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(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)

Title of meeting: Cabinet

Subject: COVID-19, Brexit and Other Factors Impacting Construction Costs

Date of meeting: 22nd March 2022

Report by: Julian Pike, Deputy Director of Finance & S151 Officer

Wards affected: All wards

1. Requested by: Leader

2. Purpose

2.1. To update the Cabinet on the impact of COVID-19, Brexit and other factors impacting construction costs relating to Capital Schemes contained with the report Portsmouth City Council Budget & Council Tax & Medium Term Budget Forecast 2023/24 to 2025/26 approved by City Council 15th February 2022.

3. Information Requested

3.1. Increased global demand in the construction sector, combined with the multiple and complex impacts of the pandemic and logistic issues, have resulted in unprecedented shortages, delays and ultimately, increased prices of materials and labour across the economy.¹

3.2. Within the UK, complications resulting from Brexit have exacerbated this situation, affecting all aspects of trade and labour availability. The repercussions are acutely impacting the UK construction sector.

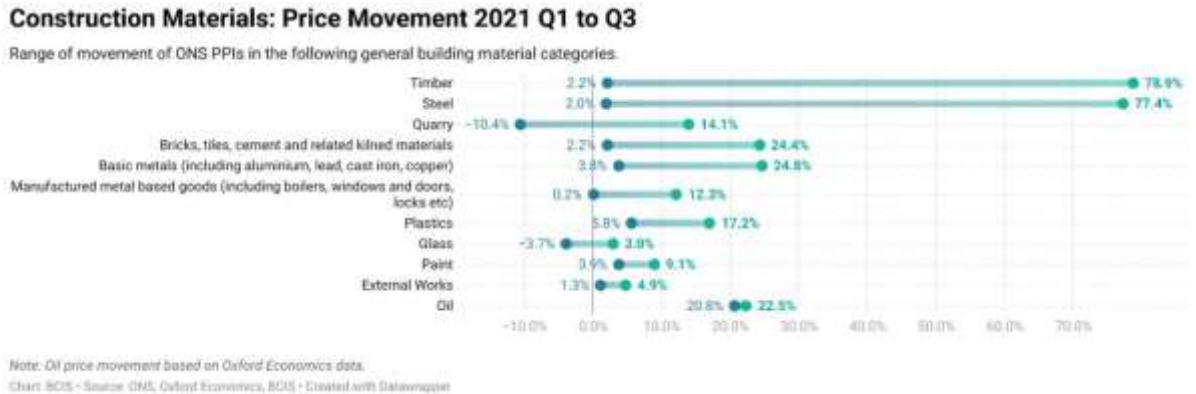
3.3. Other factors affecting construction demand include significant lifestyle changes triggered by the pandemic, with many people continuing to work from home reassessing their housing needs. A booming domestic housing market, substantially increased demand in repair maintenance and improvement sector, combined with large infrastructure projects such as HS2 have all significantly contributed to higher demand for construction materials and labour.

¹ RICS News & Insight

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3.4. Within the BCIS Materials Cost Index, between January and September 2021 the greatest increases can be seen in the steel and timber categories, with a high degree of volatility in nearly all materials categories. The ranges of increases within selected materials categories contributing to the index are presented below:



3.5. The decision of British Steel to add a temporary £30 per tonne surcharge on the cost of structural steel, due to a rising energy costs, will continue to escalate costs for steel.

3.6. With increasing reliance on imports to fulfil domestic timber demand and some timber-producing countries implementing log export bans, timber supply remains under pressure throughout the UK. In November, BEIS Monthly Statistics of Building Materials and Components reported two of the top three construction materials with the greatest price change in the twelve months to September 2021 were imported sawn or planed wood.

3.7. Brick deliveries across the UK are reportedly subject to extensive delays, with major manufacturers warning of significant price rises for pre-order due to extreme market volatility. Since February 2021, IHS/Markit CIPS UK Construction PMI has reported increased prices and supply shortages of bricks. Adding to this, HGV shortages and the sharp rises in wholesale energy prices means the situation for brick, block and ceramics is unlikely to improve in the near term with serious repercussions to the critical path of projects.

