

PROCUREMENT REFURBISHMENT

When budgets are tight, refurb can seem the ideal solution. But how do clients and contractors allocate risk and manage outcomes? **Simon Rawlinson** of **Davis Langdon** looks at the options

01 / INTRODUCTION

Refurbishment is a large and ever-present element of construction workload, and one that becomes more important in a downturn. At this point in the cycle, cash-strapped clients who would rather go down the new-build route are forced by circumstance to make do with the buildings that they have.

The recent cancellation of much of the Building Schools for the Future programme, and the expansion of academies based on existing schools illustrates this trend, with the emphasis shifting to investment in improving existing stock. Asset-rich clients such as universities and healthcare trusts face a similar challenge.

Some niche developers are able to make a

virtue out of refurbishment, extracting value out of tired commercial buildings through targeted investment. Similarly, in the retail and hospitality sectors, refresh programmes continue on a cyclical basis, maintaining the competitiveness of a property portfolio with the least cost and disruption to the operator.

Refurbishment work is, by its nature, diverse, ranging from redecoration to total reconstruction based on a retained structure. What all refurbishment projects share in common, however, is a greater risk profile than an equivalent new-build project. In boom times, refurbishments are less attractive to mainstream contractors and they may struggle to obtain competitive prices through negotiation or tender. By

contrast in a downturn, when, for many contractors refurbishment is the only game in town, the risk is that competition will be too great – potentially resulting in winning submissions that do not fully reflect the scope of work or the allocation of risk set out in the contract.

So what procurement options should a client consider, not only to protect themselves in terms of risk allocation, but also to provide enough information and control to contractors so that they can manage their own risk effectively? Furthermore, beyond the contract and means of contractor selection, what measures should a client take to create the conditions for the successful delivery of a project?

02 / TYPES OF REFURBISHMENT AND IMPLICATIONS FOR PROCUREMENT

Refurbishment is a catch-all phrase that covers project work ranging from a simple redecoration to the complete remodelling of an existing building. Despite the diversity of project challenges that a refurbishment might bring, the procurement options available are not much wider than for new build, and do not necessarily cater specifically for the particular characteristics of refurbishment projects.

In identifying an appropriate strategy, a useful starting point is to consider the complexity of the project, and then the scale of the work and how it should best be managed.

■ Simple refurbishment involves repairs, redecorations and updates to short-life items such as furniture, fittings and equipment (FF&E). Refurbishments of this nature might be undertaken as part of a planned refresh cycle, or might be a short-term tactical investment to extend the economic life of an asset. The timeframe of the investment is typically five to seven years.

There are few complexities associated with this kind of work, but contractors may need to update elements of building services or possibly ancillary spaces that have not benefited from regular investment over the years. For simple refurbishment, the key issue for the client will be whether it is cost effective to transfer risk to a contractor.

■ Medium refurbishment generally involves upgrades to building services, so the frequency of investment is on a cycle of 15-25 years. Increasingly, improvements to the building fabric are required as a consequential improvement under the Building Regulations. Refurbishments of this kind will

involve a greater level of risk associated with the existing building fabric and systems – either related to the reuse of some systems, or the replacement or remodelling of windows and risers.

For medium refurbishment, the condition of the existing fabric and systems can have a great impact on the completion of work, so risk transfer needs to be considered carefully. Furthermore, as the works are often undertaken in occupied buildings, the impact of the project on end-users should also be considered.

■ Major refurbishment is aimed at the long-term repositioning of a building – improving its performance and efficiency, addressing constraints such as circulation and maximising the potential offered by the site and the building consent.

Works might involve a strip back to the structure, reorganisation of circulation and common parts, or the infilling of features such as lightwells. The risk on these projects is much greater, but the opportunity for a contractor to manage its exposure is equally high, so the risk management priority is to make sure the maximum amount of information on building condition and other sources of risk is acquired, and to make the risk allocation – for example, defects in the base building – as clear as possible.

