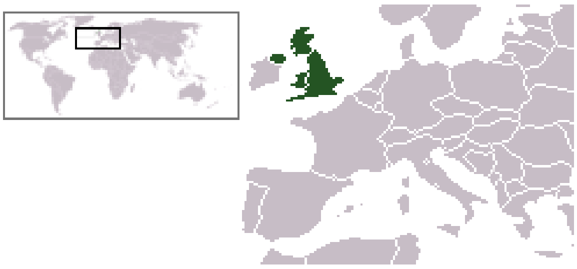
UK Project Management Round Up



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INTRODUCTION

This past month has been pretty boring with BREXIT dominating even though precious little happened on that front until just before closing for press. Fuel prices have been increasing due as much to OPEC production restrictions as a weak £, British consumers are still spending so many businesses are claiming the Referendum result is 'good for Britain' while the economic figures for the period immediately after the vote are holding up pretty well, on the surface.

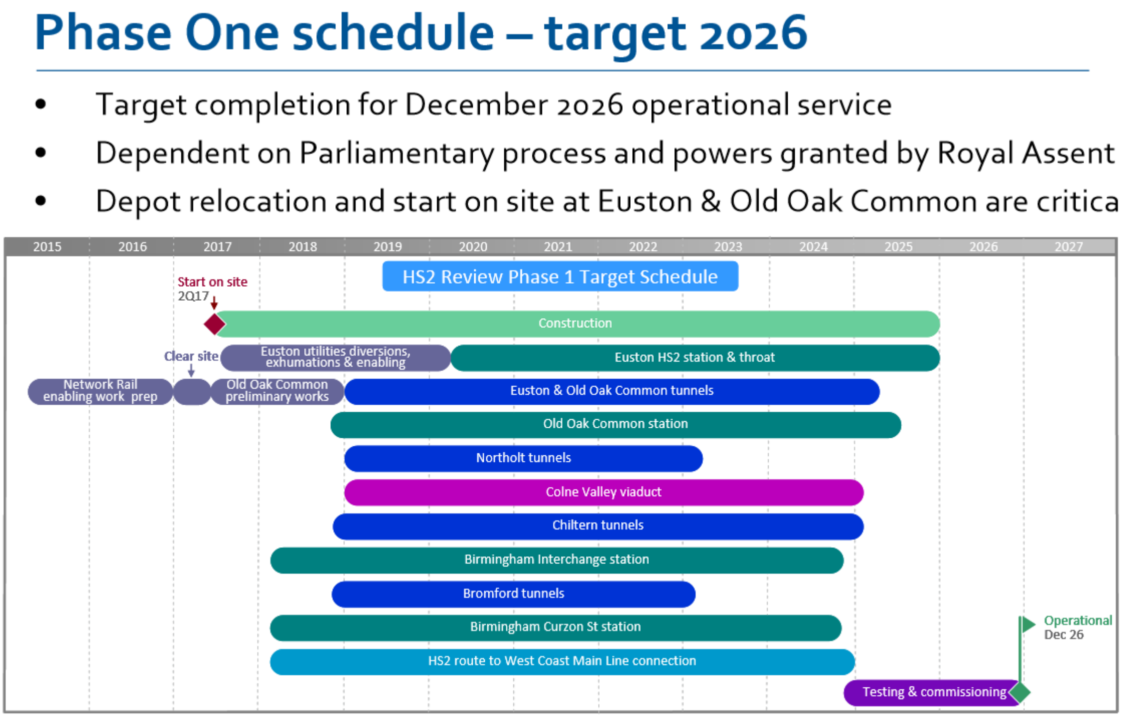
That is the key right now – things look good on the surface. The FTSE is riding high but then most of the stocks are quoted in $US so are benefiting from the weak £. The Bank of England has raised its estimation of economic growth this year to 2% so what's to worry anyone? Well, the main issue in the coming months will be higher input costs, rising inflation which will be coupled with wage increase demands plus lower output prices for exporters.

On the project front, the big news concerns Hinkley Point, London's 3rd runway, the HS2 programme and London's new sewerage system although there is much other news of projects both large and small. So this month, I'll be looking at infrastructure projects, energy, national economic policy as it affects projects, and a few other smaller items should there be space.