3.8. Major capital schemes experiencing increased costs as result of rising construction costs include:

- Sufficiency of Special School Places

The reasons for the additional costs have already been highlighted earlier in the report. As part of the 2021/22 Spending review, a capital grant of £1.18m for special educational needs places has been received, However, this is not

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in response to increases anticipated costs. Further funding for special educational needs places was announced in the 2022/23 spending review, and the details of this are awaited.

- Re-provision of Leisure Centre, Pool & Community Facilities

The project requires the full range of building materials including bricks, steel, glass, cladding and skilled labour. A further contribution from The National Lottery to meet increased costs is extremely unlikely with any additional costs falling on the City Council.

Other schemes which may be similarly affected include new schemes yet to be tendered. Whilst schemes' estimates include provision for inflation and contingency, until tenders are received, actual cost is unconfirmed e.g.

- Victoria Park Revival (NLHF)
 - Investment in Football Facilities (partially grant funded)- still in concept stage
 - Sports & Leisure facilities (Mountbatten Centre roof)
 - Various Theatre regeneration projects
 - Various maintenance projects re Historic/Cultural buildings
- Port Border Control Post

Assessing the impact of Brexit / COVID-19 in financial terms is difficult to quantify. Had the project completed before Brexit & COVID-19 impacted costs potentially may have been significantly lower but this cannot be quantified with any certainty. Other factors which have led to an increase in costs include delays associated with the project, contamination and design changes. Discussions regarding the availability of additional central government funding are ongoing.

- The Berth 2 extension and the Terminal Extension

Cost increases have been experienced as a consequence of COVID-19 as a result of increased fender costs, due to factory shutdowns in China, and interruptions to labour and plant and materials supply chains.

Southsea Sea Defences

The Southsea Team has been negotiating with the Environment Agency since July 2021 for additional funding. The four primary drivers during negotiations were focussed upon:

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- i. Inflationary Pressures
- ii. Programme extension
- iii. Material and labour cost increase
- iv. Further Govt Dept Funding for protection of additional assets.
(Schools/GP surgeries/highways)

Additional funding has now been agreed for £37.9m to underwrite future unforeseen cost and to neutralise the Council's underwritten position of c£17m.

A similar funding re-assessment will be undertaken for the North Portsea Scheme as soon as it is evidenced the budget is no longer in line with current costs and expectations.

- Somerstown Redevelopment

This scheme is one of the largest projects, by value, within the capital programme, and as with all construction related projects, is exposed to the inflationary pressures identified above.

- Landlords' Maintenance

- Tender prices for capital planned maintenance works are at a level 25% above those being received pre-pandemic and during the 2nd half of 2020. The cost increase effects of Covid-19, Brexit, Fuel prices and energy costs are now all starting to flow through into the actual tender costs being submitted for new projects.
- Day to day repairs are subject to the same cost increases with both local building contractors and public bodies experiencing further challenges in retaining existing operative resources against a very buoyant recruitment market.
- Locally, service providers are experiencing serious problems retaining and recruiting all staff and in particular Electricians. Some local companies are recruiting via agencies at hourly rate packages 13% higher than historic rates being paid.
- Building material availability and costs already experiencing upward pressure due, to increased global demand, will be further impacted by the recent "once in a generation" storms that impacted the UK, and the availability of specialist energy efficiency material components due to

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higher demand as a result of the Governments zero carbon aspirations.

- The result of uplifts in energy and carbon costs are being felt in industries with very high energy demands such as the manufacture of gypsum/cement. Ceramics, bricks and smelting metals. In some scenarios manufactures have curtailed production altogether, which further tightens supplies and elongates delivery and supply periods.
- Local supply chain partners are advising price increases to various categories of construction supplies ranging from 3 to 30% on general building materials. Larger price increases in the cost of steel have already been seen in the tender returns for two lift refurbishment schemes with bids in excess of 30% higher than pre-covid estimates.
- No additional government funding is available to support these increases.

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Signed by (Director)

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location