

Value Added Spending Monitor

Q4 2014

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Compiled by Scape Group – the UK’s leading built environment procurement specialists – the Value Added Spending Monitor tracks the financial challenges facing local authorities (LAs) in carrying out built environment projects to maintain and improve public service delivery.

Executive summary

- **Urban areas hardest hit by built environment budget cuts...**

Falling budgets for built environment projects have impacted urban LAs the most during 2014. Average urban revenue budgets were down **-15%** compared with **-13%** in rural areas. The difference was even greater in capital spending: down **-10%** in urban areas compared with **-4%** in rural areas.

- **...but rural areas are experiencing the most rising pressure on construction spend**

Almost four in five LAs (**79%**) are having to adopt a more business-like or commercial approach to delivering public services. Those in rural areas are the most affected. They are also the most pressured to reduce costs, increase local spend and demonstrate value for money in their procurement policies.

- **Two thirds find it is getting significantly harder to achieve quantity and quality**

More than nine in ten LAs (**91%**) feel the challenge of delivering project volumes and quality services is getting harder – including **67%** who believe the challenge is getting significantly harder.

- **Suppliers’ inability to deliver within budget is the most common barrier to success**

In the last two years, **73%** of LAs have had to cancel or postpone a planned built environment project, with the most common cause being suppliers’ inability to work within their available budget.

- **Lack of confidence exists over hitting savings targets and adding value to projects**

More than three quarters (**77%**) lack confidence in hitting 2015 savings targets for built environment projects. Providing more learning opportunities is their top priority for adding value (**79%**) along with increasing local spend (**74%**) and employment (**74%**).

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Mark Robinson, Chief Executive of Scape Group, comments:



“It is clear from these findings just how great a challenge is faced by local authorities to balance shrinking budgets with the rising demand that many public services are experiencing. Urban areas are having to cope with the biggest reductions in their spending on built environment projects, but it is in rural parts of the country where the pressure to get the most from every pound spent is being felt the most”

“Despite their budget constraints, local authorities clearly have strong ambitions that go beyond the provision of high quality services, and include offering new training and work opportunities as well as prioritising their spending to support their business community. But it is no surprise to see that the majority are concerned over turning these plans into a reality when they are also tasked with achieving further savings in 2015.

“Balancing these pressures has become a fact of life in public sector construction, but there is still a real need to embrace new ways of working without losing the focus on finding solutions to benefit the local population. Delivering more for less in the built environment without compromising on quality calls for an honest appraisal of what works well and what needs improving, so local authorities can manage projects using processes that are up to the task.”

Simon Parker, Director at the New Local Government Network, comments:



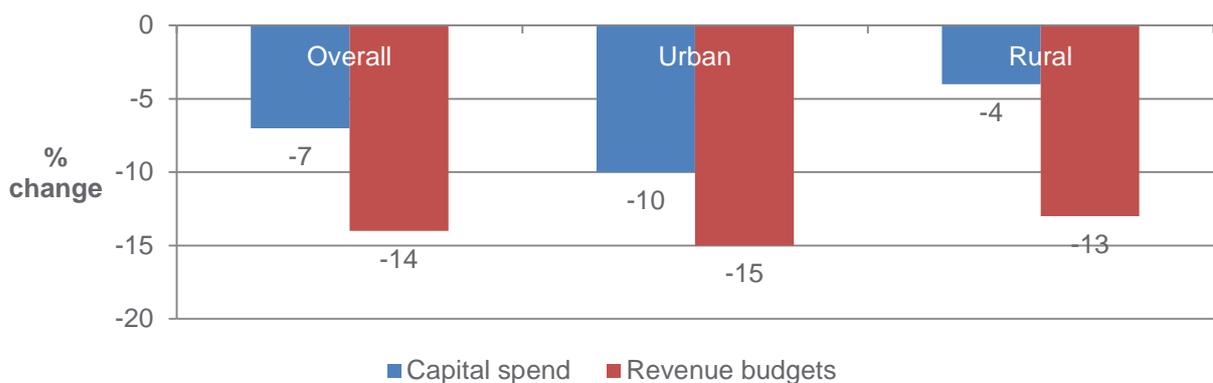
“This report underlines the need for a fundamental shift in local government’s approach to capital spending. We need to see a much greater focus on commercial approaches that deliver financial returns for the public sector along with much higher levels of long-term social value for local people. This shift has already begun. The challenge is to continue rapidly raising the level of ambition throughout the sector.”

