Sector *focus*

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Higher Education Special Bulletin

University buildings at 'serious risk' of failure, says Guardian

According to data obtained by The Guardian newspaper in February, large numbers of university buildings in the UK have been judged 'inoperable', 'at serious risk of major failure or breakdown' or 'unfit for purpose' by university surveyors.

The building condition database that supplied this information, compiled by the Higher Education Funding Council for England (HEFCE), shows that at least 10% of buildings at the universities listed have been judged not to be 'sound and operationally safe'. One in ten universities had up to 10% of their estate judged to be 'at serious risk of major failure'.

Heriot-Watt (Edinburgh), Leeds Metropolitan and Nottingham Trent universities were the worst offenders, with 42%, 36% and 21% respectively of their academic and other non-residential buildings in the inoperable category.

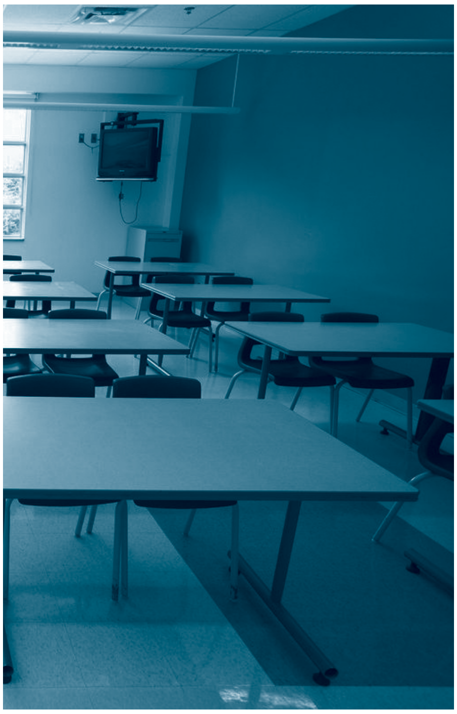
Student accommodation also came in for criticism, with the University College of St Mark and St John in Plymouth, Westminster and Reading universities having 19%, 16% and 13% respectively of their residential buildings rated 'inoperable'.

The Guardian claims that for some institutions, the cost of upgrading all 'inoperable' buildings to 'sound, operationally safe' would be a large proportion of their annual income. The newspaper pointed out that capital funding for new building projects has been effectively cut by nearly 15% in the 2010/11 financial year.

The university sector has been quick to respond to these claims, saying that the database was compiled more than two years ago and the information is now outdated. In recent years, an estimated £2 billion a year has been spent on Higher Education building programmes and, as well as using capital funding from the HEFCE, many universities are now finding ways to bring external providers into the equation to invest in much-needed refurbishment and new build schemes.

How accurate The Guardian's claims are at the present time remains in doubt. However, what cannot be denied is that the university sector must find ways to continue to update and improve its estate despite the reduction in public funding that it now faces.

For more information contact Mark Few in Watts' Public Sector team on 020 7280 8000



Editorial

There are now tentative signs that Britain is moving out of recession but for the higher education sector the effects of the downturn will be felt for the foreseeable future. Tighter funding means there is now enormous pressure on estates departments to introduce efficiencies in all areas of service delivery.

In this issue we look at some of the ways in which this might be achieved: by improving cash management; by revisiting building maintenance programmes and ensuring they are both efficient and cost effective; and by rationalising – where possible – the way in which buildings are used. We also offer some tips for producing a watertight business case where development is still possible, and update readers on universities' new obligations under the Carbon Reduction Commitment Energy Efficiency Scheme. We hope you will find the following pages both useful and informative.

In this issue

The smart approach to sustainability

In future, Higher Education funding will be strongly linked to environmental performance and the introduction of the Government's new Carbon Reduction Commitment (CRC) will take awareness of energy efficiency to a different level.

