

ABERDEEN CITY COUNCIL

COMMITTEE	Enterprise, Planning and Infrastructure Committee
DATE	24 May 2011
DIRECTOR	Gordon McIntosh
TITLE OF REPORT	Professional Fee Allowances and Corporate Administration Costs for Non-Housing Capital Projects.
REPORT NUMBER:	EPI/11/149

1 PURPOSE OF THE REPORT

The purpose of the report is to advise Elected Members of the reasons for the reduction in income generated for the Council's General Fund Revenue Budget by the Construction Management and Design Section of Asset Management Operations. The report also details the existing arrangements for the charging of fees for Non-Housing Capital Projects.

2 RECOMMENDATIONS

1. The Committee notes the existing situation with regard to the way that Professional Fees and Corporate Administration Costs are charged for Non-Housing Capital Projects.
2. The Committee notes the reasons for the shortfall in income during the Financial Year 2010/11.
3. The Committee agrees for officers to amend the current procedure for the stage drawdown of Fees on all projects over £1 million to correspond to the Royal Institute of British Architects (RIBA) recommendations.

3. FINANCIAL IMPLICATIONS

The current level of Professional Fees and Corporate Administration Costs charged to Non-Housing Capital construction projects generates an income by way of recharges that is included within the Revenue Budget of the Construction Management and Design Section of Asset Management Operations as part of the Enterprise, Planning and Infrastructure Service.

The fees that are charged are based on a percentage of the actual construction costs for individual projects. The amount of income generated is therefore directly related to the budget for Non-Housing Capital Construction Projects. Any reduction in

expenditure on the Capital Plan therefore impacts on the level of income generated which impacts on the Council's General Fund Revenue Budget.

The Service budget for the former Construction Consultancy Unit was still combined during the 2010/11 Financial Year. This report only deals with the fees arrangements for Non-Housing Capital Construction Projects procured by the Construction Management and Design Section of Enterprise, Planning and Infrastructure.

4. SERVICE & COMMUNITY IMPACT

This report has no direct implications in relation to Equalities & Human Rights Impact Assessment.

The implementation of the proposed changes to the percentage of fees charged at various stages of larger construction projects will improve the accuracy of the Capital Planning Process by relating the draw-down of fees to the percentage of works carried out at specific recognised stages.

5. OTHER IMPLICATIONS

The Construction Consultancy Section which was formerly part of Resources Management Service was disaggregated in 2009/10, with the Non-Housing Section becoming part of Enterprise, Planning and Infrastructure and the Housing Section becoming part of Housing and Environment. During this period some staff, although allocated to one of the new Services still carried out works for the other Service. The budget for both of the Sections was also still combined during 2010/11 and was not split until the start of the current Financial Year. It is estimated that during the Financial Year 2010/11 works carried out by Staff in the Non-Housing Section for Housing and Environment amounted to approximately £67,000 in time charges.

6. REPORT

Following a Council decision on 5 March 1998, all construction projects funded by the Non-Housing Capital Plan are subject to a 15% allowance for "Professional Fees and Corporate Administration Costs." As well as fully covering the in-house fees of the Construction Management and Design Section of Asset Management Operations, these costs also cover all externalised construction professional fees and an allowance for the "cost of democracy" within the Council especially for the support/liaison/management of external professionals by in-house staff (i.e. Corporate Administration Costs).

A report by the Director of Resources Management to the Resources Management Committee on 16 June 2009 advised elected members of the outcome of a review undertaken into the level of Professional Fees and Corporate Administration Costs allocated to all Non Housing Capital Budget construction works.

The aforementioned report included information on the level of fees charged over the Financial Years 2006/7, 2007/8 and 2008/9. These figures showed an average percentage cost for Design Team Fees over the three years of 10.7% which when an

allowance of 4% was added for Corporate and Administration Charges equated to an overall cost for Professional Fees and Corporate Administration Costs of 14.7%. By taking the average of three years fees, the many variables impacting on the professional fee level element of the overall percentage was reduced. These variables included the size and complexity of individual projects and the fact that works carried out in one financial year might not be charged until the subsequent year as a result of the existing fee draw-down arrangements which it is proposed are revised. The present procedure applies the same percentage of fees against all projects. In practice, large new-build projects are generally more profitable whilst small to medium scale refurbishment projects are more resource intensive and therefore less profitable. Over the course of a financial year however this generally averages out.

During the Financial Year 2010/11, a total amount of £8.049 million was budgeted for as income from professional fees for the combined service, including the section administered by Housing & Environment, against an overall combined staff and consultants cost of approximately £3.3 million.

The table below sets out the breakdown for the Enterprise Planning and Infrastructure part of the Service:

	Enterprise, Planning & Infrastructure
1) Base Net Budget Income	£2.153 million
2) Actual Income	£1.384 million
3) Actual Staff & Consultants Costs	£1,106 million
4) Actual Surplus	£278,000

Note - As stated in Section 3 of this report, the Housing & Environment element of the combined budget was not administered by Enterprise, Planning and Infrastructure although it contributed to the overall budget position of the Service.

The main factor that impacted on the level of income was the pressure on the Non Housing Capital Budget which resulted in a number of projects not being progressed in accordance with the original programme. The projects affected included the Bucksburn/Newhills Primary School Replacement, the replacement facility for Children with complex needs at Raeden and a large number of projects funded from the former Replacement and Renewal Budget which is now referred to as the Condition and Suitability Budget (C&S). On the former Replacement and Renewal Budget alone, out of a total of £7.780 million that was approved in the 2010/11 Capital Plan, only £4.615 million of this was actually certified during the year. In order to meet the projected income of £2.153 million identified in the Budget, a total of approximately £14 million of construction works would have required to have been certified during the Financial Year. Whilst design work was carried out on a number of C & S projects, as these were not issued for tender, fees were not charged against them. Some of these projects are however being progressed during the current financial year.


A further issue that has been identified and which impacts on the income generated in any specific financial year relates to the way in which fees are charged over the lifetime of a project. The current procedures applied to the charging of fees is that 75% of the total fees are charged on the return of tenders, 15% on the Practical Completion of the contract and 10% at the end of the 12 month Defects Liability Period. Whilst this system operates satisfactorily for small to medium sized projects, in larger projects which can have a lead-in time from inception to the return of tender documents of

more than 12 months, the cash-flow of costs vs income is distorted with no income for the works carried out for a prolonged period. The Royal Institute of British Architects (RIBA) suggests that fees are charged at the end of specific stages of work these being:

Stages A/B Appraisal/Brief –	Time charge
Stage C Concept Design –	15%
Stage D Design Development –	20%
Stage E Technical Design –	20%
Stage F Production Information –	20%
Stages G-L Tender Documents to Completion –	25%.

Amending the current procedure to correspond to the RIBA recommendations would address this issue and give a more accurate relationship between the work carried out by the Design Team and the fees charged. Had the proposed procedure been in place during the Financial Year 2010/11 the actual shortfall in income would have been reduced significantly. Taking the Raeden project as an example, Stage C 'Concept Design' as referred to above was carried out during the financial year 2010/11. This would have resulted in 15% of the total fees for the project being charged, which would have equated to approximately £265,000. As the procedure was not in place however, a timecharge was applied to cover staff costs and overheads, which equated to approximately £45,000. The same situation also applied to the Bucksburn/Newhills project which was actually at a slightly more advanced stage to the Raeden Project and to certain C & S Projects.

7. REPORT AUTHOR DETAILS

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