1. Budget availability

Urban LAs have faced the biggest spending cuts...

- LAs in urban areas have experienced the biggest fall in their revenue budgets for built environment projects, which have dropped **-15%** in the last year compared with **-13%** in rural areas. The same is true of capital spending, which dropped **-10%** in urban areas: more than twice the rural decline (**-4%**).
- Overall, revenue budgets for built environment projects have fallen **-14%** on average across all LAs. Nearly nine in ten (**87%**) have been coping with reduced revenue budgets this year.
- Capital spend on built environment projects has also fallen **-7%** on average, with almost two thirds of LAs (**62%**) having experienced a drop in their capital spend. Just **33%** have had a larger budget for capital spend at their disposal this year.

Figure a: Urban LAs bear the brunt of falling budgets for built environment projects



- Among those LAs which have been able to increase their capital spend, successful grant bids are the most common reason with **50%** citing this as a factor. One in four (**25%**) have increased their spending through prudential borrowing while **8%** have relied on asset sales. Other sources of new finance in 2014 include capital investment and developer contributions.

2. Project pressures

...but rural LAs experience the most rising pressure

- Almost four in five LAs (**79%**) are having to adopt a more business- or commercially-focused approach to the delivery of public services. Just **13%** have not experienced this pressure.
- The push for a more business-like or commercial approach is most keenly felt in rural areas, with **100%** of LAs experiencing this shift compared with **55%** in urban areas.
- Reducing costs is the biggest source of emerging pressure on LAs' built environment procurement policies. More than three quarters (**76%**) report that pressure to achieve this has increased in the last year, including **85%** in rural areas compared with **67%** in urban areas.
- Other key concerns include demonstrating value for money, with **48%** of all LAs experiencing growing pressure in the last year, and increasing local spend and labour deployment, where **44%** report increasing demands. In both cases, the increase in pressure is more keenly felt by rural than urban LAs.

Figure b: LAs experiencing increasing pressure on their built environment procurement

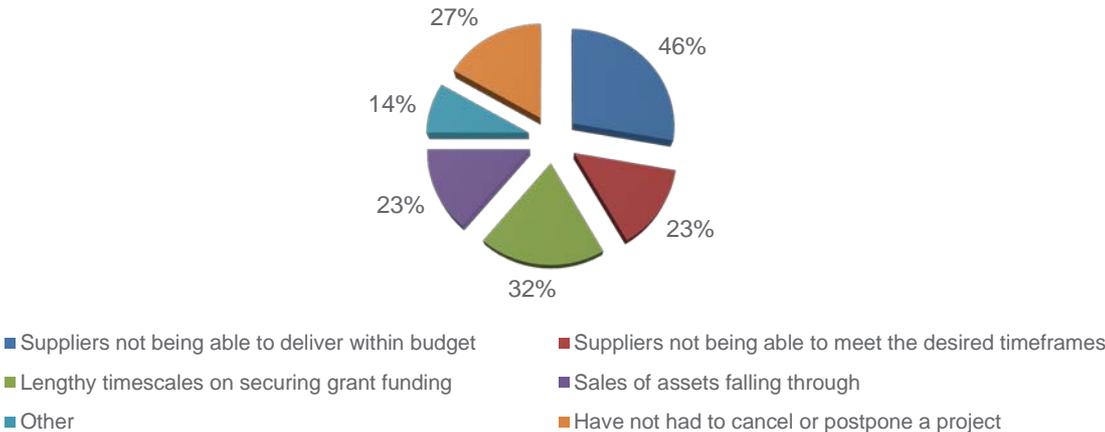
| | Overall | Urban | Rural |
|--|---------|-------|-------|
| Reducing costs | 76% | 67% | 85% |
| Demonstrating value for money | 48% | 42% | 54% |
| Increasing local spend and labour deployment | 44% | 17% | 69% |
| Saving time | 40% | 42% | 38% |
| Improving quality | 36% | 33% | 38% |
| Reducing waste | 36% | 33% | 38% |
| Practising environmental efficiency | 28% | 17% | 38% |

