



sedgwick®

Building Repair Costs Review

Quarterly Update – Q3 2020



The review

Each quarter, Sedgwick Repair Solutions Quantity Surveying team reviews the building and construction industry market to gain an understanding of the primary drivers of cost, and make sure that our rates remain competitive.

This quarterly report provides an overview on the current situation and looks at the issues that could potentially impact on insurers' building repairs costs over the months ahead. Since our previous report, the COVID-19 pandemic has continued to cause disruption and cost pressure on the construction industry. The end is also looming on the Brexit transition period. As mentioned in our previous report, the future remains uncertain and challenging.

Headlines

- In Q3 2020 we recorded an increase in costs of 0.25%, but the underlying increase is nearer 1% when data is adjusted
- The COVID-19 pandemic continues to affect the supply of certain materials
- The impact of contractors adjusting to managing repairs in a COVID-19 safe manner has resulted in a cost increase of c.3%
- Brexit remains an important factor. As the transition period ends, we're expecting increases in construction material costs, leading to further cost increases in Q4 and Q1 of 2021
- Tender prices have dipped slightly compared to a year ago, apparently due to a short term COVID-19 related supply excess

Part 1 – building cost inflation

To track the impact on insurance repair work within the building industry, we use a bespoke index that focuses specifically on this market sector. Known as the Insurance Repair Specific Index (IRSI), it monitors the four main cost components that are typically found in insurance repairs: **labour, plant, materials and waste disposal**.

The latest IRSI review shows that input costs increased over Q3 2020 by 0.25%. This reflects some seasonal adjustments and particular fluctuations in specific items e.g.:

- Insulation +12%
- Timber + 6%
- Gloss paint + 20%. We have been advised this quarter of some issues over supply
- Tile adhesive + 17%

In summary, across the whole basket of items:

- **Materials** costs down by 0.98%
- **Plant** costs down by 11.72%
- **Labour** costs up by 3% – including the increased cost of working under COVID-19 guidelines
- **Waste** costs up by 2.47%

This overall increase is lower than expected and is influenced by a decrease in the cost of hire of mobile access equipment. We saw a similar decrease during the same period in 2019, which was then followed by an increase in cost of 20% in Q4. Excluding this plant item, we are recording a cost increase of c.1% during the past quarter.

Material costs

A number of contractors have received notices from suppliers advising of imminent cost increases, including those for kitchens, welfare units and timber.

The timber and construction supplies sector has seen some unusual demands in the market this year and a number of factors have contributed to shortages of raw material in the UK. Timber supply is now being impacted and we are seeing some merchants unable to supply certain products.

We're advised that fencing, decking, landscape timbers, OSB, longer lengths of structural and treated timber as well as studwork sections are all in relatively short supply in the market. Manufactured items such as doors are often on extended lead times as well as treatment facilities on special items.

Whilst contractors have tried to mitigate against this by increasing the amount of stock held, the challenges are likely to continue on supply, and consequentially the upward pressure on price is also likely to continue.

