

# INTERESTING TIMES

As with Building Regulations, Gas Safe Regulations, NICEIC regulations, and so many other aspects of construction everyone has an opinion on areas of right and wrong due to subjectivity and interpretation. The same, if not more so applies to Economics.

Keynes, Smith, and Marx all had valid theories on the way economies should, would and could operate.

In light of the September Government debacle that was created by Truss and Kwarteng there has been a backlash. Whilst the pound has recovered from its "tanking" largely in part due to the weaker dollar created by the US's own issues, the IMF has now announced that out of all the G7 Countries the UK will be the only one to shrink in 2023. In a particularly competitive world this heaps even more pressure on the Government. Does Hunt's recent 4 E's pronouncement give us certainty that Inflation will be halved and growth returned to? The IMF thinks not.

Hunt seems to be putting his eggs in technological and digital industries and whilst the UK excels in these fields, the market valuations of such companies has actually reduced over the last year.

The bottom line is the perception of the world on growth and investment opportunities in the UK has had a massive impact on the perception of the UK Economy, and the inflationary pressures that remain means the bank of England is widely predicated to raise interest rates again to 4% this month.

This is more than worrying. Ability for those wishing to buy properties for the first time or move on in the world has now become even more difficult than it already was. The Housing market and subsequently values and sales rates will continue to take a hit.

There is however a glimmer of hope in terms of the fact that a mortgage price war may ensure that full rises are not passed onto consumers and data shows fixed rates actually falling since November 2022.

The Construction Market was problematic to say the least in early 2022. Brexit, Covid and then Ukraine and the Energy Crisis had created a situation where so many in the industry were referring to Hyper Inflation. Fuels costs, transportation costs, transportation route disruption Covid delays in China, material costs, availability of labour, all led to the situation we have all experienced recently and continue to worry about.

And just as we thought the industry was starting to settle, with contractors and sub-contractors looking to secure future work given a potential in reduction in output, we now have further things to consider.

Recent tender returns on projects we are dealing with ranging from £1m to £40m has evidenced an average spread of 20% on returns with significant varied caveats and assumptions. Whilst our Cost Plans have fallen within the mid-point, giving us confidence in accuracy of predicting market conditions, this wide-ranging return data gives cause for concern on Contractors varied responses.

What we do know is that Material Prices have increased significantly, labour availability has reduced, and the availability of work to sub-contractors up until now has enabled them to pick and choose allocation of resource based on demand for the desperate, thus creating pressure

on main contractors. Whilst there is evidence of this reducing due to the perceived drop in demand, this is still a significant concern.

Main Contractors and Developers have also had to deal with the hit they have taken on fixed price contracts, and they need to recover costs where they can, so the expenditure on claims whether right or wrong has created resource and cost pressures to both Clients, Consultants, and the Contractors.

We need as an Industry to get better at non-adversarial methods of resolution, and perhaps more punitive measures on spurious time-wasting claims

Clients initially in the main, supported the impact of issues created by the pandemic in a positive manner, but with all the other pressures now being realised this support has dried up. If we all continue down this path no one will win.

There are many factors in the Housing Industry that, on top of Macro economic conditions, is creating pressures and, more infuriatingly uncertainty. What, if anything, can the industry do to assist and give confidence in delivering the required increase in housing delivery.

## Collaboration:

During the Covid years clients clearly understood that Contractors could not and would not fix their prices across the board. Mechanisms for covering inflation risk have been built into contracts, in a variety of means (Fluctuation provisions a la JCT, fixed packages and fluctuations on some, Guaranteed maximum Prices with AMP's previously seen under PPC 2000).

In addition, Clients are also supporting contractors on existing developments with increases on Contract Sums to ensure continuity. We are all aware of the impact of insolvencies on housing delivery and costs.

If contracts are set up in a more collaborative way and enable the right decision making on alternative materials due to availability, then a smoother ride for all must surely be the result and enable commitment to delivery increase.

## Building Safety Act and Building Regulations:

We all acknowledge after the outcomes from Grenfell that subjectivity and ambiguity in the building regulations led some to race to the bottom. We have all as an Industry recognised that Quality and confidence in Life Safety Systems as well as the right Fire Strategies for buildings must be a primary focus. The delivery of the Golden Thread and increase in accountability are all welcomed.

However the way that the Government has utilised the consultation process, withdrawn guidance, developed the Transition period, and been lobbied by the likes of the NFCC, has led to further confusion as to what the benchmarks and objectives are. We have experienced Planning Applications withdrawn at the last minute due to uncertainty of the outcomes of the development of the Act and the Gateways. The sooner the regulations are completely clear and delivery of the right standards under the act are cemented, the sooner we can all have confidence we are delivering the right designs and Quality that residents rightly should expect and enable Landlords to actually understand their properties, how to run them and most importantly manage them as they should.