3. Barriers to success

Two thirds find it significantly harder to match quantity and quality

- More than nine in ten LAs (91%) feel the challenge of delivering project volumes and quality services within their built environment spend is getting harder. This includes 67% who believe the challenge is getting significantly harder. Just 10% feel things are unchanged while none report that this task is becoming easier.
- Almost three quarters of LAs (73%) have had to cancel or postpone a planned built environment project in the last two years. Those in rural areas are the worst affected, with 89% having experienced a cancellation or postponement compared with 67% in urban areas.
- The most common reason for a postponement or cancellation is suppliers not being able to deliver within their budget, which has affected almost half (46%) of LAs. The next most common reason is the lengthy timescales to secure grant funding, affecting almost a third (32%) of LAs. Other key reasons include the sale of assets falling through (impacting 23%) and suppliers not being able to meet their desired timeframes (also affecting 23%).

Figure c: Reasons for LAs experiencing project cancellations or postponements

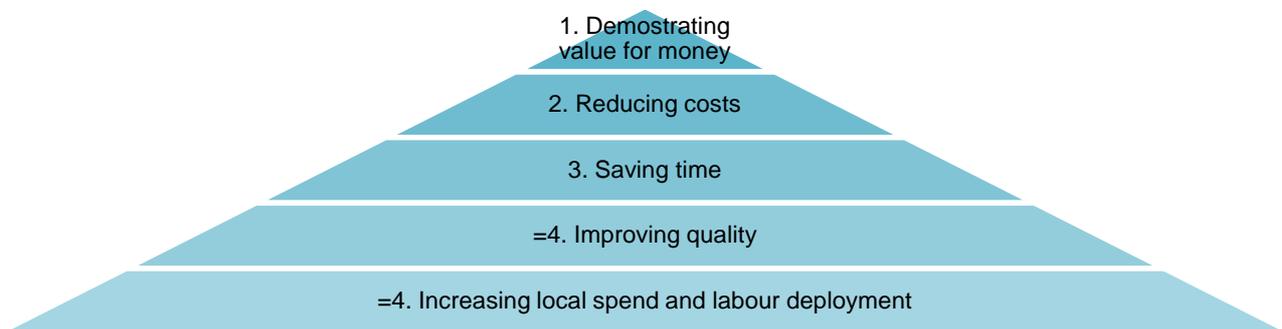


4. Future priorities

Demonstrating value for money is the top priority for 2015

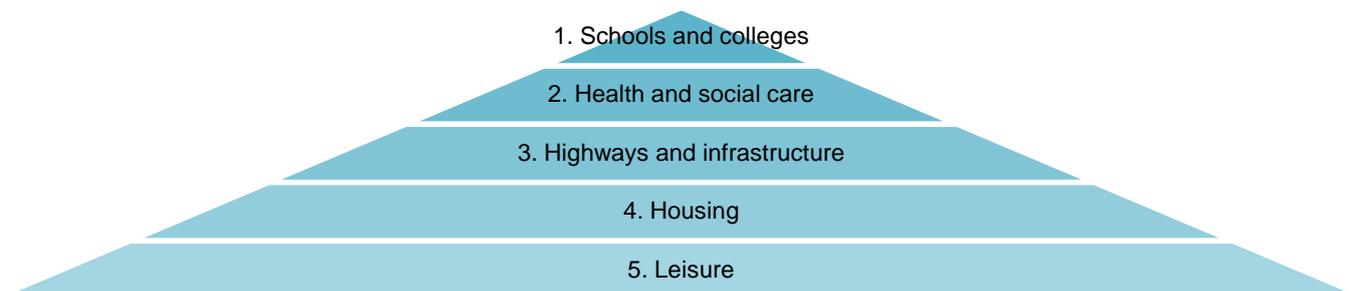
- Looking ahead, demonstrating value for money is the most important outcome for LAs' built environment spending during 2015. This is followed by saving time; reducing costs; improving quality; and increasing local spend and labour deployment.

Figure d: Five most important outcomes from built environment spending in 2015



- Schools and colleges are expected to place the most pressure on LAs' financial resources for built environment projects in the next year. This is followed by health and social care; highways and infrastructure; and housing.

Figure e: Five biggest sources of pressure on finances for 2015 built environment projects



5. Adding value

