BRIEFING

Construction, Economic and Procurement Update – **AUTUMN 2010**

FEATURES

- Tender price forecast
- Comprehensive spending review commentary
- Party walls
- KEY ARTICLE – The rain of light on the desert rose
- Site waste management plans
- Life cycle costing – spend or sweat

MIKE JEWELL

mjewell@mdaconsulting.co.uk

WHAT CAN THE INDUSTRY EXPECT NEXT YEAR?

The clocks have gone back and autumn is well and truly with us; it is a metaphor for the state of the UK economy and everybody's attitude to what we have in store for us in the coming years. Soothsayers are predicting very slow growth in the general UK economy with some predicting a double dip for the Construction Industry. Two months or so ago, this was chalked in for the whole country, but it appears that we are so selfish, we want to keep it to ourselves.

Back in the summer, we were all surprised to see that construction output increased, but that was due to one off factors like the catching up on work delayed by the severe winter weather. In the last few days, one authority (CIPS) has predicted a falling off in construction activity by up to 10% over the next two years.

It appears that about 25% of the surprising increase in the summer's national figures came from the construction industry, which is only 6% of the overall UK economy.

Kevin Heaton later in Briefing explains a detailed view on what these messages mean in terms of the outlook for Tender Prices.

Public Works will be hit particularly hard in the coming years as the government slashes spending, so at least we are not in too deeply in that area. It was only two years ago that everybody was trying to get into that area of operations as safe havens.

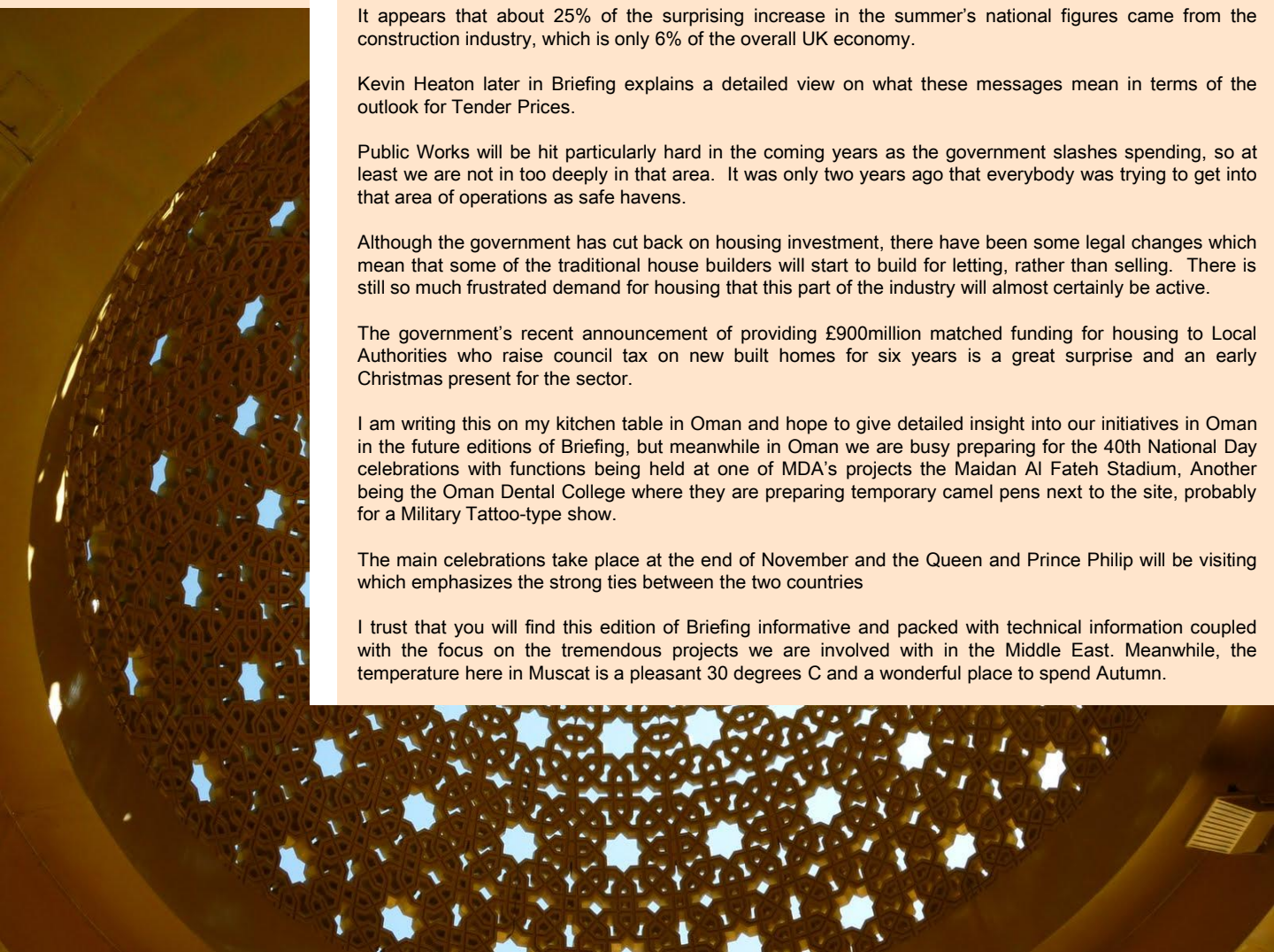
Although the government has cut back on housing investment, there have been some legal changes which mean that some of the traditional house builders will start to build for letting, rather than selling. There is still so much frustrated demand for housing that this part of the industry will almost certainly be active.

