Supplementary Rebuttal of Updated Proof of Evidence by Paul Maidment of Savills dated July 2021 in respect of Viability Cost Plans prepared by Madlins dated 16th July 2021 contained within his Proof at Appendix 4.

Prepared by Mr Bryan Engwell FRICS, Chartered Quantity Surveyor

Local Authority Planning Application ref: 07/18/0514/F
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Submitted on the 26th July 2021

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1. Introduction

1.1 My name is Bryan Engwell, I am a Chartered Quantity Surveyor and this is my Supplementary Rebuttal to that which I provided on 14th July 2021.

1.2 Since my Rebuttal, Madlins have provided a further Cost Plan dated 16th July 2021 in Appendix 4 of Mr Maidment's replacement proof. In Appendix 4a of Madlins' document they have set out their reasons behind their cost increases relative to their original Cost Plan dated 11th January 2018.

1.3 As reported in my Rebuttal of Proof of Evidence dated 14th July 2021, Madlins' costings had risen on average well in excess of the published BCIS Building Cost Indices and I stated that I could see no justification for such large increases.

1.4 Madlins have now sought to further justify their increases by way of reference to their own internal building cost analyses based on tenders received in their offices and have also used the BCIS Building Cost Index to partly support some increases applied by them in the order of 10% between 1Q18 and 2Q21.

1.5 An analysis of their pricing shows that their total costs have increased 18% on average with increases on the four largest elements of the construction works ranging between 19% to 26%.ie the Clubhouse, Commercial, Residential Flats and Residential Houses. Their costs of the Demolitions element has risen by 40%.

1.6 Madlins' basis of estimate is noted by them as being that the project will be competitively tendered (para 2.4, page 34, PM Proof version 2) and therefore I consider that price indices relative to Tender Prices are more relevant than Building Cost Indices for this purpose.

1.7 I contend that Madlins' references to and use of their own internal cost increases as evidenced by them are not open to scrutiny or analysis by me for comparison with market prices and therefore should not be used for the purposes of the exercise they have undertaken.

1.8 Instead, I believe that an overall inflationary percentage should be applied to their January 2018 Cost Plan. I am content to use the General Building Cost index and this has been used in Mr Wade's development appraisals.

1.9 However, the more appropriate index in this case would be the available BCIS Tender Price Index since the project is being delivered by competitive tender. This shows that the use of the General Building index is very robust.

2. Scope

2.1 The scope of my rebuttal is to provide an analysis of Tender Price inflation within the construction industry from January 2018 to July 2021 and to further consider whether it is appropriate to use Building Cost or Tender Price Indices instead of the examples used by Madlins as a base.

2.2 Before dealing with this, I comment on the overall advantages of using a price index for cost uplifts (whether the BCIS general building cost index or tender price index) as follows:

* Figures are based on analyses of a very large range of recent and varied projects
* Widely accepted in the industry as a basis for applying cost inflation
* Ease of application to cost plan elements, subtotals and totals
* Can be readily identified and checked
* Further adjustments (eg Part L& F changes) can subsequently be added to revised totals for ease of identification, checking and comment
* Better suited to the purpose where subsequent cost negotiations may be necessary
* Do not require the need to scrutinise internally evolved cost increases where this information cannot be made readily or quickly available

2.3 In reviewing tender price inflation, I have referred to indices and reports provided by Gardiner & Theobald, Arcadis, Rider Levett Bucknall, BCIS, Alinea and Mace. BCIS is part of the Royal Institution of Chartered Surveyors and the other companies are substantial well respected and reliable firms of construction and cost consultants all with offices in London, most also working Nationally some Globally.

2.4 I have also commented on the use of cost increases relative to recent Building Regulations changes as identified within Madlins' Cost Plans at section 3.3 below.

