

The reduction in the ratio seems to have been much less than many expected as one of the major assumptions had been challenged. It had been thought that most people are unable to work on board long distance trains but anyone who has made a trip of more than an hour on a train will know that many people do in fact get quite a lot done despite the crowding and uncertain internet connection. However, the drop in benefit is mainly due to a £10bn rise in the scheme's projected £42.6bn cost, added earlier this year.

There have been other challenges, too. Opponents of HS2 have urged a panel of 7 justices to quash the Government's decision to proceed, claiming that:

- A proper environmental assessment had not been carried out:
- Current plans are in breach of EU law.

According to reports in the press, 10 councils are opposed to HS2 and in cooperation with the Action Alliance protest group, brought the case after the Court of Appeal rejected an earlier claim. Opponents want the project put on hold to allow for a full investigation of the environmental impact and also to investigate alternative routes. It is

estimated these actions would take up to a year to complete and would create considerable uncertainty in the run up to the 2015 General Election. The Supreme Court judgment has been reserved and no decision is expected until the end of the November at the earliest.

There is a range of other arguments ranged against the programme:

- Overestimation of benefits;
- Underestimation of benefits;
- Loss of income to other parts of UK (Apparently highlighted in a KPMG report last year);
- Lack of business support (the Institute of Directors claims only 27% of its members support the concept while the Confederation of British Industry is firmly in favour).

UK POWER PROJECTS

After more than a year of discussion, horse trading and alliance building, it seems that funding for the new nuclear reactor at Hinkley Point has been approved. This will be the first nuclear station to be built in a generation and is currently estimated to cost around £16 Bn to develop. Once completed the new plant is expected to contribute around 7% of the country's energy supply.



Artist's Impression of Hinkley C Nuclear Plant. Hayes Davidson.

According to reports, the government has agreed a "strike price" of £92.50 for every megawatt hour. Critics have claimed this price is almost twice the current wholesale cost of electricity. However, Energy Secretary **Ed Davey** has stated that the rate represents only a return on investment of between 5 – 7% which is seen as a reasonable offer by both sides.

The "strike price" will fall to £89.50 per megawatt hour of energy if EDF Group goes ahead with plans to develop a new nuclear power station at Sizewell in Suffolk. Doing both would allow EDF to share costs across both projects.

The new plant is to be developed by EDF, the French energy company EDF supported by Chinese companies China National Nuclear Corporation and China General Nuclear Power Corporation will be minority shareholders in the project.

Critics have attacked the plans, claiming that households could end up paying over the odds but according to **Doug Parr**, Greenpeace's chief scientist:

"In terms of the per-megawatt hour price - which is what people are talking about today - the solar industry is asking for less than what the nuclear industry's getting."

"They will be producing power cheaper than nuclear by the time Hinkley comes on stream. So we don't think this represents good value for money when we're locking in those price levels for 35 years."

EDF has been planning the new reactor project for several years and the development is expected to take at least 10 years so we can expect the opposition to mount their challenges over a long period of time. Politically, there is not much alternative to new nuclear as the so-called green energy options remain stubbornly expensive and many claim are more inefficient and thus more expensive than conventional generation. The need to increase generation capacity as coal power stations close, prices rise and the need to cut greenhouse gas emissions present a difficult balancing act for planners and Government.

NO LIFT OFF FOR AIRPORTS

There seems to be a concerted effort to challenge any new infrastructure project. Airports have long been contentious and successive Governments have tried to expand various airports around London for at least 20 years. The latest effort to find solutions to the lack of capacity at UK airports, and Heathrow in particular, is the Airports Commission, led by Sir Howard Davies. The Commission is charged with drawing up shortlist of options for expanding runway capacity at existing airports in the south east of England.

The timetable is to draw up a preliminary report for the Government by the end of this year while final recommendations will be made shortly after the General Election in 2015. However the action group Stop Stansted Expansion (SSE) began proceedings in the High Court to force the Commission to restart the process. Citing potential bias, SSE has launched a Judicial Review. The original composition of the Commission included **Geoff Muirhead**, the former CEO of Manchester Airports Group (MAG) which acquired Stansted in February this year. Mr Muirhead resigned from the Commission on 19 October and so cannot contribute to the report although he spent a year working on the preliminary report. He was the only panel member with direct hands on experience of the aviation industry.

