



Swansea Bay City Region Joint Committee - 30 July 2024

## Construction Impact Assessment Review Report

<b>Purpose:</b>	To update Joint Committee on the review of the Construction Impact Assessment Report
<b>Policy Framework:</b>	Swansea Bay City Region Joint Committee Agreement
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<b>For Information</b>	

### 1. Introduction / Background

- 1.1. The Swansea Bay City Deal (SBCD) Portfolio Management Office (PoMO) collates and reports a Construction Impact Assessment (CIA) through the SBCD Governance Boards.
- 1.2. The CIA summarises programme and project risks and issues, estimated construction cost increases and Lead Delivery Organisation mitigating actions specifically affecting the procurement and construction phases of delivery.
- 1.3. SBCD Programme Board and Joint Committee requested that all Lead Delivery Organisations continue to assess and monitor the status of their SBCD Programmes and Projects and report the potential or actual impact of construction related challenges on successful delivery of their Programmes or Projects.
- 1.4. Following the submission of the latest version of the report to Programme Board in May 2024, the PoMO was asked to reassess the CIA by considering the following areas of focus:
  - Value for money when allocating public funds.
  - Flexibility in procurement, especially in frameworks.
  - Informing a review for the regional procurement strategy.
  - Partnership solutions to address the skills issues affecting the Construction Industry.

## 2. Construction Impact Assessment

- 2.1. As a response to several macro-economic factors affecting the construction industry since 2021/22, the PoMO set out to identify and forecast the likely impact of increasing construction costs on the Business Case estimates across the SBCD Portfolio
- 2.2. A point-in-time report titled Assessment of Increasing Construction Costs was reported through SBCD Governance in September 2022, which estimated a £30m gross funding gap.
- 2.3. A complementary Construction Impact Assessment (CIA) was also created to undertake an assessment of key risks and issues. These identified potential or actual circumstances that affect the procurement and construction stages of projects across the SBCD Portfolio. Projects were required to assess several pre-determined factors and provide a Red, Amber, Green assessment of impact.
- 2.4. After a year of reporting, the Assessment of Increasing Construction Costs and Construction Impact Assessment were combined into one single report. The combined assessment was undertaken monthly and included updated costs, risks and issues and assessed the potential effect on SBCD Portfolio delivery. The combined CIA was subsequently updated to include a description of mitigating actions being undertaken by Lead Delivery Organisations.
- 2.5. The latest assessment in July 2024 estimates a **£43.5m** gross funding gap because of inflationary pressures and rising construction costs, between business case development, sign off, and date of report. Mitigating actions by Lead Delivery Organisations have reduced the residual impact to **£12.75m** which includes estimated values for those projects yet to procure.
- 2.6. Although there are several mitigating options available to project leads, the common approaches to address the funding shortfall are to:
  - Secure additional funding.
  - Revisit the construction brief.
  - Open dialogue with contractors.
- 2.7. Costs and the assessment of risk/issues have remained static over several iterations of report mainly due to portfolio progress and no new significant procurements affecting the report. In the short to medium term the next tests for the portfolio will be:
  - Campuses: Swansea University are currently assessing tender returns for the Sketty Lane phase 1 element.
  - Swansea Waterfront: Swansea Council are negotiating the hotel development as part of Copr Bay 1 development, UWTSD taking forward the Innovation Precinct.
  - SILCG has yet to confirm affordability for the SWITCH element and costs for AMPF elements.
- 2.8. The current CIA does not cover any effects of increasing costs on future phases of construction required to fulfil the Programme or Project Business cases e.g.: Future Zones 2, 3 and 4 of Pentre Awel, and Campuses Project, Singleton site Phase 2 and Morriston site Phase 2.

- 2.9. A further factor affecting rising costs is the additional need to achieve Net Zero targets in public sector infrastructure. In some instances, these costs were not factored into the original business case forecasts, as it was not a requirement when they were approved by the region and both Governments.

### **3. Construction Sector Appraisal**

- 3.1. Leading up to 2022, Brexit, the international response to the COVID pandemic and the war in Ukraine had a substantial negative effect on the construction sector resulting in shortages in supply, high energy costs and highly volatile price increases. Rising inflation and predictions of a national recession also had an impact on industry confidence. The combined result caused issues and concerns across the industry with difficulty in pricing projects, affordability and providing responses to tenders.
- 3.2. Currently, the sector is reported to be more stable (July 2024) and although prices remain high, generally they are more consistent, and supply is much improved. The sector continues to see market fluctuations, for example Quarter1, 2024 has seen a sharp rise in the cost of copper which will have a knock-on effect on electrical items especially affecting the Mechanical and Electrical sector of construction.
- 3.3. The latest Quarter 1, 2024 BCIS Industry Assessment notes that inflation rates seem to be falling against predictions, which will help future investments, although despite more confidence in general, the industry considers itself still to be in recession. The Industry Assessment also identifies the current areas of concern are recruitment and labour costs, agreeable contract terms (procurement, risk and cost), and insolvencies across the supply chain.

