

RICS
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Investigating Alternative Project Funding – Challenges for the Quantity Surveyor

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Alternative Funding – the background

Introduction

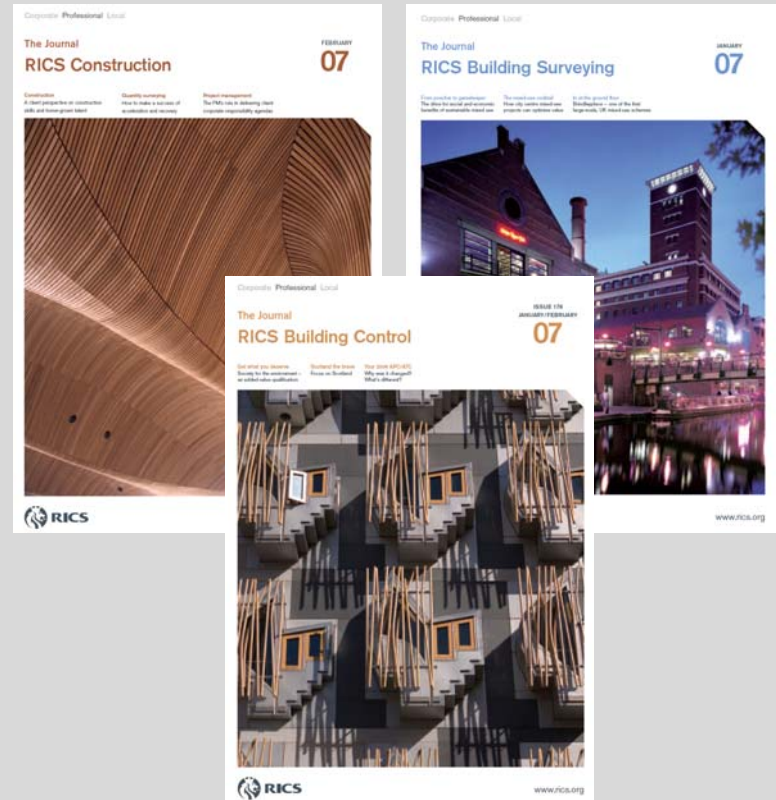
- ☐ What is funding to do with the quantity surveyor?
- ☐ Why is the source of funding important in modern construction?
- ☐ How does secure funding contribute to a sustainable industry and sustainable development?
- ☐ Linking sources of funding to current legislation regarding security of payments (Construction Act UK – similar legislation in the Republic of Ireland and Australia)



Alternative Funding – some examples

Alternative Sources of Funding – what are they?

- ☐ Supplier provided finance
- ☐ Equity participation by the supplier
- ☐ Shared equity
- ☐ BOT/BOOT – PFI/PPP
- ☐ Planning Gain Supplement (PGS)



Alternative Funding – the drivers behind it

The need for alternative funding

- ☐ In the public sector, limitations on funding from general taxation
- ☐ Non-availability of funding to the purchaser
- ☐ Linking finance risk with construction risk
- ☐ Supporting sustainable development



Alternative Funding – the challenges we face!

I. The Challenges to Funding

- ☐ The sources of funding
- ☐ Key issues - challenges to funding
- ☐ The relationship between funding and quality
- ☐ Performance related funding
- ☐ Extended maintenance
- ☐ Managing risk



Key Issues – challenges to funding

2. Creating a project specific business case

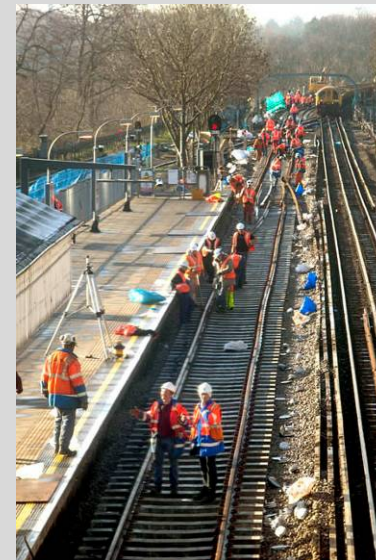
- ☐ Optimum time for delivery against optimum capital cost
- ☐ Capital cost – project cash flow and earn value

