

# HUB PROJECT DELIVERY OFFICE

## GUIDANCE NOTE 01/12

### Setting Affordability Caps in New Project Requests for Hub Projects

#### Construction Cost Element

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## **1. Territory Partnering Agreement and the New Project Request**

In terms of the Territory Partnering Agreement (“TPA”) which hubco and the participant authorities (“Participants”) have agreed, if a Participant requires hubco to carry out a project, it submits a New Project Request. Amongst other things, this New Project Request must contain an Affordability Cap being the maximum available capital and/or revenue which can be committed to the part of the project which hubco will deliver. This Affordability Cap becomes important contractually because once hubco has accepted the New Project Request, it must deliver the project within the stated Affordability Cap.

It is therefore important that an Affordability Cap is set which hubco is comfortable enough with to accept but which is sufficiently challenging and which will deliver value for money.

In capital funded projects (Design and Build), the Affordability Cap will relate to the total capital cost of the construction. In revenue funded projects (Design, Build, Finance and Maintain), the Affordability Cap will have several component parts – e.g. capital construction cost, facilities management, lifecycle, sub-hubco running costs.

In establishing this methodology the objective is not to minimise the level of capital expenditure at the expense of building quality or lifecycle costs, but to set an appropriate benchmark based on the level of quality provision the Participant wishes to achieve. Therefore in looking at intelligent benchmarks it is essential that Participants, in conjunction with their advisers and hubCos are looking at comparable schemes and analysing elemental cost plans to ensure comparison on a like with like basis.

This guidance note relates to setting the Affordability Cap for the capital construction costs in both capital and revenue funded projects. Further guidance will be issued in relation to the other elements of the Affordability Cap for revenue funded projects including lifecycle and maintenance costs and Design Build Finance and Maintain (DBFM) related costs.

## 2. Recommended approach to the calculation of the construction cost element of the Affordability Cap

The table below illustrates the approach SFT recommends in deriving a New Project Affordability Cap.

For schools projects, Participants can benefit from using the Scotland's Schools for the Future Programme metrics to derive an Affordability Cap. A generic approach is shown but participants should seek further advice from the SFT schools' team for a project specific calculation.

Non School Projects	A Generic New Build School Project
Intelligent building only prime cost Benchmark, £/m2	No. of pupils
+	X
Assessed Site Specific External Works, £/m2	SSF metric m2/ Pupil
+	X
Hubco prelims/ohp/design fees/ on-costs	SSF metric £/m2
=	=
Overall intelligent construction cost benchmark £/m2	Overall project cost, £,000k
X	=
Assessed gross accomodation schedule	Client direct costs & client FFE
=	+
Intelligent construction cost £,000k	Any additional facilities (e.g. swimming pool) allowance
+	+
Project specific risk allowance (preferably quantified, but use 10% as a guide if not available))	Zero project specific risk allowance (already included in SSF metrics)
=	=
NPR Affordability Cap	NPR Affordability Cap

**Do not include allowances in the NPR Affordability Cap for potential scope creep or for client direct costs or for client supplied FFE/IT etc or for optimism bias or similar participant specific risk allowance.**

### 3. Deriving an Intelligent Benchmark for a Non-School Project

Calculating the Affordability Cap for non-schools projects hinges on accurately calculating an “Intelligent Benchmark” for the m<sup>2</sup> cost (as indicated in the table above). In addition to allowing the Participant to set a robust Affordability Cap in the New Project Request, devising this Intelligent Benchmark will allow the Participant to have a more informed discussion with hubco when agreeing the Comparators and value for money benchmark projects in terms of the New Project Development Process.

Recommended Approach:

1. Use directly relevant cost information from the Territory Partnering Agreement Pricing Data, if it exists. This should still be checked for project specific value for money relevance – for example, is the specification similar.
2. Alternatively, or additionally as a check, use a basket of other similar projects selected from any of: the Participants own database; the SFT database; the BCIS database; or other published source.
3. Carefully assess each set of data for project specific similarities and adjust individual elemental rates up or down accordingly:
  - Main Building Only Cost. Ensure External Works, Prelims and Design Fees are not included.
  - External Works – omit from benchmark and apply project specific assessment
  - Risks- omit from benchmark and apply project specific assessment
  - Design Development – do not add any allowance for design development if benchmarking is based on tender information (i.e. completed design information)
  - Location – e.g. adjust from London pricing to Scotland pricing as appropriate (note there are specific Scottish Regional/Island location adjustments agreed with hubco in the TPA)
  - Inflation – apply the appropriate MIPS or BCIS tender index forecast change to the anticipated financial close date.