Confidence wavers over boosting local employment and learning

- Almost four in five LAs (79%) want to offer a greater number of apprentice and learning opportunities in 2015, making this their top priority for improvement within built environment projects. Other top priorities include achieving a higher proportion of staff employed locally and a higher proportion of spend with local businesses (both identified by 74%).
- These rank ahead of achieving a reduction in disputes and defects (just 53% feel a need to improve); an improved safety record or reduction in accidents (42% feel a need to improve); and a greater amount of waste diverted to landfill sites (21% feel a need to improve).
- Of the top three priorities for improvement, LAs are least confident about achieving a higher proportion of staff employed locally: 47% are uncertain about achieving this in 2015.
- Significant numbers of LAs are also uncertain about offering a greater number of apprenticeships or learning opportunities (41%) and increasing their spending with local businesses (40%).

Figure f: Priorities for adding value and confidence in improving their performance

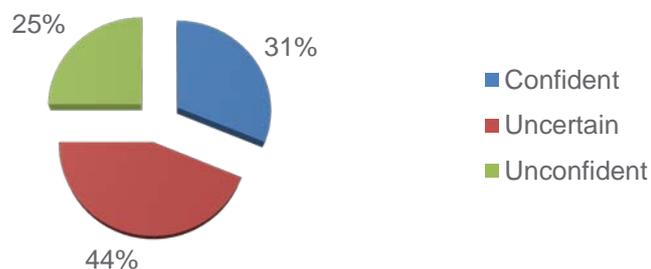
| | Want to improve this | Lack confidence in improving this |
|---|----------------------|-----------------------------------|
| Higher proportion of spend with local businesses | 74% | 40% |
| Higher proportion of staff employed locally | 74% | 47% |
| Greater number of apprentice/learning opportunities | 79% | 41% |
| Greater amount of waste diverted to landfill | 21% | 92% |
| Reduced disputes and defects | 53% | 75% |
| Improved safety record/accident reduction | 42% | 54% |

6. Savings targets

Financial goals shrouded in uncertainty

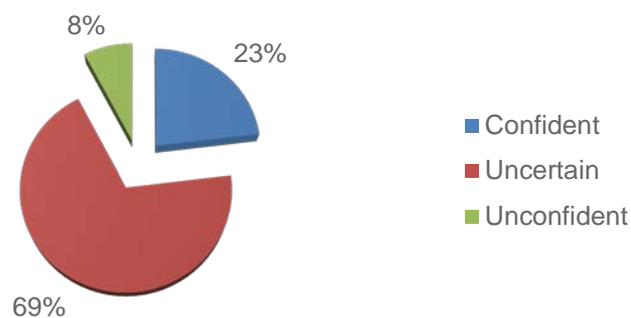
- Four in five LAs (**80%**) have a cost saving target for their revenue spend on built environment projects in 2015, with an average savings target of **15%**. While **31%** are confident of achieving their target, the remaining **69%** are uncertain or lack confidence in doing so.

