Agenda Item	9
Report No	HC/37/22

THE HIGHLAND COUNCIL

Committee: **Highland Council**

Date: **27 October 2022**

Report Title: **Capital Programme update**

Report By: **The Chief Executive**

1. Purpose/Executive Summary

1.1 This report provides Members with an update on progress with the review of the Capital Programme. The review is currently being worked on by officers and it is expected that a paper will be presented to Council in December 2022 with a further update on progress.

1.2 This report outlines the key challenges affecting the affordability and delivery of the current approved Capital Programme, including cost pressures arising from inflation levels, shortage of products and materials and lack of availability of contractors and sub-contractors (see **appendix 1** for BCIS latest reports). The recent unforeseen rises in interest rates have had a significant impact on the affordability of the current Programme along with the rising costs of materials and labour costs.

1.3 This paper highlights the significance of utilising borrowing to fund the Capital Programme and identifies how rising interest rates pose a risk to future revenue budgets not only now, but also how they could impact on future revenue budgets for the next 60 years. Interest rates continue to be volatile and therefore difficult to predict the future trend with a degree of certainty. For example, the payback for a primary school project costing £15m at a 2% interest rate would have been £22.9m. Whereas interest rates at the time of writing this paper are at approximately 5% which increases the payback to £50.7m, an increase of £27.8m, more than double the original payback.

1.4 This report also makes Members aware of the key risks within the Capital Programme, including those that may arise if the Council is unable to afford to fund capital investment and the knock-on impact this could have on asset value and service delivery.

2. Recommendations

2.1 Members are asked to note:

i. the progress with the review of the Capital Programme;
ii. the challenges affecting the affordability and delivery of capital projects;
iii. the impact of rising interest rates on the cost of funding capital spend;
iv. the future revenue budget pressures of funding capital spend; and
v. the ongoing risks within the Capital Programme.

Members are asked to agree:

i. that the capital programme is brought back to December Council meeting following a full review.

3. Implications

3.1 Resource - Resource implications are significant and are as discussed in the report.

3.2 Risk - Risk implications to the budget position, and budget assumptions, will be kept under regular review and reported as required. Financial risk is included in the Corporate Risk Register.

3.3 Legal – All capital planning work should accord with CIPFA Financial Management Code to ensure it supports the Council's longer term financial sustainability and complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.

3.4 Climate Change/Carbon Clever – the capital programme plays a significant role in the Council's delivery of net zero. By embedding sustainability metrics in project values, outcomes and the risk management process the Council can lead in developing a sustainable supply chain. Delivering capital projects which set tangible legacy objectives result in better carbon management across the whole life of a project with increased biodiversity gains.

3.5 There are no specific equality, rural or Gaelic implications arising as a direct result of this report.

4. Capital Programme Review Update

4.1 The current capital programme, to 2036/37, was approved by the Highland Council in December 2021. Since approval of that programme there has been a significant and unprecedented change in the market conditions and the overall economic environment in which the capital programme operates.

4.2 A review of the capital programme has commenced, with officers being tasked with carrying out a full review of the current programme on a project-by-project basis and updating their expectations of the capital cost to deliver each project. The review includes consideration of all current issues affecting the delivery and affordability of the capital programme, with the most prevalent factors discussed in section 5, as well as a reassessment of key priorities and rephasing of project delivery expectations.

4.3 The capital programme review is ongoing, involving input from Executive Chief Officers, and an update on progress will be provided to the meeting of Council in December 2022.

5. Challenges affecting Affordability and Delivery of the Capital Programme

5.1 The current financial crisis is having a significant impact on both the affordability and delivery of the capital programme. The following are the key issues:

5.1.1 **Cost inflation –** rising prices across all sectors of the economy are having a knock-on impact on the price of products, materials and contractors. Contractors, sub-contractors and suppliers are all factoring in additional risk allowances to cover any further increases, particularly for projects with a longer construction period, thus exacerbating the overall position. Every capital project is affected to some degree and the work completed so far on reviewing the capital programme has highlighted increases in cost estimates ranging from 20% to 40% above the level expected from 12 months ago.

5.1.2 **Availability of products and materials -** the impact of various socio-economic factors and worldwide events are causing substantial supply chain issues, leading to significant delays and lack of availability of products and materials required to undertake capital work. This affects availability across all Services including roads materials, buildings construction, ICT and fleet. In some cases, a lead time of 18 to 24 months has been quoted in respect of new plant and vehicles.

5.1.3 **Contractor availability** – this is both a local and national issue, however there is a particular geographical disadvantage affecting the Highlands. With a lack of availability of local contractors and sub-contractors in the Highlands to complete certain projects, a reliance on the already busy central belt-based contractors leads to a higher quoted cost for them to undertake work in the Highlands, effectively resulting in a higher cost location factor. The backlog in the supply chain is showing little sign of easing for the foreseeable future.

6. Cost of Funding the Capital Programme

6.1 The capital programme, approved in December 2021, allocated a total capital budget of c£1bn over a 15-year period to 2036/37. The capital programme is funded by a mix of borrowing and grant funding from the UK and Scottish Governments, and other external sources. Around £25m is currently received on an annual basis through the General Capital Grant from the Scottish Government. Other grant funding normally involves a bidding process and therefore we face growing competition from other local authorities. However, the vast majority, around 75% of total annual capital spend, is funded from borrowing. The affordability of capital spend is therefore impacted by changes in interest rates.