Given different client objectives and the diversity of projects that fall under the scope of refurbishment, there is no single procurement strategy that will deliver an optimum product on time. To determine what the strategic priorities should be, the client needs to consider project challenges and conditions for success on a case-by-case basis.



Getting procurement right is particularly important for complex refurbishment projects. The National Audit Office criticised the BBC for a £55m overspend on the £1bn refurbishment of its Broadcasting House in central London



03 / TYPICAL REFRUBISHMENT AND MITIGATION STRATEGIES

Condition of the existing building

Building condition is a major determinant of what can be delivered in a refurbishment and the success of the on-site works.

- The full scope of work may only be finalised after extensive survey work, which may not be possible in an occupied building. Where possible, the programme should allow for this investigation prior to tender.
- Even small refurbishments can be disrupted by unexpected building condition issues – particularly if the solution is labour-intensive.
- The ability of the contractor and client team to respond quickly and effectively to discovery issues can be influenced by decisions on procurement and risk sharing.

Impact of the new works on the existing building

Examples of how interfaces between the existing fabric and new work need to be considered include:

- The effect of temporary works and alterations on building condition and on the design and construction of the new works.
- The effect of building constraints on working method and sequencing.
- The integration of new work such as services distribution into existing voids and risers.

Programme

Areas to watch out for include:

- Over-optimism about the design and procurement programme, as well as the extent of decant required for investigations and construction.
- Inflexible external drivers of the programme, such as term dates.
- Maintaining early momentum through the refurbishment programme.
- Completing the works and the snagging, and getting off site.

Limited resources

Refurbishments are typically carried out on limited budgets, with much of the scope being focused on fixing problems rather than delivering value-adding improvement. A project may also have to address the needs of different budget holders, who may have different priorities, resulting in an unbalanced project. Key issues to consider include:

- Managing the scope and boundary of the refurbishment.
- Focusing on delivering the “natural” scope of the project rather than what the hypothecated funding initially dictates.
- Working within the capacity and lifespan of the building to develop a solution to deliver the brief rather than over-emphasising big changes.
- Setting aside sufficient contingency, even though this may mean that the wider project scope is limited.

End users and the wider context of the project

For simple and medium-scale refurbishment works, issues of end users and occupiers are potentially critical and need to be considered carefully as part of the procurement strategy.

- Optimism bias of clients and end-users. Both are likely to underestimate the disruption caused by a project.
- Adequate resourcing of end-user liaison and management. In highly competitive markets, management can be under-resourced in bids, so the client's requirements need to be well defined in tender documentation.
- Phasing. The sequence of work needs to balance the effective use of contractor resource with site issues such as access and services diversion.
- In-house control of the “client on the site”. Issues of scope creep and the ability of the site team to focus on the task in hand can be adversely affected by intervention from end-users acting in a quasi-client capacity. This risk needs clear controls and discipline to create effective distance between the contractor and end users.

Many of these issues are highly project and client-specific, so there is a wide range of mitigation steps that can be taken by the client on their project to create the optimum conditions for success. Making ill-defined issues the “contractor's problem” through all-encompassing risk transfer will not be effective unless the contractor has the knowledge and tools to allocate and manage the risk effectively.

Effective mitigation steps include:

- Site survey and condition-based design.
- Investing as much time and money as necessary

and available to gain a thorough understanding of the building condition and extent of adaptation. Areas of interface between new works and existing elements such as services risers should get particular attention.