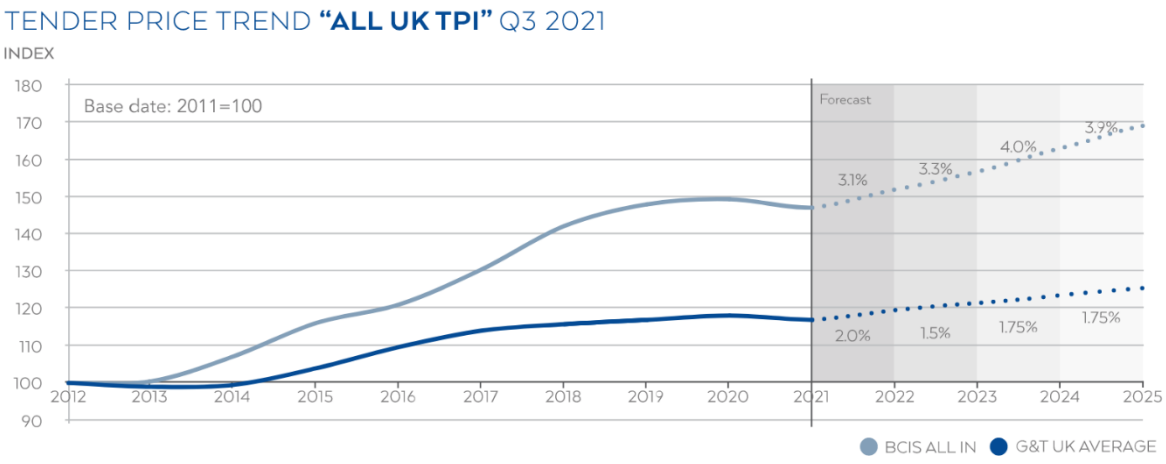
3. Review

3.1 Tender Price Index (TPI)

3.1.1 <u>Gardiner & Theobald (G&T)</u>

3.1.1.1 In their latest market report dated 3Q2021 Gardiner & Theobald have adjusted their figures for 2021, increasing their predicted TPI for the year to 2.00% having previously forecast 0.5% earlier in the year.

3.1.1.2 G&T note that '*If cost plans were being re-rated and materials procured now, tender price inflation would inevitably be much higher than 2% but it's important to reiterate that we are forecasting across the whole year, providing an average inflationary rate across all sectors of the built environment.'*



3.1.1.3 Historically their year on year TPI increases from 2018 to 2021 are as follows

2018	2019	2020	2021
1.00%	1.00%	-1.50%	2.00%

3.1.1.4 Giving an overall TPI increase from 1Q2018 to 3Q2021 of **2.00%** assuming 1.5% for 1Q2021 to 3Q2021.

3.1.2 Arcadis

3.1.2.1 In their UK Construction Market View reports

Year	Regional Building Construction TPI	London Building Construction TPI
2018	2%	2%
2019	2%	2%
2020	-3%	-4%
2021	1%	0%
Total 2018 - 2021	**+2%**	**0%**

3.1.2.2 Arcadis advise that construction output has continued to recover and is now at pre pandemic levels but is still significantly (12.5%) below 2019 levels and go on to say that a shortfall in turnover and future workload means that markets will remain competitive albeit those inflationary pressures are returning.

3.1.3 Rider Levett Bucknall (RLB)

3.1.3.1 Tender Price Forecast London Q2 2021

2018	2019	2020	2021
1.25%	1.00%	0.00%	1.50%

3.1.3.2 RLB note that '*There is increased tendering activity as more projects are coming to market, although tender returns remain very competitive as contractors look to secure workload for the rest of 2021 and on into 2022.'* With *'high levels of activity, running in parallel with the mass COVID-19 inoculation exercise nationwide and the downstream effects of materials importation delays and labour availability questions*.'

3.1.4 Alinea

3.1.4.1 In their market report dated February 2021, Alinea predicted a flat market for 2021 with a long term average of 2.75% from 1Q2022.

3.1.4.2 Within their report they also refer to material price volatility especially with respect to timber products and steel. Timber because the majority of UK supplies are sourced from Sweden and therefore any movement in costs or changes to supplies will have a significant impact. They were also predicting increases in steel due to the rising cost of iron ore and scrap metal. Although it is to be noted that Hot rolled steel sections and plate were actually cheaper in 2020 than 2018. The material element of a structural steel member only

represents approximately 50% of the installed cost so a 20% increase in steel prices does not directly translate to a 20% increase in the cost of a steel frame.

BCIS All-in TPI #101

Base date: 1985 mean = 100 | **Updated:** 02-Jul-2021 | #101

			Percentage change		
Date	Index	Equivalent sample	On year	On quarter	On month
1Q 2018	326	98	8.3%	2.8%	
2Q 2018	326	94	6.2%	0.0%	
3Q 2018	327	90	6.9%	0.3%	
4Q 2018	330	85	4.1%	0.9%	
1Q 2019	331	74	1.5%	0.3%	
2Q 2019	335	66	2.8%	1.2%	
3Q 2019	335	62	2.4%	0.0%	
4Q 2019	333	56	0.9%	-0.6%	
1Q 2020	335	Provisional	1.2%	0.6%	
2Q 2020	335	Provisional	0.0%	0.0%	
3Q 2020	330	Provisional	-1.5%	-1.5%	
4Q 2020	328	Provisional	-1.5%	-0.6%	
1Q 2021	328	Provisional	-2.1%	0.0%	
2Q 2021	331	Provisional	-1.2%	0.9%	
3Q 2021	334	Forecast	1.2%	0.9%	
4Q 2021	338	Forecast	3.0%	1.2%	

3.1.4.3 The BCIS indices are forecasting a 3.0% increase for 2021 with a 1.83% increase 1Q2021 to 3Q2021 which gives a provisional TPI for the period 1Q2018 to 3Q2021 of 2.45%.

