

## REGIONAL REPORT – UNITED KINGDOM – MARCH 2010



## UK Project Management Round Up

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### Introduction

The project scene in the United Kingdom continues to be dominated the weakness of the economy as financial institutions remain reluctant to back essential projects in several important sectors. Commentators point to the weak growth figures for the final quarter of 2009 but news came this week of an upward revision to the total. However, growth remains very weak.

### Project Economy

The defence sector is usually one the powerhouses of the UK economy but over here costs are escalating and projects threatened. One of the major aviation programmes, the Airbus A-400M military transport aircraft has received further financial help as owners EADS threatened to cancel the project. According to press reports, the seven nations that have formed a partnership with Airbus to develop the A400M have agreed put up more money to keep it alive.



© AIRBUS MILITARY 2009 \_A400M First Flight - Photo by A.De Pablo / MANGO Producciones

Airbus, will be forced to concede ground and is expected to write off €1.7 billion (£1.5 billion) in addition to the €2.4 billion that it has already lost on the project which is running nearly 3 years behind schedule. The Ministry of Defence has ordered 25 A400Ms at a cost of about €2.5 billion – the latest bailout will

increase its commitment by about €250 million budget is under severe strain as a result of overseas operations and the sliding value of the Pound.

While super projects in the air have their problem, all is not calm on the naval front with VT, once one of the main contractors in the Royal Navy's Future Carrier programme, now the subject of a hostile takeover by Babcock International. Major backers of VT Group, fund management group InvescoPerpetual has been selling VT holdings for several weeks prior to publication of the bid on 15 February. However, rival fund managers and Babcock backers, Schrodgers, have come out in opposition to the initial bid and further distanced themselves when the bid was raised, shortly after its rejection by VT Group. The bid, if successful, would bring together two British companies with major interests in port services in a £2.3 Billion group that would climb into the FTSE 100. There is some speculation that Lockheed Martin, the US major may be lined up as a 'white knight' bidder for VT.



The weakness in the economy seems to be affecting some of the other major players in the UK project and programme world. BAE Systems have announced the loss of 300 jobs at the naval yards in Barrow-in-Furness despite the new contracts for nuclear submarine replacements recently announced. Further jobs were lost in the Ninrod (*pictured*

*left*) line as the aircraft retires from service. It is not all doom and gloom at BAE as they have been awarded a major new contract to design the next generation of frigates for the Royal Navy.

The Future Surface Combatant (FSC) vessels are intended to replace the elderly Type 22 and Type 23 frigates. The FSC is the focus of a £3.4 billion contract awarded to BAE Systems by the UK Ministry of Defence (MoD). Representing a step change for the UK maritime industry, the contract significantly reduces risk in the Future Surface Combatant (FSC) programme by enabling the joint project team to develop a better view of costs, schedules and design at an earlier stage than has been possible with any previous programme. Designed from the outset with potential export sales in mind, the new vessels will replace existing Type 22 and Type 23 class frigates when they reach the end of their service lives.



Under a 15 year Terms of Business Agreement signed with the MoD earlier this year, BAE Systems will be lead contractor and systems integrator for the FSC

programme. The Company will work in partnership with the MoD and key industry partners to develop the business case, concept design and a cost model for the whole life of the programme.

BAE Systems announced their preliminary annual results last month and showed headline sales up by 21% to £22.4bn with underlying earnings per share up 9.7% to 40.7p and a record order book of £46.9bn despite loss of key armoured vehicle contracts. BAE closed ten sites in UK and USA in 2009 as part of its rationalisation programme.

## BBC Programmes



Back in the early 1990's, HM Treasury used the Central Computer Telecommunications Agency to develop its approach to the strategic development of disciplines such as project management, which resulted in amongst other things, PRINCE2. They also pioneered the management of major business change through programme management.

At the BBC, programmes have a slightly different meaning and they are generally broadcasts but in a carefully leaked report, the Director General, Mark Thompson, has signalled that two radio stations, up to half the sprawling website and spending on imported American programmes will be cut. According to the Times, to whom the report was leaked, it is being considered by the corporation's governing body, the BBC Trust, and is due to be made public next month.

This carefully contrived trailing of what is certain to be a controversial report is seen by many as a cynical ploy to divert growing criticism of the BBC's commercial exploitation of the market. Many claim that BBC activities in a variety of market sectors, notably the 'teen market', local newspaper production and the operation of the commercial arm, BBC Worldwide, in the magazine publishing sector in UK. By trailing the report, the BBC may be able to whip up public support for the stations to be closed and to mobilise the notoriously combative unions to prevent cuts in spending.

Interestingly, all this is taking place against a backdrop further criticism as the National Audit Office (NAO) released a report ([NAO Report](#)) on the BBC's management of three major projects. All construction projects,



Broadcasting House © Hayes Davidson/Richard Davies

they cover the redevelopment of Broadcasting House in London, the construction of Pacific Quay in Glasgow and the Corporation's forthcoming move to Salford Quays. Visit [http://www.nao.org.uk/publications/0910/bbc\\_estates.aspx](http://www.nao.org.uk/publications/0910/bbc_estates.aspx).