6.2 In December 2021 when the current Programme was set interest rates continued to remain at historically low levels and, on average, long-term borrowing of up to 60 years could be obtained at an interest rate of around 2%. The 15-year Capital Programme set in 2021 was considered affordable on the basis that no significant rises in interest rates were predicted. The recent unforeseen rises in interest rates have had a significant impact on the affordability of the current Programme. Interest rates continue to be volatile and therefore difficult to predict the future trend with a degree of certainty, but current PWLB borrowing rates sit at around 5%. The example below highlights how the rise in interest rates impacts on the overall affordability of delivering a £15m capital project, the estimated cost of a new primary school in 2021, to be borrowed over 60 years:

	£15m @ 2%	*£15m @ 5%*	*£20m @ 5%*
Total loans charges over 60 years	**£22.9m**	**£38.0m**	**£50.7m**

6.3 The repayment of borrowing through loans charges consists of the repayment of the principal and interest. A £15m construction cost 12 months ago, borrowed at 2%, would have cost around £22.9m, whereas a £15m project at current interest rates of 5% would now cost around £38.0m, an increase of 66% purely as a result of the increase in the interest rate. However, because of cost inflation, a £15m project from 12 months ago would now cost in the region of at least £20m. A £20m project borrowed at a current interest rate of 5% would result in a total cost of borrowing of around £50.7m. After accounting for cost inflation coupled with interest rate rises, the result is that the Council would face a 121% increase in the cost of a similar project compared to 12 months ago.

6.4 The level of borrowing required to support capital investment presents an ongoing challenge to the Council's financial sustainability. As reflected above, the impact of a £5m increase to the cost of construction of a capital project combined with increased interest rates actually creates an additional £28m long term commitment that the Council will have to fund through its future revenue budgets. Section 7 considers the revenue budget impact of capital spend in more detail.

7. Impact of Capital Spend on Future Revenue Budgets

7.1 The repayment of borrowing that is used to fund capital expenditure incurred today, creates a future revenue budget commitment over the entirety of the anticipated lifespan of the new asset. For long life assets such as schools and other buildings, the repayment of borrowing for those projects will create a revenue budget commitment for up to the next 60 years. Additional borrowing to fund more expensive capital projects will increase the Council's overall debt position and will accrue substantial interest charges. The pressures are not unique to Highland and are being faced by all local authorities, however it is important to note that, out of all local authorities in Scotland, Highland already spends the largest portion of its annual revenue budget to fund the repayment of loans charges. Further interest rate rises that may occur will continue to add additional strain on future revenue budgets.

7.2 The Council has a statutory obligation to balance its budgets. The revenue budget is already under significant pressure from rising energy prices, rising fuel prices and staff pay awards. As a result of the higher interest rates, any new capital spend will add yet another pressure to the loans charges element of that budget. However, it is important that Members also recognise that, along with a substantial increase in the current cost of financing a capital project, once the asset is complete it may bring additional future revenue budget commitments through the need to fund future operating costs, including maintenance. On approval of the current Capital Programme in December 2021, Members acknowledged that, even at that time, the level of investment within the approved programme was unlikely to be sufficient to maintain assets to their current condition. The pressures outlined in this paper only exacerbate the issue. An overall decline in asset condition may impact on the Council's ability to provide services into the future.

7.3 Future decisions on capital spend will need to focus on obtaining best value for money for the Council, including prioritisation to ensure the continued delivery of essential services, a focus on mitigation of key areas of risk and consideration of available external funding, new income generation opportunities and budget efficiency savings that can be achieved.

8. Ongoing Risks within the Capital Programme

8.1 The following list represents the key areas of risk in respect of the Capital Programme that Members should be aware of:

8.1.1 **Asset value** – there is a risk that inflation continues to increase to a level that means that the cost of building or acquiring a new asset is greater than its future market value on completion. In addition, any reduction in the ability to carry out routine maintenance work may give rise to a decline in asset performance across the Council's asset base, resulting in a decline in asset value.

8.1.2 **Budget implications** – there is a risk that funding capital spend from borrowing at a time when interest rates are high will create a larger revenue budget gap for many years to come. As borrowing creates a legal obligation to repay the debt, any required future cuts to fund those repayments would have to come from other parts of service budgets.

8.1.3 **Scope** – due to budgetary constraints there is a risk that capital projects are refined and presented with a reduced scope, resulting in a negative impact on the Council's ability to deliver its essential services and its key priorities.

8.1.4 **Timing** – delays within the supply chain resulting in capital projects taking longer to complete will have a negative impact both from a financial and operational perspective, including the risk of being unable to meet targets set by external funders or government.

8.1.5 **Environmental** – there is a risk that any reduction to the overall capital funding envelope will result in the Council being unable to meet its Climate Change responsibilities. This could result through an inability to make the necessary investment in the Council's existing asset base, resulting in the need to use older and less efficient assets for a longer period of time.

Designation: Donna Manson, Chief Executive

Date: 17 October 2022

Authors: Carolyn Moir - Service Finance Manager
Darryl Urquhart - Principal Accountant

Background papers:

Medium Term Financial Plan – Capital Strategy and Capital Programme to 2036/37

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BCIS Quarterly briefing: August 2022

BCIS Quarterly briefing – five year forecast of building costs and tender prices, August 2022

19-Aug-2022

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1. Executive summary

- Construction along with the economy as a whole is in for a bumpy ride over the next couple of years. A recession and double-digit inflation will affect both demand and costs. However, construction demand is expected to continue to grow, and cost pressures will increasingly come from labour rather than materials. Contractors, while keen to secure their order books, will be selective in the contracts they undertake, and tender prices are expected to rise faster than costs over the forecast period.