### **4. Value For Money**

- 4.1. In relation to public spending, value for money is concerned with economy (cost minimisation), efficiency (output maximisation) and effectiveness (delivery of intended results).
- 4.2. Increasing pressures on public sector funding in recent years has placed greater emphasis on all public sector bodies to ensure value for money when delivering public services.
- 4.3. There are various approaches and models that can be adopted to assess value for money including stakeholder involvement from the outset, value for money audits, assurance reviews, wider return on investment and user surveys and feedback.
- 4.4. Across the SBCD Portfolio the determination of project value for money is part of the programme or project 5-Case Business Case process which more widely, identifies the preferred option that delivers best public value to society, including wider social and environmental effects.
- 4.5. The five interlinked cases are:  
  
Strategic case – Economic Case – Commercial Case – Financial Case – Management case

- The Strategic Case makes the case for change and demonstrates how it provides strategic fit.
  - The Economic Case demonstrates public value and requires a wide range of realistic options to be appraised (the long list), in terms of how well they meet the spending objectives and critical success factors for the scheme; and then a reduced number of possible options (the short-list) to be examined in further detail.
  - The Commercial Case demonstrates that the preferred option will result in a viable procurement and a well-structured deal between the public sector and its service providers.
  - The Financial Case demonstrates the affordability and funding of the preferred option, including the support of stakeholders and customers.
  - The Management Case demonstrates that robust arrangements are in place for the delivery, monitoring, and evaluation of the scheme.
- 4.6. Within the Outline Business Case (OBC) the Economic Case short-list options must include:
- Business As Usual,
  - A realistic and achievable 'do minimum' that meets essential requirements,
  - The preferred way forward (if this is different)
  - Any other options that have been carried forward.
- 4.7. These options are subjected to cost benefit analysis (CBA) or cost effectiveness analysis (CEA), where more appropriate, to identify the option that offers best public value to society.
- 4.8. As the project progresses and a procurement exercise is undertaken for the preferred option, the Business Case will progress from Outline (OBC) to Full (FBC) status.
- 4.9. During this progression the 5 cases should be revisited to ensure that, after the procurement process, the project remains within strategic scope, the preferred option remains economically, commercially, and financially viable and remains manageable.
- 4.10. This FBC review is the stage where value for money is assessed and agreed.

## **5. Procurement**

- 5.1. Public sector procurement processes are in place to achieve transparency, competitive pricing and equality of opportunity in how public goods and services are delivered.
- 5.2. Public sector bodies need to balance risks and overcome well known issues such as cost overruns, quality, delays and renegotiations for many procured goods and services. As such, a reform of procurement policies, principles and practices would benefit both the client and suppliers to ensure efficient and effective procurements.
- 5.3. Until recently Public Sector procurement has been governed by the:
- The UK Public Contracts Regulations 2015
  - The Public Procurement (Amendment etc.) (EU Exit) Regulations 2020
  - Wales Procurement Policy Statement 2021

- Post Brexit, WPPN 03/20 Post EU Transition Public Procurement, including Find a Tender Service (FTS).
- 5.4. Over the past few years UK Government (UKG) and Welsh Government (WG) have been reviewing post EU procurement policies and regulations. Alongside this reform WG have been reviewing better integration of The Well-being of Future Generations (Wales) Act 2015 and achievement of social value into procurement activities.
- 5.5. These reviews will see the introduction during 2024/25 of three new major procurement regulations:
- **The Procurement Act 2023** from UKG. The Act consolidates current procurement rules to create a single public procurement regime. This will simplify the system, open up public procurement to new entrants and embed transparency.
  - **The Procurement (Wales) Regulations 2024** will be the main Welsh Regulations underpinning the Procurement Act.
  - **The Social Partnership and Public Procurement (Wales) Bill**. The Bill provides for a framework to enhance the well-being of the people of Wales by improving public services through social partnership working, promoting fair work and socially responsible public procurement.
- 5.6. Once implemented these procurement reforms may have a significant effect on how public sector procurement is undertaken in future, as they contain many areas for improved SME and social value inclusion.
- 5.7. Many of the SBCD public sector procurements have used the South West Wales Regional Contractors Framework (SWWRCF) and Sell2Wales for tender purposes. This approach presents an open and fair approach to procurement.
- 5.8. The current iteration of the SWWRCF comes to an end in October 2024 and a new iteration is currently being developed. The new Framework is being amended to include an agile approach to procurement for both clients and contractors including provisions for:
- Cost/quality split
  - Mini competitions
  - “active” reserves that can be called upon to tender for call-offs where core contractors have indicated they are not bidding.
  - Early Contractor Engagement
  - Net Zero
- 5.9. The operation of Sell2Wales has already undergone an update to include the new procurement regulations.
- 5.10. Apart from where regionally agreed Frameworks exist, there is no regional procurement strategy in place across SW Wales. The SBCD Portfolio has an agreed set of Procurement Principles which align to current procurement policy, and which will need updating when the new regulations are actively in place.
- 5.11. Consideration on whether a regional procurement strategy is required following current public sector procurement reforms, is beyond the remit of the SBCD and may fall within the scope of the SW Wales Corporate Joint Committee.