The recession has forced greater emphasis on conversion and re-use of existing buildings and has meant there is less money available for new build. One way to manage budgets effectively, while still satisfying the sustainability agenda, is via intelligent planned preventative maintenance (PPM) programmes.

The maintenance of complex portfolios is frequently a major cost headache for university estates professionals. Taking control of this to optimise value and meet environmental targets, calls for a strategic and systematic approach – enter PPM.

Effective property management necessitates ways of measuring success in the performance of people, systems and buildings. A successful PPM programme enables estates departments to do this by determining the condition of the estate at the outset and establishing benchmarks for improvement in:

- space utilisation;
- functional suitability;
- legislative compliance; and
- energy performance.

A schedule is then established which incorporates any necessary environmental improvements into the routine maintenance programme. For example, in existing buildings there are likely to be opportunities to reduce water and energy use at the same time as replacing outdated heating and lighting systems as part of a planned refurbishment project. In this way, occupational cost can be reduced and to continuously assess areas of improvement.

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Writing a compelling business case

To gain approval for projects in the current climate, estates departments must deliver a watertight business case which can compete successfully against other university project and resource requests.

The funding squeeze is really starting to hit home and all eyes are on estates departments as they work to identify efficiencies and tighten up budgets. Estates directors are only too well aware that the government has cut capital funding to the Higher Education sector by £543 million, which means there will only be £404 million in the pot for new university buildings in 2010/11, compared to the £938 million that was available to them last year (source: Building magazine). According to a recent report in Building, some universities have already been forced to slash their programmes 'by as much as 40%', scaling back their plans in anticipation of the cuts.

In future - to stand any chance of getting off the ground - projects will have to be carefully prioritised and scrutinised at every stage of the process. The first hurdle will be gaining initial approval and that means writing a compelling business case.

In the current climate, says Deputy Director (Property) at City University, Roger Ward, this involves not only identifying an opportunity but justifying it in terms of tangible, costed benefits that are demonstrably aligned with the university's strategic objectives as well as assessing the economic or business risk of not going ahead with a particular project.

Some key points to remember are:

- No two capital projects are the same: they rarely have exactly the same set of objectives, issues and constraints; treat the preparation of a business case in the same way, a standard template is useful and probably compulsory for many departments, but the content needs to be tailored to suit the particular project.
- A business case should be clear, concise, credible and costed.
- Calculate the financial benefits of your project - and the cost of not going ahead. Identify the Key Performance Indicators for each benefit forecast.
- Prepare your business case in collaboration with key stakeholders – achieve buy-in from other departments where possible.
- Don't underestimate the importance of the 'what's in it for me' syndrome – demonstrate the benefit of the project for the university as a whole and the student community but personalise your proposition for individual stakeholders.
- Be specific. Identify and prioritise risks as well as benefits, recognising the strengths, weaknesses, opportunities and threats to your business case and outlining how each one will be dealt with.

In today's challenging financial environment, university boards are thinking carefully how they spend their money. As internal departments vie with each other for funding, each business case is competing for scarce resources. Yours needs to make an impression so do your homework, ensure you get the financials right and don't forget that presentation, as well as content, is vital.