4. For certain projects it may be appropriate to use a weighted average blend of data. For example if a project contains an element of offices and an element of primary care accommodation, benchmarks can be established for each element separately and then blended

## 5. Example of NPR Affordability Cap calculation for a non-school project

Project Description	2 storey community resource centre comprising primary health care, library, police station, dentist. Ground conditions unknown. Brownfield, City Centre Site. Estimated gross internal floor area (GIFA), 3000m <sup>2</sup>					
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
Basket of similar projects, tender price data excluding prelims design fees, construction stage risk. Adjusted for UK location and inflation to anticipated financial close date	2001	1640	1793	1770	1705	2033
Deduct price of external work	(253)	(26)	(312)	(347)	(201)	(124)
Deduct price of any project abnormals	(102) Piling		(85) Piling			(237) Atrium and Air-Con
Adjusted tender price data	1644	1640	1396	1423	1504	1672
Intelligent prime cost building only benchmark (mean of above)			1546			
Add site specific external works assessment			120			
Overall Prime Cost Total			1666			
Add From Relevant TPA	<ul style="list-style-type: none"> <li>Prelims 10%</li> <li>OHP 3.5%</li> <li>Design Fees 8%</li> <li>Const Phase Risk 1%</li> <li>Hubco on-cost 1.5%</li> <li>24% (say)</li> </ul>		399			
Overall Intelligent construction cost benchmark	£2065/ m <sup>2</sup>					
Estimated Gross Internal Floor Area from Accomodation Schedule	<b>X</b> 3000m <sup>2</sup>					
Intelligent construction cost	£6,195,000					
Project Specific Assessed Risks:						
Ground Conditions	200,000					
Inflation above that estimated	85,000					
Planning conditions	150,000					
Enhanced energy perf. Design	75,000		£610,000			
City Centre logistics neighbours, Crane oversailing etc	100,000					
	610,000					
NPR Affordability Cap	£6,805,000					

**NB: The NPR Affordability Cap is quite different to the Participant's estimated overall project cost or funding approval which may contain optimism bias or Participant specific other costs or contingencies**

## 6. Value for Money (Non Schools Projects)

Along with the Affordability Cap, it is recommended that participants include certain other information in their New Project Request to encourage and facilitate a focus on value for money discussions. Schools projects will be covered by using the established space and cost metrics.

1. A New Project Request (NPR) Affordability Cap
2. An Accommodation Schedule preferably containing individual functional space requirements. If possible avoid prescribing gross areas. This will then allow opportunity for spatial design efficiency.
3. A Risk Register identifying the items covered by the quoted project specific risk allowance. Preferably this should be quantified, albeit by intelligent estimates, rather than a simple percentage. No further allowances should be made for design development- this is already contained in the benchmark analysis. No allowances should be made for potential project scope increases. Should scope increase, this should be instructed together with an appropriate increase in the NPR Affordability Cap.
4. Include in the Specific Requirements section of the NPR, an Opportunity Register capturing any specific requests of the Relevant Participant for demonstrating value for money. Examples might be a target net/gross area ratio to incentivise efficient design; options for certain functions to share space; possible opportunities to beat elements of the benchmark prime cost.
5. The TPA makes provision for a Participant to ask hubco to undertake design development reviews. In the Specific Requirements section of a NPR give consideration to including a request for hubco to present certain defined building element design options (e.g. External cladding; roofing; alternative space layouts) at a specific value management workshop.

## **7. Construction Elements of Affordability Caps under Revenue Projects**

For revenue funded projects the Affordability Cap should be split into elements e.g. construction costs, FM costs, Lifecycle costs, DBFM specific hubco and sub-hubco costs/fees.

All costs which relate specifically to the construction should form part of the construction element of the Affordability Cap. The most straightforward way to look at this is that any fee which would be charged by hubco whether the project is being procured as a D&B or a DBFM should be included within the Affordability Cap for the construction costs.

So for example the hubco portion/development margin is, on all territories, charged both on D&Bs and DBFMs and as such that should form part of the construction cost Affordability Cap. If in a territory a higher project development fee is applied for DBFM projects compared to D&B projects, the additional element should form part of the financial close costs and not part of the construction cost element.