UK Project Management Round Up

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INTRODUCTION

The past month has been interesting for observers of the Project World. First, the National Audit Office (NAO) released its comments on the Major Projects Agency (MPA) first Annual Report; then came the opening of Heathrow's rebuilt Terminal 2 and as we close for publication, HM The Queen is due to name the first Royal Navy's new aircraft carrier. As this was not enough to capture the project eye, we had the low key launch of a 'new look' Private Finance Initiative. All the old favourites resurface, too, so you will find the latest on energy projects and a brief mention of celebrations of success in the project world.

GOVERNMENT PROJECTS

The main focus for the Government recently has been the elimination of nasty surprises on the successful delivery of its 'projects'. This has manifested itself in the adoption of some basic portfolio management actions, of which the reporting of a range of project data by Departments is a major part. The Major Projects Authority (MPA) consolidates data provided by Departments into its annual report which is available not only to Government but is also to key stakeholders – the taxpayer. Another key component is the reviews of MPA reports by the NAO. This review provides direct advice to MPA and also provides a key input to the formal scrutiny of infrastructure projects by the Public Accounts Committee (PAC) of the House of Commons.

The latest MPA Report covers the period from June to September 2013. While this may seem to be a much delayed report, but the sheer size and range of the projects reported coupled with the need to take 'fiscal drag' mean that some time is needed for the analysis. The good news is that the report shows that NAO advice following the first report has been acted upon and much more analysis of data has been included so that the amount of undisclosed data has been reduced by nearly a third. This follows the issue of revised guidance which has improved the quality of the data published by departments.

Inevitably, there is also some bad news, or at least, not so good news. The overall performance reported shows a deterioration in 'deliverability'. There are many more value of amber-red rated projects, and more worryingly, the value of these projects has increased. At the same time, the number green rated projects have fallen. This is partly attributed to a change in the make-up of the portfolio; 39 mature projects have left the Portfolio while 47 new projects have joined. The NAO report notes that, the rating of ongoing projects declined slightly, with 27 projects receiving an improved delivery confidence rating and 32 receiving a lower confidence rating.

Interestingly, one of the NAO recommendations on the first report was to include data on money spent to date for each project. The MPA response to this was that this would require changes to the transparency policy agreed at ministerial level. This policy specifies which datasets departments are expected to provide and MPA considered it could not change this without Cabinet approval. For most Portfolio Managers, and all project managers, spend to date is a critical element in project monitoring and key to decisions on the controls that can be applied. PMWJ will report any changes to policy as they occur! The full NAO report is available on line at http://www.nao.org.uk/report/major-projects-authority-annual-report-2013-14/.

PRIVATE FINANCE INITIATIVE

Over the years since its introduction during the regime of John Major, the Private Finance Initiative (PFI) has attracted much criticism. PFI became a method of choice under the late lamented premiership of Tony Blair but had been highly criticised in the last days of the Labour period in office. It came as no surprise that the Coalition sought to replace PFI with something that would reduce what the public saw as routine fleecing via over-generous financial returns while leaving the majority of the risk to the public sector.

Under the aegis of the Chancellor of the Exchequer, George Osborne, the Treasury have been working on what has become known as Private Finance 2 (PF2). In a Budget Statement in December 2012, Mr Osborne announced the new regime would involve the public sector taking stakes of up to 49% in individual private finance projects (20% stakes are likely to be typical) and appointing a director to the board of each project.

Other changes are the requirement to publish annual financial performance every with the Treasury publishing a running total of taxpayers' cumulative private finance liabilities. Similarly, there are attempts to speed up the notoriously slow the procurement process. Some project contracts have taken as long as five years to sign. An 18-month deadline has been set after which public sector money allocated to the project would be reallocated. Contracts under PF2 are also supposed to be smaller, simpler and involve less debt finance.

The House of Commons Treasury Select Committee reported this month on progress and likely effectiveness. The headline conclusions are that the incentives for Government to use PFI in any form remain (the public debt remains off the National Balance Sheet) and the 'improvements' seem unlikely to remove the

