

UK Project Management Round Up



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INTRODUCTION

It does not matter whether you live in the United Kingdom or elsewhere in the world, but it would be hard to miss the two projects that have dominated the news media as well as social conversations. This was demonstrated to me when I got to Anchorage, in Alaska. I hoped I was far enough away from UK to miss coverage of both but was doomed to disappointment.

Nevertheless, despite the tedium of what many would think excessive and intrusive press coverage, the birth of a daughter to the Duke and Duchess of Cambridge is a very happy event for them and the nation, and the conclusion of a project of sorts.

The other 'project' is the General Election. We are now obliged to hold these events every 5 years, under the current legislation. Gone are the days of tottering Governments, backroom deals struck between politicians and any one of various groups of power brokers such as the Unions, big business or minority parties. Nowadays, we just get poorly estimated legislation schedules, with Parliament twiddling its high priced thumbs for several months towards the end of the scheduled period. I was horrified to learn that CNN is running a series of special broadcasts to provide international visibility of the events to the wider world. As BBC, Sky and ITN are providing wall-to-wall coverage at home, it seems there is nowhere safe, not even at 25,000 feet over the coast of Canada as the airline I used even had internet connection and power sockets!

I'll come back to the Election shortly but this report will be looking at 4 main topics: power generation, election impacts, project problems and project opportunities.

POWER GENERATION

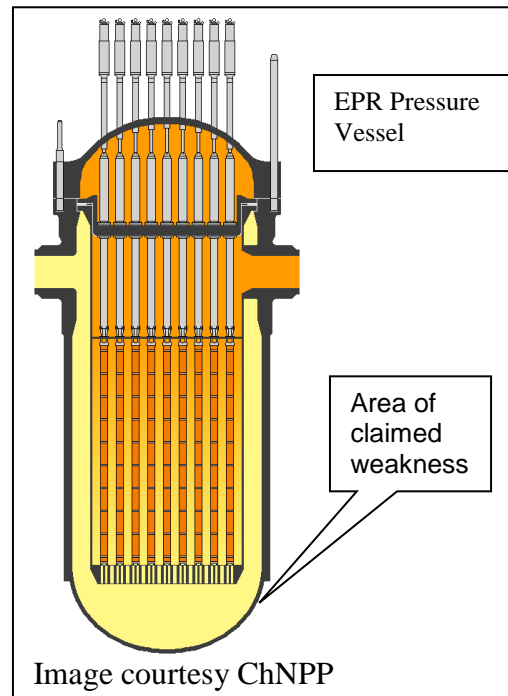
Ever a problem in UK, to say nothing of the rest of the world, providing adequate power at affordable prices does not get any easier. One of the main issues in UK is the closure of some 'smokey' coal fired power stations before the next generation of power producers is in place. Current plans in the short term rely on other forms of

fuel including bio mass and oil while those of an environmental turn of mind look to renewables such as wind, solar and wave generation to fill the gap before the longer term solutions emerge. These longer term plans rely on two key approaches: more efficient and less obtrusive renewables or nuclear. I will hold the renewables for another report but the problems of nuclear seem to be increasing on an almost daily basis.

Nuclear Projects

The latest blow comes not from the financing arrangements, though those look very poor, to say nothing of rash (it seems to me strategically unwise to place too much reliance on overseas buyers to come to our rescue) but from the French Nuclear Safety Authority. According to our French friends, the design may have weaknesses. According to press reports, the European Pressurised Reactor (EPR) under construction at Flammanville in northern France has shown a “serious anomaly”. Apparently the steel dome top and bottom of the pressure vessel (see right) appear weak and risk cracking.

This design is to be used in the new plant at Hinkley Point and is also at the heart of the plant under construction at Flammanville. There is also a plant under construction at Olikuoto in Finland. Both these plants have suffered extensive delays and major cost escalation. Neither is expected to come on line before 2018, Olikuoto was originally scheduled for completion and power delivery in 2009. The EPR was designed and developed mainly by Framatome (now Areva NP), Electricité de France (EDF) in France, and Siemens AG in Germany.



Delays at the two plants under construction have been attributed to poor productivity and quality issues with welds. In a report in May 2009, Prof Stephen Thomas of the University of Greenwich claimed that some 18 months after construction started, the project was more than 20% over budget and EDF was struggling to maintain the schedule. Last month, Prof Thomas challenged the validity of the Hinkley business case, claiming that the UK project was one in need of an exit strategy.

Two other plants are planned in China while additional plants are under consideration in France, India as well as UK. It seems that possible Ariva plants in Italy, USA, Abu Dhabi and Finland have all gone with other suppliers, citing unexpected cost escalation (USA) design issues (Finland) and changes in policy (Abu Dhabi and Italy).

