



## **Making a reduced capital spend go further**

This is one of a series of papers by Willmott Dixon on how the construction industry can play a full part in the challenges facing the wider economy.

### **Introduction**

The UK's £156 billion budget deficit can only be tackled by a mixture of tax rises and making cuts in spending on public sector jobs, services and capital projects. This has started with the new Liberal Democrat-Conservative coalition government announcing £6.2 billion of spending cuts in the present financial year.

The construction industry can play a major role in tackling the efficiency agenda and making clients' money go further in delivering much needed new or refurbished facilities within a reduced capital spend.

This paper considers practical steps and recommendations to enable public sector clients to reduce cost wastage and get more for their capital investment.

Here, Willmott Dixon suggests four key areas to save money:

### **1) Co-locating facilities**

Traditionally, public amenities have used separate buildings, such as libraries, leisure centres, health clinics, police and fire stations. These divisions have started to blur as public sector clients recognise the community benefits of co-locating services. A number of libraries now provide other local services, for example, Barking Learning Centre incorporates a library, training facilities, a gallery and one-stop shop support services such as housing advice.

In the USA, providers of public services are taking this approach further to achieve cost savings. Towns are developing combined public safety facilities, incorporating police and fire services, while schools are providing sports areas and other amenities for the community. Impressive financial savings can be achieved: a combined public safety facility developed in Holden, Massachusetts, delivered a \$2 million saving on a \$12 million project, with savings coming from reduced construction materials, single building services and less land required.

Similar savings were achieved by Willmott Dixon working on a joint health and leisure complex between Gateshead Primary Care Trust and Gateshead Council. This sees Blaydon Primary Care Centre co-located in the same building as a relocated leisure

centre and supports the Total Place initiative. Both shared the costs and **saved up to 20 per cent on capital costs** compared to developing individual facilities. Both clients saved between £800,000 and £1.2 million each through sharing costs in areas like the front entrance and atrium, combined M&E plant and services, external landscaping and car parks, plus utilities connection charges for gas, electricity and water.



*The joint health and leisure facility in Gateshead now being built. On the left is the leisure centre, and on the right is the new primary care centre. Both share the same entrance.*

***Recommendation 1: Provide incentives to encourage joint planning at national and local government where departments co-locate facilities, especially in areas of healthcare, leisure and education. This can save up to 20 per cent on the cost for each department compared to building a stand-alone facility.***

## **2) Better procurement efficiency**

Successive government efficiency reviews have advocated procurement through framework arrangements, and many public sector clients have adopted this approach to deliver construction projects. Willmott Dixon's frameworks include the Scape National Contractors Framework, National Offenders Management Service, IESE (for southern England), East Midlands Property Alliance, Smarte East and the Academies Framework.

Many projects, however, are still procured by clients on an individual basis via OJEU. This creates spending waste through duplication of effort and increased timescale as contractors pre-qualify for each project and teams of consultants are hired by the client to provide advice and process each pre-qualification. This can add up to six months on the programme.

While clients may advocate the right to procure like this, standardised pre-approved bid documentation should be introduced to streamline the process. This will reduce duplication and waste that occurs when clients pay for the same advice in areas like cost management and legal matters, which in the BSF amounts to several hundred thousand pounds per scheme, according to a previous Willmott Dixon paper on BSF procurement.

Procurement via frameworks should reduce these costs by allowing clients to focus their funding resources on the project rather than allocating costs on lengthy and repetitive procurement that can fail to capture best practice.

One example of taking costs out of a project was achieved on the IESE framework for local authorities in the south of England. Willmott Dixon's early involvement on the £37 million Loxford School of Science and Technology in Ilford saw it take **£550,000** out of

the cost before work started. As an integral team member without a pre-qual process, Willmott Dixon suggested new design options such as an alternative piling technique that produced the saving.

The Scape framework is another example of taking cost out of capital projects. As Willmott Dixon has already pre-qualified for Scape through OJEU, clients for projects up to £30 million in value can contract directly with Willmott Dixon without spending time and money advertising through OJEU and assembling a team. This ensures a greater proportion of the client's budget is invested in the project rather than on extended procurement and means they start on site quicker, which for many time sensitive projects is very important. Frameworks like Scape nearly always deliver on time and budget, so money is not wasted on future legal action between client and contractor.