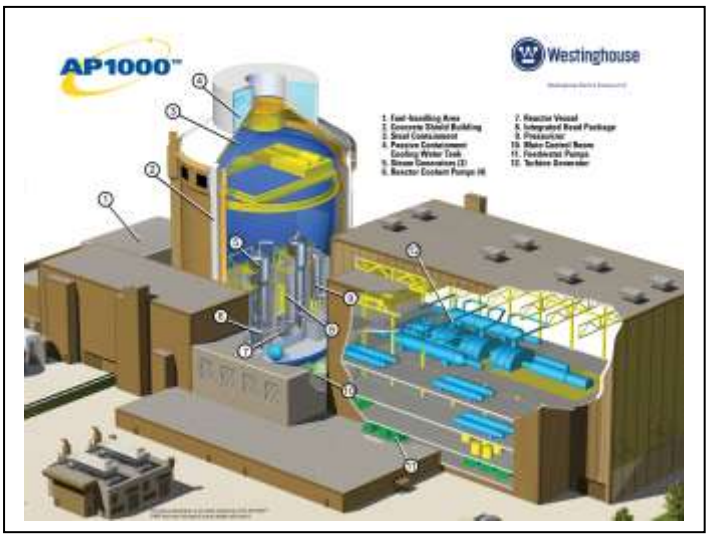
'disproportionate incentives to harness private sector expertise'. One of the worrying, if understandable, issues is that the Treasury have not so far been able to issue tools for assessing 'value for money' for projects. Members of Parliament claim that projects are being approved without adequate scrutiny as a result. 'The inappropriate incentives…have been costly to the public'. The full report is at http://www.publications.parliament.uk/pa/cm201314/cmselect/cmtreasy/97/9707.htm.

ENERGY

This seems to be mixed news month as the reports about the future of British energy supplies are the traditional Curate's Egg – some good parts and some bad parts. On the one hand, we are told that there are real threats to the ability of the power generators to meet expected demand as soon as the winter of next year. Ofgem, the energy regulator, warned that emergency action might be needed to avert potential blackouts. This could take the form of the National Grid reducing the voltage during very cold spells should Britain experience a cold snap at the same time that one hits Europe, thus reducing the import of electricity.

Not 3 days later, we are told that £billion in subsidies have been wasted because the National Grid has exaggerated the risk of blackouts. Recently, retainer payments have been made to keep some power stations due for closure in reserve to generate any shortfall. There are many criticisms of this scheme, not least the time needed to bring reserve stations on line in emergency conditions. The contracts are scheduled to kick in from 2018 and to last for 15 years. The cost to the public of the stand-by scheme is estimated at £13 per household annually.

There is, however, some better news on the energy horizon. NuGen, the consortium planning to build new power stations near Sellafield, has announced that they should begin generating by 2024. This will not be good news to those who claim the blackout threat to exaggerated as this is just a further indication that the stand-by scheme is wasteful.



NuGen, formed by Toshiba and GDF Suez of France, expect the programme to cost some £10 billion and to create about 21,000 new jobs in an area badly needs fresh employment opportunities as the main nuclear site at Sellafield is decommissioned. The new plant, based on Westinghouse's AP1000 PWR reactors is planned to produce 7% of the UK energy needs.

Interestingly, the Westinghouse technology was developed using British taxpayer money while the company was part of the British nuclear industry.

Westinghouse plan to use the Springfields facility, near Preston, to manufacture fuel for the plant.

The new Moorside complex, adjoining Selafield, is planned to have a capacity of around 3.4 gigwatts. Under current plans, it should be on line in about 10 years, several years before EDF's Hinkley Point C new reactor which has been mired in an EU inquiry into subsidy payments. The investment decision on Moorside is due to be taken in 2018.

Still on the energy topic, solar power has had a boost this month with the number of large solar farms set to double in an effort to beat the government's withdrawal of subsidies in April 2015. Currently there are 194 solar farms of 10 acres or more; 39 more are under construction and, according to a report by PricewaterhouseCoopers, another 156 approved with 120 more in the planning system. Under current guarantees, land owners can make £1000 an acre per year for 25 years. The current crop of solar farms receive £101 million annually and this is set to rise to £254 million once those with planning permission are built.

Chediston Hall Solar Farm (12.3 megawatts) courtesy Lightsource Renewable Energy Ltd

Solar farms have generated considerable opposition amongst countryside populations and despite the Government's aim to reduce the incidence of farms such as the 70 acre Chedistone Hall. Another blow to Coalition policy was the recent High Court quashing of the Communities Secretary's rejection of a 100,000 panel farm at Ellough, Suffolk.

PROJECT SUCCESSES

This seems to be the time of the year when the Project World pats itself on the back – and we don't do so, no one will. First, entries have closed on the Association for Project Management's Awards. This event is the highlight of the year for many project based companies as well as individual project managers and students. The

first round of judging will be completed in late July and awards made at the prestigious ceremony in November.

The Royal Institute of British Architects (RIBA) has announced the winners of their annual awards. Covering a number of categories, King's Cross Station in London and the new Birmingham City Library were listed among the winners;

Photo courtesy Guardian Newspapers

Photo Courtesy Birmingham Library

Other British designs in the news include the Phoenix Towers which look set to come in as the world's tallest buildings at 1 kilometer in height. The buildings have been designed by London based architects Chetwoods, the buildings are to be constructed at Wuhan in central China. The commission comes from HuaYan Group. The buildings will occupy some 7 hectares and will be set in a 47 hectare site. Overall, the project is costed at £1.2 billion. No start date has been decided as the project is awaiting approval from the Mayor of Wuhan.