1.1 Forecasts

- Tender prices in 2Q2022 rose by 3.4% compared with the previous quarter, and by 9.1% on an annual basis. Although the economic uncertainty will make contractors keen to tender, it also increases their risk of delivery. With labour site rates rising faster than wage awards and continued supply issues for some materials, tenders are likely to rise faster than basic costs over most of the forecast period. Tender prices are forecast to rise by 20% in the five years to 2Q2027.
- Materials prices rose by 8.0% in 2Q2022 compared with the previous quarter, and by 22.3% compared with a year earlier. Some materials prices are easing, and this will continue if supply chains receive no further shocks.
- Wage awards over the next year will come under pressure from rising inflation. Some of the 2% and 3% increases already agreed for early 2023 may be renegotiated. The average wage awards over the forecast period will be around 3% per annum. With labour shortages expected for a while yet, site rates are expected to see higher increases and there are reports of firms making discretionary cost of living payments. Both of these will affect the market conditions element of the TPI.
- The BCIS General Building Cost Index rose by 5.4% in 2Q2022 compared with 1Q2022, and by 14% compared with 2Q2021. Costs will rise by 16% over the forecast period (2Q2022 to 2Q2027).

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- Total new work output increased by 3.3% in 2Q2022 compared with the previous quarter and by 3.4% compared with a year earlier. New construction output will rise by 16% over the forecast period (2026 compared with 2021).

1.2 Assumptions

- UK is expected to enter a recession in the second half of 2022 and growth will be slow throughout the forecast period.
- The Retail Prices Index (RPI), which measures general inflation is expected to peak at 14% in 2022, falling to 8% by the end of 2023, then rising by around 3.5% to 4.5% over each of the following three years.
- The Bank of England base rate stands at 1.75%. Interest rates are forecast to rise to 2% in 2023 and fall to 1.25% at the end of the forecast period.
- Sterling exchange rates against the Euro stand at around 1.1777 as of 31 July 2022, and against the US Dollar at 0.8222. Sterling exchange rates will remain depressed until the middle of the forecast period.
- The war between Russia and Ukraine will not escalate beyond the bounds of the current conflict, but gas and oil supplies will continue to be adversely affected.
- The change in prime minister will not radically change the economic outlook.
- The forecast is based on information available up to 18 August 2022.

1.3 Summary of forecasts

Table 1: Summary of forecasts

	Percentage change (2Q on 2Q)				
	2022 to 2023	**2023 to 2024**	**2024 to 2025**	**2025 to 2026**	**2026 to 2027**
TPI	+5.5	+4.7	+3.8	+2.7	+2.4
GBCI	+3.2	+3.6	+3.0	+3.2	+2.2
Materials costs	+2.3	+3.3	+3.2	+3.5	+2.0
New work output *	+4.9 (2022)	+2.0 (2023)	+2.8 (2024)	+2.4 (2025)	+3.0 (2026)

* BCIS forecast of new work output at constant 2019 prices

1.4 Risks to the forecast

Risk	**Direction of risk**		
	New work output	**Construction costs**	**Tender prices**
Persistent lack of labour availability	Downward	Upward	Upward
Persistent volatility of materials prices	Downward	Upward	Upward
Spiralling energy costs and supply problems impacting project delivery and manufacturing viability as well as resulting in possible blackouts	Downward	Upward	Upward
Increased risks of insolvency for contractors and manufacturers	Downward	Upward	Upward
Government diverts resources earmarked for construction investment to deal with other issues	Downward	Downward	Downward
UK economic slowdown leads to cancelled projects and/or deferred decision making	Downward	Downward	Downward
Cost of Living crisis dramatically reduces consumer confidence and construction demand	Downward	Neutral	Downward
Covid continues to disrupt global supply chains and delivery of projects	Downward	Upward	Uncertain
Further escalation of Russia/Ukraine war and intensification of geopolitical disharmony disrupts global economy and supply chains	Downward	Upward	Depends on scale of fall in output vs increased costs

2. Economic background

In the UK GDP contracted in 2Q2022, registering a fall of 0.1% after rising 0.7% in 1Q2022. On a monthly basis, GDP fell by 0.6% in June. Recent results, however, are subject to significant distortions. April reflected the impact of the end of free Covid testing on health output. The growth in May was impacted by an extra working day, while the decline in June reflects the loss of two workdays as a result of the Jubilee weekend. The Bank of England's Monetary Policy Committee Report in August 2022 stated that the UK GDP growth has slowed and is

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projected to enter recession from 4Q2022. Output is projected to fall in each quarter from 4Q2022 to 4Q2023.

