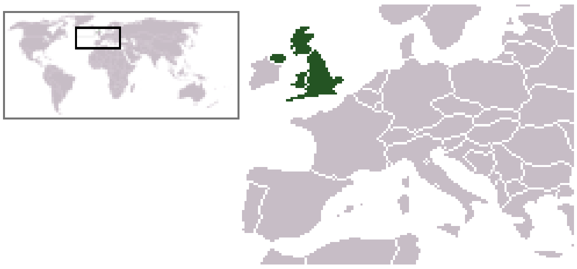
UK Project Management Round Up



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Brexit: Part 1 – 26 June 2016

INTRODUCTION

The surprise of the month has not been "Brexit" but a candid report on the British Army, the challenges it faces and the way it is meeting them. But there can be no doubt that the main story has to be Brexit, the short term implications for the country and the longer term impact on UK projects.

BREXIT IN THE SHORT TERM

When the country went to bed on Thursday night, most people, including some of the main "Leave" camp were forecasting a narrow win for the "remain" camp so there was some surprise when early the next morning, it emerged that the referendum had resulted in a 52% vote to Leave the European Union (EU) and 48% in favour. The turnout was about 72% of the voting population – some 30 million voters had spoken.

The immediate impact was a drop of nearly 400 points (~4.5%) on the Stock Exchange on opening but this was reduced to a total day's loss of about 175 point (~2.75%). Most of the FTSE companies were down on the day but in the main posted only small losses. However, banks and house builders took massive hits with construction down an average of 25% - total losses on the day across all listed companies were about £150 billion.

The political impact has been significant: as might have been expected, the Prime Minister, David Cameron, has declared that he will step down once a new Conservative leader is elected, probably in the early autumn. Perhaps more surprisingly, the main opposition party has been heavily impacted with a call on Black Friday for a vote of no confidence. In itself, this is not particularly significant but on Sunday, after the Opposition Leader, Jeremy Corbyn, sacked a member of his shadow cabinet for disloyalty, a further 7 members of his leadership team resigned with more expected to leave shortly.

Perhaps the most important aspect is that the short term is actually not all that short. Very little will happen for at least 2 years once the Article 50 declaration has been made. Article 50 makes provision for members to leave the EU and sets a 2 year project in place – a point we will return to shortly.

STAKEHOLDER IMPACT

A stakeholder analysis of the results would show that the external impact of BREXIT introduces as much uncertainty to the EU as it does to UK. Several other countries in the EU are said to be preparing demands on their governments to hold similar referendums with dissatisfaction in Scandinavia prominent while France and Netherlands having vociferous calls to leave. Remaining EU members are reputed to be shocked by the outcome and concerned about the impact on their own situations. They cannot say they were not warned – Mr Cameron explained the likely issues to result from the very limited changes offered by fellow members in response to his negotiations over the last 18 months.

Most of the stakeholders are British based. The major issue emerging is the impact of the vote on the stability of the United Kingdom. The Scots have already raised the spectre of another referendum over leaving the UK while Northern Ireland are now claiming that they should have a referendum on unification with the Republic of Ireland. Somewhat further afield, Spain are claiming joint sovereignty over Gibraltar. And just to keep the referendum pot boiling, there is an on-line petition with a reputed 3 million signatories asking for a parliamentary debate on declaring the first vote invalid as the margin was small and the vote less than 75% of eligible voters! Whether this last gasp attempt to move the goal posts is successful will depend on the results of a challenge on the validity of the electronic 'signatures'.

SHORT TERM IMPACT ON PROJECTS

The major point to emerge is the drop in the value of the £ which will make it much cheaper to buy British goods and services and to invest in UK projects. So we can expect an influx of foreign money into the country. Set against that will be the impact on business cases – if the Sterling returns are worth less, some overseas projects may not be able to justify the outlay. For instance, the cost of developing Hinkley C nuclear reactor should be less but the long term return on investment is also likely to be less – as if the financial analysts don't have enough to worry about! The UK press reckon this is the death knell for the Hinkley project.

