

Workshop 3C

Unforeseen Financial Impacts on Contracts

Speaker: David Miller, Rand Associates Consultancy Services Ltd

Chaired by: Jon Case

Room: ROOM C



Unforeseen Financial Impacts on Contracts

International/National
Events– All Contracts
can/could be affected

Contract Specific
Events

International/National Events.

Brexit and its consequences₊

Covid-19 Pandemic and its consequences[•]

Climate Change and Energy Costs

Building Safety and Regulations

Brexit and its consequences

- 60% of Imported Materials used in UK Construction and Maintenance comes from EU Countries
- 80% of all Softwood comes from EU Countries.
- EU Operatives who left during pandemic and who want to return will be subject to new Immigration regulations.
- Non Tarriff Barriers (NTBs) with the EU introduce additional costs and time impediments to the import of certain materials and components – UK government considers this will be 5-11% increase for goods and 3-14% for services - Delays in checking imports at the Ports
- Hard v Soft Brexit

Covid-19 Pandemic and its consequences

- Additional Health and Safety Measures
- Lockdowns – only emergency works undertaken by most Clients
- Isolation – affecting access and availability of labour.
- Material availability – Production, Stocking, Delivery, and Increased DIY activities
- Increases in costs outstripping CPI Inflation

Climate Change and Energy Costs

- Winter Storm Uri affected a number of Chemical plants in Texas affected the production and supply of insulation, paints, adhesives and packaging materials. – **costs escalating**
- Hotter than normal weather during the summer in Sweden affected the cutting of timber, leading to reduced supplies. (shortage of imported timber led to a 1.3% decline in monthly construction output) Timber yields are also increasingly threatened by wildfires and increased pest action. – **costs escalating**
- Cold Winter in Europe in 2020/21 resulted in lower levels of gas being stored, a relatively windless summer meant it was difficult to replenish power supplies – **costs escalating**

Building Safety and Regulations

- Dwellings required to be “Fit for Habitation”
- Actual and Alleged Disrepair Cases – No Win No Fee Law Firms
- Insufficient Compliance Inspections and Stock Condition Surveys
- Compliance Gap affected by Covid
- Out of date data

CPI Increases – Calendar Year

Calendar Year	Start Indice	End Indice	Change in Indice	% Increase	Cumulative %
2016	100.3	101.9	1.6	1.60	
2017	101.9	104.9	3	2.94	4.54
2018	104.9	107.1	2.2	2.10	6.64
2019	107.1	108.5	1.4	1.31	7.94
2020	108.5	109.2	0.7	0.65	8.59
2021 to date	109.2	115.1	5.9	5.40	13.99

CPI Increases – Financial Years

Financial Year	Start Indice	End Indice	Change in Indice	% Increase	Cumulative
2016/2017	99.8	102.5	2.7	2.71	
2017/2018	102.5	105.0	2.5	2.44	4.54
2018/2019	105.0	107.0	2.0	1.90	6.44
2019/2020	107.0	108.6	1.6	1.50	7.94
2020/2021	108.6	109.4	0.8	0.74	8.68
2021 to date	109.4	115.1	5.7	5.21	13.89

Contractual Inflation Increases

- Whether CPI or BCIS, the calculation is based upon historical data in arrears
- A number of Contracts have base and adjustment months that will result in a CPI increase below actual CPI inflation.
- Several Contracts have a limit on CPI recovery to be only a % of the calculated increase – usually only 75% of the increase is recovered.
- The CPI inflation at the 1st April 2022 is projected to be 6.4%

Non Availability of Labour

- No of General Labourers. Carpenters/Joiners and Plasterers down by 6% - according to the FMB.
- 43,000 Building job vacancies in QTR 3 – according to ONS.
- 500,000 UK-born building operatives will leave the industry in next 10 years due to a demographic bulge of 50- to 65-year-olds retire.
- Shortage of 100,000 HGV/LGV drivers, no of drivers down 20% according to RHA.
- Recruitment of Apprentices not keeping pace with future demand

Labour Costs – CIJC/JIB v Market

CIJC and JIB Base Rates	Jan-16	Jan-22	% Increase	Advertised Rates per Hour
Multi-Skilled	£11.33	£13.25	16.95%	£14.00 to £24.00
Plumber	£12.36	£14.10	14.08%	£15.50 to £18.00
Heating Engineer	£14.41	£16.42	13.95%	£17.50* to £33.00
Electrician	£13.54	£15.36	13.44%	£17.00 to £25.00

Mitigation on Labour

WHAT SHOULD WE DO?