3. Including finance in the tendering process

- ☐ The relationship between the funding provider and the building owner
- ☐ Project insurances – one insurance covering design, construction and defects
- ☐ Project bank accounts

4. The supply chain's ability to meet the purchaser's requirements

- ☐ Matching the purchaser's cash flow requirements
- ☐ Serving multiple customers



Relationship Between Funding and Quality

5. Monitoring construction quality and contractual compliance

- ☐ Quality of construction
- ☐ Regular progress of the works
- ☐ Contractual disputes
- ☐ Making good defects

6. Integrating design with construction

- ☐ Design decision, quality and operating costs
- ☐ Design and construction sustainable development
- ☐ Payment of design fees
- ☐ Prepayments to designers, novation and warranties



Alternative Funding – Performance Related Funding

7. Rewards and incentives

- ☐ Ensuring payment is only made for compliant work
- ☐ Reductions in time and cost – “gain share/pain share”
- ☐ Delay and disruption – the consequences
- ☐ Acceleration of the works – how is it financed
- ☐ Damages for delays – purchaser’s payments and completion by the supplier



Alternative Funding – Extended Maintenance

8. Extending maintenance – the suppliers obligation

- ☐ Supplier to be responsible for maintenance of the assets for an agreed period of operation
- ☐ The annual cost of maintenance to be agreed at tender stages and to be based on sustainable principles
- ☐ Benchmarked against asset performance Key Performance Indicators (KPI's) with Variation of Price (VOP) adjustments; benchmarks to include the sustainability agenda
- ☐ Cost of maintenance obligation to be included in supplier provided project funding



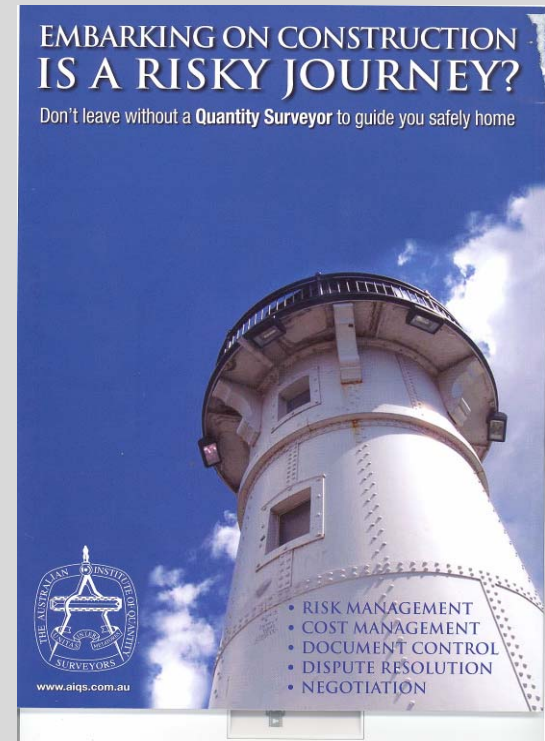
Alternative Funding – Managing Risk

9. What are the risks?

- ☐ To the purchaser or the supplier – financial failure of the other party
- ☐ Relationship of the funding facility to the progress of the works
- ☐ Defective workmanship
- ☐ Unforeseen changes/variations

10. Who do they affect?

- ☐ The supplier
- ☐ The purchaser
- ☐ The funding source



Alternative Funding - Safeguards

11. Collateral warranties and parent company guarantees

- ☐ Provided by both purchaser and supplier to the funding source
- ☐ Warranties cover design and construction and loss of income following delay or defect
- ☐ Parent company guarantees provided where either party is a subsidiary of its ultimate owner



12. Project monitoring – independence and impartiality

- ☐ Provided by quantity surveyors or project managers
- ☐ Duty to the funding institution – not a function of the contract