Other sectors likely to be hit are, to some extent, dependent on exchange rates and those are linked to interest rates. The Bank of England is expected to cut interest rates in order to stabalise the business environment. Thus financial services may be under pressure and some of their project are likely to be put on hold at best with IT upgrades threatened and M&A projects made even more uncertain. Energy and Industrials are under threat with new nuclear the most obvious candidate for cancellation. However any change in the status of Scotland may have an impact on BAE's shipbuilding operations in Glasgow. The situation in the automotive sector is also problematic with investment in new models threatened and jobs at serious risk. Perhaps the most serious issues lie ahead for the airlines with fuel costs expected to increase in line with a falling £ while leasing, landing fees and maintenance are all billed in US$. Even more significant could be the open skies initiative which will impact on the number of take offs and landings and thus influence any decision on new runways. Apart from Heathrow, there are a number of other longer term project decisions due in the Autumn – Trident, the nuclear deterrent replacement, is uncertain as Scotland oppose the notion, HS2 looks to be losing its main supporter if the Chancellor of the Exchequer leaves, as is widely expected; and many so called "life chances" projects based around schools, universities, prisons and social programmes are at risk if the anticipated drop in income occurs.

The impact on local areas such as Wales, Northern Ireland and several of the large cities who all receive support directly from the EU is not immediately obvious but they are likely to be seriously affected in the longer term.

LONG TERM IMPACT

The longer term impact on projects is harder to judge and many expect the economy to gradually make up any short term negative impact. It is the major infrastructure projects that look most at risk as some costs increase, especially where there are potential increased commodity costs. Several years of increased fuel costs could have a big impact on many industries and the projects within them.

High tech startups, in which UK has an enviable record, are at risk as immigration controls bite and costs increase. However, it is not just a simple cost issue. London and Cambridge, in particular, have excellent startup projects. We already know that the Gates Foundation has raised concerns about its long term operations in Cambridge and if that leaves, others are bound to follow. The feel good factor and the fostering of entrepreneurial environments are crucial.

PRACTICAL ISSUES

Politically, the fall out is interesting. The Prime Minister, a firm believer in Remain, has said he does not see himself as the right person to lead the negotiation over separation or the longer term trade agreements. Unsurprisingly, the BREXIT leaders have not stepped forward to take up the challenge – too much like hard work or is it that they simply don't have the ability? The official Opposition are in disarray and not seen as sufficiently competent to mount any kind of challenge and the minor parties just don't have the support or the capability to play any serious role.

Some of this is not too critical right now as Mr Cameron is holding out for informal negotiations over the next few months while UK decides its stance. Some of the original EU members are pressing for an early declaration under Clause 50 but this is entirely under UK control. This allows some space for reorganization, restructuring and objective setting. Sounds like a job for a good portfolio manager and many good PMs!

It is almost certainly too soon to more than speculate on the long term impacts. Nothing much will happen for 2 or 3 years and there are likely to be many unintended consequences. What is certain is that many current projects will be affected, some planned projects face an uncertain time but there will be many new projects to untangle the UK from the EU – and these will not be achieved in a 2 – 3 year programme. So PM skills are likely to be in great demand, particularly business analysts, risk analysts and planners.

As the old War time exhortation went – Keep calm and carry on!

Brexit: Part 2 – Update 3 July 2016

It is now just over a week since the voting population of the United Kingdom of Great Britain and Ireland (UK) voted, by a small margin, to leave the European Union. The sky has not fallen in, nor have there been (too many) marches in the streets, civil unrest or a total collapse of the economic system. So what has happened and what is the outlook for UK? Let's look at the situation in the way many project managers would, using the STEEP approach.

SOCIAL

The immediate impact of the vote is to accentuate divisions in British society. This is not directly class related although many of the Exiteers come from the lower wage population who seem to feel left out of the benefits of economic progress and feel particularly disadvantaged by the austerity measures of the Government and the influx of migrant labour. There is also a strong demographic influence too, with the Press claiming that the younger members of society voted uniformly to remain while their elders voted to leave. Obviously there is some truth in this claim to judge from the exit polls but in fact the vote was not entirely along age defined lines. However, so few of the young group voted (less than 40%) that they have little to complain about. Despite that, there are worrying signs that the outcome will be a source of domestic and class conflict for some time to come.