The government's recent announcement of providing £900million matched funding for housing to Local Authorities who raise council tax on new built homes for six years is a great surprise and an early Christmas present for the sector.

I am writing this on my kitchen table in Oman and hope to give detailed insight into our initiatives in Oman in the future editions of Briefing, but meanwhile in Oman we are busy preparing for the 40th National Day celebrations with functions being held at one of MDA's projects the Maidan Al Fateh Stadium, Another being the Oman Dental College where they are preparing temporary camel pens next to the site, probably for a Military Tattoo-type show.

The main celebrations take place at the end of November and the Queen and Prince Philip will be visiting which emphasizes the strong ties between the two countries

I trust that you will find this edition of Briefing informative and packed with technical information coupled with the focus on the tremendous projects we are involved with in the Middle East. Meanwhile, the temperature here in Muscat is a pleasant 30 degrees C and a wonderful place to spend Autumn.



E c o n o m y

KEVIN HEATON

kheaton@mdaconsulting.co.uk

TENDER PRICE FORECAST

Prospects for economic growth within the UK remain uncertain, particularly following the Comprehensive Spending Review and the impact this will have on the wider economy and the construction industry in particular (more on which below). Little growth was seen in the market during 2010 and our Tender Price Forecast for 2010 and onwards remains broadly in-line with previous projections.

Our earlier forecast of a decline in tender price inflation of -5% during 2010 has been revised marginally upwards to -4% for the year. Whilst the residential and commercial sectors showed signs of increased levels of activity during the 2nd and 3rd Quarters the picture remains very mixed across the UK.

A gradual recovery is anticipated during 2011 with London and the South East leading the way and there are indications that tender price inflation may move into positive territory in the London and South East market during the 2nd Quarter 2011 which is earlier than previously thought.

Outside of London and the South East, however, the picture is less promising with several regions likely to show only a marginal increase by the end of 2011 at best. We continue to forecast a modest recovery towards the end of 2011 and have moved our projection upwards from +0.5% to +1%, however, the impact of the public sector cuts, particularly in the regions, may lessen the increase in the average Tender Price Forecast for the UK as a whole.

We expect the market to recover gradually during 2012 and continue to forecast an annual change of +2.5%.

Looking further ahead tender prices are expected to continue to rise between +3.5% and +4% in 2013 by which time it is hoped that a recovery in the private sector will be gaining added strength.

COMPREHENSIVE SPENDING REVIEW

Whilst the cuts to public spending announced in the Comprehensive Spending Review (CSR) may not be as severe as originally feared, the full impact on the UK construction industry remains to be seen. Major Infrastructure projects have generally survived intact but other areas have received large cuts.

Capital spending is to be reduced by £2 billion per year less than was anticipated following announcements in the emergency budget in June. According to the Construction Information Service the spending will now be £51 billion in 2012, £49 billion in 2013, £46 billion in 2014 and £47 billion in 2015.

The Chancellor has prioritized capital spending on transport, green energy and the science base.