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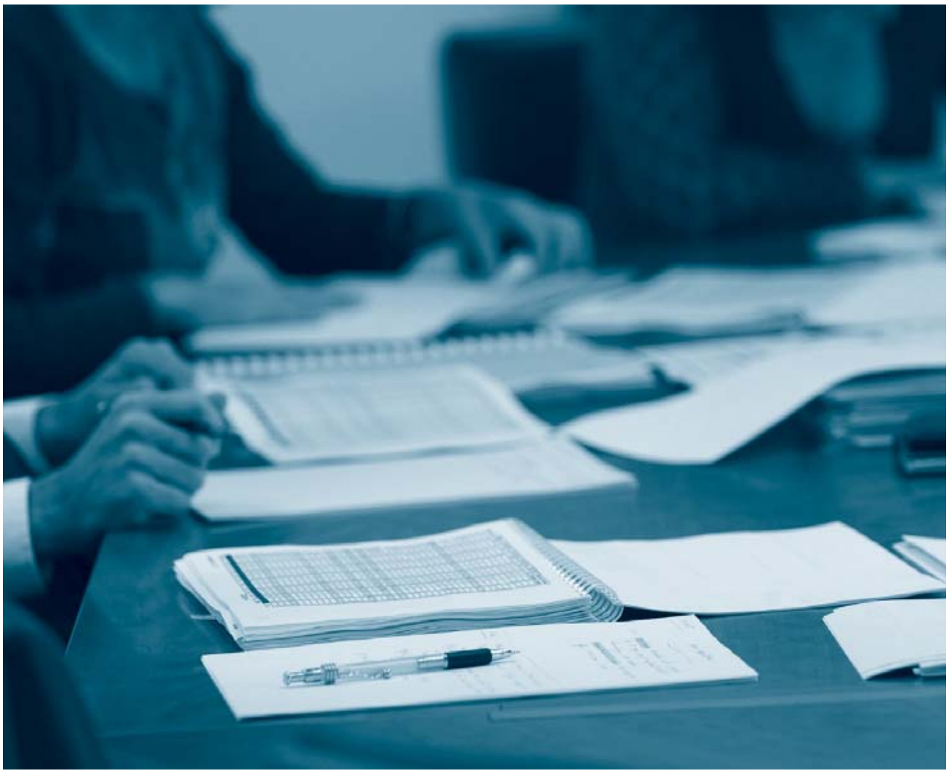

Sweating your assets

Many universities are spread across a number of sites, which frequently means duplication of facilities, leading to resource inefficiencies and has time and cost implications for staff and students. It is not possible to rationalise all university estates, but there are a number of possible options that may help increase the efficient use of buildings.

The first step is to know your property portfolio and its value. If departments have access to current, relevant data, decisions can be taken as to the benefit of retaining buildings or whether there is the possibility of benefitting from disposal, refurbishment or new build projects, if there is a clear case to be made for them.

The aim is to:

- increase the value derived from existing property assets;
- identify and unlock the value of hidden assets; and
- dispose of unwanted or unused property to free up resources for new investment.

In the current climate, lateral thinking is vital. Are there opportunities to lease buildings or to share with other organisations, splitting the cost of building management and maintenance?

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CRC trading to start in April 2011

The Government's pioneering emissions scheme, the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), begins in April, but organisations now have 12 months to prepare for allowances trading.

The impact of the CRC will be felt by universities around the UK as they get to grips with their new responsibilities under the scheme. The first year of the scheme starts in April 2010 but this will be a reporting year only, in which university estates departments must measure, record and report all their carbon dioxide emissions derived from use of electricity, gas and other fuel types. Only from April 2011 will they be required to buy allowances at a fixed price of £12/tCO_2. However, those participating in the scheme will initially only have to purchase allowances to cover their forecast emissions for 2011/12.

In January the Environment Agency issued a number of new CRC documents, including a user guide and short guidance notes, clarifying the final details of the scheme. The section on university compliance explains that universities in Scotland, Wales and Northern Ireland will participate in the CRC as separate organisations. Only the institutions that meet the qualification threshold have to participate in the scheme.

In England the situation is different, the Agency explains. Participation will be assessed against a university and its colleges as one group. Once the group qualifies for the scheme, says the Department of Energy and Climate Change, the colleges will participate individually unless they decide to team up with other colleges of the same university or with the university itself. Participating groups must have the agreement of all parties. They will be treated as independent stand-alone participants and will have to pay fees, buy allowances and report separately. The name of each participating group will appear in the CRC league table and will receive one recycling payment.