Figure g: Confidence in hitting 2015 savings targets for revenue spend



- While **62%** have a target for cost savings on their capital spend this year, with an average savings target of **17%**, more than three quarters (**77%**) are uncertain or lack confidence in achieving this.

Figure i: Confidence in hitting 2015 cost savings for capital spend



7. Procurement methods

Health and social care sees the least spending via frameworks

- More than four in five (81%) LAs use or have used external frameworks to manage their built environment spending. Among those who do, 54% of project budgets are spent via frameworks on average.
- Schools/colleges and highways/infrastructure are the service areas where the greatest share of project budgets are allocated via frameworks (58% in each case), while health and social care features the lowest proportion of budget spend via frameworks (31%).
- Among LAs who do not use frameworks, the most common reasons are that they are happy to manage procurement themselves or that frameworks have not been considered.
- On average¹, organisations using frameworks have made a collective annual saving of:
 - almost 9 years of procurement time
 - achieved £125m of local spending within 40 miles of project sites
 - created over 1,000 weeks of on-site apprenticeships
 - diverted over 62,000 tonnes of waste from landfill sites

¹ Based on annual averages using data from Scape client projects for 2006-2013.

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Conclusions

Mark Robinson, Chief Executive of Scape Group, comments:

*“There is no disguising that LAs are struggling to deliver building projects and the challenge is getting harder, particularly in education and healthcare. The first obstacle is getting construction work underway to maintain and improve on service delivery. But the second is **doing this in a way that best supports the local community and economy**, despite the financial limits in place.*

*“The budget squeeze has come at a time when construction demand is rising, which has pushed prices up due to limited capacity in the market. The knock-on effect is that **suppliers are becoming more selective or charging premium prices**: in fact, our partners report construction inflation is approaching 15-20%, far above the 1.3% rate of overall inflation, which makes projects even less affordable. It is no wonder that rural LAs in particular are struggling in this climate. Commissioning local suppliers via national frameworks can sidestep this issue by exercising collective bargaining power.*

*“Cost concerns also mean **waste reduction is becoming sidelined**. Solo projects simply cannot negotiate the same contractual commitments to reducing waste as national frameworks. It is one reason why the industry has missed the Strategy for Sustainable Construction target to halve waste to landfill.*

*“Despite these pressures, it is greatly encouraging to see apprentice training at the top of the agenda for construction projects in 2015. This involves **opting for suppliers that support training programmes** rather than those who strip this out to reduce costs. Procuring projects via national frameworks is the most practical way to achieve this, by collating significant volumes of work and using national partners to identify local suppliers that measure up on both cost and quality.*

*“The emphasis on LAs adopting business-like principles and demonstrating value for money is a sure sign that **a new approach is needed to deliver more for less**. It is about time LAs brought capital and revenue budgets together and started pushing the market for guarantees around building performance to improve sustainability. There is no escaping the fact that smarter methods of procurement and delivery need to be adopted on a wider basis to make the most of every pound spent on public buildings.”*

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Methodology

The Value Added Spending Monitor was designed and produced by Wriglesworth Research – winner of several industry awards for use of research including the CIPR Awards, PR Moment Awards and PR Week Awards – in partnership with Scape Group and Local Government News. It uses the results of online research carried out in November 2014 among 61 UK county, district, borough and city councils, unitary authorities and metropolitan boroughs.

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About Scape Group

Scape Group is a local authority owned built environment specialist offering a full suite of national frameworks and innovative design solutions.

Bringing together the strongest teams from the public and private sector, Scape's rapidly deployed, highly measurable and collaborative approach delivers value for money and quality buildings whilst stimulating local growth and community benefits.

For more information visit: www.scapegroup.co.uk

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