INFRASTRUCTURE PROJECTS

Apart from the Government's Infrastructure Projects Portfolio supervised by the IPA (note this is not the beer of similar abbreviation), there are many infrastructure projects 'out there'. Perhaps the most eye-catching are the top trio of Hinkley Point Nuclear Power Station III, the London 3rd Runway and the new rail link connecting the South of England to the so called Northern Powerhouse or as it is fondly called, HS2.

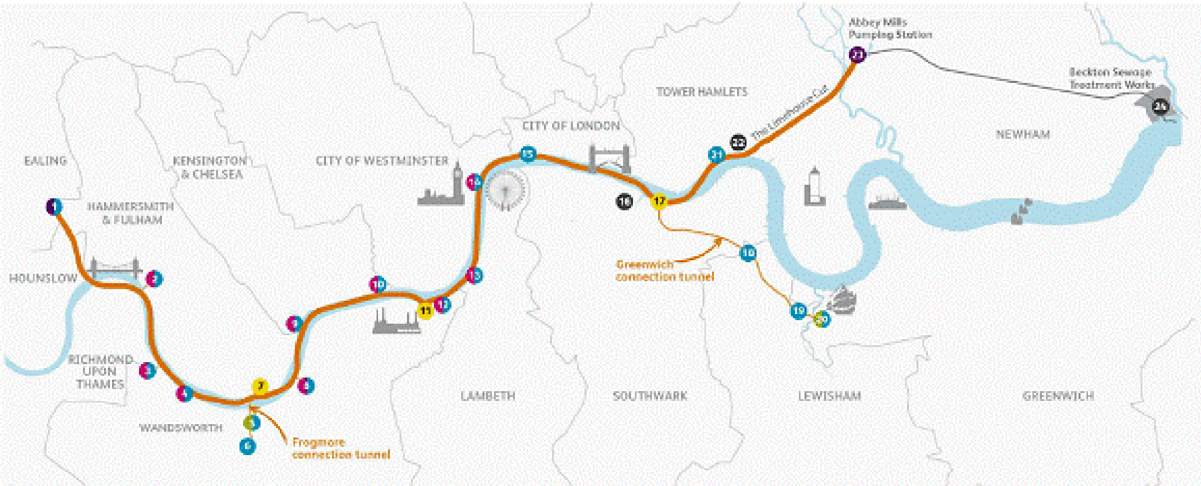
Taking the train first, HS2 is beset by a barrage of moaners, NIMBYs and other critics. This seems to have proved too much for its Chief Executive, Simon Kirby, who decamped to Rolls-Royce. As the first phase of this massive engineering project, the upgrade of the London to Birmingham line is due to receive Parliamentary approval before Christmas, this seems like taking the hand off the tiller at a crucial juncture. Members of Parliament have warned that a leaderless major project increases risk perceptions and weakens confidence in the whole project. However, shortly after



Kirby left, a report by Albion Economics claims that failing to complete the £50 billion project will cost the nation some 27,000 jobs by the end of the decade. This is the number of people employed by contractors and includes thousands of apprentices who many see as the key to improving Britain's work force and productivity. Interestingly, amid all the noise over HS2 comes a whining lead article stating that the programme has spent £2 billion yet no track has been laid. Seems the journos and politicians forget that project need to be planned and preliminary work done, including purchase of land for said new track. As the image above shows, there is quite a bit of work in 2016 alone.

Another major project scheduled to start shortly is the Thames Tideway Tunnel. This is estimated to cost around £4.2 billion excluding financing costs, ongoing operating and maintenance costs at 2012 prices. This tunnel is touted as a worthy successor to Sir Joseph Bazelgette's sewage system built in Queen Victoria's time and now getting a bit passed it as the population of London increases. The result is up to 80 sewage releases into the river Thames annually. The solution is a new 25 kilometre tunnel running up to 65 metres below the river. This tunnel will intercept sewage, store it for treatment and then transfer clean water back to the Thames. The project website (www.tideway.london/the-tunnel/our-soluti)on) explains that the tunnel starts in west London, and generally follows the route of the River Thames to Limehouse, where it continues north-east to Abbey Mills Pumping Station near Stratford. There it will be connected to the Lee Tunnel, which will transfer the sewage to Beckton Sewage Treatment Works.