PROJECT FINANCES

Continuing on the stormy front, the Office of Fair Trading (OFT) has launched an investigation into public sector IT procurement. Apparently only a small number of major suppliers are winning the bulk of the £13.8 Bn spent annually on technology projects.

According to Government figures, 51% of public sector IT contracts goes to 8 firms. Hewlett Packard and British Telecom are the front runners with 15% and 13% of the deals by price with Fujitsu and Capgemini at 6% each, ATOS with 6% and IBM, Dell and Capita at 4% each. According to reports in *The Times*, outsourced contracts have attracted increased scrutiny since fraud allegations were raised against Serco and G4S. Smaller IT companies have raised concerns of barriers to entry to the lucrative public sector market.

The OFT is due to report in Spring 2014. In the event of an adverse report, the matter may be referred to the Competition Commission.



Observers of the financial world will have noted that the 9th World Islamic Economic Conference was held in London's Excel arena at the end of last month. While most of us would recognise London as a leading financial and cultural centre but the reason the Conference chose London was because they recognised it as one of the business gateway between the Muslim and non-Muslim world.

The Conference caused quite a stir, and not just in the somewhat esoteric world of Islamic finance. Prime Minister **David Cameron** announced that the UK Government would soon be able to sell debt bonds that comply with the rules of Sharia. Apparently, the Treasury is working on plans to sell an Islamic bond worth £200 million. Sharia principles forbid interest charges and encourage joint development for social purposes. In order to avoid interest charges, the Treasury might sell a certificate that could then be rented back for an annual fee and a promise to redeem the investment at the end of the period.

The PM said that he wanted to show Muslim investors that UK is open for business. As the world's Sharia investment funds are valued at about £1.3 trillion, this pitch would add to London's stature as one of the leading investment arenas. Major infrastructure investment opportunities exist in the rail and power industries as well as more commercial schemes such as dockland developments such as the newly launched Asian Business Port in the Royal Docks Development Area, funded by Beijing based consortium.



Photo: PwC

The conference theme, *Changing World, New Relationship*, "encapsulates the emergence of new economic linkages between nations across borders, religions and cultures in a fast changing world" according to the WIEF website. This conference is the first to be held in a non-Muslim country and was attended by 7 heads of state and 1800 delegates from some 115 countries.

The importance of the sector is reflected by the launch of the London Stock Exchange's a new Islamic Index as the Sharia equivalent of the FTSE 100. According to Mohammad Faiz Azmi, (left) PwC Malaysia Executive Chairman, the sale of a UK Government Islamic bond shows that the UK is open for Islamic Business. Mr Azmi is concerned that unless the Treasury act quickly, it may be too late and stated that a major financial centre accepting Sharia compliant instruments, it will be difficult for markets to price products.

Sharia compliant finance is well established in UK with several Banks offering compliant loans for house purchase based on the "diminishing partnership" principle where the bank buys the property at a negotiated price and then sells it back over time at a higher price.

Speaking at the Conference, **Zeti Akhtar Aziz** (right) Governor of the Malaysian central bank, noted that “*to be Sharia compliant, there has to be a link to fundamental economic activity*”. Readers may recall that it is Malaysian investors who are behind the redevelopment of Battersea Power Station. Not so widely known is the fact that Tesco and Shell have been issuing ‘sukuk’ (Islamic bonds) out of Kuala Lumpur for several years.



Photo: Bloomberg

SPACE PROJECTS

Moving firmly into the sunny region, a recent report highlighted how a comparatively small town in the Home Counties has become a hot bed of development in Britain’s space industry. There are a number of space related projects progressing in UK:

- Skynet – a £3.6 billion development that provides communications links for British forces;
- UK – DMC 2 provides satellite images to assist in disaster relief operations as part of the Disaster Monitoring Constellation;
- STRaND – 1 or Surrey Training Research and Nano-satellite Demonstrator, an Android based phone camera that runs a number of apps to collect scientific data and take photos of the Earth before sending the data back to the ground station;
- Development of a Mars rover for the Russian mission in 2018 to explore under soil conditions for signs of life;
- Plans for a manned Mars expedition aboard a space vehicle that could generate its own gravity.
- Bepi Colombo spacecraft development for European Space Agency (ESA) investigation of Mercury.

