

**REPORT OF SERVICE DIRECTOR, PLACE AND COMMUNITIES AND
SERVICE DIRECTOR, FINANCE, INFRASTRUCTURE AND IMPROVEMENT****RESOURCE SHORTAGES AND CONTRACT INFLATION****Purpose of the Report**

1. To appraise the Committee of concerns that material and staffing shortages due to Covid 19 and the UK leaving the EU are driving abnormal rates of inflation across the construction sector, exacerbated by substantially increased energy and fuel costs, and which will lead to high generalised inflation and impact on the Council's ability to deliver projects and services, such as the aspiration to be carbon neutral in all its activities by 2030.

Information**Background**

2. At the Committee meeting in September 2021 colleagues from Arc identified recent cost increases on specific projects resulting from materials shortages driven by the slowdown of production of certain products and materials worldwide during extended lockdowns throughout the period of the Covid 19 Pandemic in 2020 and 2021. This has also been exacerbated by the UK leaving the EU and the additional administration required to move goods between mainland Europe and the UK.
3. Whilst the Arc presentation was in the context of the new school development programme, and particularly the project at Chapel Lane Bingham, the wider impact can already be seen across a range of construction and maintenance services delivered by Arc and within other areas within the Place Department.
4. This report sets out further detail on the specific areas where availability of resources and materials is impacting on cost and timescales across the capital and maintenance programme delivered by Arc and Via, and highlights the risk that those costs, together with wider inflationary pressures from energy and fuel prices poses to generalised inflation rates across a wider range of Council services in due course.

Impacts on Arc Projects**Material Shortages**

5. The UK is very reliant on certain construction materials being imported from abroad and contractors are reporting a number of issues including the following:
 - i. Certain materials and specific products being unavailable.
 - ii. Material Price Increases
 - iii. Longer lead in times for deliveries
 - iv. Border delays with imported materials
 - v. Staffing resources unavailable

6. Specific Materials currently experiencing issues:
 - i. Structural Steelwork and concrete reinforcement (and similar metal products)
 - ii. Plastic drainage components and uPVC windows
 - iii. Timber
7. Area experiencing delays and extended lead times:
 - i. Plaster and plasterboard
 - ii. Insulation materials
 - iii. Roof Tiles
 - iv. Paint
 - v. Other mechanical and electrical items (lifts, lighting etc)
8. Whilst Arc has been able to forward plan works effectively using their long-established relationships with the County Council, contractors, suppliers, and the Scape Group, and specify alternative materials where possible, cost increases and delays are becoming harder to mitigate against.
9. A number of new school builds are returning tender prices higher than expected, and despite value engineering Latest Estimated Costs (LEC's) are above allocated budget levels. This trend is likely to continue.
10. Into 2022 it is expected that delays on key materials will ease and current inflation increases on key items will stabilise, however with the global economy also in recovery it is likely that demand will ensure prices remain high and continue to increase.
11. These higher prices and delays will likely impact across a wide range of property services in due course reducing the outcomes which can be achieved within agreed budget levels.

Impacts on Via

12. Nottinghamshire County Council, through its highway service provider Via (*along with the wider construction industry*) has seen and continues to see increases in the cost of construction and other materials.
13. These increases first began in 2020 and were mainly due to the impact of the COVID 19 pandemic upon the supply chain. Since January 2021 the ongoing effects of COVID 19 restrictions, national & international logistical difficulties and demands arising from the construction of HS2 have exacerbated this situation.
14. It is assumed that increases associated with the other cost components (*e.g. staff wages and rental leasing / charges etc.*) will be more predictable and the inflation mechanism contained in the term service contract will suffice. However, the retrospective nature of this mechanism does not make allowance for the significant in-year material cost inflation which is currently being experienced.
15. Via's market intelligence predicts that this trend is likely to continue into 22/23.
16. Analysis of suppliers and contracts information for the materials commonly used in highway construction and maintenance is show below in Table 1, this illustrates the increases which took place between October 2020 and June 2021; an 8-month period:

Product Category	Average Increase %	Weighting (/100)	Weighted Increase%
------------------	--------------------	------------------	--------------------

Concrete & aggregates	6.8	30	2.04
Plastic	17.5	5	0.89
Metal	44.8	10	4.48
Timber	30.6	5	1.53
Asphalt	5.0	30	1.50
PPE, Small Tools etc	10.5	5	0.53
Signs	1.6	15	0.24
Overall average increase			11.21

Table 1

17. The base material costs for works carried out by Via's Operations Division for a range of NCC activities during that period totalled £8.838m. This amount includes directly purchased materials and materials supplied under sub-contract arrangements, which represent approximately 33% of subcontract cost.

18. Based on the above it is anticipated that the increased material costs over a full year will total 16.8% of the total works cost. This increase, when applied to the typical cost of materials represents an annual increase amounting to £1.485m. Via has mitigated these ongoing issues with supply and cost by increasing stock levels on a range of materials.

Impacts across other Council Services

19. The Covid-19 pandemic and UK leaving the EU has had a significant impact on availability of staffing resources which in turn has impacted several Council services.

20. In the social care sector, there has been a significant issue with recruiting and retaining care staff across social care services. There is a significant lack of capacity in the Home Care market. This is having an impact on delivering front line care services to residents and our internal adult social care teams are stepping in to deliver care to fulfil the need.

