Watts Bulletin

The technical companion to the Watts Pocket Handbook, keeping its readership abreast of industry news, every month.

watts-international.com

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CPA forecasts dramatic decline in industry output

The construction industry faces the biggest decline in output since the early 1980s, according to a report published in January by the Construction Products Association (CPA).

The latest forecasts of construction output from the CPA warn that output is set to fall by nearly 9% in 2009 and a further 4% in 2010 – a decline that is being driven by, "an unprecedented reduction in private sector investment," says Michael Ankers, CPA Chief Executive.

Private housing starts declined by 43% in 2008 and are expected to fall another 32% in 2009, to levels not seen since 1952. Private commercial work has collapsed as the retail sector cuts back on its investment plans in the face of falling sales. Orders for new offices have fallen by 47% and the CPA is forecasting a 50% fall in construction output on office projects in the next two years. The only bright spot in an otherwise bleak outlook is in sectors linked to public spending such as health and education. Spending on education projects is expected to grow by 28% over the next two years and construction activity in the health sector will remain strong. The CPA is also forecasting an increase in construction output on infrastructure projects, "with the Crossrail project playing an increasingly important role."

The Association is not expecting industry output to begin to increase until the second half of 2010. Recovery is expected to gather pace slowly as increasing private sector investment is offset by cut backs in public spending as the Government tries to rebalance its books.

Commenting on these forecasts, Ankers said: "The key message...is that the construction industry is heavily reliant on public sector spending to sustain even these reduced levels of activity. Without the anticipated increase in public sector programmes, the industry would be faced with a 15% fall in output over the next two years – the kind of reversal that the industry has not experienced in more than 60 years.

"We are therefore pleased that Government has recognised the key role construction can play in leading the country out of recession by bringing forward £3 billion of capital spending in the Pre-Budget Report, as well as the more recent announcement by the Prime Minister highlighting the importance of construction projects in creating 100,000 new jobs. Spending on construction projects does create more employment than many other sectors of the economy and is more likely to draw on goods manufactured in the UK. It also provides the infrastructure and education facilities key to ensuring we have a productive and competitive economy as we move out of recession."

However, he added that his organisation is still concerned, that the political rhetoric is not being matched by efficient delivery of projects on the ground. "The Government's priority at this time must be to improve credit availability and the mechanisms for delivering public sector projects," said Ankers.

For more information go to
www.constructionproducts.org.uk

Editorial

Welcome to the February issue of Watts Bulletin. Once again, the headlines point to more pain for the construction industry, with the Construction Products Association predicting worse to come as it anticipates a 9% fall in industry output by the end of the year. Even the public sector is feeling the pinch as we report on page three, with funding for the Government's Higher Education college rebuilding programme allegedly frozen until March.

In the current climate, we are delighted to be able to report some good news, it seems that occupiers could save themselves some money with the new Investment Property Database Space Code, launched late last year. Also, residents of Tunbridge Wells and Croydon will be pleased to hear that two new regeneration projects are set to breathe new life into their home towns. Read on to find out more.

In this issue

Investment in energy and water efficiency on back burner

New research from the Environment Agency reveals that the credit crunch is having a negative impact on UK firms' willingness to invest in green initiatives such as energy and water efficiency.

A poll of 1000 UK decision makers carried out in January reveals that 53% are missing out on potential cost savings that could be generated by measures to increase energy and water efficiency.

The research shows that more than half of companies do not have any form of environmental or sustainability policy in place, while 55%, when questioned, said they expected UK businesses to cut back on future investment in sustainability measures as a result of economic necessity.

The research also identified clear misconceptions among business decision makers as to the importance of water efficiency, with only 10% considering saving water as important as saving energy. Just 15% of businesses surveyed said they currently have a water efficiency policy in place.

The Environment Agency's survey, carried out to launch its 2009 Water Efficiency Awards, aims to highlight that sustainability and profit should go hand in hand for businesses.

For more information go to www.environment-agency.gov.uk

JCT publishes new construction services agreement

The Joint Contracts Tribunal (JCT) has published a new contract for pre-construction services. The new agreement, which has separate versions for the appointment of a contractor and for a specialist, allows specified works to proceed before finalisation of the project or award of the ultimate contracts.

The Pre-Construction Services Agreement (PCSA for a general contractor and PCSA/SP for a specialist) is designed for the interim appointment of a general contractor by the employer, or a specialist by either the employer or contractor, to carry out pre-construction services, under a two-stage tendering procedure. The appointment follows first stage tenders and covers the period leading up to the submission of definitive second stage tenders and entry into a main contract or sub-contract for the construction phase.

An appointment under either version of the agreement will enable the contractor and/or specialist to assist the consultant team with the development of detailed designs and development of the main contract works and specialist tender documents. The involvement of contractors and specialists at the pre-construction stage of a project is widely viewed as being valuable and often essential in the final design process and preparations for the construction phase, including the programme, cost plans, buildability and specialist procurement.