Material Element of M3NHF Schedule of Rates

M3NHF SCHEDULE OF RATES: VERSION 7.2		
Based on a Frequency of One		
Element	Responsive and Voids	Planned Maintenance
Labour	24.46%	20.72%
Vehicles	5.51%	2.55%
Materials	46.43%	49.79%
Specialist Suppliers and Subcontractors	6.41%	10.40%
Overheads	12.31%	11.86%
Profit	4.88%	4.68%
	100.00%	100.00%

ONS Construction Material Price Indices

Repairs and Maintenance	2018	2019	2020	2021
January	108	113	111.3	117.1
February	109.4	113.5	111.7	119.4
March	109.6	114.2	111.7	120.8
April	110.2	114.3	111.7	122.4
May	110.6	114	112.2	124.6
June	111.5	114.2	111.8	126.5
July	112	114	112	129.2
August	112.3	113.7	112.3	137.4
September	112.9	113.4	112.9	141.7
October	112.9	113.4	113.4	143.1
November	113.3	112.6	114.6	142.5
December	113.3	111.8	116	
Annual Average Indice	111.3	113.5	112.6	129.52
Increase in Calendar Year	4.71%	-1.32%	3.76%	22.84%

ONS MONTHLY PRICE INDICES CONSTRUCTION MATERIALS -1

	Dec	Apr	Aug	Sep	Oct	Nov	Year Increase	% Increase
TIMBER AND JOINERY								
Imported sawn or planed wood	141.5	160.4	228.8	231.5	228.8	211.5	70.0	49.47%
Imported plywood	99.9	131.1	174.2	153.3	149.4	150.4	50.5	50.55%
Particle Board	116.4	128.9	179.7	173.9	184.9	186.1	69.7	59.88%
Builders woodwork	118.5	123.1	133.2	134.3	138.5	140.5	22.0	18.57%
Doors & windows	116.0	117.0	118.5	119.0	122.2	123.3	7.3	6.29%
METAL PRODUCTS								
Fabricated structural steel	120.1	157.2	196.8	192.8	194.3	193.8	73.7	61.37%
Doors & windows	116.3	117.0	121.5	125.6	131.3	131.3	15.0	12.90%
Screws etc	106.4	91.4	94.5	94.5	100.2	101.0	-5.4	-5.08%
Other builders' ironmongery	109.4	110.0	111.3	111.3	111.9	113.1	3.7	3.38%
Central heating boilers	120.3	120.4	120.5	120.5	120.5	120.5	0.2	0.17%
Sanitaryware Taps, Valves	125.5	129.1	133.4	133.4	133.4	133.4	7.9	6.29%
Metal Sanitaryware	102.2	102.2	106.9	107.2	107.4	107.4	5.2	5.09%

ONS MONTHLY PRICE INDICES CONSTRUCTION MATERIALS -1

	Dec	Apr	Aug	Sep	Oct	Nov	Year Increase	% Increase
PLASTIC PRODUCTS								
Pipes and fittings (rigid)	111.2	113.7	117.7	119.0	121.2	122.0	10.8	9.71%
Pipes and fittings (flexible)	115.2	115.2	121.3	123.7	124.1	124.0	8.8	7.64%
Sanitaryware	111.2	115.2	123.4	120.4	120.6	120.6	9.4	8.45%
Doors & windows	115.7	118.5	126.3	129.0	130.6	135.4	19.7	17.03%
OTHER BUILDING MATERIALS								
Insulating materials (thermal or acoustic)	128.4	127.5	127.8	128.4	127.5	131.3	2.9	2.26%
Paint (aqueous)	111.2	114.1	116.2	116.4	116.7	119.1	7.9	7.10%
Paint (non-aqueous)	103.8	108.1	113.7	114.0	114.5	116.6	12.8	12.33%
Electric water heaters	97.2	97.2	97.1	97.2	97.2	97.1	-0.1	-0.10%
Kitchen furniture	119.2	120.2	120.3	120.5	120.7	120.8	1.6	1.34%

Causes of Material Price Increases

- Reduced production due to Covid Factory Closures, Climate problems in Texas and Scandinavia;
 - roof tiles on 20 to 36 weeks lead in
 - Cement production 11.21% down in 2021
- Reduced stock holdings due to Covid “DIY”
- Congestion at UK and Overseas Ports
- Containers in the wrong place
- Suez Canal Blockage

Current Material Shortages

Steel	PE and PP Plastics
Concrete	Screws
Insulation	Fixings
Electrical Components	Plumbing items
PIR Insulation	Sanitaryware
Kitchen Carcassing	Shower enclosures
Aggregates	

Mitigation on Materials/ Components

WHAT SHOULD WE DO?

A close-up photograph of several yellow, cylindrical buttons with numbers printed on them. The buttons are scattered across the left side of the slide, with some in sharp focus and others blurred in the background. The numbers visible include 60, 40, 20, and 30.

Contract Specific Events

- **Non-integration of IT Systems** – double inputting
- **TUPE** – more operatives than original TUPE list with different terms and conditions.
- **TUPE** – less operatives than original TUPE list – creates backlog of Works
- **Volume of Work** – greater or lesser than envisaged
- **Pricing now unsustainable** – Works refused and diverted to more expensive Contractor
- **ANY OTHERS??**

Mitigation on Contract Specific Events

WHAT SHOULD WE DO?

Thank you.

See you at the
next conference!



**NHMF
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2022**