

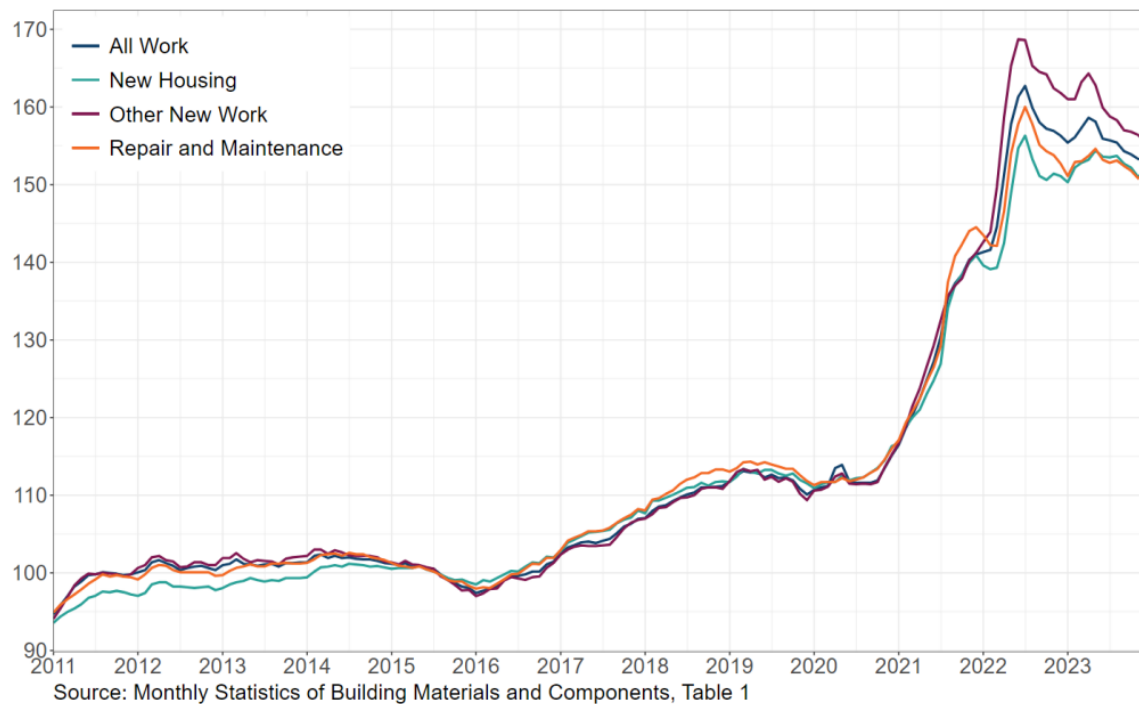
Alexandra Theatre – Market Overview Technical Note

Unprecedented Inflation

Since Mace's commencement on the project in 2022 the construction industry has experienced turbulences which have had a varied but significant effect on the cost of materials and labour. Issues such as the fallout from the COVID-19 pandemic, increase cost in gas and electrical supplies, cost of living crisis, conflicts in Ukraine and other parts of the world, and labour shortages have led to increased building costs and high inflation above the normal anticipated levels (typically c. 3%).

Recent rapid inflation growth is evidenced by data from the Construction Materials Price index (refer to chart 1) which shows the evolution of the cost of construction materials. The periods between 2021 and 2023 have seen overall material price inflation rise above 15% year on year which is well above the norm.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Whilst there are now seeds of optimism within the industry, we are not expecting to see prices return to pre-pandemic levels, and material prices appear to be locked. It is therefore apparent that the high inflation observed in recent times isn't readily absorbable within the Alexandra Theatre's funding envelope. This coupled with the fact that the original funding application didn't include any allowance for inflation & that inflation has been far higher than anyone could have predicted has been a key factor in the budgetary pressures observed.

Contractors' approach to Risk

The construction market continues to be volatile and main contractors are reporting that they are finding it very difficult to obtain a fixed price from both sub-contractors and suppliers, with some suggesting a fluctuations contract. Significant increases in material costs affecting key trades, energy costs and ongoing market capacity issues continue to have a major impact on tender prices. We have seen increased material costs as well as shortages in labour due to

the conflicts in Gaza and the ongoing war in Ukraine and the attacks on shipping containers in the Red Sea.

The ripple effects from the various global crises, set out above, will continue to impact projects for some time. As a result, contractors need to be confident that their projects are resilient, meaning they can minimise the impact of disruption in a volatile market. In recent times, we have seen contractors' increased aversion to risk and that is evident in tender price submissions which have been recently received. They include a significant amount of risk factored into their costs due to the currently unpredictable and uncertain nature of the industry.

The last few years has seen record numbers of UK construction firms going out of business and only last month, ISG, a Tier 1 contractor fell into administration. This has and will continue to cause wide ranging impacts to the construction industry, for example the impact on sub-contractors if their client (contractor) falls into administration can cause significant instability and financial distress, which further fuels the nervousness amongst contractors when pricing works. So, whilst this project will be looking to reduce the significant amount of risk built into the costs, we need to be mindful of the industry as a whole and the reluctance of all contractors to reduce their margins to an unsustainable level which would further impact the project programme and cost if a contractor falls into administration during the works on the theatre.

Changes to the scheme outside of the project team's control

Whilst the current market has impacted our collective ability to deliver the project within the funding envelope the team has worked to mitigate the above effects where possible. However, there are specific items outside of the project teams' control which have put further financial pressures on the scheme. A snapshot of these have been listed below:

- Unprecedented inflation
- Programme delays of c. 8 months due to the need to re-procure a contractor.
- Drainage requests from planning imposed on the scheme (attenuation)
- Significant changes to the façade following councillor engagement.
- Piled foundations are now required due to the ground conditions observed on site following various surveys – the original proposal was for strip foundations which are a much cheaper alternative.
- Building Control requirements to comply with the latest standards have increased scope of the refurbishment works required.
- Additional works to back of house areas