A number of previously announced major transport schemes were given the go-ahead as part of the £30 billion to be invested in UK transport projects over the next four years.

Crossrail will proceed, however, the smaller transport projects funded by local authorities will be cut by 7.1%. Final decisions on a number of local authority infrastructure projects (the ‘supported group’) will be confirmed in January 2011 with decisions on a further tranche (the ‘development group’) confirmed by the end of 2011.

The £30 billion of investment, however, represents a reduction of 11% in real terms over the next four years.

In Education, overall capital spending will fall by 60% over the next four years which is worse than expected. Spending will fall from £7.6 billion in 2011/12 to a low of £3.3 billion from 2012/13. £15.8 billion will be spent on refurbishing and improving schools over the four year period including 600 former Building Schools for the Future and academy projects which had been given the go ahead prior to the CSR.

Housing has seen massive reductions with funding being cut by 75% by 2014/15. Social housing will see funding drop from £8.4 billion between 2008 and 2011 to £2 billion over the following four years. Some 150,000 affordable homes are to be provided during this time.

The Government's recent announcement to provide £900 million funding to Local Authorities matched with funds raised through Council Tax for housing is an unexpected but a very much welcomed boost to the sector.

Capital spending on Healthcare projects is set to reduce by 17% over the next four years.

Energy has received an increase in funding with its annual budget rising to £2.7 billion by 2014/15. £1 billion is to be invested in a carbon capture and storage demonstration plant, £200m in offshore wind technology and £860m of funding is to be invested in the Renewable Heat Incentive introduced from 2011/2012.

Overall, the reaction to the CSR in respect of capital spending has been mixed. Infrastructure and green issues have fared reasonably well whilst housing (especially social housing) and education have been hit hard and there are genuine concerns over its impact on the UK construction industry.

JAMES HOPKINS

jhopkins@mdaconsulting.co.uk

PARTY WALLS - WHAT ARE THEY ALL ABOUT?

It is surprising how many people are unaware of the presence of the Party Wall etc. Act, 1996 that governs rights of Building Owners and Adjoining Owners in relation to party walls, party structures, party fence walls or adjacent owners.

The Party Wall etc. Act, 1996, 'the Act', emanates from the London Building Act (Amendment Act) 1939 that legislated many matters, including party wall issues for inner London, for a large number of years.

Works governed by the Act include :

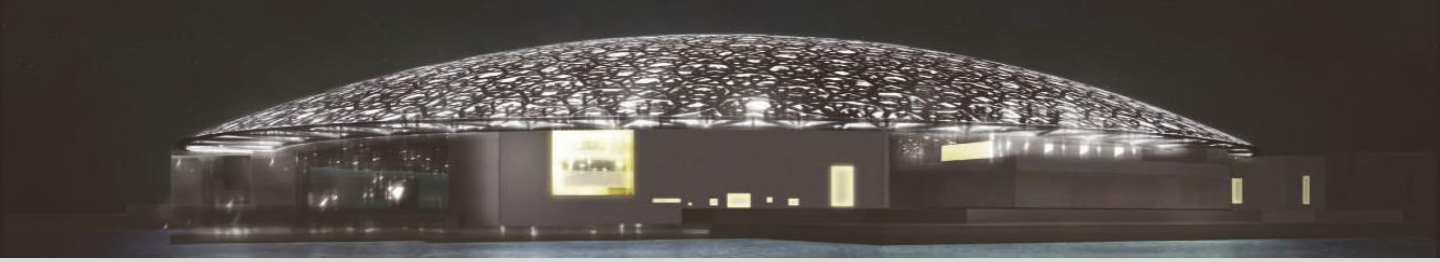
- Any excavation within 3 or 6 metres and to a lower level than the base of the Adjoining Owners' foundations (contact MDA for a full explanation of the 6 m rule)
- Cutting into, raising, lowering and underpinning a party wall
- Building a new party wall/party fence wall on or near the boundary, up to or astride the boundary line

So tell me, what is a party wall, I hear there are different types?

Party walls are split into three distinct categories but they are generically referred to as 'Party Walls':

1.Party Wall 2. Party Structure 3. Party Fence Wall

Article continues on page 5



KEY ARTICLE

JOHN COLLINGE

jcollinge@mdaconsulting.co.uk

THE RAIN OF LIGHT ON THE DESERT ROSE

As the leaves turn from green to gold and long dark cold nights draw upon a UK gripped with anxiety and uncertainty over the economy it was good to take time out and look at MDA's bright opportunities emerging in the Middle East.