## The next big issue:

Underinvestment in existing Stock has led to a considerable number of Social Landlords to rethink their business plans. Commitment to new-build development has waned as

monies are committed not only to dealing with Fire and Cladding but now standards of existing housing that are identified as sub-standard.

After the tragic death of Awaab Ishak and Gove's immediate call out to the Industry, monies previously committed to Development will continue to move into putting right the underinvestment in existing stock. We have seen over the past few months a significant increase in Stock Condition Surveys as clients race to understand the level of the problem that they have. Whilst this addresses understanding, it also leads to the opportunity for not only fixing immediate problems, but utilising the data captured to align with the Retrofit agenda and addressing the Zero carbon targets and fuel costs for residents. In essence there is a great opportunity for landlords to significantly improve their stock and efficiencies, but this will be, without government intervention, to the detriment of New Build delivery.

### **Planning delays and resources of local authorities:**

A frustration for the industry is time spent in planning. Local Authorities are under considerable pressure in terms of their budgets. Planning teams are lean and the pressure faced by those officers that work so hard is immense. We need to encourage more into the sector and pressure LA's to supply the required resources.

### **Planning Policy:**

The NPPF, which has had a considerably bumpy ride through parliament is due to be concluded by April 2023. Whilst the prospectus was launched in December complete clarity on the policy and its final guise is yet to be determined as such, until there is complete clarity on what the final parameters will be. We will then need to see how individual authorities interpret the "flexibility" they are given in determining and managing planning applications.

### **Resources - Attracting new blood to the industry:**

All of us in the Industry have an obligation to ensure the future is secured. Covid has had a big impact on the education and development of our young future skilled workforce. Through Social Value, Apprenticeships, Sponsorships, and marketing the significant benefits and satisfaction that we all experience working in Construction, we should be able to tempt more to the market. This will not happen however without modernising the industry at all levels and fully embracing digital technology.

Brexit has led to significant reduction of labour availability, but if we don't invest now in the future, further increased costs and reduction in output will be the end result. We need to champion Construction and the wide-ranging options that there are, Legal, Financial, Sustainability, Surveying, Project Management, Engineering, Design, Technology, if those in education don't understand the exciting opportunities there are - how will they join us?

### **Clarity of Brief, Quality Design, Specifications and Risk Management and Stakeholder Buy-In:**

We need to ensure the investment through feasibility and procurement stages leads to less uncertainty, ambiguity and thus Provisional Sums and contingencies being required. The more work undertaken up front, the more time and investment made at the early stages, can only result in more certainty at contract stage.

There must also be a way of obtaining better performance and buy-in and clarity from Statutory Undertakers and Local Authorities. The impact on projects caused by

non-performance of these partners can be of significant detriment to a project. Increased costs, delays, loss and expense all derive from poor performance in terms of Services and Highways. Delays on road closures, inflated Section 278 requirements (due to funding pressures and internal budgets) and dare I say it - job creationism, leads to pressures that, if these bodies are held to account by the Government or ombudsmen (With actual teeth) could mitigate significant wastage in the industry.

### **Clarity of Brief and removal of the need to vary the Contract:**

Linked with the above is ensuring that stakeholder engagement from the concept stage. Clearly auditable and recorded decision making, and a transparent cut off point to all stakeholders by design freeze can mitigate the need for changes in the future. In addition the use of BIM to identify clash detection and mitigating the subsequent delays and costs attributed to putting things right, will only benefit the final financial outturn of projects and improve efficiency and reduce wasted time money and effort.

### **Funding Deadlines:**

All too often clients have to "accelerate" their procurement and design programmes to meet artificial deadlines created by funding targets. Contractors are well aware of these pressure and pricing can be inflated towards the back end of a funding cycle created by the demand and desperation to meet deadlines. There must be better planning and more flexibility built in to alleviate these pressures, which enables clients to get things right, and mitigate artificial inflation created.

### **Contractual Negotiations and Legal Advice:**

We all need support from the Legal Industry and the quality advice and documentation provided can enable clarity of roles, responsibilities, liabilities and required outcomes. But sometimes, do we need to take so long on negotiating and agreeing contractual provisions that are not necessarily fundamental risks that will have a major impact on a development? Perhaps the Parato 80/20 rule should apply, but only if clients fully understand the points being negotiated.

None of the above points are new, we are all aware of these issues, but there needs to be better buy in from all to address these matters.

We all have a role, as Government, Local Government, Clients, Contractors and Consultants - If we all work together with the common goal of driving down wasted time money and effort, we can secure a brighter future for the industry, whilst all delivering much needed housing, making a reasonable profit, and maintaining investment in the right places for the future of quality Housing.



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