According to the Carbon Trust, Higher Education Institutions are the UK's third largest public sector source of carbon emissions. The advent of the CRC is focusing the minds of estates departments on environmental performance and the key to ensuring greater efficiency will be to embed carbon reduction into their daily business. To help the Higher Education sector comply with the new legislation, Higher Education Funding Council for England is developing a carbon reduction strategy and guidance which will be available in the next few months. The Carbon Trust is already partnering with 82 universities to help them improve their carbon footprint offers free support as part of a ten-month carbon reduction programme.

Copies of the new User Guide and other CRC documents are available at www.decc.gov.uk or for more information go to www.carbontrust.co.uk

How effective is your cash management?

In today's tough economic environment, university estates departments must prove they can deliver value for money.

This applies as much to the systems that are put in place to achieve effective delivery of services as to the buildings they procure. Estates directors are coming under increasing pressure to tighten up their departments' procurement practice and ensure that university buildings work more efficiently. Achieving value for money is vital in this increasingly pared-down regime. This applies as much to the financial aspects of building management as it does to the practical issues such as maximizing the benefit to be gained from carefully planned maintenance schedules and outlawing wasteful resource management.

Speaking at a recent conference, chairman of the Joint Contracts Tribunal (JCT) Professor Peter Hibberd said: "The current recession is one of the worst that business has seen, and will result in restructuring and refocusing… payment and cash flow will become the only thing that matters for most". This applies as much to the university sector as it does to corporate organisations.

In future there is likely to be a delicate balance between enhancing the student experience, maintaining staff satisfaction and cash flow. Undoubtedly money is going to be in short supply and cash management issues will be to the fore. Jim McConnell, estates director at the University of Glasgow believes a priority for the foreseeable future will be "the cash position rather than the budgeted position and whether universities will remain liquid in order to pay 'business as usual' costs or whether they will have to reduce service expectations while still delivering an acceptable level of customer and staff satisfaction".

Now is the time for estates directors to develop a close relationship with university finance departments. Take an objective look at accounting practice: make sure your terms of payment are effective and clearly communicated. The HE sector has a reputation for being good payers and bills are often settled before the maximum notice to pay. But cash management approaches affect budgetary management and there may be ways to allow more head room for spend without falling foul of legitimate creditors.

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Case study: University of Glasgow

At the University of Glasgow, a capital expenditure application process has been introduced, designed to formalise and streamline the business case process.

When he joined the University of Glasgow in 2005, Estates Director Jim McConnell introduced a capital projects approval process that he had previously used in the private sector. This has now been in place for two and a half years and after what McConnell describes as "a lot of hand holding", is proving effective in prioritising projects and is making departments more accountable for their capital spend – both vital in the current climate. Projects worth up to £500,000 are considered by a small capex group comprising the director of finance, the director of estates and vice-principal for strategy and resources. They consider applications in light of their academic and financial benefit to the university and their risk profile.

Projects in excess of £500,000 are submitted to the Estates Committee before being passed to the Finance Committee, and then the University Court for final consent. The criteria for approval – which are weighted according to importance – are:

- fit with the university's strategic objectives;
- fit with faculty strategic objectives;
- fit with the University Estates Strategy;
- overall cost and timescale; and
- availibility of funding from external sources.

Jim McConnell is also a keen exponent of the Scottish Funding Council's Decision Point process.

The process is based on the Office of Government Commerce Gateway Review Process and Scottish construction Works Procurement Guidance. At each decision point, the project must successfully complete a review and gain approval before it can progress further. "Although it has been used by the Scottish Funding Council to manage predominantly Further Education College capital investments, we were the first university in Scotland to embed the process in our new build capital project management", explains McConnell. "It hasn't really been used in the university sector until now".

McConnell believes others would benefit from using a similar system as it ensures that projects:

- remain on target to meet pre-agreed objectives;
- remain within set cost and quality parameters;
- achieve more accurate time and cost targets;
- management receive assurances that projects can pass successfully to the next stage of development; and
- staff knowledge and skills improve through participation in review teams.

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