UK Issues

Meanwhile, back in UK, the Office of Nuclear Regulation announced that its Chief Executive, **Hergen Hays** was leaving. This has come on the back of a warning from power generator EDF that they might have to lay off up to 400 staff at Hinkley Point. French company EDF and its Chinese partners at Hinkley Point have been holding very difficult talks with the UK Government over many weeks. These talks affect the guarantee of state support and Chinese demands to build its own reactor on British soil. According to the Sunday Times, the project is already 6 years behind schedule and cost has escalated to some £24 billion.

Mr Hays was not directly in these talks but has been responsible for attracting investors for the UK's New Nuclear programme. He was required to reapply for his post and press reports indicate that he was not successful. There is speculation that his replacement will be **Lee McDonough**, currently at the Department of Environment and Rural Affairs amid speculation that the essential skills and technical comprehension needed are simply not available.

North Sea Oil

Last month I reported that UK petrol and oil bills had been at a fairly low level as a result of the drop in the price of oil world-wide. I was perhaps a little over optimistic as petrol and diesel prices at the garage forecourt have crept back up to previous levels. Nonetheless, there are warnings that the global oil industry is in pretty poor shape. The latest from the International Monetary Fund (IMF) claims that the North Sea will be the hardest hit in any downturn.

The IMF report claims that North Sea operating costs are higher than elsewhere and there appear to be no "rapid efficiency gains" comparable to those achieved in USA on the back of shale oil. The report stated that production costs in the North Sea are \$40 per barrel compared to \$5 in Kuwait, \$10 in Russia and less than \$20 in USA. Such a disparity severely affects the business case for new exploration and new well development.

Elsewhere, Petrofac, the oil services provider has blamed a variety of local factors on the reduction in its profitability. In its annual report, the oil rig and offshore gas plant blamed high wage costs and poor productivity for a \$375 loss on a gas project. The Laggan – Tormore on-shore gas plant is nearing completion. According to its Chief Finance Officer, **Tim Weller**, Petrofac have learned lessons and "will not be doing this again".

ELECTION NEWS

It is difficult to know quite how a General election fits into the panoply of the project world. We know that most political parties regard the election as a project – after all, the campaign has a scheduled start and a very obvious end (in this case 7 May) so it seems that project is correct. However, there are at least 9 parties taking part so this collection of projects might seem more like a portfolio. On the other hand, major

organizational change will emerge from the welter of promises and political maneuvering so perhaps it would be better to think in terms of a programme?

Well, whatever you call it, one aspect to emerge from all the conflicting claims about how to run the country and the economy is that some projects are actually doing rather well. In one regional report, it was noted that Rolls Royce have landed a massive £9 billion contract to supply aircraft engines for the A380 superjumbo fleet of Emirates. This is claimed to be the biggest non-defence contract awarded to a British engineering company. Despite the joy of a full order book, the 2600 layoffs announced last month will continue and there will be no new British jobs – final assembly will take place in Singapore. There may be contract issues to come as the previous engine providers for Emirates existing fleet of A380s were Pratt & Whitney and GE. And this contract comes against a background of a major competition between Emirates and fellow Gulf airlines Eithiad and Qatar, and US airlines American and Delta who want their competitors banned from operating in the US on the grounds that they are state subsidized and have access to cheap fuel.

Although Rolls Royce are based in Derby, and contribute much to the local and national economy, they are not the only ones to do so. Train and plane manufacturer Bombardier, too, have a full order book with contracts for new tube trains on the District line following similar work for the Metropolitan Line, Hammersmith & City line and the Circle Line. As if that was not enough to keep the workforce busy, they have won contracts to supply trains for Crossrail, the 85 mile rail link that will transform commuters' journeys from 2019. Readers may recall that Bombardier had a moment of misery when the Government awarded the lucrative Thameslink train contract to Siemens AG. Instead of pulling out of Derby, and the UK, the Canadian owned company restructured by cutting 1400 jobs in Derby. The result was that when the Crossrail contract was bid, Siemens were busy with the Thameslink work, and Hitachi was tied up with other work.

We are now set for an interesting bidding war when new contracts come up for programmes such as the electrification of lines around Manchester and possible work from the HS2 project. Competition is going to be pretty intense as the list of bidders already includes Siemens, Hitachi, Alstom from France and CAF from Spain. Competition is also expected from China. It seems likely that each contract, and there are many coming up in the next few years, will need to be run as a project.

All this good news cannot be allowed to pass without sounding a small warning of possible trouble to come. There has been much criticism of the way the railways are run. A report published at the end of last month showed that many of the current franchises have major punctuality problems. The worst 5 barely do better than 50%, or half of their trains arrive late! Recent reports claim that the fault lies with Network Rail and that 63% of all delays are attributable to them, rather than the rail companies.

