Cabinet Office

Government Soft Landings

Section 4 - Capital Cost and Operating Cost

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4.0 Capital Cost and Operating Cost (the Economic POE measure)

4.1 Introduction

There are a number of current documents and policies which cover the measurement and recording of capital cost and operating cost in the built environment sector and the government departments are already participating, so for Government Soft Landings (GSL) and Post Occupancy Evaluation (POE), the setting of targets and measurement should reflect some of the methods already being used by departments.

The setting of cost targets and the POE cost measures is to reflect the metrics already being used by departments to test that the asset as delivered meets their required outcomes. The GSL Champion is to work within the department to establish agreed targets and measurement methods.

The gathering of the Capital Cost information will normally be conducted by the Project Manager working with the construction team and the Operating Cost Information will be provided by the FM Provider and client Estates/FM/Asset Manager. The GSL Champion is to ensure the collation of the operational costs including capturing of baselines from existing estate/assets to set operational budgets and use the data as feedback to the design and construction team. The information is to be issued to the department and where dealing with BIM the data is to be identified under the Impacts tab within the Construction to Operations Building information exchange (COBie) in the Asset Information Model.

4.2 Operating Costs

The Operational Budget will be provided as one of the key outputs from the Facilities Management process (Section 6) and will be monitored and benchmarked throughout the Design Development, Construction and In-Use phases.

In accordance with the Central Government Facilities Management Standard and FM Controls, budgets are to be set out in accordance with the Investment Property Databank (IPD) Cost Code - Measuring the Cost of Buildings http://www.ipd.com/OurProducts/GlobalEstateMeasurementStandards/HowdoImeasurecost/tabid/1381/Default.aspx . This enables more effective benchmarking and post occupancy evaluation and feedback.

Property Occupation		Business Support	
C3	Internal repair and maintenance	D2	Catering
C4	M&E repair and maintenance	D3	Reception Services
C5	External structure repair and maintenance	D4	Courier and External Distribution (within Office Services Category Scope)
C6	Minor Improvements	D5	Post Room Internal Distribution
C7	Internal Moves	D6	Reprographics (within Office Services Category Scope)
C8	Reinstatement (not in FM scope)	D7	Disaster Recovery (not in FM Scope)
C9	Security		
C10	Cleaning	**Management**	
C11	Waste Disposal	E1-4	Management (incl. Helpdesk, CAFM, FM Contract & Performance Management)
C12	Internal Plans and Decoration		
C13	Grounds Maintenance		
C14	Water and Sewerage (within Energy Category Scope)		
C15	Energy (within Energy Category Scope)		

The Cost Codes are to be structured as shown below (for building assets):
The specification and budget for the Operational Service Model are to be approved by the Project Sponsor and made known to the design and construction team at BIM Information exchange 2.

The Operational Service Model needs to be used as a point of reference during the design of the building assets. The Operational Budget is to be tracked as the design progresses. Variations that impact on the Operational Budget should be treated as a variation.

Operating budgets should be compared against the targets set in the original brief to analyse accuracy and reasons for variance. These need to be fed back to the department and the FM team as part of the FM annual data return (GPUFM@cabinet-office.gsi.gov.uk) for future use.

It will be necessary to normalise these results to allow for defined variance to budget (as set out in the template).

A condensed version of the template for this report is shown below:

Facilities Management Operating Costs – Financial Report						**Date**
Service Line	**Planned Maintenance Costs**			**Reactive Maintenance Costs**		
	Project target	Operating budget	Operating actual	Project target	Operating budget	Operating actual
Catering						
Internal Fabric						
HVAC, M&E and Lifts						
External Fabric						
Security						
Cleaning						
Grounds						
Management						
Gap Analysis						
1. Variance Operating budget to Project target	a) Size and scope b) Procurement c) Revised target cost objectives d) Specification e) Operating model f) Cost allocation					
2. Variance Operating actual to Operating budget	a) Any variations to scope, specification or target costs in the financial reporting period b) Abnormal occurrences in period c) Deferred works or cost accruals d) Impact of any Project Works					
3. Operating cost projections to reconcile normal operating costs against Project target (project maturity factor)	a) Forward Maintenance Register b) Revised PPM or Reactive budgets tom account for increased age of plant and equipment					