3.1.5 Tender Price Indices Summary

Tender Price Inflation 1Q2018 to 3Q2021				
G&T	Arcadis	RLB	Alinea	BCIS
2.00%	2.00%	3.75%	0.00%	2.45%

3.1.5.1 As the latest Alinea report, that I was able to access, was issued in February 2021 and most of the inflationary pressures in the market have occurred since then, I consider that their figure should be discounted for the purposes of calculating the average TPI for the period in question. The average increase using the remaining four indices is therefore **2.55%.**

3.2 Building Cost Indices

3.2.1 The BCIS building cost indices measure the change in costs of labour, materials and plant ie basic input costs and are based on cost models of average buildings.

3.2.2 I am not aware of any other directly equivalent indices that are available to use as a comparator.

3.2.3 For the period 1Q2018 to 3Q2021 the BCIS building cost index forecasts an increase of 12.17% as shown in the table below.

BCIS General Building Cost Index #1011

Base date: 1985 mean = 100 | **Updated:** 20-Jul-2021 | #1011

			Percentage change		
Date	Index	Status	On year	On quarter	On month
1Q 2018	345	Firm	3.6%	0.9%	
2Q 2018	347	Firm	3.9%	0.6%	
3Q 2018	353	Firm	4.1%	1.7%	
4Q 2018	354	Firm	3.5%	0.3%	
1Q 2019	356	Firm	3.2%	0.6%	
2Q 2019	358	Firm	3.2%	0.6%	
3Q 2019	362	Firm	2.5%	1.1%	
4Q 2019	361	Firm	2.0%	-0.3%	
1Q 2020	360	Firm	1.1%	-0.3%	
2Q 2020	361	Firm	0.8%	0.3%	
3Q 2020	361	Firm	-0.3%	0.0%	
4Q 2020	364	Firm	0.8%	0.8%	
1Q 2021	370	Firm	2.8%	1.6%	
2Q 2021	378	Provisional	4.7%	2.2%	
3Q 2021	387	Forecast	7.2%	2.4%	
4Q 2021	389	Forecast	6.9%	0.5%	

3.2.4 Madlins within their report draw attention to the current volatility in the market especially with respect to material increases and argue that this is not reflected in the BCIS Tender Price Indices.

3.2.5 Mace Construction in their Q2 2021 UK Market View report, note that inflation is rising around the world, with main construction products, such as steel and timber, seeing significant increases. They argue that ‘the main factor behind higher prices is a lack of supply. Manufacturers who shut down plants during the initial lockdown have been less swift to recover, leading to shortages in availability.’ Exacerbating this problem are the ‘surge in costs for shipping containers affecting imports around the world.’

3.2.6 Mace also highlight a ‘distinction that is more relevant than usual is the difference between build cost and tender price inflation. Where higher material prices are forcing up build costs, tender prices are more subdued. Market conditions are improving, and the vaccine roll-out has boosted confidence, but pipelines are not back to previous levels.’

3.2.7 ‘Being mindful of this distinction is especially important with two-stage tenders. Contractors, having successfully won the first-stage, may try to pass on all the build cost inflation, ignoring the fact that if the project were to be re-tendered, it could come in cheaper. Despite re-tendering being an expensive process, given the difference between build cost and tender price inflation, it could result in saving the client money.’

3.2.8 Due to material price volatility Fixed Price contracts are unlikely to be acceptable in the short term unless they incorporate a price fluctuation provision. There would be significant risks for any contractor signing a contract without this provision.

3.2.9 Mace were forecasting a drop in London tender prices of 2% and 2.5% nationally in their Q4 2020 report. They have since revised upward their forecast principally on the back of the reported material price increases. They report that ‘As recently as October (2020), the annual inflation rate of the ‘all work construction material price index’ was flat.

3.2.10 Mace go on to say that ‘When it comes to other key variables we use to support our tender price forecasts, there is less justification for upwards revisions. This is most true of new orders. The weaker the pipeline, the more competitive contractors will be with bids and the harder they may find it to pass on higher costs. Based on the latest ONS data on new orders up to Q1 2021, the recovery is moderate but not strong enough to fill order books’

3.2.11 Mace also report that whilst some sectors are doing well others are faring much worse which as a result, means all new work is still lower than 13 months ago.

3.2.12 Labour costs represent the final part of the tender price equation. These however are now 0.5% lower when compared to 4Q2020. Whilst this is unlikely to continue as the recovery continues, at present labour costs are not adding inflationary pressure.