Alternative Funding – Some Benefits

13. Integrated process

- ☐ Payments related to compliant performance
- ☐ Simplified payment process to the supply chain
- ☐ Funding of changes and variations to be agreed prior to authorisation
- ☐ Suitable for e-commerce

14. To the purchaser

- ☐ Guaranteed cash flow
- ☐ Effective management of change
- ☐ Reduction in transaction cost

15. To the supplier

- ☐ Guaranteed cash flow
- ☐ Reduction of bad debts



Alternative Funding – Opportunities for the Quantity Surveyor

16. Project control duties from inception to completion

- ☐ **Creating the business case** – approximate estimating on a “Whole Life Cycle Cost” basis
- ☐ **Procurement and evaluation of tenders** – reconciling suppliers’ offers for CAPX and OPEX with business case
- ☐ **Commercial management** – of design, construction and maintenance
- ☐ **Project monitoring of supplier performance** – monitored against agreed benchmarks (KPI’s)

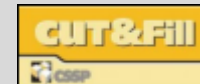
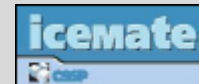
For details of the tools used by Quantity Surveyors and the range of services offered, see the next two slides



Alternative Funding – Necessary Tools

17. Involvement from inception to completion

- ☐ **Measurement management systems** – linked to computer aided design (CAD)
- ☐ **Measurement linked to industry standard programming & planning software** – linked to Primavera © or other industry standards
- ☐ **Project management of resources** – labour and plant managed by reference to the programme approved in the business case
- ☐ **Asset management software related to the maintenance activities** – activities monitored against PPM targets; for Health and Safety records and against “Whole Life Cycle Cost Plan”

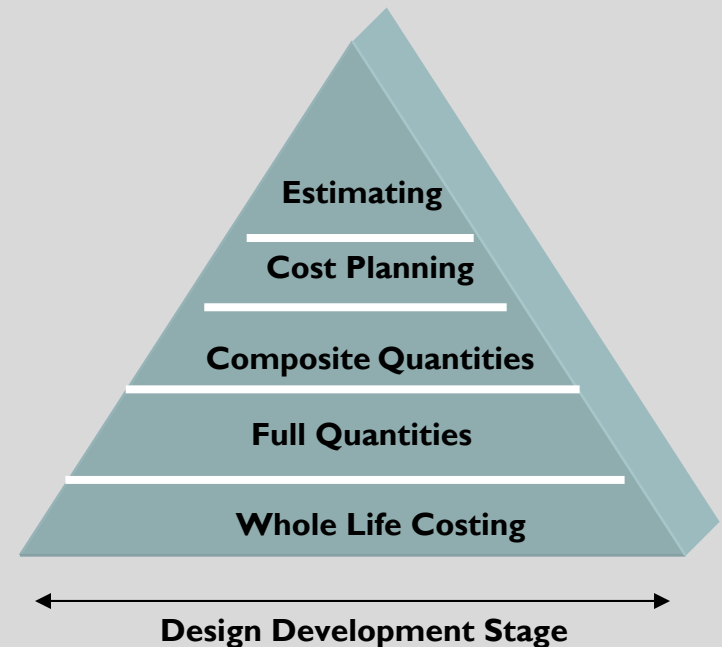


This is a selection of software – there are other industry standards

Alternative Funding – The Role of the Quantity Surveyor Relative to Design Development

18. Co-ordinated projects controls through an integrated process

- ❑ Project monitoring at each stage of the process – 5 levels:
 - ❖ Estimates
 - ❖ Cost plans
 - ❖ Composite Quantities for tendering
 - ❖ Full Bills of Quantities for detailed negotiations of individual work sections
 - ❖ Whole Life Cycle Cost planning
- ❑ These techniques are applied by both purchaser and supplier



Alternative Funding – Challenges for the Quantity Surveyor

Summary

- ❑ Quantity surveyors face the challenge to identify alternative funding in a global economy; funding which contributes to efficient construction and sustainable development

“Alternative Funding – are you up for the challenge?”

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