Explanatory notes for feedback report

1. Project Targets are those projected maintenance costs that are established during the project. They can be amended but changes should be tracked as part of the project data base and included in BIM Data Drops.
2. Baseline costs should be used to set operational budget costs, utilising existing cost in use data from existing estate/assets.
3. Operating budget is the annualised operating costs set for the facility in use.
4. Operating actual is any known variations to budget which have, or are projected to, occur in period.
5. The Project Target should be set from either industry or departmental benchmarks or, where remodelling existing facilities, as a calculation based on change (design or project target) to the existing model.
6. The Reconciliation for normal operating costs is to account for the fact that this exercise is likely to be conducted with a brand new facility or a facility which has had significant capital expenditure – both of which mean that the immediate maintenance costs should be at an absolute minimum. Either these are cost tracked as target (they would definitely be reflected in the budget) or the actual/budget are corrected for future years. Typical examples benefits are in hard services; less maintenance needed to new equipment, reactive faults should be at a minimum and/or should be covered by warranties, fabric maintenance costs should be negligible.

4.3 Capital Cost

Cabinet Office document Cost Benchmarking Principles and Expectations, 10-02-12. set out construction related cost benchmarking standards developed by the Joint Data and Benchmarking Task Group. These principles were intended to be used as the basis for developing consistent Departmental approaches to construction cost benchmarking, some of which were already relatively mature. They therefore also provided a helpful point of reference for the wider public sector – for example Health Trusts and Local Authorities – in determining a standard approach to construction cost benchmarking.

Effective cost benchmarking is central to the successful delivery of the Government Construction Strategy (GCS) and the Infrastructure Cost Review. It provides

the “should cost” capability (Note1) that is an essential component of the new procurement models being trialled as part of the delivery of the GCS. In doing so, it therefore facilitates the corresponding achievement of the overarching target of a sustainable (Note 2) reduction in construction costs of up to 20% by the end of this parliament.

1 “Should cost” capability describes where an intelligent client understands what a particular requirement should cost before going to market. Typically this knowledge is gained by reference to earlier cost benchmarks – for example those published by Cabinet Office July 2012 – together with an appreciation of what is currently affordable e.g. those costs towards the bottom of the cost distribution for a particular type of project. It is therefore envisaged that “should cost” capability would be deployed together with output / outcome specifications in order to ensure the final specification represents the minimum needed to effectively deliver a clients business requirement.
2 Without adversely impacting either whole life value or the long term financial health of the construction industry.

The implementation of the GCS and Infrastructure Cost Review has prompted departments to build on their existing approaches to address further benchmarking principles.

In summary, departments have made progress in implementing the following principles:

- Adoption of a common summary analysis format e.g. that used by the Building Cost Information Service (BCIS) or similar for infrastructure;

- Adoption of Type 1 comparable metrics (for further explanation refer to definition below);

- Establishment of process and contractual arrangements that deliver the required data in a timely manner at key stages in the project;

- Consistent format and use of data facilitating comparison of costs by different clients within a single organisation and/or same sector;

- Guidance on using data during the feasibility and procurement stages.

Typically departments are still in the process of implementing or have yet to address the following principles:

- Identification of processes to data collection that allow benchmarking of different procurement approaches;

- Establishment of methods to assess the effect of legislative and technical changes relating to Government policies (e.g. Building Regulations and BIM);

- Adoption of Type 4 comparable metrics (for further explanation refer to definition below);

- Consistent format and use of data facilitating comparison of costs by different contractors within a single framework and/or different clients across sectors;

- Development of data sharing protocols to facilitate the above;

- Development of protocols to capitalise on BIM in the collection and use of cost data.

Consistent with the terminology used for the Department Cost Benchmark Data - the current version of which was published July 2012 - cost benchmarks are described within this document in terms of the following types:

Type 1 Benchmarks (Spatial Measures): Encompass the most common formats used by clients and industry to benchmark total construction costs, for example: £/m, £/m2, £/m3. They are related to throughput (quantity) in the sense, for example, of square metres of accommodation delivered by a project.

Type 2 Benchmarks (Functional Measures): Encompass a range of more Department specific benchmarks, which address business outcomes per £ for example: £/Place; Flood Damage Avoided £ / Investment £.

Type 3 Benchmarks: Address a range of more Department specific benchmarks but where business outcomes are related only indirectly to the benchmark, for example: ratio of product cost (or alternatively development cost) to total construction cost.

Type 4 Benchmarks: Similar to Type 1 benchmarks but applied at an elemental throughput (quantity) level, for example: foundation costs £/m, £/m2 or £/m3.

Terminology: Suppliers offer prices to clients - i.e. their internal costs plus overheads and profit - which on the award of a contract become client costs. Therefore what are in effect the same benchmarks are denoted throughout as cost benchmark within this document.

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