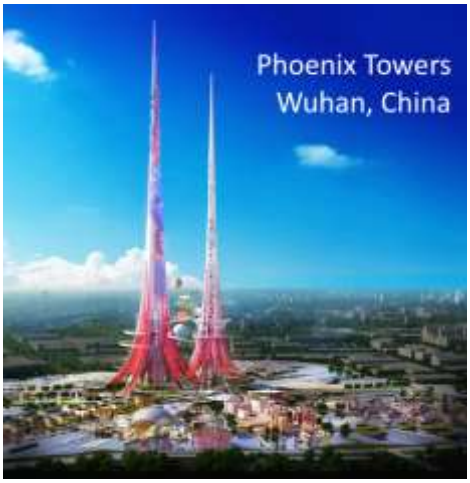


Photo courtesy Chetwoods

Not all British designs have attracted such approval. After her successes at the London Olympics, Zaha Hadid might have expected a better response in Tokyo where her design for the new National Stadium and set to be the centerpiece of the 2020 Olympics. However, her design has been likened to the spaceship of the Extraterrestrial, a misplaced ocean liner or a giant cycling helmet.

Opposition comes from such eminent and pioneering architects as Fumihiko Maki, a past winner of the Pritzer Prize – as indeed Hadid is. According to reports in the Times Mr Maki claims that the scope and intensity of growing criticism against the project are unparalleled in the history of architecture in Japan. So far, some 30,000 people, including Toyo Ito, another Pritzer Prize winner, have signed a petition of objection. Criticisms centre around the aesthetics and costs. For many, the design is not objectionable but its setting in the some of the very limited green space in central

Tokyo. Others object on cost terms – build cost is expected to come in at ¥169 billion, double the cost of the London Stadium despite being down from the original estimate of ¥300 billion; running costs are expected to be around ¥4.6 billion but much of that could be recouped from other uses such as concerts and commercial sporting events. Hard to see that many events will be able to fill the 80,000 seats

Photo:www.Faha-hadid.com

TERMINAL 2 OPENED

London Heathrow opened its latest Terminal last month with a low key day on which only one airline operated a small number of flights. The old Terminal 2 was opened in 1955 and closed in 2009.

The new Terminal 2, which came in at £2.5 billion, is the culmination of the £11 billion programme to modernise Heathrow. John Holland-Kaye, Heathrow development director said: "The new T2 has been designed around the needs of our passengers, to allow them to get to and from their flights as quickly as possible."

Readers may recall the problematic launch of Terminal 5 back in 2008 when a series of problems resulted in chaos in the baggage handling system and made a severe dent in the reputation of Heathrow. Two British Airways Directors resigned as a result. In sharp contrast, T2 had a 'soft launch' with only one airline and 34 flights using the new building. United Airlines passengers were greeted by staff in Beefeater costumes. There were 178 passengers and 11 crew on the first flight, a Boeing 767. Holland-Kaye stated "Our measure of success is not everything running perfectly on day one; there will inevitably be things we can improve. Our real measure of success is whether T2 comes to be rated by passengers as one of the world's best airport terminals for years to come." Heathrow's new terminal was

opened to passengers on 4 June, but the building will open in phases over six months.

The UK and Ireland sales director for United Airlines Bob Schumacher said: "We're extremely proud to be the first airline to operate from T2. Heathrow is one of the most important airports in United's global network, and T2 represents a huge improvement in the service and facilities we are able to provide to all our customers."

T2 operated at 10% of capacity on the first day with only 3000 passengers passing through the new terminal which has 60 check-in gates and 66 self-check-in kiosks, 29 security lanes, 33 shops and 17 restaurants. It will be some months before the other 25 airlines, mainly Star Alliance group currently using Terminals 1, 3 and 4 join United Airlines at the new building.

T2 will be known as The Queens Building and appropriately, was opened by HM The Queen, accompanied by the Duke of Edinburgh later in the month. She had also opened the original Terminal 2. Fittingly, Her Majesty used the Terminal to depart on a formal visit to Northern Ireland.

About the Author

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Miles Shepherd is an executive editorial advisor and international correspondent for PM World in the United Kingdom. He is also managing director for MS Projects Ltd, a consulting company supporting various UK and overseas Government agencies, nuclear industry organisations and other businesses. Miles has over 30 years' experience on a variety of projects in UK, Eastern Europe and Russia. His PM experience includes defence, major IT projects, decommissioning of nuclear reactors, nuclear security, rail and business projects for the UK Government and EU. Past Chair and Fellow of the Association for Project Management (APM), Miles is also past president and chair of the International Project Management Association (IPMA). He is currently Director of PMI's Global Accreditation Centre and the Chair of the ISO committee developing new international standards for Project Management and for Program/Portfolio Management. He was involved in setting up APM's team developing guidelines for project management oversight and governance. Miles is based in Salisbury, England and can be contacted at miles.shepherd@msp-ltd.co.uk.