The report claims that the projects, jointly priced at £2Bn, were out of control. The refurbishment and reconstruction of Broadcasting House, the BBC's Grade II\* listed Art Deco HQ in London's Regent, was originally estimated to cost £991 million and scheduled for completion in December 2008. The report put costs at £55 Million over budget and 4 years late. The NAO criticised the BBC for failing to get value for money in its spending. Costs at Broadcasting House have included £1.6 million on a statue by Canadian sculptor **Mark Pimlott** and another costing £900,000 by Spanish artist **Jaume Plensa**.



On the positive side, NAO commented that the "establishment of a Programme Management Office in 2009 is a welcome development" **Amyas Morse** (pictured left), Head of the NAO went on to say that, "For future major projects, the BBC needs to make sure that: investment decisions are based on a full assessment of the scope and cost of the project; there are clear baselines so that performance can be measured and project teams held to account; and proposals submitted by management are reliable and subject to effective challenge by the BBC Trust."

## Green Jobs

One of the Government's oft repeated mantras is that alternative energy projects will lead the country out of its economic woes. The Labour administration has poured money into efforts to turn the country into leaders in wind energy manufacturing – and is beginning to see some return for its efforts as Mitsubishi have committed to investing £100 Million in UK to build a wind turbine R&D centre in the North East of the country. According to press reports the investment could lead to the construction of a manufacturing plant employing some 1500 workers to supply energy companies. This is in sharp contrast to the reactions of major wind turbine manufacturers Siemens, General Electric and Vectris who have so far not invested in UK. The new agreement, announced by Lord Mandelson, will see Mitsubishi test new 100 metre turbines capable of generating 6 megawatts each. These would be the largest wind turbines anywhere in the world.

Government plans to generate a third of Britain's electricity from wind power by 2020 seem to be under threat as the Chief Executive of Centrica, the largest UK electricity supplier commented that it



North Hoyle Wind Farm - ©Greenpeace

remained unclear whether the scheme to build an estimated 10,000 wind turbines in the North and Irish seas go ahead. British Wind Energy Association (BWEA) claim that the cost of building the wind farms is in the region of £100 billion but would create 70,000 jobs in the UK. According to Chief Executive, Sam Laidlaw, the economics are questionable and he believes greater competition was needed between turbine suppliers to drive down costs. So the news from Mitsubishi will be welcome to Centrica.

Industry estimates put the cost of fully developing the Round Three development zone at around £14.7 billion and Citigroup claim that the cost of installing one megawatt of offshore wind is about £3.5 million — roughly five times the cost of building a gas-fired power station with the same capacity which makes the economics of generating electricity from offshore wind turbines in deep water up to 200 miles offshore remained questionable.

## Olympic News

Threats to the success of the 2012 Games have taken many forms over the past 5 years, as UK builds, negotiates and plans for the event of the century. Now comes news that even the heavens are against the Organising Committee. According to a report from the world famous Rutherford Appleton Laboratory, UK could be in the middle of a solar storm when the Games launch. Speaking before the launch last week of NASA's Solar Dynamics Observatory, Richard Harrison claimed that disruption to television and internet networks is likely as a peak in solar flares is expected as the Games begin.



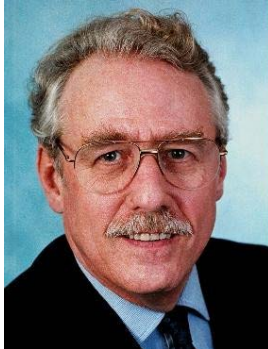
A new web project has been launched where anyone can help track solar storms and be involved in the latest solar research. Solar Stormwatch is a partnership between STFC Rutherford Appleton Laboratory, The Royal Observatory, Greenwich (ROG) and Zooniverse, a network of online Citizen Science projects.

Dr. Chris Davis, one of the Science and Technology Facilities Council scientists behind Solar Stormwatch said of the project, "The more people who can take part in Solar Stormwatch, the more we will know about solar storms. Collective measurements by many people are worth much more than the subjective opinion of one person." Solar storms can be harmful to astronauts in orbit and have the potential to knock out communication satellites, disrupt mobile phone networks and damage power lines. With the public's help, Solar Stormwatch will allow solar scientists to better understand these potentially dangerous storms and help to forecast their arrival time at Earth. Further information on Stormwatch is available at <http://solarstormwatch.com/>.

On a more conventional front, progress on the Olympic programme continues on schedule according to the National Audit Office who stated last week that although the construction schedule was on track, more of the remaining £1.3 billion contingency fund for building and infrastructure is likely to be spent in the run-up to the Games.

Areas of concern include the lack of a legacy tenant for the £540 million Olympic stadium or for the £334 million Olympic media centre in Hackney Wick. The Media Centre is, well off the main public transport links serving the Olympic Park in Stratford. According to the NAO report, further cost pressures are likely if the post-Games revenue from the sale of the taxpayer-funded Olympic village fails to meet forecasts.

**Amyas Morse**, of the NAO, said: "The Olympic Delivery Authority has done well to keep its programme on track, and it is increasingly likely that the venues and infrastructure are going to be delivered on time and budget. Nevertheless, there is still a long way to go, with less contingency funding available to meet unforeseen cost pressures."

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