

UK Project Management Round Up



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INTRODUCTION

As the summer draws to a close, I thought there would be little to report but I had reckoned without the politicians. They seem happy to comment on other people's projects via the Public Accounts Committee but there is little about their own project at Westminster. Politics spill over into regional debate and clearly the state of the Union is a major topic in terms of politics, economics and the history of the United Kingdom. Another continuing topic is the failure of process and projects and some well-known examples have been on the inside pages this past month. Finally, there is news of some major takeover battles. So all in all, another busy month in the project world.

CRITICISM

The first area of criticism lies in the construction area. There has been a recent report claiming that the construction industry output is down for the second quarter of the financial year. How accurate this is may be questioned but performance in May was recorded as having fallen by 1.1% after a 1.2% increase in April. Set against that, the year to date is up by 3.5% - BUT this is the slowest rate of increase for 6 months! This needs to be put in context as the sector only accounts for 6% of the UK economy but has been seen as an important driver of growth, reflecting Government incentives. This drop is in line with other disappointing numbers which saw factory output dropping while the trade deficit grew.

Further criticism was heaped on the failed eBorders project, yet another costly but flawed procurement project. This time, it is not the Public Accounts Committee climbing on the band wagon to beat up project managers, but the Home Affairs Committee. Readers with a long memory may recall that the project involved a US defence contractor who were contracted to provide a secure borders programme (I know and you know, it was actually a project but the politicians and the press don't know the difference between the two). The previous Administration initiated the deal in 2007 and the current bunch binned it in 2010 claiming that Raytheon failing to deliver (according to the Borders Agency). This cost the Government £224 million

and to add insult to injury, arbitration added another £50 million. The arbitration did not consider the delivery aspect but said that the Borders Agency had not briefed the Home Secretary properly on whether the contractors had an arguable case to continue work. According to the Chair of the Commons Home Affairs Committee, Keith Vas MP, Raytheon claimed that the UKBA had not given them any benchmarks against which they were to perform. Mr Vas went on to claim that the UKBA did not know what they wanted from the programme. Interestingly, Mr Vas' colleague the Shadow Home Office Minister, claimed that the Prime Minister's judgment was faulty – I wonder what his views of the approval process his own government used to set up the project in the first place?



There is, however, some brighter news on the construction front as the demolition of one the towers at Battersea Power Station began recently (see photo, left). All four towers are heavily contaminated by coal smoke born sulphur and are due to be replaced with fiberglass replica as part of the deal that English Heritage and Wandsworth Council made with Malaysian developers. This first demolition will be

followed by a partial rebuild before work begins on the three other chimneys.

But to get back to the criticism angle, the next item in the firing line is the plan to upgrade Network Rail's crumbling infrastructure. This plan, approved by the Office of the Rail Regulator, covers the next 5 years and includes major upgrades to the West Coast Mainline by its electrification. There is a raft of safety improvements including extensive upgrading of level crossings and bridge improvements.



Recent reports claim that the cost of the electrification alone has risen from £1 billion to £1.5 billion and this only covers the route from London to Cardiff. Network Rail stated that some of the projects were at a very early stage in their development when the budget setting took

place. The Rail Regulator devised a mechanism to revisit the business cases for what are seen as crucial projects. The whole investment package comes in at £38 Billion over the 5 year period. This aspect of major investment is a tricky one for both the Government and the Rail Industry and so it seems inevitable that some projects will be cut back to allow the set pieces to go ahead. While this is not primarily about project management, it is important to see the strategic aspects of major projects. This emphasizes the role of the Executive Sponsor and Board of Directors.

With this financial chasm opening up under Network Rail, it is not surprising that Government interest is focused on the sector. In fact, now that the rail debt is being accounted for on the Government's borrowing book rather than on its own, the basic accounting rules will also change. Linked to this is a major change in governance with the Government taking on a stronger role. Some newspapers have called this a 'sweeping package of reforms'; it is more a case that accountabilities have needed strengthening. Under these plans the Transport Secretary will become directly involved in executive pay and bonuses and will also be able to appoint a 'special member' to directly represent the Secretary.

Finally, the bad news: Drax, the largest power station in UK, has lost a key battle over biomass subsidies. You will remember that Drax converted 2 of its boilers to use biomass and had constructed special trains to transport the wood pellets from the docks. The Government promptly withdrew the subsidy for the third unit claiming that Drax had not met all the eligibility criteria, which caused Drax to sue. All seemed well when the High Court ruled in Drax' favour but the Court of Appeal overturned this decision in an unexpected judgment recently. With the winter drawing in (summer officially ends on 31 August), we all anxiously await further developments.