In addition to Stevenage, Partsmouth on the South Coast is home to EADS Atrium, UK’s leading space manufacturing business. According to a report by the House of Commons Science and Technology Committee, *space technology provides the basis for much of modern life, with services supporting communications, environmental monitoring, navigation and security. The UK space sector contributes £9.1 billion a year to the UK economy and directly employs 28, 900 people. It is also one of the UK economy’s fastest growing sectors, with an average growth rate of almost 7.5%. The sector has the potential to be a great success story for the UK economy, with ambitions to increase its annual turnover from to £40 billion by 2030.* So it is not surprising that the UK Space Agency is taking a keen interest in the progress of these projects.

AFTERTHOUGHTS



I found news of a sporting project in the business section of my daily newspaper. This is quite a surprise as I would have expected to see this kind of thing in the back pages. As can be seen from the image left (courtesy Daily Mirror) the home of world cricket is situated in the middle of London, in a very up-market area and occupies a lot of very valuable real estate. Lord's is the home of the Marylebone Cricket Club (MCC) as well as Middlesex

Cricket Club and the European Cricket Council and the England and Wales Cricket Board.

Currently the ground can seat about 32,000 spectators and has training facilities and quite a lot of under used space. MCC has been contemplating how to redevelop the ground, particularly how to increase spectator capacity. After much acrimonious discussion, plans developed under the previous Chief Executive, Keith Bradshaw were effectively kicked into the long grass as the Committee was unwilling to take the bold steps his Vision for Lord's required. The £400 million redevelopment of the ground included adding 10,000 to the spectator capacity but also added large scale development of apartments at the famous Nursery End. **Sir John Major**, the ex Prime Minister and well known cricket lover, resigned when the Committee rejected this plan.

Bradshaw also resigned and a new CEO, Derek Brewer, appointed. A banker by trade, Brewer had been responsible for the redevelopment of the Nottinghamshire ground during his chairmanship of the County Club. In the last few months, new plans have been prepared as the MCC try to draw a line under the acrimonious dispute between those who feel the Club should have accepted a £100 million by property developer Almacantar to build over the disused railway tunnels at the Nursery End. With several redeveloped grounds such as the SWALEC Stadium in Cardiff and the Rose Bowl in Southampton seeking to take the second Test match of the summer, traditionally played at Lord's, decisions are needed. The latest spat, with lawyers advising that the Committee recommendation to vote against a motion to hold an inquiry into the Vision plan which has already cost MCC some £3 million.

And finally, more good news – the launch of a new project. While not an earth shatteringly costly project or one that will change the course of society, it is an important one nonetheless. The Fleet Air Arm Museum at RNAS Yeovilton is proposing to rebuild a Fairey Barracuda. WW2 Aircraft buffs may recall the Fairey Barracuda – a carrier borne torpedo bomber – was the first of its type used by the Royal Navy's Fleet Air Arm to be made entirely from metal.



Salvaged parts from Barracuda DP872. Photo courtesy Western

Enthusiasts will also know that at present, there is no known example of this aircraft in existence. After a 45 year gestation period, the Fleet Air Arm Museum at Yeovil is planning to reconstruct a Barracuda from parts gathered from crash sites since 1971. Many parts came from Barracuda DP872.

Chief engineer Dave Morris said that "some restoration work on the nose section was started in the 1990s. However, the enormity of the task coupled with lack of funds meant no further significant progress was made until now."

Much of the airframe restoration will be carried out by Kiltech Vehicle Protection Ltd who carried out similar work on the reconstruction of Sir Donald Campbell's Bluebird. Mr Morris said the team was "beginning to come to the end of the [Bluebird] project" and had begun rebuilding a "test piece of the tail" of the plane. It's showing signs of shaping back into an identifiable Barracuda tail," he said. "On the strength of that, we've gone with them and hope over five to seven years to see much of the Barracuda restored." Each piece the aircraft will undergo a process involving softening, straightening, stretching and reforming at the Newcastle company's workshop.

CONCLUSIONS

Overall, the autumn is proving to be milder than expected and while we are not enjoying an extraordinary Indian Summer, we should be thankful that in UK at least, the project world is pulling the rest of the economy slowly out of the economic meltdown. The news this month indicates that we need to continue to develop ways of managing our stakeholders as well as getting firm requirements agreed with clients. So negotiation skills and other soft skills are still the most significant aspects of the Project Manager's armoury.

About the Author



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