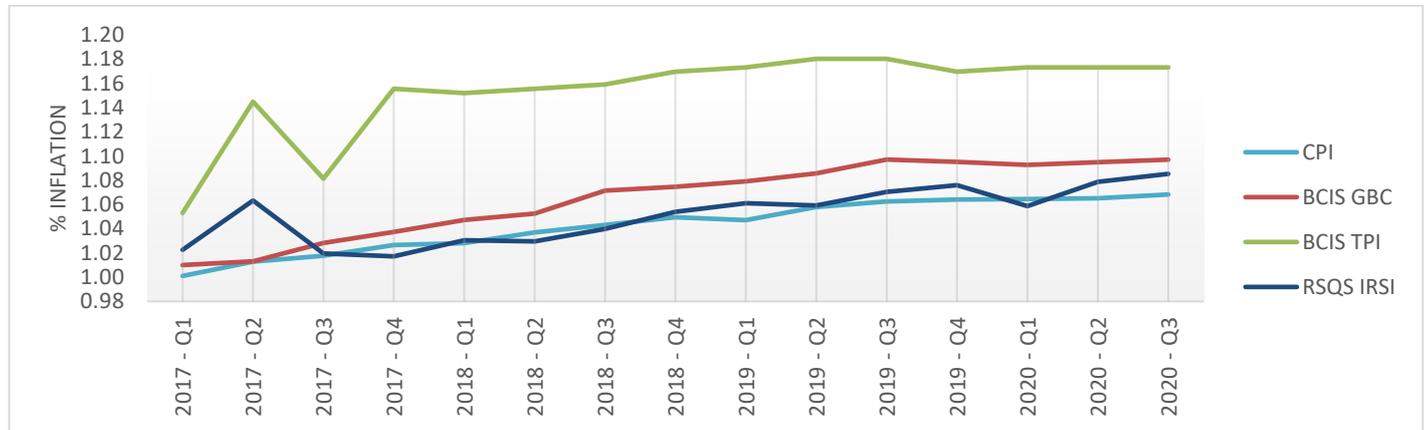
The table below shows how the IRSI compares to the other key indices being Building Cost Information Service General Building Cost Indices (BCIS GBC) produced by RICS, the Consumer Price Index (CPI), and the BCIS Tender Price Index. All indices show a continuation of an upward trend in cost.

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Table 1 – Building Cost Inflation 2017 to Q3 2020



Brexit continues to affect the construction industry, albeit overshadowed by the COVID-19 pandemic. With the transition period ending on 31 December 2020, concerns remain over cost and labour availability.

Costs

When the terms of exit are resolved – particularly the issue of trade deals – we expect more certainty over the effect on material supply. We anticipate however that price increases will follow, as data indicates 64% of construction materials are imported.

Labour

The ONS indicates that 40% of the construction labour force in some parts of the country originate from outside the UK. The loss of free movement after Brexit (coupled by the effects of COVID-19) is likely to lead to a skills shortage and a corresponding increase in labour costs.

Part 2 – rates benchmarking

To ensure that Sedgwick’s network repair costs are competitive, our quantity surveying team undertake a quarterly review of our managed contractor network repair rates – known as the Universal Rate Set (URS).

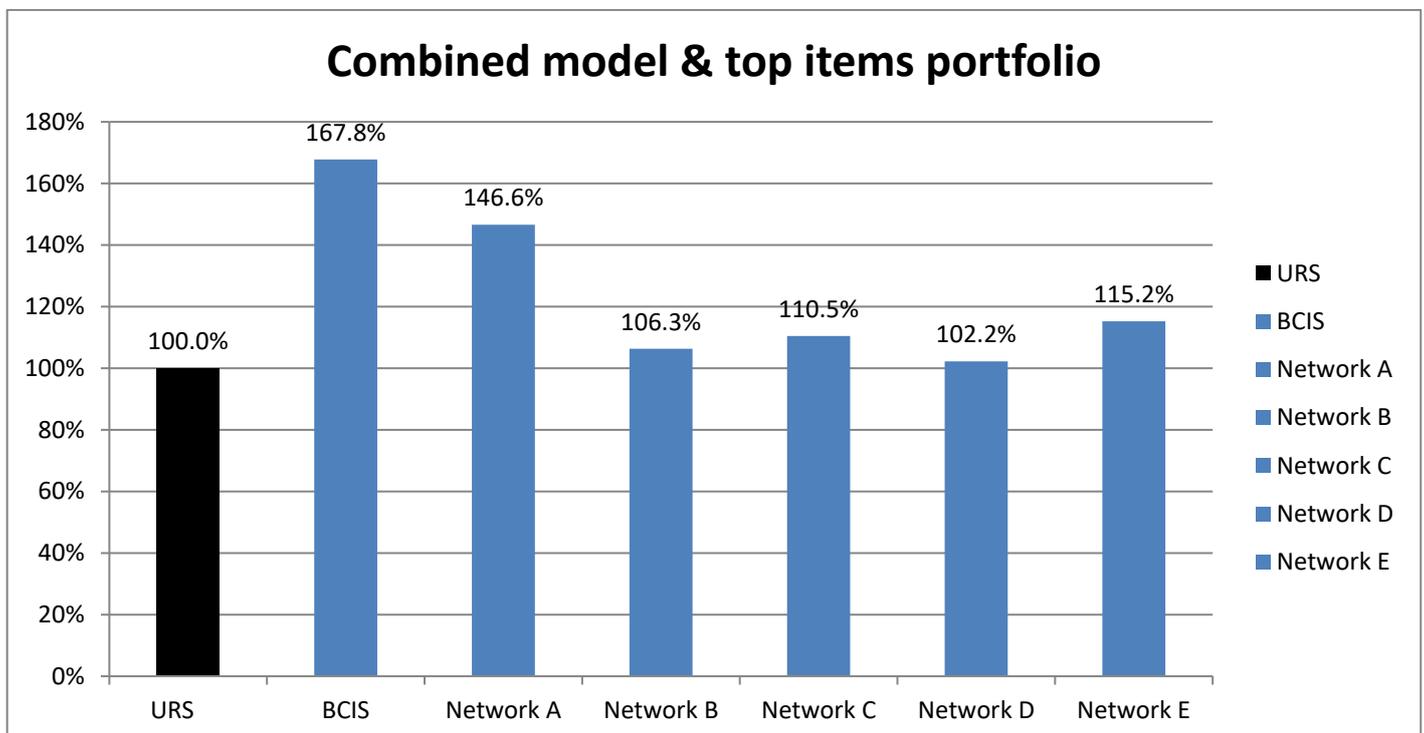
The URS is compared with published rates and those used by other networks in the insurance repair market. This benchmarking exercise combines:

- A cost review of 25 of the most frequently used repair rates
- A review of the output costs of repairs on typical £5k and £25k escape of water claims

The results of this review are shown in table 2 below, which continue to demonstrate that URS remains highly competitive.

For comparison purposes, URS is shown as 100% with other networks shown as a percentage cost compared to the URS.

Table 2 – benchmarking



Part 3 – dynamic pricing

Sedgwick’s Quantity Surveying team also carry out a specific benchmarking exercise to compare the URS with wider market tenders. This provides a good indication of the competitive nature of URS against tendered repair jobs, which are typically at the higher value end (greater than £50k).

The annual portfolio review involves applying URS rates and rules, and comparing the results with tenders received from panel contractors, or the customer’s preferred building firm.

The analysis benchmarks the URS figure against

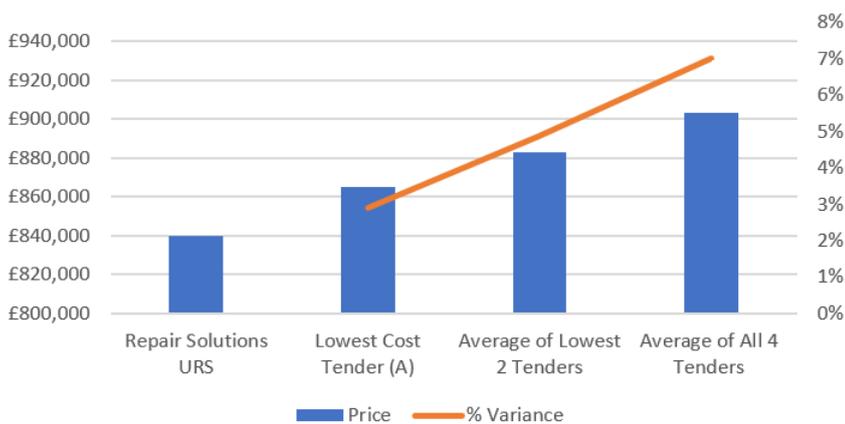
- a) The lowest cost tender
- b) An average of the lowest two tenders
- c) An average of all four tenders (lowest quartile)

The most recent analysis (as shown in table 3 below) is as follows.