The latest news on this remarkable project is that the costs are to be met by private funding, rather than the taxpayer. Construction work begins this month and four tunneling machines begin boring the tunnels next year. Such tunneling, even 24 metres wide, is becoming quite common in London and the real innovation is not engineering based but the financing. So far Thames Water has already spent £1.1 billion on the Lee tunnel and at Becton treatment plant. According to press reports, that leaves some £3.1 billion in the hands of a company wholly separate from Thames Water. Some £1.8 billion is expected to be spent on construction with £670 million allocated to head office, project management and insurance costs with a further £525 million set aside for contingencies. This outlay is recovered by a 2.9% per annum levy paid by Thames Water who will recover £25 a year from its customers. Interestingly, raising the finance has been partly offset by the European Investment Bank – guess we will need to add this to the BREXIT negotiations in due course!



Route of the Thames Tideway Tunnel

This project is a good example of inward investment. Other press reports note that some £12 billion has been invested in road and rail infrastructure projects by Lloyds Bank and Legal and General Investment Management. Lloyds, partly owned by the British taxpayer, has blown its £5 billion war chest on roads, rail, hospitals and housing while Legal and General have invested around £7 billion on similar projects.

Perhaps the most telling news this month is the 'approval' of Hinkley Point C, the £24 billion power plant due to come on line by 2025. Finance has been secured from EDF supported by China General Nuclear (CGN) who will invest £6 billion. Under a Strategic Investment Agreement, EDF's share in the project will be 66.5% and CGN's will be 33.5%. EDF said it intends to offer other investors stakes in the £18 billion project, but will keep at least a 50% stake itself.

EDF Chief Executive Vincent de Rivaz dismissed parallels with two nuclear plants EDF is building in France and Finland. Both have suffered delays and cost overruns. Mr de Rivaz claimed planning of the two projects had been "flawed" and there had been "underestimation" of their costs but insisted EDF had learned lessons from these setbacks. "The assumptions made on cost and schedule were wrong, dead wrong. We have dramatically changed the approach by which we prepared this project," he said.

As reported in the UK press and elsewhere, Hinkley Point C received a long-awaited and positive final investment decision from the EDF board on 28 July, only for the UK government to postpone signing its supporting agreements. Prime Minister Theresa May said a review of the deal would be carried out before the government committed its support. On 15 September, the Government announced its approval, after reaching a new agreement in principle with EDF. However, it introduced certain conditions for foreign investment in future British nuclear power plant projects.

Interestingly, there are press reports of extensive competition to construct small test reactors at Trawsfynydd, site of a disused nuclear power plant, in the Snowdonia National Park. Some 38 companies, including Westinghouse and Bechtel from USA, Chinese state controlled company CNNC and a consortium from Korea. Rolls-Royce are also participating via NuScale Power, a US led group that is headed by Flour. The site is under decommissioning as the two Magnox reactors are dismantled. There is growing political pressure to include it in the listing of suitable sites for nuclear development. Previously its location on an inland lake and small size excluded it but a new report commissioned by the Welsh government from engineering consultancy Arup recommends the site as suitable for development of small scale reactors. Trwsfynydd is owned by the Nuclear Decommissioning Agency and this is seen as a considerable advantage as five of the eight sites earmarked for development for new UK reactors are owned by EDF.

London's third runway saga continues. As promised, the UK government under PM Theresa May made its decision – to delay the decision still further! The original proposal from the Airports Commission recommended Heathrow as the site for the new runway in October 2015 and it has been a highly controversial recommendation. The Government has shown little enthusiasm for decision making on this thorny problem but Mrs May have at least a public consultation on the local impacts of its decision in the January, before publishing a national policy statement on aviation. If this is ratified by parliamentary vote, either in late 2017 or 2018, it will provide a much quicker process than that used for HS2 rail line, whose hybrid bill for the first phase is yet to be passed. It is likely to be another four to five years before spades are in the ground and there is substantial opposition from Conservative heavyweights such as Boris Johnson and Zac Goldsmith. Local councils are also threatening to take legal action to prevent or delay construction.