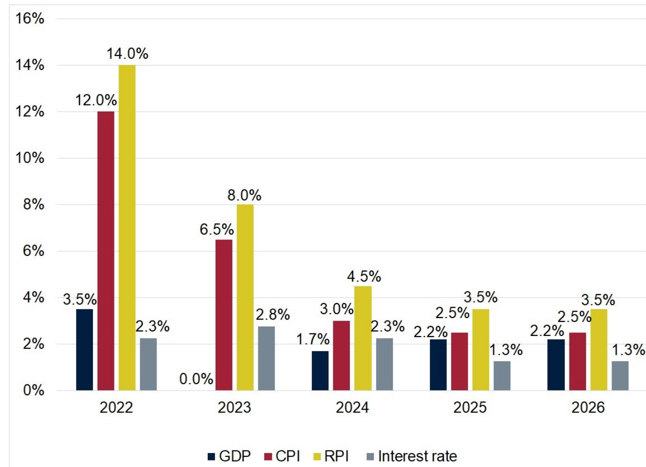
Growth thereafter is very weak by historical standards. BCIS assumes GDP will grow at 3.5% in 2022 and remain at the same level in 2023.

CPI reached a 40-year high in July (10.1%): this trend is likely to continue in the short term and CPI is expected to peak at 13% in October. The recent weakening in the value of sterling is likely to persist while the US Federal Reserve continues to hike interest rates. In an effort to ease inflation, the Monetary Policy Committee (MPC) of the Bank of England voted to increase the Bank Rate by a further 0.5 percentage points to 1.75% in August. An increase in prices of gas and electricity futures is likely to result in the energy price cap rising by 75% in October.

The MPC expects CPI will take around two years to return to the 2.0% target. To achieve this, interest rates are likely to continue to grow and the Treasury's survey of independent forecasts expects the interest rates to be 1.3% in 2024 (Please refer to Appendix A for more details).

BCIS forecasts CPI and RPI to grow by 12% and 14% respectively in 2022.

Figure 1: Key macroeconomic indicators – Summary of BCIS forecasts



Source: BCIS. Note: CPI and RPI annual growth rates represent a change from December to December, GDP growth is based on the output of the full year, interest rates are as at 4Q

3. Construction market: summary and forecast

3.1 Construction demand (output)

3.1.1 New work output

New work output recovered in 2021 rising 11%: it is expected to continue to rise throughout the forecast period. Growth in 2022 (+5.5%) will be led by increased output in the large sectors, private housing and commercial and strong recovery in the private industrial sector. Growth will slow to under 2% in 2023 and hover around 2% per annum thereafter.

3.1.2 Housing

Total Housing output in the first six months of 2022 was 7% up on the same period of 2021. This follows a 15% rise in 2021, as output recovered from the slump in 2020 (-21%). Total housing new orders rose 14% in 2Q2022 following a 9% fall in 1Q2022.

The government's target of 300,000 new homes by the mid-2020s is unlikely to be met.

Social Housing grew in the first half of 2022 and a slight increase is expected in the year. However, Local authorities and Housing Associations are allocating funds for remedial work on stock, therefore we expect new development work output to fall in 2023 before recovering slowly over the remainder of the forecast period.

Private housing will face challenges to both demand and supply. As the economy slows and inflation and interest rates rise real demand for new houses will slow. Housebuilders are facing rising materials costs and materials and labour shortages and may find it more difficult to bring forward viable developments.

Housing supply will also be affected by emerging downside risks:

- regulations requiring developments to demonstrate Nutrient Neutrality
- shortage of electricity supply capacity
- rising interest rates and inflation.

ONS record a significant proportion of public housing as private housing, as they will be built by private housebuilders as part of larger

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schemes through Section 106 agreements. As such, it is better to look at total housing output, which follows a similar profile to that of private housing.

Total housing output is forecast to rise 5% in 2022 followed by modest growth of between 2% and 3% per annum thereafter.

3.1.3 Infrastructure

The outturn in 2021 of new infrastructure output was very strong, increasing by 30%. In the first six months of 2022 output has been weak, falling in all sub-sectors except Roads and Railways.

New infrastructure output will remain at historically high levels, principally supported by the roads, rail and electricity investment programmes, including work on HS2, the Network Rail Business Plan for the five-year Control Period 6 (CP6) and nuclear new build. The drought and the energy crisis may well increase investment in the Electricity and Water sub-sectors.

In the current economic circumstances all publicly funded expenditure is at risk of being diverted to deal with the cost-of-living crisis.

3.1.4 Public non-housing

Output in the first six months of 2022 was down 6% on the same period a year earlier. This follows falls in 2020 and little change in 2021. While new orders were down 5% in 2Q2022 compared with the previous quarter they were up 7% on the same quarter in 2021.

Growth in this sector is anticipated to come from the education subsector through phase two of the Priority School Building Programme and non-PFI health schemes through Procure 21+, Procure 22, and the new Procure 2020.

We expect output to recover in the second half of 2022 to make up the falls in the first half and fairly steady growth thereafter, but the risks are all on the downside if the government diverts funds to tax cuts or direct help with cost of living.

3.1.5 Private industrial

This sector did not recover in 2021 from the falls in 2020 but has shown very strong growth in the first half of 2022, despite new orders falling 10% in the first two quarters of 2022 compared with the last two quarters of 2021.

The warehousing and logistics subsector is likely to be a key driver of growth, with even more consumers moving away from the high street to internet shopping resulting in increasing demand for online retail warehousing. Some retail companies have withdrawn their presence on the high street and are only selling via their internet sites. This trend is likely to continue and may be exacerbated by increases in business rates, typically pegged to autumn CPI inflation rates, which will take effect at the start of 2023. Growth in logistics/warehousing may be affected by consumers reducing discretional spending as the recession bites.

