

PUBLIC QUESTION RECEIVED for People Scrutiny Committee – 1 June 2017

Question for People Scrutiny Committee From Peter Cleasby

As none of the tenders for the construction of the leisure complex was within the budget for the scheme, will the Council explain why they did not estimate realistic costs for its construction before inviting tenders?

Response by Councillor Phil Bialyk, Portfolio Holder Health and Wellbeing, Communities and Sport

This topic has been addressed several times over the past few months and I can recap the pertinent matters being:

- Professional Cost Advisors were appointed*
- The design was developed in collaboration between the designers & cost consultants*
- Benchmark cost data was used during the design process to inform the developing design*
- Tender Price Inflation was included in the Cost Estimates, as were Contingency and Risk allowances*
- All the above is good practice and the right approach to cost management in a construction project.*

However, the construction industry has been significantly affected following the Brexit referendum. Causing great uncertainty within the industry - to such an extent that the Royal Institute of Chartered Surveyors (RICS) All-in Tender Price Index was initially suspended and has subsequently changed its forecasts several times (predicting inflation / deflation at various times....) – which is unprecedented.

The impact of Brexit was a question at Council on 21st March, the response to which confirmed that

“Brexit is affecting the whole economy. It’s impact on this project has been to add to the complexity of the tender returns, which is causing the current slowdown in our progress on the project.

The pound has decreased in value – this change in exchange rates has increased the cost of raw materials used to build buildings. Also, the uncertainty of the future economy is affecting the way companies consider risk and pricing for future work, especially when fixing prices for the next two years.

Finally, the uncertainty of labour supply into the construction industry is negatively impacting on the willingness of trades to commit to workload for the next two years. There is a skills shortage in the construction industry and this is forecast to increase due to Brexit”

This is not just an isolated matter for Exeter, other projects have been affected by the current market conditions, and a quick search of the internet and trade press has highlighted cost escalations on projects, with headlines such as :

- Bouygues quits Bristol Arena project in January 2017 - £79.6m to £95m*

- *Construction costs on Tottenham Hotspur FC's new stadium have spiralled and Brexit is being at least partly blamed. £400m to £800m.*
- *£100m Port of Felixstowe distribution centre delayed.*
- *Garden Bridge could cost 'substantially' more than £185m admits trust*

Now I would understand if you were to ask, "how we will avoid a cost increase once the Contractor is appointed?"

I can say that!

The contract will only be let on the right terms for ECC, which will include a fixed price contract.

Fluctuations in exchange rates will be borne by the contractor

Changes in inflation will be borne by the contractor

Changes in the cost of materials will be a risk for the contractor (raw material costs, steel, etc.)

A clear risk allocation schedule within the Contract and proactive project management strategies to manage any risks which are held by the Council (such as change control & ECC governance)