## **6. Skills**

- 6.1. The construction sector is facing unprecedented challenges in the recruitment of staff, with an ageing workforce and reduced interest from school leavers in taking up training within the sector.
- 6.2. This is a key area of concern for our region and is affected by the supply and demand surrounding capacity and capability of the national construction workforce; especially when considering the new skills needed to meet net zero targets in the wider renewable energy sector and regionally through the HAPS targets.
- 6.3. According to the CITB Construction Skills Network, Labour Market Intelligence Report Wales 2024–28, the average annual recruitment requirement in Wales is set to average 19% based on 2023 workforce levels, which is the same as the UK. For the industry to meet expected demand in the nation, the forecast shows that recruitment would have to increase by the equivalent of 2,200 workers per year. The report notes that this is important to understand because there are still construction vacancies in Wales that need filling going into 2024.
- 6.4. In response, the SW Wales Regional Learning and Skills Partnership (RLSP) has been working with the construction sector, the housing associations, and the Local Authority Housing departments, to identify opportunities to upskill the existing workforce to meet the Microgeneration Certification Scheme (MSC) and Trustmark accreditation standards required by industry. This will enable them to tender more effectively for local procurement opportunities.
- 6.5. The information on career opportunities within the sector available to young people in schools has also been a key area of focus for the RLSP and the Skills and Talent programme. Pilot projects are being delivered to upskill and increase awareness of the sector by offering opportunities to have work experience, project working and training whilst in school. The five construction specific pilot projects that have been supported through the City Deal are working with primary or secondary schools to promote interest in working in the sector.
- 6.6. To ensure that we have a workforce for the future, there must be an increased incentive to upskill the existing workforce within the sector. This includes those residents who are currently economically inactive or who are in prison. Work has already been undertaken with Swansea prison to support individuals with basic training in the construction sector, to prepare them to be ready for work when they are released. This support highlights the employability programmes across the region the opportunities and training available.

## **7. Conclusions**

- 7.1. The CIA remains to be a valid and strategic quarterly report for all stakeholders, as many significant procurements are yet to be delivered, either directly SBCD funded or Business Case outcome dependant, within the SBCD Portfolio.
- 7.2. It remains a relevant record of costs, risks and issues affecting the commercial cases within project and programme Business Cases. It should be enhanced to include the business case dependant elements of construction that are yet to be delivered.

- 7.3. The SBCD Business Case update process from OBC to FBC is an important stage that provides the test scenario for project viability and value for money, following the procurement process. It is at this stage that affordability is reviewed and a decision to proceed made.
- 7.4. The following elements are outside of the scope of the CIA or SBCD Business case process.
- 7.5. The public sector procurement landscape in Wales is due to undergo a significant revision with a shift in focus to consider social and environmental value, and more inclusive procurement practises. This, in turn, should help achieve value for money, support the local supply chains and improve the foundational economy. The regional implications of these changes may need to be considered by the SWW CJC with regards approaches to future regional procurement and procurement policy.
- 7.6. The UK construction sector is facing a number of skills related challenges at present. In Wales, industry bodies are working with skills providers to develop an effective short-term solution. The SW Wales RLSP is working with local educational and industry organisations to explore effective short and medium term interventions across the region that can address the different levels of need. It is hoped that these interventions will have a longer-term impact on recruitment in the sector.

## **8. Financial Implications**

- 8.1 There are no financial implications.

## **9. Legal implications**

- 9.1 There are no legal implications.

## **10. Alignment to the Well-being of Future Generations (Wales) Act 2015**

- 10.1 The SBCD Portfolio and its constituent programmes / projects are closely aligned to the Well-being of Future Generations (Wales) Act 2015 and the seven well-being goals for Wales. These alignments are outlined in a Portfolio Business Case for the SBCD, as well as in individual programme / project business cases.

**Background Papers:** None

**Appendices:** None