

# Bristol Beacon – Impact of external influences including inflation on the project cost

Revised 4 January 2023

This report has been prepared to summarise the effect that the unprecedented global situation has had on the predicted outturn cost of the Bristol Beacon project following agreement of the Deed of Variation with Willmott Dixon in March 2021 and the resetting of the project budget at this point in time.

The report has concentrated on both the effects of inflation which has significantly impacted the overall cost movement on the project but also the supply chain difficulties which have been experienced with both deliveries of materials and labour shortages which have led to compensation events under the building contract which give cost entitlement to the contractor.

We have at the conclusion of the report categorised the overall movement of the project costs into six categories which demonstrate the significant effect of inflationary movements but highlight that the discovery of further problems with the existing structure and the resulting delays that these caused has been the most significant factor in the overall cost increase of the project.

## **Inflationary movement**

Under the form of Contract being utilised for the works the contractor (Willmott Dixon) is responsible for the risk of inflationary cost increases on the elements of works for which a fixed price is agreed.

However if there are variations to the contract or provisional items within the budget the contractor is able to be recompensed for the actual cost incurred and therefore recovers the effects of inflation.

Inflation rates within construction vary from the normal “Retail Price Index” and are a product of both actual material and labour cost increases but also overall market buoyancy so when there is a high volume of projects contractors are able to include higher levels of profit within their bids.

All major cost consultants (Quantity Surveyors) such as AECOM make predictions on overall year on year tender price movements but independently summaries of movement and future predictions are made by the BCIS (Building Cost Information Services) who are a subsidiary of the Royal Institution of Chartered Surveyors.

At the time of negotiating the DOV with Willmott Dixon the anticipated duration of the remaining works was approximately 2 years. This covered the period from April 2021 through to completion in April 2023. As noted above the Contractor took on board the risk on the fixed elements of work during that period however within the DOV sum was an element of “provisional priced work” valued at £5.7m. The cost estimates of the expected cost of this element of work were made by AECOM and included allowance for the industry expected inflationary movement during the period of the works.

The Predicted and actual inflationary movements published by the BCIS were as follows:

- View at Spring 2021 – to April 2023 = **6.91%**
- Revised view September 2023 for period from Spring 21 to April 23 = **22.27%**

This view factors in actual inflation experienced during this period calculated by a review of materials costs and benchmarking of tender price movements across the UK.

- Therefore the movement over predicted was 15.36%

The current overall increase in the Willmott Dixon element of the works is £10,203,000

In addition to this £5,700,000 worth of provisional sum items have been let.

This is a combined value of £15,903,000

All of the costs include for inflation.

By inference the amount of excess inflation included within the predicted construction cost is 15.36% of £15,903,000

The cost increase in the Willmott Dixon element of the budget is equivalent to £2,442,000.

The inflationary costs similarly have impacted the risk items on WD, additional fees, professional costs and other direct appointments and contracts included under the headings for both BCC and Bristol Music Trust Direct costs. For simplicity these have been calculated as 15.36% of the additional sums expended.

Finally as the project is requesting additional funding an application has been recommended for additional risk and contingency provision. By reference to the above issues the sum calculated is by inference 15.36% larger than it would have been otherwise.

Therefore the proportion of increased costs expended and requested on the Bristol Beacon project due to inflation is:

Willmott Dixon Construction Contract element plus risk allowances	£2,442,000
Bristol City Council Direct Costs (Fees and services etc.)	£908,000
BMT Direct Costs	£64,000
Proportion of additional Risk & Contingencies	<u>£506,000</u>
Total value of excess inflation	<b>£3,920,000</b>

**Related Supply Chain delays and other market conditions**

In addition to the direct inflationary costs increases suffered by the project which were not anticipated at time of DoV the Global situation has also had other impacts which have led to increased costs within the project which were not foreseen. As a value these are less substantial but have manifested themselves in needing to find alternative materials due to global shortages, expending money on storage costs in order to secure materials for the project and hence avoid delays to completion.

The total additional costs attributable to these items is estimated at **£676,000**.

**Existing structure and Fabric issues not foreseen at the time of the DoV and resultant prolongation costs**

Although inflation and the global economy issues have caused substantial movement on costs on the project the key driver for cost increases have been discoveries over and above that envisaged on the existing fabric and structure.

The key reasons for these increases are discussed in Appendix 2.

Due to the amount of change resulting from the existing structure and fabric it was also not possible to deliver the project by the contractual completion date of 18 April 2023 and the Contractor has been granted additional time to complete the works. This also entitles the contractor to additional costs for prolongation, Similarly this also necessitates extending the duration of the consultants and professional services teams and hence incurs substantial additional costs.

Additional costs against these categories are estimated at:

Structure and Fabric issues: **£2,661,000**

Prolongation costs: **£5,004,000**

**Compressed programme**

As a result of the delays and the necessity to re-open the building as near to 28 September 2023 as possible a number of mitigation measures have been put in place to give greater certainty over completion.

The costs of these measures are currently estimated at **£1,658,000**.

The overall movement against the above categories is tabulated in the table below:

<b><i>Bristol Beacon Proposed Revised Budget and Reasons for movement in cost 4 January '23</i></b>	DOV Apr 21	<b><i>Option 1</i></b>	<i>Movement from DoV Apr '21</i>	<i>Reasons for movement since DoV</i>						
	DOV position	30 Sept '23 opening		Existing structure and fabric issues not foreseen at time of DoV	Prolongation costs - EoT - resulting from existing structure issues	Compressed programme & operational start up cost (mitigation of delay)	Inflation costs over above allowed at time of DoV	Other External Factors - Market Conditions, Supply Chain	Other variations previously intended to be set against risk and contingency	Total
<b>Total including risk allowances to re-opening end Nov '23</b>	<b>106,900,000</b>	<b>131,895,000</b>	<b>24,995,000</b>	<b>2,661,000</b>	<b>10,174,000</b>	<b>1,658,000</b>	<b>3,920,000</b>	<b>676,000</b>	<b>5,906,000</b>	<b>24,995,000</b>