The factory subsector recovery will be hampered by the performance of the general economy, with some factory schemes delayed until viability can be proved. However the technology sector will provide some growth - Nissan have a major expansion of electrical car production at its plant in Sunderland, and together with its partner Envision, will build a new Gigafactory to provide batteries to power up 100,000 Nissan electric cars, which is to be completed by 2024.

This sector may also be affected by the concerns about the supplies of silicone chips and lost production from blackouts caused by interruptions to the energy supply.

Overall, we expect output to rise nearly 20% in 2022 as a whole and continue to rise throughout the period although there are risks that the impact of a recession and inflation on consumer demand might delay investment in some projects.

3.1.6 Private commercial

This was the only sector to fall (-6%) in 2021, it has fallen 4% in the first half of 2022 compared with the first half of 2021 and new orders were down 30% in 2Q2022.

While we expect some recovery in the second half of 2022, this will remain a weak sector and is unlikely to recover to its pre pandemic levels within the forecast period.

Demand will change for workspace as hybrid working continues to be prevalent in the office sector. According to a survey of 43 offices, representing 50,000 people, carried out in June/July 2022 UK workers going into the office on average 1.5 days/week compared to 3.8 days/week pre-Covid.

High street retail will continue to be challenged although centres with good parking may do better as online click and collect continues to grow.

The entertainment sector remains challenging, there may be some increased demand from cafés and restaurants away from the city centres. In England, high frequency footfall data indicates shifting patterns of consumer behaviour, with early indications of an increasing divide between the north and south.

Table 2: BCIS new work output - sector assumptions

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New work sector	2022	2023	2024	2025	2026
Public housing	+2.1	-1.0	+1.0	+2.0	+3.8
Private housing	+5.3	+2.6	+2.5	+2.4	+2.4
Infrastructure	+4.7	+1.0	+3.0	+2.4	+1.7
Public non-housing	+0.3	+4.2	+5.0	+2.4	+2.3
Private industrial	+19.9	+1.8	+3.4	+4.2	+2.4
Private commercial	+4.0	+2.2	+2.1	+2.1	+6.1
Total new work	+4.9	+2.0	+2.8	+2.4	+3.0

Source: BCIS

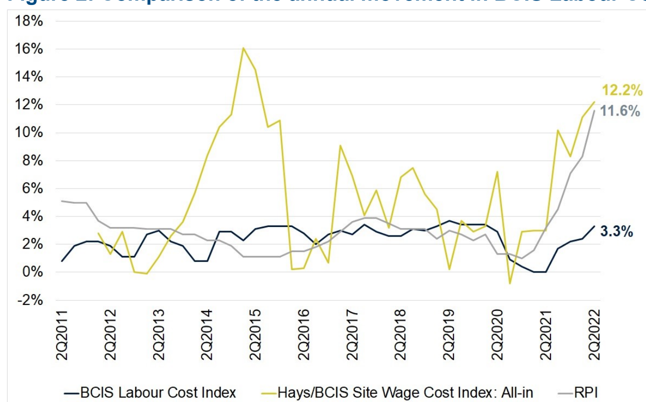
3.2 Costs

3.2.1 Labour

According to the latest data from ONS, annual growth in average weekly earnings total pay (including bonuses) in the construction sector was 6.3% in April to June 2022, this high growth rate was among the highest rates among the different economic sectors and partly attributed to strong bonus payments.

The Hays/BCIS Site Wage Cost Index shows site rates rising over 12% in 2Q2022. Increases in site rates in excess of wage awards are reflected in the market conditions element of the TPI.

Figure 2: Comparison of the annual movement in BCIS Labour Cost Index, Hays/BCIS Site Wage Cost Index: All-in, RPI



Source: BCIS, Hays, ONS

There is a general shortage of labour in the industry, which, together with rising inflation will push up wages over the next couple of years. ONS reported 44,000 vacancies in the construction industry in 2Q2022, a 47% increase compared to 2Q2021. According to the Construction Skills Network (CSN) workforce economic forecast, 266,000 extra workers will be required to meet UK construction output by 2026, with the largest increases in annual demand expected to be for carpenters and joiners as well as construction managers, along with a range of technical roles (electronics technicians, civil engineering technicians, estimators, and valuers, as well as office-based support staff).

Building workers received a 5% increase in July 2022. Other wage awards agreed earlier for 2022 and 2023 were for less than 3% (see table of current wage awards in Appendix D). With CPI inflation forecast to reach 13% by the end of the year and site rates rising 11%, wage settlements are expected to rise significantly in 2023.

The Bank of England survey on employment and pay reported expected average pay settlements to be nearly 6% over the next 12 months, around a quarter of respondents had given or were considering awarding one-off payments to compensate staff. Many did not report their expected pay settlement over the next year, as they are waiting to see how much further CPI inflation rises.

It is possible that those construction trades with a two-year agreement providing a less that 3% increase in Jan 2023 may seek to renegotiate something closer to 5%. If inflation peaks in October as forecast by the Bank of England, wage awards later in 2023 are expected be around 4%, with 2% to 3% increases in subsequent years.

Table 3: BCIS forecast of wage costs

Period	Forecast
2Q2021 to 2Q2022	+3.3%

Period	Forecast
2Q2022 to 2Q2023	+4.9%
2Q2023 to 2Q2024	+4.0%
2Q2024 to 2Q2025	+2.9%
2Q2025 to 2Q2026	+2.4%
2Q2026 to 2Q2027	+2.4%

Source: BCIS

3.2.2 Materials

There continues to be some disruption in the supply of some materials but generally product availability in UK is improving.

