

Lido Drainage and Modernisation Project

Full narrative of the QS feedback from Press and Starkey

“...there have been significant increases in cost in all elements of the project which I think reflects the fairly unprecedented times (at least in recent years) that the construction industry is facing. There are now numerous cost pressures on the industry and very substantial risks that Contractors are having to manage in terms of obtaining fixed price quotations and their ability to forecast outturn construction costs which we are seeing having a major impact on tender prices across a variety of different types of project.

We will review in slightly more detail some of the main areas of significant cost increase later in this note but in terms of material and labour prices at present the main issues are as follows:

Materials

- a. The Brexit deal and the consequential increased bureaucracy at ports has led to supply problems in materials and major material shortages which have impacted significantly on cost where contractors are competing with one another to source sufficient product at significantly inflated prices.*
- b. The cost of energy for the production of materials has risen significantly over the past 6 months and these increases are now being reflected in the supply price of most manufactured materials. The cost of oil and gas has been affected by the Russia Ukraine war and it is not clear how long this will continue.*
- c. The cost of some manufactured materials has been affected by the social distancing requirements at factories.*
- d. The removal of the red diesel rebate has led to a major increase in fuel costs in the construction industry. The BCIS forecast for oil and fuel prices in the construction industry is showing an 86% increase in 1st quarter 2023 compared with a year earlier.*

Labour

- e. Restrictions on the movement of foreign construction labour have led to significant shortages of skilled labour in many construction industry trades. In all of the projects that we currently have on site Contractors are reporting labour shortages leading to delays and having to pay significantly more in order to attract skilled workers.*
- f. HS2 continues to impact on availability of labour in civil engineering trades.*

- g. General UK inflation levels are leading to increased wage demands from Unions dealing with construction industry trades.*

With regard to the Principal areas of cost increase we would comment as follows :

Preliminaries

- a. Concern about the project timeline and working hours has we believe impacted on the Preliminaries costs.*
- b. Supply chain shortages as a result of Brexit have led to longer lead in times resulting generally in contractors looking for longer contract periods and/or pricing the risk associated with potential delays*

Groundworks including Foundations & drainage

- c. Groundworks are one of the trades impacted by the current shortage of skilled labour leading to substantial premiums being paid to secure staff.*
- d. Concrete and steel reinforcement costs have seen substantial increases over the past 6 months and there is no certainty on how these will be affected in the next 12 months.*

The Frame & Roof

- e. Timber prices are fluctuating on a daily basis and have seen significant price increases over the past year.*
- f. On two projects that we are currently working on Contractors are reporting difficulty in sourcing Glulam beams and that suppliers are only willing to hold open their prices for 3- 4 weeks.*
- g. The price of the standing seam roof has increased as a result of substantial increases in steel prices.*

Mechanical & Electrical Services

- h. Prices for manufactured products used in the M&E services sector have increased significantly, being affected by both increased energy costs and supply chain issues.*
- i. M&E sub-contractors are reporting shortages in skilled labour, restricting their ability to serve current projects and pricing new work at a premium to ensure they can attract the necessary workforce.*

In summary I think it is fair to say that the project is more complex and involved than was perhaps envisaged in the original estimate, but tender

prices have seen very major increases across the board for the reasons mentioned above.

In our opinion the key factor that can't be underestimated is that of risk. In a number of trades now Contractors are either unable to obtain fixed price quotations, or where fixed these prices are being held open for a very limited period of time. Contractors are therefore in our experience being extremely cautious about prices and where there is any doubt are pricing the risk accordingly."