Either version of the agreement can be used whether or not the specialist or contractor is to be responsible for design work but, unless otherwise agreed in the provision of services, any liability will only arise once a contract for the construction works is executed or, in the case of a specialist, a collateral warranty with the employer has been executed. It can also be used by both private and local authority employers.

Both versions of the agreement are designed for use on projects where it is intended to use as the main contract the JCT Standard Building Contract, Design and Build Contract, Major Project Construction Contract, Management Building Contract or either version of the Intermediate Building Contract 2005, and also to use their related sub-contracts.

More information from www.jctcontracts.com

Withdrawal of JCT 98 form of contract

The JCT has announced that the 98 form of contract will be withdrawn from publication during the next few months.

From that time, the publishers Sweet & Maxwell, will no longer make print copies available and withdraw stock from bookshops.

Copies of the contracts will still be available from Sweet & Maxwell via its document delivery service, although the contracts will be watermarked as 'outdated'. Similarly, copies will be available through the JCT Contracts Digital Service, but watermarked as 'archive'.

JCT stopped supporting the 98 contracts in 2007 as they have been superseded by the JCT 2005 suite of agreements.

New partnership model to boost regeneration

Parts of Kent and Croydon are set to benefit from two of the first Local Authority Asset Backed Vehicles (LABV) agreed between John Laing Plc and local authorities in Kent and Croydon.

Two multi-million regeneration deals have been agreed using the new LABV partnership model. This new form of public-private arrangement involves establishing a limited liability partnership whereby a local authority invests land and a private company provides equity that can be used for regeneration. Both parties share equally in any profit generated by the deal.

The LABV set up between John Laing and Tunbridge Wells Borough Council will be called the Tunbridge Wells Regeneration Company and will have a ten-year lifespan. After this time there will be the option to continue with the arrangement. The LABV will regenerate four Kent towns: Tunbridge Wells, Southborough, Cranbrook and Paddock Wood.

In Croydon, a similar deal will provide £450 million of funding, supporting regeneration of a number of retail and residential sites in Croydon town centre over a period of 25 years, as well as providing a new headquarters building for Croydon Council. According to John Laing the ultimate aim is to either sell each development on completion, or retain it within the partnership to provide an income stream, depending on market conditions at the time.

For more information go to www.laing.com

Occupiers could cut costs with new IPD code

The Investment Property Database (IPD) launched its new Space Code at the end of last year, with the aim of saving property occupiers considerable amounts of money.

The IPD Space Code is a new global standard for measuring the space performance of corporate property, offering public and private sector employers with the opportunity to identify dramatic cost-savings by re-thinking the way they use their business space.

With many organisations spending an estimated 5-15% of their total operating expenses on the workplace, IPD believes that occupiers will increasingly look to their 'space budgets' to trim costs, particularly in the worsening economic climate. The new code – which has been developed in association with Johnson Controls and EDF Energy – will help property occupiers examine their existing space commitments in any type of building, anywhere in the world. By offering a transparent basis for measurement, comparison and benchmarking of space performance, inefficiencies can be identified and subsequently eliminated. IPD's own data indicates that more than three quarters of the potential cost savings in a typical UK office estate come from space rationalisation.

IPD is quick to point out that space reduction does not have to mean a worse working environment: the organisation quotes best-practice case studies that show that radical restructuring of the workplace can result in a more than 25% reduction in property costs per person as well as large reductions in carbon produced, while significantly improving staff satisfaction. IPD's latest annual survey of large space users has identified that more effective use of space is the primary means of contributing to better organisational efficiency and effectiveness for many large office users.

IPD operates in more than 20 countries around the world. Its Space Code joins two other occupier-related data standards: the IPD Total Occupancy Cost Code and the IPD Environment Code, which both set out performance measurement frameworks and definitions in their respective fields.

For more information go to www.ipd.com

Radon research calls for new approach

A new research report, published in the British Medical Journal in January calls for changes in the building regulations to provide for installation of preventive measures to stall the ingress of radon in all new homes.

The study, carried out by researchers at Oxford University points to the fact that 95% of deaths from lung cancer considered to be exacerbated by radon, are happening where levels of exposure are lower than the current action level. In response, the report recommends a nationwide policy to include sealed membranes in all new homes. At a cost of around £100 per house, the researchers estimate that around 1,000 lives could be saved in the first 20 years of installation.

At present, in areas where Radon levels are greater than 52 becquerels/m³ the foundations of new homes are sealed. In older properties, homeowners are encouraged to create a 'radon sump' by digging below the foundations and blowing the gas out by using a fan system. However, more than 85% of deaths related to radon in the home "arise from radon concentrations below 100 becquerels/m³ and most are caused jointly by radon and active smoking," say the researchers. In their opinion, current policy requiring basic measures to prevent radon in new homes in selected areas is highly cost effective and such measures would remain cost effective if extended to the whole of the UK. In contrast, says the report, "current policy identifying and remediating existing homes with high radon levels is... neither cost effective nor effective in reducing lung cancer mortality."

