Published in *PM World Today* – June 2009 (Vol XI, Issue VI)

PM WORLD TODAY – VIEWPOINTS – JUNE 2009

View from the UK Front

By David Shannon

Some may recall my report last September listing several major development projects in or around London. Just five of these add up to an investment of UK£ 35 billion. I finished the piece with this paragraph:

> "With construction price inflation reported by some authorities as running at 10% and the British economy in less robust state than for many years this will be an interesting time to see what, if anything, gives; whether one is a pure Monetarist or a Keynesian project management practitioner."

Well, since then it is perfectly clear that the current UK Government is taking an extreme Keynesian approach. The editorial in the March issue of the highly respected magazine New Civil Engineer embraced this approach stating:

> "Already we are seeing a welcome injection of confidence as the Keynesian economic recovery starts to filter through and projects such as Crossrail, M25 and Manchester Waste lumber towards the start line."

Many politicians, economists and commentators however regard this expenditure as profligate. They suggest that even Keynes himself would have disagreed with the proposed "quantitative easing". Angela Merkel, the German Chancellor is on record as saying:

> "This crisis did not come about because we issued too little money but because we created economic growth with too much money, and it was not sustainable growth. If we want to learn from that, the answer is not to repeat the mistakes of the past."

In Westminster the Conservative Shadow Chief Secretary to the Treasury Philip Hammond said recently:

> "Do the Government have no conception of the scale of the hole that they have dug? Every single programme and project will have to be reassessed and re-evaluated. Each project will have to demonstrate its value for money and its effectiveness in an extraordinarily tight fiscal climate created by the disaster that the Government have visited on this country,"

This review would include the London Crossrail Project which at £ 15.9 Billion is claimed as the largest infrastructure project in the northern hemisphere and due to start main construction in 2010.

A recent issue of UK magazine Money Week went as far as to say: “By printing money faster than ever before, we are in danger of following Zimbabwe's example of hyperinflation”.

So, what has this got to do with project management? Well if you believe that the discipline of project management includes the governance of projects and that the role of the project or programme sponsor is crucial, then this suggests to what sponsors should be attending. They always should undertake some scenario planning with relevant reserve strategies. But for now any alert project sponsor on a major project should have reserve plans ready to respond to any or all of:

- Deteriorating exchange rates,
- Increasing inflation,
- Decreasing demand for goods and services,
- More competition for public funds,
- Increases in taxes.

I am not just talking about a few percentage point changes for these, the scenarios should be for major quantum shifts.

How many such sponsors, I wonder, have ready a rapid least cost close-down strategy for their major project?

When asked by funders, whether at IMF insistence or not, to close the project will they be able to show a prudent gap between the EAC (Estimate At Completion), and current financial commitment?

In the public interest, if not in the interest of contractors, now is the time to keep this gap as large as possible.

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About the Author:

David Shannon

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David Shannon is Managing Director of Oxford Project Management Ltd., a UK-based project management advisory and consulting firm. Mr. Shannon is also an International Correspondent for PMForum and *PM World Today* in the United Kingdom (UK). David has a Natural Sciences degree and MA degree from Oxford University (Oriel College), and a Diploma in Accountancy and Finance from the Association of Certified Accountants in the UK. He is a Fellow of the Institute of Business Consulting, Honorary Fellow of the Association for Project Management (APM), and a member of the Institution of Civil Engineers, Institute of Directors, and British Quality Foundation. He is a lifetime member of the Oxford Business Alumni. David has over 40 years of experience on programmes and projects thoughout the UK, Africa and the Middle East. He was an internal management consultant for the World Bank during 1985-1987. David has been Branch Chairman, Director, Deputy Chairman, Head of Professional Board, SIG Coordinator and Interim Chief Executive of APM, and was intimately involved in developing APM's Guidance on Project Management Governance. David Shannon is based in London and can be contacted at David.Shannon@opmg.co.uk.