- Separate out the risk of demolitions, alterations and strip-out from the main contract to facilitate investigation. Responsibility for this work could still be passed to the main contractor through novation on larger more complex projects, but the cost and programme risks will be closed. Providing a clean site enables the contractor to “hit the ground running”.
- Describe the risk transfer explicitly, using practical examples to avoid misunderstanding. Use of ambiguous phrases to allocate risk is superficially attractive, allowing for subsequent negotiation if a problem occurs, but a clear allocation of risk provides a better basis for project delivery. Examples of risks that the client might accept include the integrity of the existing structure, capacity and performance of retained plant, or the adequacy of survey information in connection with services diversions.
- Use relatively simple design solutions that work well with the existing building fabric on all but the most complex and ambitious refurbishments.
- Place high importance on resources for pre-planning and on-site management and ensure in post-tender evaluation that appropriate allowances are made.
- Actively engage in collaborative working – either through support to the supply chain, selection of contract or equitable risk sharing.



The Cyntra Place flats in east London used to be part of a Victorian factory

Government cuts mean school refurbishments are going to become a much bigger market. This £8m remodelling of Elm Court school in south London gave the Edwardian building a new lease of life. It was designed by JM Architects and engineered by Gifford



05 / CASE STUDY: EFFICIENCY CHALLENGE

This case study illustrates how large-project thinking has been applied to the Decent Homes refurbishment programme, yielding significant savings to individual client organisations, while retaining opportunities for SMEs to win a substantial programme of work.

The Efficiency Challenge Fund (ECF) has been run by the Homes and Communities Agency for the past five years, managed by Davis Langdon and Trowers & Hamlins. It has involved the formation of 15 consortiums of social housing providers, pooling much of the workload of a total of 155 organisations. By amalgamating workload, small organisations have been able to access big volume discounts on materials and the leverage that an

extended work programme can offer a large client with a professional supply chain function.

So far, the programme has delivered improvements in 700,000 homes at a cost of £1.6bn – delivering overall savings of £230m, including more than £120m through improvements in the performance of existing supply chains.

The ECF itself is a business-plan driven programme providing support to enable consortiums to establish themselves and their systems. Although the social housing clients have broadly similar programmes, delivering decent homes and energy-efficiency programmes, for example, they are free to

adopt different approaches to packaging the work and managing risk transfer:

- Turnkey, where a framework of contractors offer design, specification and installation services, and savings are secured through volume discounts and through the benchmarking of project performance.
- Economy-of-scale involving the separation of product procurement undertaken by specialist supply chain managers and installation work, carried out by appropriately sized local contractors, including SMEs. The resulting approach is similar to construction management, with the consortiums taking on board procurement and co-ordination risks of different work packages.



These approaches reflect the capability of the consortiums to influence their supply chains and the degree of investment in systems to enable this. The GM Procure consortium, for example, has invested in an online transaction management system for material purchase, operated by ValueWorks, but is also able to allocate and manage work across a subcontractor framework with more than 180 members.

Consortiums have also been able to promote local training and employment initiatives, even though the main aim of the programme is to consolidate workload - more than 500 apprenticeships have been created by the programme.

The ECF is also more than a refurbishment procurement strategy, in that it embodies many aspects of supply chain development to lever volume, reduce price risk and to link suppliers and contractors. However, it illustrates a number of important issues associated with refurbishment that are relevant to a wider group of clients beyond social housing:

- Reinventing the wheel on contracts and supply chains adds cost with only limited project-specific benefits that can be justified only on the larger, one-off refurbishments
- Consolidation of work programmes enables value to be driven into the low risk areas of finishes and FF&E
- Risk sharing across a programme of work on a win-some, lose-some basis reduces the net cost of risk transfer
- Breaking the scale of a programme down to its constituent parts is a credible alternative strategy for risk transfer.

In a funding environment where securing value from every pound spent will be paramount, avoiding waste through consolidation of supply chains and reducing the risk exposure of contractors on the workface makes powerful economic sense. The approach also recognises that refurbishment projects are shared problems, and that early engagement with the supply chain and a considered approach to risk transfer, appropriate to the scale of the project and the extent of the opportunity, will deliver, in the aggregate, a much better outcome.

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Refurbishing buildings while still occupied is particularly challenging. Contractor ISG was thrown off the refurbishment of the Shell building when the job took longer than anticipated