The Builder's Merchant's Federation and Construction Leadership Council report, a world shortage of semi-conductors used in boilers and other services products. In addition, they report shortages of barrier pipe used for all heating systems and hot and cold-water supply, concerns over the availability of imported glass later in the year and continued transport issues affecting imported products. Some major merchants suggest that only 25% of goods from the Far East arrive on time. Container costs remain at high levels and reduced capacity on many shipping routes is likely to keep prices high.

Concerns have been formally raised by Energy Intensive Users Group (many of whom require continuous gas supplies to remain viable) regarding emergency planning this winter if the government are required to introduce energy rationing due to unmet domestic energy demand. With respect to construction, a reduction in manufacturing capacity would negatively impact supplies and increase manufacturing costs associated with steel, glass, ceramic and cement products.

Looking at the cost side, the BCIS Materials Cost Index rose 22% in the year to 2Q2022 or a quarterly increase of 8%. The last time materials inflation was this high in 1980 it had built up gradually.

Analysis of the price movement of various components of the BCIS Materials Cost Index shows significant increases across all groups of materials, with the highest increases observed in the categories of steel and oil products. Based on the latest publication of Price Adjustment Formulae Indices Series 4 - Civil Engineering and related Specialist Engineering, other materials showing annual increases in June in excess of 50% were gas oil - diesel in construction (178.9%), steel sheet piling (55.6%), steel sections (55.6%) and structural steelwork materials (52.3%). Please refer to Appendix C for more detailed analysis.

BCIS forecasts materials costs to increase by 2.3% between 2Q2022 and 2Q2023, and a further growth of 3.3% between 2Q2023 and 2Q2024.

Table 4: BCIS forecast of construction materials prices

Period	Forecast
2Q2021 to 2Q2022	+22.3%
2Q2022 to 2Q2023	+2.3%
2Q2023 to 2Q2024	+3.3%
2Q2024 to 2Q2025	+3.2%
2Q2025 to 2Q2026	+3.5%
2Q2026 to 2Q2027	+2.0%

Source: BCIS

3.2.3 Building costs

Building costs as measured by the BCIS General Building Cost Index rose 14% in the year to 2Q2022 but will slow significantly to between 2% and 4% per annum over the rest of the forecast period. Whereas in 2022 the increase in buildings costs will be mainly driven by escalating costs of materials, going ahead, labour is expected to be the main driver.

Figure 3: BCIS General Building Cost Index, BCIS Labour Cost Index and BCIS Materials Cost Index

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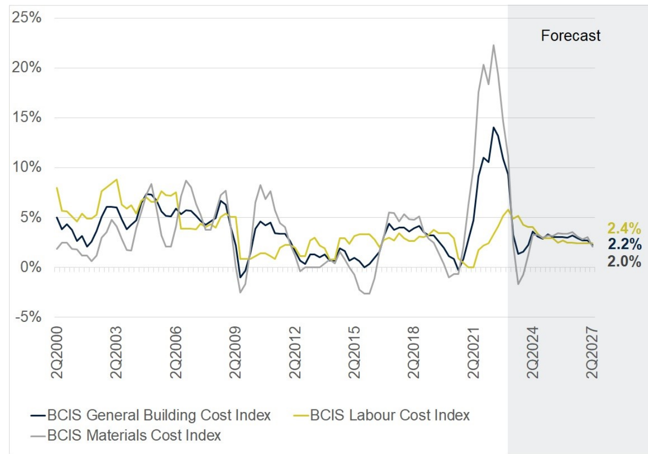

Source: BCIS

Table 5: BCIS forecast of building costs

Period forecast	BCIS Labour Cost Index	BCIS Materials Cost Index	BCIS General Building Cost Index
2Q2021 to 2Q2022	+3.3%	+22.3%	+14.0%
2Q2022 to 2Q2023	+4.9%	+2.3%	+3.2%
2Q2023 to 2Q2024	+4.0%	+3.3%	+3.6%
2Q2024 to 2Q2025	+2.9%	+3.2%	+3.0%
2Q2025 to 2Q2026	+2.4%	+3.5%	+3.2%
2Q2026 to 2Q2027	+2.4%	+2.0%	+2.2%

Source: BCIS

3.3 Tender prices

The BCIS Tender Price Index in 2Q2022 rose 3.4% compared with the previous quarter and 9.1% compared with a year earlier.

Contractors are being more selective in contracts they tender for as inflation and supply risks continue. This is highlighted by the BCIS Tender Price Panel which reported that it was increasingly difficult to get contractors to tender. Whereas in the past the appetite to tender reflected contractors order books and demand, currently it reflects the inflation and supply risks involved in tendering. Contractors are having to balance their desire for work and their appetite for risk.

BCIS have been tracking contractor's appetite to tender for the past year as a part of the BCIS Tender Price Panel Survey. As can be seen from table 6, during the past four quarters, more panellists have reported challenges with attracting contractors to tender as they become more selective and put significant consideration into project complexity, client, procurement, and contract route before agreeing to tender. It has been widely reported to become harder to get contractors to carry out projects with a higher risk profile without considerations in respect of risk management and ownership.

