

Check the facts and reduce the risks

Project monitoring is becoming an increasingly important and cost-efficient part of the development process, says *Michael Griffiths*

On 12 April, the RICS published a *Project Monitoring Guidance Note*. This outlines the standard role of a project or development monitor. Whether by luck or judgment, the guidelines could not have come at a more fortuitous time.

Over recent years, the profitability of development schemes has seen considerable growth; development returns can reach 80% or more. In some cases, developers have become reliant upon exceptional growth and have allowed any shortcomings in a scheme to be accommodated by increases to the gross development value. Although some bank managers, fund managers and developers will have entered their respective profession during the recent growth period, those who can remember the early 1990s, and, perhaps, the early 1980s, will know that not every construction scheme is certain to make a profit. They will also be aware that the slowing of returns on developments calls for a more cautious approach.

Role of the development monitor

The astounding profits of recent years are no longer a realistic expectation. That is not to say that we are in the dark days of the early 1990s, but it is essential that developers and their funders are aware of the risks associated with any project prior to agreements being signed and work starting on the site. The guidance note aims to provide a template from which clients can instruct a monitor or surveyors can propose to undertake project-monitoring services.

The role of the development monitor has changed over the years. It is now a service required by banks prior to funding being confirmed. A properly prepared project monitor's initial report has become a key document, collating most if not all development issues, risks and potential outcomes in a single document that can be relied upon by the client. As such, it is now seen as integral to the successful completion of any project in which a third party is involved or has an intrinsic interest.

The guidance note defines the main role of a project monitor as: "Protecting the client's interests by identifying and advising on the risks associated with acquiring an interest in a development that is not under the client's direct control." It is not solely aimed at banks and development finance; it also reflects the requirements associated

with monitoring on behalf of funds, owner-occupiers committed to pre-lease/sale agreements, government agencies (such as Lottery projects) and touches on PFI projects – accounting for long-term as well as short-term risks.

With such a variety of potential clients, the extent of the services offered as part of monitoring a scheme cannot be prescriptive. The guidance note therefore sets out clear advice on the different client types, their typical risk profiles and how a monitor should approach them.

The guidance note suggests that a project monitor should review the proposals, test the facts and assumptions and identify the likely outcomes. If appropriate, the monitor should also recommend a course of action to minimise or eliminate the risk. In order to fulfil these functions, the project monitor should be instructed as soon as possible following the valuation/development appraisal or the proposal of the draft pre-sale/lease agreement, but certainly before any party enters into a legal commitment.

Inevitably, valuations/development appraisals contain a number of assumptions because they tend to be prepared many months ahead of the commencement of the development. Some appraisals are based upon little more than a sketch scheme, a planning permission and scant budget costs.

To a large extent, the project monitor's role is to test the development assumptions upon which the valuer has based the gross development valuation. Once the project monitor has completed his investigations, having regard to all the information available, he will determine what shortcomings are apparent and set these out in the initial report. The findings may prove some of his assumptions to be false or issues may arise that he did not consider. If so, he will have to comment on the effect of such findings upon the development value.

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The project monitor should advise upon risks arising from geotechnical reports and site investigations, statutory consents and licences. He should also report, among other things, on the design and construction teams, the principal subcontractors, insurance policies, contracts, the programmes and construction costs. Where risks do arise, any extra costs may be the client's responsibility; such risks are not included in budget-cost schedules.

A project monitor who merely confirms construction costs after reviewing cost schedules, cash flows and contracts will achieve no more than a developer that tenders a scheme to several contractors. His role is to investigate a proposal and to advise the client of any risks. It is not merely to report what he has been told or has seen, but to assess the level of certainty and whether contracts, warranties, reports and permissions can be relied upon by the client and where, if at all, there is a potential for increased risk and additional costs.

A basis for assessment

Thorough project monitoring entails reviewing a proposal, identifying the risks and informing the client. Those risks will inevitably have financial implications, but they are not usually highlighted in the developer's budget or cost plan. The monitor has to search for them.

It has been said that "everything that matters cannot necessarily be measured and everything that can be measured doesn't necessarily matter". That is the case with project monitoring. In many cases, it is a matter of reading between the lines and identifying what has not been done and whether that matters, rather than what has been done and measuring its quantity.

Employing a project monitor does not guarantee fixed costs and perfect contractual terms and conditions. It will, though, highlight the principal risks of a scheme at an early stage and, if taken on board, can reduce or eliminate those risks to the benefit of all the parties. The RICS guidance note will provide the basis for assisting chartered surveyors and their clients in assessing schemes before committing to funding.

Michael Griffiths is an associate partner at Edward Symmons LLP and a principal author of the RICS guidance note