One example is Leeds University's new pool complex. Using a traditional procurement route, this project would have handed over in November 2010 - missing the start of the University year and important revenue raised from membership. The Scape procurement saw the facility completed eight months early in March 2010, opening in May 2010 and attracting higher than expected membership numbers and generating revenue earlier than planned.



***Leeds University's new pool and leisure complex finished earlier and attracted record revenue through using the Scape framework***

Another key issue is local labour, as this makes a budget go further by reducing costs associated with travelling and accommodation, while providing work opportunities for local people. For example, on Willmott Dixon's project for St Helens Council to redevelop Cowley Language College, up to 78 per cent of the £15 million spent on subcontractor works packages was with companies based within 25 miles of the project, rising to 91 per cent within 30 miles. Local spend targets should be stipulated in all contacts.

***Recommendation 2: The Department of Business should introduce standard processes such as bid documentation and contracts for public sector clients who procure outside frameworks.***

***Recommendation 3: The new Efficiency and Reform Group should introduce a procurement team to give leadership that allows all departments to benefit from best practice procurement. They would also provide a mechanism for various frameworks to share information in areas like bidding and design that can be replicated.***

### **3) Refurbishment cheaper than new build?**

In the climate of reduced capital spend, more public sector clients will try to make capital budgets go further by adopting a 'fix, mend and make do' approach, using

refurbishment to increase a building's life span and reduce the cost of a complete re-build. This could apply to buildings in areas like education, public offices and leisure.

There remains a debate on whether it's more cost effective to refurbish or just re-build. The financial argument has been skewed by the position on VAT; refurbishment works are subject to VAT at the full rate while new build is not subject to VAT.

For clients not having sufficient capital to invest in a new build project to replace an existing facility, extending a building's life through refurbishment may be the only option. However, there is a hybrid model that councils such as Cheshire have used, involving part refurbishment, part new build.

One example is Cheshire's Macclesfield High School, where one third was refurbished and the remaining added as new build. Willmott Dixon calculated that this produced a **22 per cent saving** against the cost of it being an entire new build. The contract sum was £15.1m, against a total new build capital price of £19.5m.

Savings were made by retaining the steel frame, roof structure, ground floor slab and external brick walls. Central areas were kept and the new build was 'wrapped around' to give a modern look. The challenge for teachers and council was to walk through the school and identify what areas were new build or refurbished - most were not able to.



***Macclesfield High School – a third is refurbished (in red), while the rest is new build, although you cannot tell which is which***

Another example is Gateshead Leisure Centre, which was refurbished at a cost of £7.7million. Had the same area been demolished and re-built, the new build contract would have been £19million, so refurbishment saved the council **£11.3million**.

To understand when best to adopt the hybrid model, analysis should be conducted by the cost consultant or contractor to determine the cost benefits of part refurb, part new build against a complete re-build.

***Recommendation 4: VAT levels should be adjusted so that refurbishment work is also exempt alongside new build. This will allow a proper comparison between whether refurbishment is a financially better option than demolishing/rebuilding.***

***Recommendation 5: A cross-industry working group should develop a hybrid model to part refurbish and part new build facilities as a viable alternative to a new build solution for replacing life-expired buildings.***

#### **4) Merge cap ex and op exp planning to reduce running costs**

Most development decision-making is based on capital expenditure rather than operating expenditure. However, to achieve best financial and environmental value, you should

judge a building on its 'life cycle cost' rather than capital cost. The term 'life cycle cost' takes account of the life cost of a building, excluding the cost of land (in contrast to whole life costing which includes cost of land).

Life cycle costing does not mean using the most expensive or durable materials, products and technologies to construct or refurbish. It prioritises the use of appropriate and best value solutions that fit a targeted life cycle over a defined period.

Life cycle costing can produce significant benefits for public sector clients looking to reduce whole life costs. The retrofit of the USA's Empire State Building was based on life cycle cost analysis and has become a model to determine a business case for carrying out energy efficiency interventions. The retrofit resulted in eight energy efficiency measures being implemented that reduced the building's \$11 million annual energy bill by \$4.4 million.

***Recommendation 6: Clients should be mandated to adopt life cycle costs on refreshment or new build, similar to the Empire State Building Company.***

### **Conclusion**

The new government is placing a renewed emphasis on achieving the best possible value from every pound of public money spent.

The recommendations in this paper highlight how greater efficiencies can be achieved and how public spending can deliver more when budgets are being reduced.

### **Contacts**

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