MIXED NEWS DEPARTMENT

While not all news is bad, the remainder is not all good. Some observers believe that take-over bids can be regarded as projects. I'm not so sure but Mergers and Acquisitions (M&A) seem to be attracting the nation's interest in the Silly Season.

First off on the M&A scene is the predatory bid by Nippon Koei for Hyder Consulting. It had been expected that Hyder, a well-known British design and engineering consultancy, would go to Arcadis, the Netherlands based group. Hyder has major projects such as the Burj Kalifa Tower in Dubai and bridge work in London on Tower Bridge and in Sydney on the Harbour Bridge. The news is definitely bad for Nippon Koei as they have been warned by one of Japan's major ratings agencies that they would face a 'heavy financial burden' if their £268 million bid succeeds.

Also on the mixed news front is the M&A activity in the construction sector where Carillon has been trying to merge with Balfour-Beatty. Originally billed as a merger, matters quickly became more 'interesting' as Carillon demanded that the merger include Parsons-Brinkerhoff, Balfour's US based project management arm. Balfour needs the cash generated by the US sale to plug a big hole in its P&L account while

Carillon want the earning power and diversification that Parsons-Brinkerhoff represent. There was a great deal of pressure on Balfour to resume talks as major shareholders eyed a weakening return on their investment while Carillon need something more appealing to their shareholders. A demonstration of the power of the stakeholder?

It seems that the merger has now been confined to the bin. Carillon feared job cuts with several thousands of British jobs facing the axe. They claim that they can find £175 million savings post-merger restructuring while adding £1.5 billion to its market valuation. Balfour challenged the Carillon claims and state these would result in up to two thirds of Balfour's UK construction being sold or closed. Pressure from stakeholders on both sides encouraged further speculation of a successful outcome (for whom is not entirely certain) but Balfour seem to have avoided the merger as Carillon withdrew its bid less than a day before final bids were due. We all await the outcome of Balfour's 'Plan B'.

GOOD NEWS DEPARTMENT

Yes, there is some good news. First we are told that British Small and Medium sized Enterprises have been awarded up to \$2 billion worth of weapons contracts. The large companies such as BAE Systems and Rolls Royce take the lion's share of the \$164 billion defence procurement budget but the SMEs account for at least 15% of the overall bill according to the Defence Procurement Minister. The Minister also claimed that two thirds of the payments were to SMEs as contractors while the rest was in subcontractor payment.

The summer brings all sorts of madness according to the ancient sages so that might account for the press reports that foreign tycoons are vying to invest in the new Super Sewer in London. This £4 billion project seems set to take advantage of the skills developed in the tunneling work done for Cross Rail and is the first major upgrade since Sir Joseph Bazalgette built the original London Sewer in the period 1859 – 1865.

Full details of the Thames Tideway Scheme or Super Sewer can be found here http://en.wikipedia.org/wiki/Thames_Tideway_Scheme but the project is ambitious. The tunnel is likely to be about 25 km long and will run mostly under the River Thames. Work is scheduled to start in 2015.

As if this is not enough, the Chinese want to invest in a new Nuclear Power Station to be built to the east of London. The new build is said to be based at the partially decommissioned Magnox site at Bradwell. China General Nuclear Power Corporation and China National Nuclear Corporation are already providing backing finance for EDF's Hinkley Point C plant. This reactor is the first new nuclear plant to be built in UK for nearly 20 years. The Chinese will have a 40% stake in the Hinkley Point reactor. The new build at Bradwell is seen by some observers as an attempt to be seen as an effective nuclear operator. This credibility is seen as essential if the Chinese are to build and run their own reactors in other countries.

CLOSING COMMENTS

So quite a lot has happened as the summer draws to a close. And I have not mentioned the new orders for BAE Systems, the political dimensions of the closure of the Naval Dock Yard at Portsmouth, which has been in continuous use by ship builders since the time of Henry VIII or the downside for projects in Scotland if they decide to go independent (think closing the Rosyth Nuclear Docks). Then there is the project work at the House of Commons which is only noticeable because the chimes of Big Ben are currently silent – the list goes on as does the Project World, with news good, bad and indifferent.

About the Author



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