'Briefing' spoke recently to overseas director and international Quantity Surveyor John Collinge on his recent visit to the UK.

John provided an insight into two fantastic projects which he is currently working on with French Architect, Jean Nouvel being "The Louvre Abu Dhabi" and the "New Qatar Museum"

Jean Nouvel's Louvre, Abu Dhabi project which is in excess of £350 million takes a step closer to reality.

John supported by a pan national team within MDA Consulting explains some of the processes and QS disciplines required to bring to fruition a magnificent project of national and international importance.

Collinge explains the scale and some of the complexity of the project design. "The building sits on 3,200 steel 'H' section piles and will appear to rise out of the sea, the technical challenges of doing this are enormous with the land first being reclaimed from the sea to enable construction of the substructure and then the land being removed on completion".

Asked what the principle form of construction involve he explains " there are two levels of basement construction at -3.5 and -7.00m which will be below sea level. A platform or 'podium' level and plus 4 levels above sea level will provide the majority of the museum space."

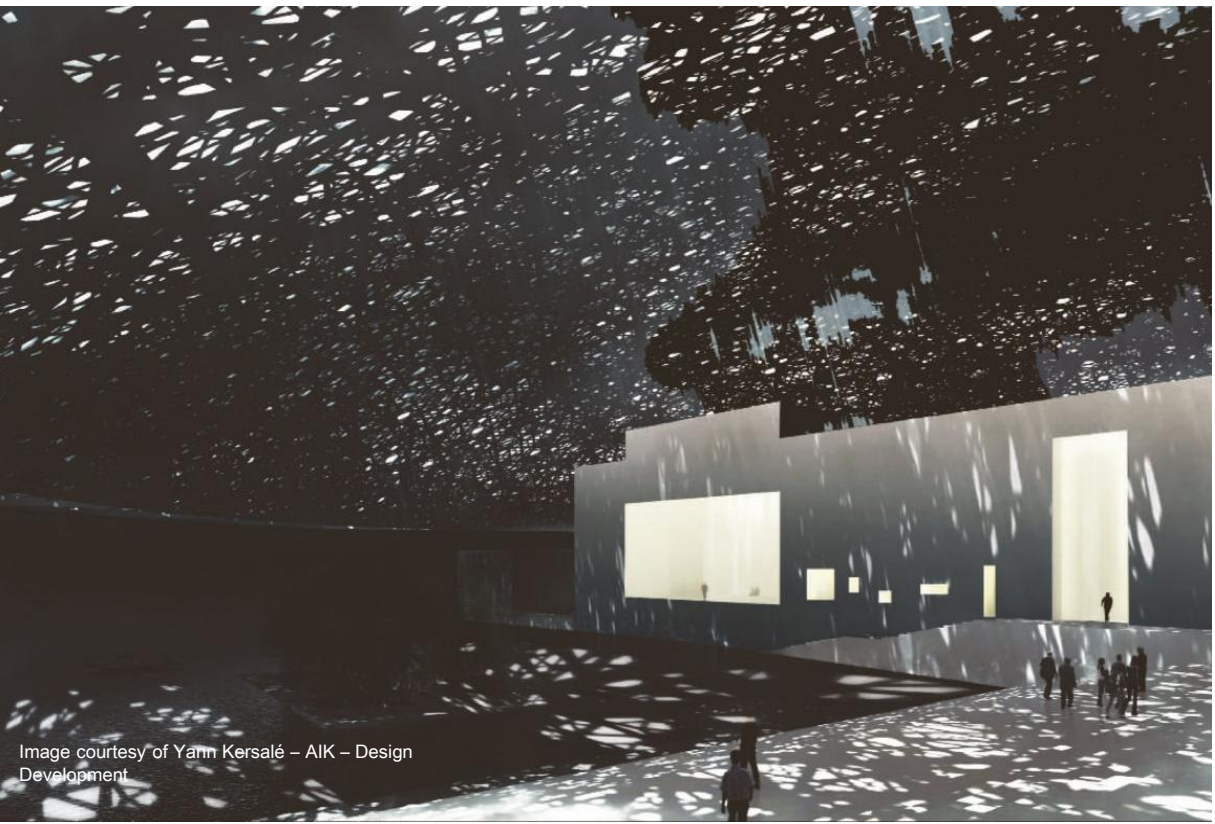


Image courtesy of Yann Kersalé – AIK – Design Development

'...Rain of Light...'