Table 6: BCIS Tender Price Panel: Appetite to tender

	1 Cannot get anyone to tender	2	3 Desired number of suitable tenderers found after searching	4	5 Contractors are very eager to tender
3Q2021	0%	15%	62%	23%	0%
4Q2021	0%	17%	42%	33%	8%
1Q2022	0%	17%	58%	17%	8%
2Q2022	**0%** —	**39%** ▲	**46%** ▼	**15%** ▼	**0%** ▼

Source: BCIS

During the last BCIS Panel Meeting in May 2022, panellists have agreed that the price increases observed have been the highest in 2Q2022 and mostly took place between January and June. The consensus was that prices are not expected to fall but to stabilise gradually.

Looking ahead, pressure from site wages and continued material shortages will push tender prices up faster than costs for most of the forecast period. BCIS forecasts prices to rise by 5.5% in the year to 2Q2023, 4.7% in the following year declining to 2.4% in the final year of the

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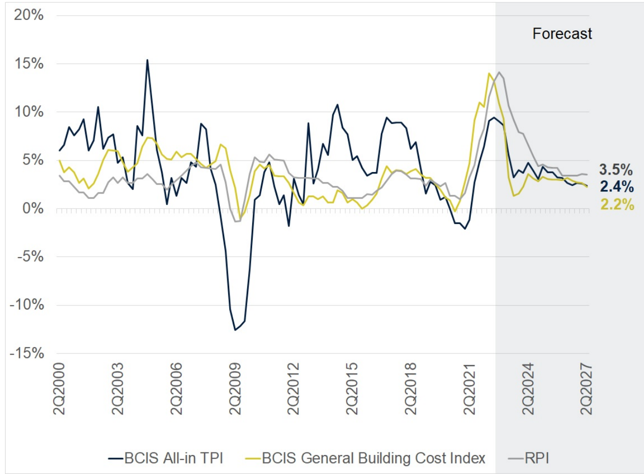
forecast.

Table 7: BCIS forecast of tender prices

Period	Forecast
2Q2021 to 2Q2022	+9.1%
2Q2022 to 2Q2023	+5.5%
2Q2023 to 2Q2024	+4.7%
2Q2024 to 2Q2025	+3.8%
2Q2025 to 2Q2026	+2.7%
2Q2026 to 2Q2027	+2.4%

Source: BCIS

Figure 4: Tender prices, building costs and RPI - annual percentage change



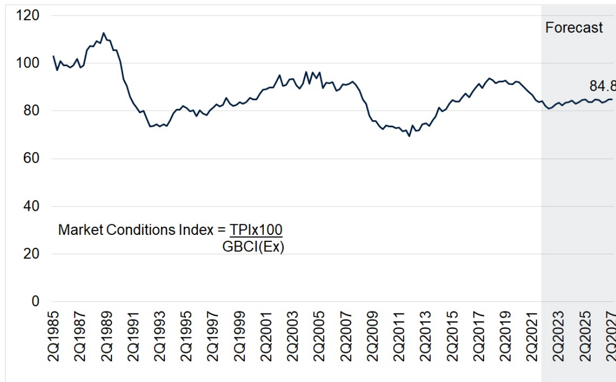
Source: BCIS, ONS

3.4 Market conditions

The BCIS Market Conditions Index dropped by 2.3% in 2Q2022 compared with the previous quarter and by 5.1% compared with a year earlier. When the Market Conditions Index is rising, prices are rising faster than costs, and when its falling costs are rising faster than prices.

Factoring of materials and increase of site labour rates will push prices ahead of costs as reflected in the market conditions factor presented below:

Figure 5: BCIS Market Conditions Index



Source: BCIS

Appendices

Appendix A - Macro economic market

A1 Office of Budgetary Responsibility and independent forecasters

A1.1 Inflation

The Consumer Prices Index (CPI), the government's measure of inflation, rose by 10.1% in July 2022 on an annual basis, up from 9.4% in the previous month. The CPI is well above the government's target level of 2%. The Retail Prices Index (RPI), which measures general inflation, rose by 12.3% in July 2022 compared with a year earlier, slightly up from 11.8% in June 2022.

Producer input prices rose by 22.6% in the year to July 2022, a decrease compared to 24.1% in the year to June 2022, the highest the rate since records began in January 1985. Producer output (factory gate) prices rose by 17.1% in the year to July 2022, up from16.4% in the year to June 2022.

The Treasury reports that the average of independent forecasts for consumer price inflation is for it to fall to 7.5% in 2022, to 4.2% in 2023, and then rise by around 2.5% over each of the remaining years of the forecast period. The average of independent forecasts also shows retail prices inflation remaining at 9.1% in 2022, then prices rising by 5.9% in 2023, and then rising by 4.1% in 2026.