ENERGY PROJECTS

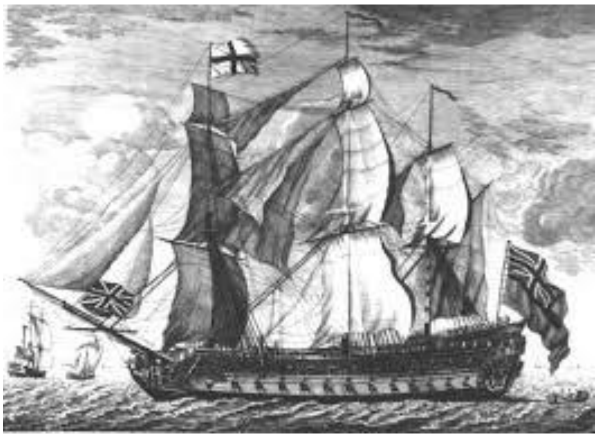
It is always difficult to know quite how to handle items on energy as the stories seem to either just say the same old thing or make some highly unlikely claim about the latest technology. However, given the interest this month in nuclear, it is only fair to look at alternatives.

First there is the good news that solar panels generate more electricity in UK than coal fired power stations. Somehow, the authorities managed to estimate that 1.38 terawatt hours (TWh) of electricity was generated from the hundreds of thousands solar panels on the roof tops of private homes, offices and factories and giant solar farms. This compares with 0.89 TWh from coal fired power stations. Only 9 such stations remain in UK and these are increasingly uneconomic to run. UK is now only marginally behind Germany in its use of solar power – and more importantly, greenhouse gas emissions fell by 3.3% last year.

There has also been a report that improved storage technology for batteries could threaten new nuclear plants. A report by Aurora Energy Research claims that battery storage will provide 8 gigawatts of electric power, more than double the capacity of Hinkley C. The downside of this is that we will have to wait till 2030 for such a prize – I wonder what we would do to bridge the gap?

OTHER PROJECTS

A couple of interesting projects caught my eye last month. The first project seems like a reprise of the Mary Rose project and will entail raising HMS Invincible from its resting place in the Solent. The ship was built in France in 1744 but captured by Britain in 1747 and sank after running aground off Portsmouth in 1758. Described as a 74-gun third rate warship, she was said to have been of revolutionary design and provides the missing link between the Mary Rose, Henry VIII^th flag ship and HMS Victory, Nelson's flagship at Trafalgar. Reports claim that Invincible was the model for nearly half the British battle fleet at the time of Trafalgar but no example survives from that age. A grant of £2 million was made by out-going Chancellor George Osborne from the £14 million collected in fines by banks in connection with the Libor scandal. The exploration project starts next year



Courtesy invincible1758.co.uk

Another mega project being planned is the revamp of the Palace of Westminster. Currently estimated at £4 billion, the project is expected to take at least 6 years and will entail Members of both the Commons and the Lords being moved out from 2022 to 2028. After nearly 14 months of deliberation, a committee from members of both Houses has recommended the cheaper of two options put forward by Deloittes. Alternatives required members to remain in situ and work to be spread over 32 years. The Palace is a UNESCO World Heritage site but is beset with sewerage problems, leaking roof, asbestos and antediluvian electrical systems.

And finally, a project close to my home and my heart. The National Trust and English Heritage, two bodies closely concerned with preservation of ancient monuments, have been sharply criticized for backing a project to build a long tunnel under Stonehenge. This is a highly divisive project with critics claiming that the tunnel, which will remove cars from the vicinity of the Stones, could lead to the loss of World Heritage status for the site. The argument is that the development of the tunnel would damage the archeological landscape. Some, myself included, have some difficulty seeing how a tunnel will have any more impact than a major trunk road passing close to the site which has been extensively surveyed and studied for many generations. The tunnel option was approved by UNESCO in May 2015.

And thus closes another month in the project world in UK. I will keep the national economic policy issues till next month.

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, chair and a Fellow 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.