TECHNICAL

The technical impact of BREXIT seems limited, and to mainly result from anticipated funding losses and potential moves of people in key positions and key technical firms. In the short term, there are likely to be difficult decisions to take in the light of uncertainty and these may affect the longer term development of some technologies. The scientific community and academic research sectors held a protest march to express their concern.

ENVIRONMENTAL

Much depends on how you define "environmental" – if the meaning reflects the state of the physical environment, then in the short term there seems to be little impact. Longer term, unwinding environmental protection laws will take some time and there is little indication that major change is likely as the Green lobby, wildlife organisations and the like have a very strong influence and public appetite for any such change seems week.

ECONOMIC

The immediate impact of the vote was to wipe £200 Billion off the value of UK businesses as all the stock market indices dropped by the same amount they had lost in the financial crisis in 2008/9. However, the main indices, FTSE 100 (mainly large international firms) and the FTSE 250 (mainly large UK trading firms with less international exposure) have recovered and are somewhat higher than they were immediately before the vote.

On the other hand, the value of the £ has dropped sharply and shows no sign of recovery. While this makes British exports much cheaper and so provides some stimulus, this can only be a benefit if sales increase and firms are able to meet demand. Set against this is the increase in the price of imports which is sharply higher and likely to lead to inflation as the price of petroleum based products, food and steel all rise.

From a project perspective, services provided to overseas projects may be hit as their costs will be higher in Sterling terms and thus profits down unless all staff are UK based – and many are not. Bid costs are likely to drop or remain neutral but competition is likely to remain still and joint ventures will be more problematic.

POLITICAL

One of the most eye catching impacts has been political. Northern Ireland and Scotland voted to remain in the European Union while England and Wales voted to leave. These are crude generalisations but are sufficiently accurate to worry constitutionalists as Scotland have stated they are seeking a new 'leave' referendum which could see the break-up of the Union. The Scottish First Minister held talks with senior EU officials to start the negotiation process but has been rebuffed as the EU can only negotiate with sovereign states. In Northern Ireland, Nationalists have raised their demands to join the Republic of Ireland. This might be a tricky situation for the Republic who would be likely to lose their special status in UK where they are allowed many privileges such as voting, access to the welfare state and national health service and unrestricted entry.

At the Party level, we have seen amazing results. The Parliamentary Labour Party have staged a major coup with the complete Shadow Cabinet and most front bench spokespeople resigning. A vote of No Confidence in the Party Leader, Jeremy Corbyn, was carried by 172 votes to 40. Although the vote is not binding, the mood of the Party is clearly against the leader who refuses to leave, claiming the support of grass roots Party members.

The Government has not had the same problems but are nevertheless in some disarray as the Prime Minister, David Cameron, has stated that he will stand down as soon as a new leader is elected, probably by 9 September. Mr Cameron originally said he would remain in office whatever the outcome but clearly did not anticipate to exit outcome. Now we have the spectacle of a knock down drag out leadership contest and the first casualty is the front runner in the Exit campaign, Boris Johnson, or BoJo to the idiot press. BoJo was widely expected to be a shoo-in for leader but his performance of late has been lacklustre to say the least.

CONCLUSIONS

What most observers seem to miss in all the uncertainty is that the exit process does not begin until UK enacts Article 50 of the European Union Treaty and then the disengagement process will take 2 years, according to the Treaty. Most observers believe the process will take much longer but both the EU and UK wold need to agree any extensions.

There has been a great deal of posturing on both sides with several key EU Commissioners claiming dire retribution on UK and BREXITEERS backing off from their claims that they would be able to make up lost EU funding from the money not paid to the Commission, a plainly idiotic claim. All this is playing out in the media, both formal and social. Many comments in social media are remarkably ill-informed but reflect a general unease with the old situation. It is quite clear that UK faces a period of major change and the outcomes are very difficult to predict. As our Chinese friends say, we live in interesting times!

About the Author

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