We asked what is the concept behind the fantastic Buro Happold designed dome structure and what makes it stand up? "The 182m diameter domed structure incredibly is only supported at 4 points with 132m span and 5m deep steel structural cross supports. There are 5 layers of overlaid structure to achieve a filigree 'Rain of Light' effect through the 80,000 sq m building, which will be breath taking"

The building will house museums, art galleries commercial and administrative elements coupled with a vast array of security installations and will have permanent galleries managed by the 'Agencé Frances Museums(AFM)' as well as a 100 year design life.

We asked John how projects like these are estimated, procured and kept to budget. John's answer was "…tried and tested quantity surveying techniques…" he states, "… just applied on a big scale. Working with the specialist it is possible to break the building down into bite size pieces and apply measures and rates on an elemental basis, as you would do with any building and build up a cost plan which then becomes one of the principle cost control tools"

Asking how the building is being procured John responds, "there are enabling or advanced contracts set up for the piling substructure and main superstructure to level +4. The main contractor will be then appointed on the basis of BQ's under a FIDIC form of contract and a lump sum price. We are currently going through this tender process as we speak."

"The building is not just about its built form it is about the services, content, display and fitting out which in themselves present enormous challenges all of which we are able to bring solid cost management tools to the process."

The Louvre Abu Dhabi is due to be operational in 2013.

'...so complex it is almost impossible to measure...'

Turning to another major scheme MDA are involved with Jean Nouvel in the Middle East is the new Qatar Museum. John Collinge described the 60,000 sq m facility as a project "…so complex it is almost impossible to measure."

Asked how the Arup structurally designed building can be procured and managed, John describes measuring the building to the "Principles of Measurement International (POMI)" as being a "good start."

"The building comprising interlocking discs with 3 directional nodes which is difficult to say let alone build! The project is currently being tendered utilizing advanced works contracts and a main contract FIDIC form of contract, similar to the arrangements of the Louvre project."

Turning to the question of which contractors can actually deliver projects of this scale and complexity Collinge responds that they will be procured from the world's market of experienced and skilled main contractors and could come from any point on the compass.

'...the Desert Rose...'

The project known as "The Desert Rose" is due for a 2013 opening and along with the Louvre Abu Dhabi will be, to quote John, as he headed to the airport as "…exceptional!"

Continued from page 2...

A party wall is any wall separating two or more Owners' properties that is used by each for the purpose of their building. The wall is equally shared by each Owner and is typically built straddling the boundary line, therefore representing a shared or 'party' wall. A party wall as above refers to vertical walls, however, a party structure refers to the horizontal walls (floors) that separate two or more Adjoining Owners' properties. Taking a block of offices, for example, flats located on the ground floor will share a party structure with those on the floor above, in effect, the structural floor.

A party fence wall is a garden boundary wall that is built astride the boundary separating two or more Owners' properties. Such a wall built wholly on the land of one Owner, irrespective of projecting footings, will not constitute a 'party fence wall'.

So I've got a party wall - what does this actually mean for me as a Developer?

Works to party walls or foundation excavations near an Adjoining Owner's building are notifiable under the Act. Failure to serve a statutory Notice is an offence and the Works could be halted by means of a County Court injunction.

A Party Wall Surveyor should be appointed no later than RIBA Stage D (Scheme Design & Planning). Early integration of the Surveyor into the Project Team can prove invaluable; many Developers are unaware that they are able to build a new building wall up to the boundary line, so that the external brick face demarcates the boundary and, thus, projecting footings can be dug within the neighbours' land.

Subject to the complexity of the proposed Works, a typical Party Wall Award will take approximately three months to negotiate and agree but, remember, any Owner with a term or lease greater than one year will be entitled to a Notice, which, in the event of a dispute, can mean multiple Party Wall Awards.

What information is included within an Award?