For more information go to www.bmj.com

Funding blow to HE sector

While the Government continues to announce schemes aimed at helping the private sector retain jobs and access debt funding, it emerged in January that in the public sector projects are also threatened due to lack of funding.

The Building Colleges for the Future Programme, worth an estimated £5 billion in funding for the higher education sector, is facing an uncertain future due to a funding freeze. According to reports in Building (16/01/09 issue) and The Guardian (9/01/09 issue), funding body the Learning and Skills Council has suspended finance on a large number of proposed projects due to 'uncertainty' over land values and the cost of borrowing. This throws many rebuilding projects into doubt and may mean colleges being forced to break their contracts with consultants and contractors as well as threatening loans agreed with banks.

The national council of the LSC meets again in March and until then, according to The Guardian, "No capital meetings with colleges can be held...".

For more information go to www.lsc.gov.uk

Consultants fees cost public sector more, says BCIS

Central and local Governments are spending a greater proportion of their construction project budget directly on consultant fees than other clients, according to the Building Cost Information Service (BCIS).

BCIS has carried out an independent review of consultants' fees on construction projects by examining the level of total fees paid on a sample of over 4,000 projects completed between 1998 and 2007.

Published in a report titled Review of consultants' Fees on Construction Projects, the results have been analysed by a range of project variables which affect the level of fees. These include:

- Sector
- Procurement route
- Contractor selection
- Client
- Building function
- Value
- Location.

Based on completed projects, the figures show the total of fees paid to all construction consultants as a percentage of the final account paid to the contractor. There is no information on fees paid to individual consultants.

BCIS found that consultant fees as a percentage of the construction cost average 11.1% on central and local Government projects compared with 8.7% for private non-housing projects. This is thought to reflect the greater responsibility taken by public clients for design development.

Differing procurement routes also require differing levels of consultant involvement. Fees paid on design and build projects average 6.9%, while fees on traditional lump sum contracts average 10.4%.

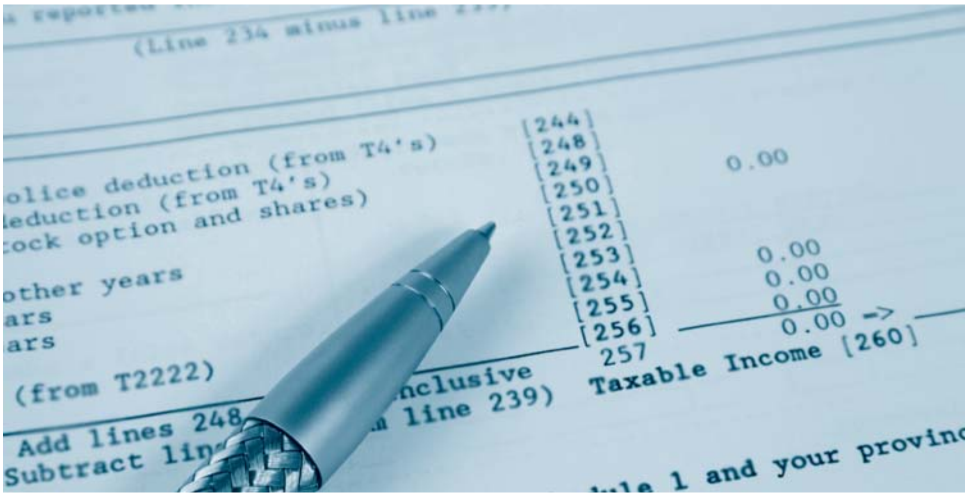
Updated for the first time since 2001, the review demonstrates that the percentage of fees spent on construction contractors has changed very little over the past ten years, with clients spending around 9% of total project costs. This comes despite changes in procurement routes pushing more design and project management responsibility onto contractors.

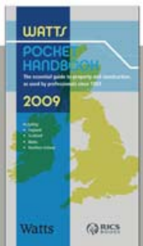
Commenting on the findings, Joe Martin, Executive Director of BCIS, said:

"Fees are a significant cost on most construction projects. It is therefore important to make a reasonable budget allowance at the earliest stages of a project, and adjust this allowance as the brief develops...The level of fees on a particular project will reflect the amount of work commissioned by the client but the review also allows clients to benchmark their overall level of fees."

The figures used in the analysis are the final fees paid by the client to all construction consultants expressed as a percentage of the final account paid to the contractor.

For more information go to www.bcis.co.uk





The Watts Bulletin is the technical companion to the Watts Pocket Handbook, the essential guide to property and construction, as used by professionals since 1983.

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