21. Catering and facilities management services has also been impacted with a shortage of staff. This is largely due to competition from other industries paying higher wages or due to the inflexible hours being offered. This is causing an issue with ensuring schools and the Council's corporate buildings are cleaned.

22. In addition, some suppliers are experiencing shortages of certain food lines due to resource constraints in both agriculture and warehousing. This together with a shortage of Heavy Goods Vehicles (HGV) drivers is resulting in key deliveries of food supplies being affected.

23. A shortage of drivers is also seen within non municipal waste services. The Council has recently had a price increase due to suppliers offering increases in drivers' wages in the attempt to try to retain and attract more HGV drivers.

24. Whilst the Council is somewhat protected from immediate inflation on direct energy costs through the advance purchasing arrangements with Crown Commercial Services (CCS), wider

inflationary pressures driven by energy costs which could rise by 50% for 2022/23, will ultimately have a detrimental impact on a whole range of service areas.

25. For both gas and electricity, the Council has opted to place its energy requirements in buying baskets that allow CCS to purchase flexibly over a 42-month period, commencing 30 months before the point of delivery and continuing through the delivery year. This 'long-term variable product' limits the impact of market volatility and takes advantage of market lows, giving value for money and an element of year-on-year price stability.
26. The Council's sustained and ongoing investment in energy efficient street lighting, leading to 70% of the street lighting, signs and bollards inventory now being lit by LEDs, plus property rationalisation and renewal, and investment in energy efficiency measures, such as LED lighting and improved heating controls also continues to help the Council protect itself from energy cost rises.
27. Fuel prices which are at a record high, will also be felt across all areas of the organisation in due course, with the potential for contracts to become unaffordable for the council, or unviable for some service providers.
28. The Council's procurement team together with contract managers in service departments are in regular discussion with the suppliers to review the situation to implement contingency arrangements and ensure continued service delivery.

Overall Impact on Council Budgets

29. Material cost increases will impact on the revenue and capital budgets of the Council, although it is important to note that they only form part of the overall costs.
30. This report sets out the reasons why overspend positions may occur on a number lines within the capital programme. It is, however, the individual budget holder's responsibility to ensure that every effort is made to manage their capital programmes within the approved funding envelopes. Where this is not possible, issues with capital budgets will be raised as early as possible via the monthly capital monitoring exercise. Subsequently, where necessary, approval will be sought to vary the capital programme through a Latest Estimated Cost Report or through the usual capital approval channels.
31. In the case of revenue budgets the Council does not automatically provide inflation increases to annual cash limit budgets. An annual exercise is undertaken to review all cost pressures and inflation bids, with the expectation that budget holders will review all possible savings or other cost avoidance measures. Where necessary additional costs such as material price inflation will be considered as part of the regular Medium Term Financial Strategy (MTFS) updates and will be included in the annual budget approved by Full Council in February each year.

Other Options Considered

32. None – despite efforts to reduce costs and drive value for money from the supply chain material shortages will result in abnormal levels of inflation which will drive overall inflation rates across the construction sector, which will ultimately lead to increases in generalised inflation rates.

Reason for Recommendation

33. Members need to be aware that the impacts of the Covid 19 pandemic and the UK leaving the EU will mean we will achieve fewer outcomes for every £ spent unless additional funding is identified which allows budgets to keep pace with inflation.

Statutory and Policy Implications

34. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

35. As set out in the report material cost increases may impact on the revenue budget or the capital programme. Where necessary and unavoidable additional capital allocation or revenue budget may be allocated to fund additional costs, however this will impact the amount of money available to fund other capital schemes or revenue services.

Implications for Service Users

36. The Council is committed to achieving the best possible outcomes for its residents and increases in inflation over available budget increases will have a direct impact on services.

Implications for Sustainability and the Environment

37. The Council's aim of achieving carbon neutrality in all its activities by 2030 will rely on changes in working practices, investment in new technologies, and specifically enhanced design, build and maintenance standards for all its buildings including schools. These enhanced environmental standards will invariably result in increased upfront costs, with potential reductions in long term running and maintenance costs.

38. Significant levels of inflation across the construction sector will make achieving these aspirations even more challenging, and although inflation in the wider energy market and across fossil fuel supplies may make the business case for change to renewables more compelling by mitigating the impacts, this will still likely result in an overall increase in costs.

RECOMMENDATION

It is RECOMMENDED:

That the contents of the report be noted.

Derek Higton
Service Director, Place and
Communities

Nigel Stevenson
Service Director, Finance, Improvement
and Infrastructure

For any enquiries about this report please contact: Mick Allen, Group Manager Place Commissioning T: 0115 9774684, E: mick.allen@nottsc.gov.uk
Kaj Ghattaora, Group Manager Procurement T: 0115 977 3267. E: kaj.ghattaora@nottsc.gov.uk

Constitutional Comments (EP 28/10/2021)

39. The Finance Committee is the appropriate body to consider the contents of this report.

Financial Comments (KRP 27/10/2021)

40. As set out in the report the expectation is that additional costs will be contained within existing capital allocations or cash limit budgets wherever possible. If this cannot be done processes exist to gain approval for additional funds to cover increasing costs, although this will reduce funds for other schemes or services.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- Annual Budget report 2021/22 – report to full council on 25 Feb 2021

Electoral Division(s) and Member(s) Affected

- All