Table 3 – Dynamic Pricing Cost Savings

	Repair Solutions URS	Lowest Cost Tender (A)	Average of Lowest 2 Tenders (B)	Average of All 4 Tenders (C)
Price	£840,016	£865,034	£883,134	£903,362.84
£ Variance		£25,017	£43,118	£63,346.37
% Variance		2.89%	4.88%	7.01%

URS v Tender Costs



This exercise demonstrates that, compared to free market tenders, the URS is competitive and generating a saving of 3% against the lowest cost tender.

The exercise also reveals a slight fall in market tender prices compared to the same period last year. This is believed to be a temporary blip caused by an excess of supply at the time of the exercise due to COVID-19 restrictions. Indeed, the BCIS are forecasting a significant increase in tender prices during Q1 2021 as the market normalises.

Part 4 – Data review – Cutting costs AND being Green

Sedgwick Repair Solutions have been at the forefront of driving a CSR agenda within this sector for a number of years and are working towards becoming carbon neutral. As part of this we've worked with the ClimateWise¹ group to understand how both cost and environmental impact savings can be made through using alternate restoration approaches.

The table below shows the theory of how the cost, time and emission components of a repair can alter depending on the approach taken:

	Regime 1 (baseline) Summer incident 1 x refrigerant dehumidifier 1 x air mover	Regime 2 Winter incident 2 x refrigerant dehumidifier 1 x air mover	Regime 3 Non season specific 1 x desiccant dehumidifier 1 x air mover 1 x refrigerant dehumidifier	Regime 4 Non season specific 1 x desiccant dehumidifier set up as a targeted drying regime	Regime 5 Non season specific 1 x boost box 1 x air mover 1 x direct air drying system set up as target drying system 1 x refrigerant dehumidifier	Regime 6 Non season specific Thermal drying system using convection equipment					
			Change from Baseline		Change from Baseline		Change from Baseline		Change from Baseline		Change from Baseline
Repair spend	£3,399.48	£3,513.33	£113.85	£3,284.82	-£114.66	£2,180.84	-£1,218.65	£2,008.59	-£1,390.90	£1,918.99	-£1,480.50
			3%		-3%		-36%		-41%		-44%
Repair duration (days on site)	53	47	-6	37	-16	23	-30	19	-34	16	-37
			-11%		-30%		-57%		-64%		-70%
Energy (kgCO2e)			55		63		-211		-154		-242
Travel	238	227	-5%	215	-10%	159	-33%	159	-33%	159	-33%
On-site energy	337	404	20%	424	26%	296	-12%	352	4%	264	-22%
Materials/Consumables	201	201	0%	201	0%	119	-41%	119	-41%	119	-41%
Waste	13	13	0%	13	0%	6	-57%	6	-57%	6	-57%
Total	789	844	7%	852	8%	579	-27%	635	-20%	547	-31%

We've been testing that theory, applying the principles of the alternate approaches, and have proven that significant cost savings can be made, whilst also improving our carbon footprint at the same time. As part of this, detailed audits have now been completed on 62 wet peril and 18 fire cases showing the following results:

Peril	Data Analysis			
	No detailed audits	Actual cost	Saving %	Energy Saving (kgCO2e)
Wet	62	£527k	19.19%	3.2T
Fire	18	£243k	14.89%	6.9T

The alternate approach to handling these wet and fire peril claims on-site has shown that on a typical portfolio of repairs, cost savings of c.15% can be made.

¹ ClimateWise - The ClimateWise Principles guide members' contribution to the transition to a low carbon, climate-resilient economy and integrate a response to the climate risk protection gap – the growing divide between economic and insured losses – across their business activities.

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The new IT management system that Repair Solutions are implementing will enable us to collate further and more detailed information, as well as assist contractors in reducing their costs, so we expect to see further progress moving forward. In the meantime, we're delighted to help evidence that it is possible to be green and save on costs at the same time.

Should you wish to discuss any of the items in this latest update, please get in touch.

Peter Wassell

Technical Director

M: +44 7880 780673

E: peter.wassell@uk.sedgwick.com