Typical information will include : the Award with its constituent clauses, Architects' and Engineers' plans/sections/elevations, contractors' and subcontractors' method statements, contractors' insurances, a Programme of Works, a Schedule of Condition and a Schedule of Record Photographs.

MIKE O'TOOLE

motoole@mdaconsulting.co.uk

SITE WASTE MANAGEMENT PLANS

Two years ago Site Waste Management Plans (SWMP's) became a mandatory requirement on all construction projects in England worth over £300,000. But what exactly are these, what have we learnt and what do we need to do?

Brief History

The UK construction industry produces around 120Mt of waste a year, and uses over 400Mt of materials. In order to try and get some kind of grip on this enormous use (and waste) of materials, in 2004 the DTI introduced SWMP's as a voluntary tool for use by contractors. Whilst the uptake was encouraging, it was felt that the only way to drive further resource efficiency was to introduce regulations making it mandatory for contractors to use these plans for any reasonably sized contract. These regulations are known as the Site Waste Management Plans Regulations 2008.

The SWMP Regulations 2008

The regulations apply to all projects with an estimated cost of £300,000 or more (excluding VAT), with more detailed requirements for projects exceeding £500,000. Space does not permit a detailed account, but essentially the SWMP must describe each waste type expected to be produced, with estimates of quantity and action required (e.g. recycle, re-use, recovery and disposal). Comparisons are then made with actual values on completion.

.

How do SWMP's help?

SWMP's assist contractors in managing the waste produced on construction sites, providing a framework for forecasting the amount and type of waste that will be generated and identifying actions for how it can best be reduced, re-used, recycled and disposed of. A plan must be in place before the construction stage commences, and the earlier in the project the plan is developed, the better the chances of reducing the overall level of waste generated during construction.
Whilst it is not essential to have a plan in place during the design stage, this is where the greatest influence on waste occurs. Design decisions affect the amount and type of waste that is likely to be generated, therefore commencing the plan at a time when materials are being specified and methods of construction are being considered would help to focus minds on this vital topic.

How can we help you?

We can assist the client in setting project requirements for good practice waste minimisation and management from the outset, thus reducing construction costs. MDA can also assist the design team to:

- Identify waste arisings, re-use and recycling routes
- Develop the SWMP during the design stages, providing approximate quantities of the various types of waste
- Provide tender and contractual requirements for good practice SWMP implementation
- Assist in BREEAM assessments by quantifying waste reduction

The SWMP Regulations 2008 are enforceable by the Environment Agency or the Local Authority, and whilst the main responsibility for compliance rests with the Principal Contractor, there is a growing acknowledgement of the influence that clients and designers have in ensuring that waste is both managed and reduced. As our landfill sites continue to fill, there is no question that the authorities will use enforcement measures more and more in the future as a way of limiting waste on construction sites.

GARY WILLIAMS

gwilliams@mdaconsulting.co.uk

LIFE CYCLE COSTING – SPEND OR SWEAT

How much should be spent on property maintenance, £30/sq m per annum or, £300/sq m per annum?

The answer of course depends on the age of the property and the type of components utilised for its construction. Whilst most Client's maintain their properties at a level of expenditure that they are comfortable with to provide their required occupational standards, the level of maintenance undertaken is usually dependent on their companies budgets, calculated on a short term basis and, as we have witnessed on several occasions, not reflective of the age and condition of the building given its remaining anticipated life.

Life Cycle Costing, where the construction elements of the building are costed over a 20 to 60 year duration to provide the most cost effective building scenario, is now regularly used as part of the Whole Life Cost for new projects. However, there is another aspect to its use, as a tool for estimating and planning cost effective maintenance solutions for existing building stock.

...logistics

The assessment of building component type, current condition, building defects and site measurement is undertaken by our in house building surveyors, including Mechanical and Electrical installation surveys. The logistics of undertaking these surveys can be quite complex, especially where we are surveying multiple buildings, often spread over a wide geographic area. Each survey's information is then used to populate a comprehensive Lifecycle model on an elevation by elevation and room to room basis that incorporates information regarding the building component/material, its quantity, replacement cost, first year of maintenance and predicted lifecycle to provide a cost assessment, over a defined lifecycle period, as a current cost, or if required, as an annualised or non-annualised cost.