Whoever is to blame, it is understood that civil servants are exploring ways of splitting up Network Rail. Under current arrangements, Britain's 20,000 miles of track and thousands of stations, tunnels and bridges are owned and maintained by Network Rail. One option to break up the company might be to parcel it up into

regional groups that could be sold off, or to further split along functional lines, which would make project planning more simple but control vastly more difficult. Many might fear to tread in an area with that many complications due to its size (some 35,000 staff, huge assets ranging from Victorian bridges, tracks and the like) as well as complex and elderly signaling and communication systems. The concern is the balance sheet; it is simply too big to be run effectively and may over value assets. The writing down of such values is a major concern, as is the transfer of the £34 billion debt to the Government's books.

PROBLEM PROJECTS



The proposed Garden Bridge across the Thames continues to attract attention. Last month it was the way the awards judges marked the experience of the design team with the small number (only 2 engineering designs) and lack of relevant bridge design track record. Now comes a high court challenge.

According to e.achitect.co.uk, a 'local resident' is claiming the London borough of Lambeth unlawfully granted planning

permission for the £175m bridge. Many local residents have claimed that the impact of the bridge, which has the support of the Glitterati, will compromise many of the best views of the City and St Paul's Cathedral. It is already hard to see the Cathedral from the south and east so the loss of the views from the west would be very disappointing. Apparently, the local resident comes from Tulse Hill in south London (quite a way from the River Thames!). Press reports claim that the case is not likely to delay the project. According to Paul Morrell, the government's former chief construction adviser, the judicial review granted to a campaign group opposing the project will not delay the Garden Bridge completion. It is not surprising that several of the controversial bridge's high profile supporters are having second thoughts, particularly as one of the key opponents is the Michael Ball, the former head of the Waterloo Community Development Group.

Tesco, the supermarket chain has encountered a range of problems since their accounting came unstuck with the over-reporting of profits over a substantial period. Their remedy for the accounting issues resulted in the shelving of a large number of planned new supermarkets projects, many in areas that needed urban regeneration. News has come that Tesco paid about £9 million to 2 councils in Somerset over the Bridgewater store plan that was abandoned. Some 49 planned new developments will not now be built. Tesco are disposing of their land bank and closing stores as it faces major competition that has resulted in loss of income.

The situation is interesting as it highlights the dependence of some local councils on investment from major commercial organisations such as Tesco to secure funding

for regeneration. To afford their plans, which in many cases support local councilor successes at the ballot box, external funding is needed. Where development agreements involve community projects and commitments, Councils will seek compensation. Many Tesco stores are vigorously opposed by local traders and residents as threats to local shops and traditions so it seems ironic that Tesco are penalized when they pull their plans.

PROJECT OPPORTUNITIES

It is seldom that news is all bad. One quite shocking report this month claimed that Britain is facing an Antibiotic Armageddon. Clearly, it is not just Britain with this problem as resistant infections increase, and so-called superbugs afflict us. This is a problem but also an opportunity for the pharmaceutical industry who have extensive experience in managing drug development project portfolios. Let us hope they are successful in the future and that we can add more experience in this specialized field of project related management to our bodies of knowledge.

Further afield, there are developments in the space race. This time, it is about understanding more of the Sun's secrets. We have reported previously on the Solar Orbiter programme which should see a British designed and built satellite launched in 2018. There are others participating in this programme with Airbus Defence and Space as well as the Space Agencies from Europe and the United Kingdom combining in the €800 million space craft construction. The craft will be launched atop an Atlas V rocket.

The scientific objective of the mission is to understand more about major events on the Sun. One particular category of event is the coronal mass ejection, or solar flare, which involves bursts of high energy that can disrupt power distribution on Earth and damage communications. This event has recently been added to the National Risk Register and herein lies the opportunity. The Risk Register lists many different types of events that affect UK and these risks demand actions to mitigate their impact and so there are many project opportunities.

CLOSING REMARKS

As the old saying goes, we live in interesting times! In UK we have the prospect of the General election and with it some sort of declaration of intent so far as the economic future of the country will be directed. While to some extent, the outcome will affect many projects, there are some projects that will be profoundly affected. The future of HS2, Trident replacement and the railway system will all be decided in the next week, as will many other projects. Mostly we will not know the impact of any political changes for some time, but there will be a few that will be clear in just over a week – let's hope they get them right!

Finally, we have seen that Nature has a major hand in projects. The appalling events in Nepal have shown all too clearly the effectiveness of emergency planning. The way the major humanitarian agencies have swung into action has been most impressive, as it so often is. We need now to have politicians managing their part in the transfer of funds and long term support to a region that so urgently needs help.

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