3.2.13 Mace consider that the market is not yet strong enough for contractors to increase margins.

3.2.14 Arcadis in their May 2021 report that ‘Some contractors are reporting losses and are looking forward to securing new work – which may require a more competitive approach and could lead to price decreases. But on another hand, there is growing evidence of financial stress.’ This could lead to an increase in the number of construction companies going into administration which will reduce capacity and may add to inflationary pressures.

3.2.15 Deflationary influences are getting weaker but are still important. As noted above, construction wage levels are still below 2020 levels and not recovering as quickly as in other (private) sectors. The pound has appreciated against the Euro and US dollar over the last year. The main deflationary influence is

the workload pipeline, which has yet to recover to pre-pandemic levels. With contractors actively seeking work, clients can be selective.

INFLATIONARY PRESSURES	**DEFLATIONARY** PRESSURES
Constrained EU labour supply/skills shortages post-Brexit	If recovery in new orders isn't sustained and workloads fall, competition for new work will increase
Site Operating Procedures adding cost and limiting potential productivity levels on site	Muted activity in new commercial, retail and hospitality sectors
Increased public sector spending/investment by Government leading to increased construction activity and competition for resources	Clients withholding investment in some sectors until lockdown restrictions ease further
Global manufacturing capacity/factory output unable to keep up with demand and resulting in materials shortages	Lower-tier contractors actively competing with tier one contractors to secure pipeline, squeezing margins
Increased shipping and logistics costs	New/more productive ways of working introduced on site improving productivity through adoption of digital practices
Full safety and security declarations on construction products at the border from July, increasing the risk of supply chain disruption	Appreciation of pound sterling against other currencies might discourage foreign direct investment
Rising new order levels stretching supply chain capacity	
Commodity supercycle pushing up raw material costs (particularly metals)	
Introduction of reverse-charge VAT	

3.2.16 Gardiner & Theobald in their quarterly reports also concur with these conclusions. Economists continue to believe that the surge in prices is temporary - the result of an economic reopening shock. When prices are elevated, suppliers have greater incentive to boost capacity and bolster output. That dynamic eventually results in a downward shift in prices.

3.2.17 In conclusion, I am of the view that the Tender Price Indices accurately reflect the market better than Building Cost Indices and therefore applying an aggregated Tender Price Index more fairly reflects tender market conditions. As I have said previously, Madlins in (para 2.4, page 34, PM Proof version 2) have stated that the project will be competitively tendered.

3.2.18 In consequence, I believe that the application of a 10.025% inflationary increase overall (which is the increase used in the development appraisals produced in Mr Wade's rebuttal, appendices 1 and 2) is robust.

3.2.19 Some of the Madlins' increases have been based on their own internal cost resources which are not open to scrutiny or analysis. They are not suited to comparison with prices calculated using BCIS or other Tender Price or Building Cost Indices and it would have been more appropriate if Madlins had relied upon this alternative method of increase calculation which would have led to a lower and more realistic cost estimate.

3.2.20 The average of the Tender Price Indices for the period between 2018 and 2021 shows a much lower increase of just over 2.5%. Applying this lower increase to Madlins' 2018 Cost Plan (excluding the Stadium) would dramatically reduce Madlins' latest July 2021 Cost Plan figures, even if the adjustments to costs which Madlins have added to account for the changes in regulations (as listed in their Appendix 4a item 1.1) are included.

Alternatively, there would still have been a reduction if the BCIS Building Cost Index was used.

3.3 Building Regulations

3.3.1 Madlins have referred to increased costs that will arise following the introduction of Part L1a and F in 2021 (section 3.1)

3.3.2 Due to COVID the implementation of this has been delayed. Transitional arrangements are to apply if building notices/plans are deposited by June 2022 and works to each individual building are commenced by June 2023. Transitional arrangements allow for buildings to comply with existing standards, which in this case would be Part L1a as amended in 2016 and Part F as amended in 2013.

3.3.3 The requirements to meet the existing standards will therefore already be included within the estimated costs and similarly reflected in tender price indices and the like. If the development is to proceed before the dates referenced above the additional costs applied to their estimate will therefore not necessarily apply.

3.3.4 Madlins also refer to an anticipated uplift of 31% for properties up to and including 5 storeys and properties over 5 storeys are expected to have an uplift of 20% (section 3.2).

3.3.5 Whilst it is appreciated that these increases appear to be relevant to the Part L1a and F regulations changes, there is no explanation as to how these percentages have been applied and no detail has been provided regarding their source or breakdown.

3.3.6 Finally, in regard to Madlins' continued inclusion of costs for commercial and residential sprinklers, no comment has been made in their latest cost plan and no cost adjustment has been included by them in response to the comments made by Mr Gerard Wade in his Rebuttal of Proof of Evidence dated 13th July 2021 paragraphs 5.8 and 5.9.