

Swansea Bay City Region Joint Committee - 2 February 2023

Assessment of Increasing Construction Costs

Purpose:	To update the Joint Committee on inflationary and construction cost increases that are impacting projects within the portfolio and mitigating actions being taken to address them as described in Appendix A
Policy Framework:	Swansea Bay City Deal
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For Information	

1. Introduction

- 1.1. This report is an update on the earlier version presented to Programme (Portfolio) Board in September 2022.
- 1.2. It details the potential effects of mitigating actions currently planned or being taken to address the inflationary and construction cost increases impacting programmes and projects within the Portfolio.
- 1.3. Changes to the document are shown in the Document Control section of the report cover.

2. Background

- 2.1. At its meeting held on September 27th, 2022, Programme (Portfolio) Board received a report detailing the extent and likely effect of inflationary pressures and rising construction costs being experienced by the SBCD Programmes and Projects, with a current estimated funding gap of £31.2m across the Portfolio.
- 2.2. The Board instructed the PoMO to monitor the financial situation and undertake an assessment of mitigating actions being proposed by Project Leads.

3. Assessment

- 3.1. Information has been provided by all of the 7 projects being monitored and is detailed in the updated report.
- 3.2. The report contains updates from the GLEEDS Autumn Report 2022 which demonstrates the change in material costs from February to August 2022, and forecasts a 4.5% inflation rate for Wales in 2023

Commodity	% increase Feb 20 – May 22	% increase Feb 22 – May 22	% increase Feb22 – Aug 22
Cement	16	3.7	9.4
Ready mix concrete	16.7	6.2	9
Pre-cast concrete products – Pipes, tubes etc	39	8.7	10.3
Pre-cast concrete products – Blocks, bricks, tiles and flagstones	28.2	7.2	7.7
Imported planed or sawn wood	65.2	16.5	0.5
Imported plywood	90.6	13.3	5.7
Fabricated structural steel	134.7	35.1	20.3
Flexible pipes and fittings	23.5	6.8	8.1
Insulating materials thermal or accoustic	24	6.8	18.4
Paint- non-aqueous	33.1	6.3	16.4

- 3.3. Due to the staged nature of programme and project maturity within the portfolio, project teams will be in different positions when assessing the likely impact of inflation and construction costs. For example, within the Swansea Waterfront programme, the 71/72 Kingsway element is being delivered according to a fixed-price contract, with the contractor now expecting to manage a potential £2-3m increase in costs. However, Campuses is still in the design stage where cost increases and inflation can be factored into the design process from the outset. Other projects are somewhere in between.
- 3.4. Although there are a number of mitigating options available to project leads, the common approaches to address the funding shortfall are to:
- Seek more funding
 - Revisit the construction brief
 - Open dialogue with contractors.
- 3.5. Currently, sources of extra funding to support existing project delivery are not clear. One potential purpose of this appraisal is to raise the matter with UK Government and Welsh Government as City Deal sponsors to seek advice.
- 3.6. Altering the specification and reducing floorspace may affect the projects' ability to achieve its intended targets; this may be attracting tenants and thus achieving rental income, being able to deliver jobs or being fit for original intended purpose.

- 3.7. Those projects that are in early procurement stages are assessing the procurement pathways available. Entering into dialogue with contractors to manage any cost issues is recommended as best practice by industry bodies.
- 3.8. The [GLEEDS Autumn report](#) for 2022 indicates that commodity prices remain volatile although supply may have improved. Continuing rises in energy costs appear to be negating any potential reduction of material prices.
- 3.9. The PoMO continues to monitor the impact of inflation, cost and effect of mitigating actions. Any changes will be recorded via the change notification process with any significant change being managed via the change request procedure.
- 3.10. A Construction Costs/Community Benefits sub-group has been formed to allow programmes and projects to share best practice and discuss lessons learned. This sub-group will report to the PoMO and Project Leads group and Programme (Portfolio) Board.
- 3.11. It is intended that the table showing potential mitigations and their consequences will be converged with the Construction Impact assessment for reporting purposes going forward.
- 3.12. This report has been produced for consideration by SBCD Programme (Portfolio) board and Joint Committee
- 3.13. The Joint Committee are required to assess and agree that the funding gap, mitigations and impact are appropriate and share the report as at Appendix A with key stakeholders including both Governments for discussion.
- 3.14. In November 2022 the Programme (Portfolio) Board resolved that the in-house Governance structures within each Local Authority should be made aware of the potential over spend/issues and the PoMO will continue to appraise Programme Board of the current situation through Monthly and Quarterly Monitoring. Programme Board was to continue to review all new and updated information as provided and continue to review mitigations and potential courses of action to resolve any funding gaps that are confirmed and/or do not have a resolution at a project/programme level.

4. Financial Implications

- 4.1. Currently there is an estimated projected £31m increase in construction contracts throughout the portfolio as a result of inflation and increased construction costs.
- 4.2. Details of mitigating actions are outlined within the report.
- 4.3. Project Leads need to consider the implication of these actions and how additional funding could be accessed. Expenditure on an individual project should not be committed until funding is secured.

5. Legal implications

- 5.1. There are no legal implications.

6. Alignment to the Well-being of Future Generations (Wales) Act 2015

- 6.1. 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:

Appendix A: SBCD Assessment of Increasing Construction Costs