Quantities are calculated using as built drawings where available but are usually a combination of on site dimensions, photocopied plans, photographs and out-dated drawings. In addition, whilst our Lifecycle model includes for regional factors, preliminaries, fees, security, porterage, overheads and profit, out of hours working, contingency, VAT and building defects it can easily be modified for any bespoke Client items.

...mean of high and low

The key aspect of our Lifecycle model is that each component's lifecycle is calculated from the mean of a high and low predicted life expectancy. This enables the peaks and troughs of expenditure to be smoothed by either "sweating" the component by marginally extending its predicted life expectancy or "smoothing" the component by slightly reducing its predicted life expectancy.

This feature also allows us to bundle together works that may occur in adjacent years which may, for external wall items, save on duplicated scaffolding costs. Perhaps, most importantly, the Lifecycle model can be similarly adjusted, where it is in excess of the Client's budget. In addition our assessment will identify those items occurring near the end of the life of the building, which can, with the Clients approval be "sweated" off the end of the Lifecycle cost.

...major smoothing

Whilst we usually undertake a basic level of smoothing of the expenditure, the major smoothing, bundling and reducing final year expenditure is undertaken with the Client.

Another product of calculating each component's lifecycle cost is the ability for us to compare this cost with that of replacing with new components earlier in the buildings life to minimise on-going maintenance costs.

Our use of Life Cycle Costing techniques in this way enables Client's to manage their maintenance budgets without significantly reducing the life of the building or the quality of its occupant's environment, which in the current economic situation can only be of benefit as funding for new buildings is not what it once was.

Oman Dental College

MDA CONSULTING LTD – OFFICE LOCATIONS UK

Birmingham
12 St Paul's Square
Birmingham B3 1RB
T: 0121 233 3839
E: birmingham@mdaconsulting.co.uk
Contact: Rob Kennedy

Brighton
2 Frederick Terrace
Frederick Place
Brighton BN1 1AX
M: 07921 058 196
E: mtaylor@mdaconsulting.co.uk
Contact: Martin Taylor

Bristol
11-12 Queen Square
Bristol BS1 4NT
T: 0117 929 2641
E: bristol@mdaconsulting.co.uk
Contact: Kevin Heaton

Croydon
Philip House
6 Lansdowne Road
Croydon CR0 2BX
T: 020 8686 5566
E: croydon@mdaconsulting.co.uk
Contact: Mike Jewell

Leicester
No 1 Museum Square
Leicester LE1 6UF
T: 0116 254 8951
E: leicester@mdaconsulting.co.uk
Contact: Rob McGuinn

London
17 Grosvenor Hill
Mayfair, London
W1K 3QB
T: 020 7399 0888
E: london@mdaconsulting.co.uk
Contact: Steve Jones

Manchester
Kingsgate, 3rd Floor, 51-53 South King Street
Manchester M2 6DE
T: 0161 835 2100
E: manchester@mdaconsulting.co.uk
Contact: Paul Crowe

Newcastle upon Tyne
5-13 The Side
The Quayside
Newcastle upon Tyne NE1 3JE
T: 0191 232 0888
E: newcastle@mdaconsulting.co.uk
Contact: Maurice Low

MDA INTERNATIONAL LTD - OFFICE LOCATIONS INTERNATIONAL

MDA Oman
Monk Dunstone Associates (Muscat) LLC
Building 6829
Way 1595
Medinat al Ilam
Muscat
Sultanate of Oman
GSM: +968 9737 6915
E: mjewell@mdaconsulting.co.uk
Contact: Mike Jewell

MDA Praha s.r.o
Vinohradská 22
120 00 Praha 2
Czech Republic
T: +420 2 4248 6780
E: jhrubes@mdapraha.cz
Contact: Jan Hrubes

MDA Consulting (TCI) Ltd
Richmond House
Leeward Highway
PO Box 127
Providenciales
Turks & Caicos Islands
British West Indies
M: +44 (0)7803 288 055
E: jcollinge@mdaconsulting.co.uk
Contact: John Collinge

MDA Libya
Hay Al-Andalus
PO Box 12588
Tripoli
Libya
M: +44 (0)7803 288 050
E: sjones@mdaconsulting.co.uk
Contact: Steve Jones

MDA Consulting Ltd
International Property
& Construction Consultants

0870 900 7575
info@mdaconsulting.co.uk
www.mdaconsulting.co.uk