Table 8: Inflation forecasts

Forecast	Inflation % year			
	Office of Budgetary Responsibility		Average independents	
Date of forecast:	Mar 2022		Aug 2022	
	CPI	RPI	CPI	RPI
2022	+7.4%	+9.8%	+8.3%	+9.1%
2023	+4.0%	+5.5%	+4.7%	+6.5%
2024	+1.5%	+2.3%	+1.3%	+2.4%
2025	+1.9%	+2.5%	+1.6%	+3.1%
2026	+2.0%	+2.7%	+1.8%	+3.4%

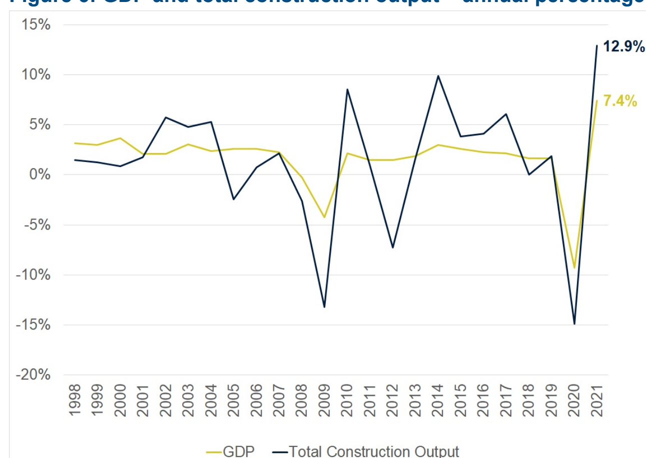
Source: The Treasury, OBR

A1.2 Growth

In the UK, GDP fell by 0.1% in 2Q2022 compared with the previous quarter. The extra Jubilee bank holiday was likely to be a primary reason behind a month on month fall in GDP recorded in the last month of the quarter (0.6%).

In the past, there has been a close relationship between the direction of the annual percentage change in total construction output and GDP (see Figure 17). GDP rose by 7.4% in 2021, up from a fall of 9.4% in 2020. Total construction output rose by 12.9% in 2021, up from a fall of 14.9% in 2020, which reflects the close relationship.

Figure 6: GDP and total construction output – annual percentage change



Source: ONS

Although total construction output as a proportion of GDP has generally been on a falling trend since its high of 16.9% in 1967, it still represents a significant proportion, currently standing at 8% in 2021. Large changes in the volume of construction output can therefore have a significant effect on the level of output in the whole economy.

According to the Treasury, the independent average of new forecasts for UK GDP shows it rising by 3.5% in 2022, and by 1.2% in 2023 as presented below.

Table 9: UK GDP forecasts

Forecast	GDP % year on year		
	Office of Budgetary Responsibility	Average independents	MPC
Date of forecast:	Mar 2022	Aug 2022	Aug 2022
2022	+3.8%	+3.5%	+2.3%
2023	+1.8%	+1.2%	-2.1%
2024	+2.1%	+1.9%	0.0%
2025	+1.8%	+2.0%	+0.4%
2026	+1.7%	+2.0%	n/a

Source: The Treasury, OBR central scenario, MPC

Fixed investment in 2021, which includes new construction, rose by 6%, following a decline in 2020 of 10%.

The Treasury reports that the average of independent forecasts shows fixed investment growing by 5.4% in 2022 and growing by 0.9% in 2023.

Table 10: Fixed investment

Forecast	Fixed investment % year on year	
	Office of Budgetary Responsibility	Average independents
Date of forecast:	Mar 2022	Aug 2022
2022	n/c	+5.4%
2023	+5.2%	+0.9%

The Treasury

A1.3 Interest rates

At its latest monthly meeting, the Bank of England Monetary Policy Committee (MPC) agreed to raise interest rates to 1.75% from 1.25%, the biggest single rise in 27 years.

The Treasury reports the average of independent forecasts for annual average interest rates rising to 1.21% in 2022, to 2.21% in 2023, 2.25% in 2024, then falling to 1.88% in 2025 and 2026.

A1.4 Exchange rates

Sterling exchange rates were affected by the decision to withdraw from the EU. In June 2016, sterling fell 15% against the euro and currently stands at around 8% below. Sterling fell by 18% against the US dollar, but now stands at 10% below.

Figure 7: Sterling exchange rates to the euro and the US dollar

Source: BoE

A1.5 Summary of macroeconomic assumptions

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Based on the above analysis BCIS has based its forecast on the following assumptions:

Table 11: Summary of BCIS macroeconomic assumptions

	CPI (annual inflation at end of year)	RPI (annual inflation at end of year)	GDP (full year)	Interest rates (at end of year)
2022	12.0%	14.0%	3.5%	2.25 %
2023	6.5%	8.0%	0.0%	2.75%
2024	3.0%	4.5%	1.7%	2.25%
2025	2.5%	3.5%	2.2%	1.25%
2026	2.5%	3.5%	2.2%	1.25%

Source: BCIS

Appendix B - Comparison of construction output forecasts by BCIS, CPA, Experian and Oxford Economics

Table 16: Output forecast by BCIS, CPA, Experian and Oxford Economics

		2022	2023	2024	2025	2026
Public housing						
	BCIS	+2.1	-1.0	+1.0	+2.0	+3.8
	Oxford Economics	+3.9	+1.3	+2.4	+1.9	+1.9
	Experian	+4.0	-3.0	+0.0	n/a	n/a
	CPA	+2.0	+0.0	+1.0	n/a	n/a
Private housing						
	BCIS	+5.3	+2.6	+2.5	+2.4	+2.4
	Oxford Economics	+8.6	+2.6	+3.0	+3.0	+2.7
	Experian	+3.0	+3.0	+4.0	n/a	n/a
	CPA	+1.0	+0.0	+3.0	n/a	n/a
Infrastructure						
	BCIS	+4.7	+1.0	+3.0	+2.4	+1.7
	Oxford Economics	-1.9	+3.5	+3.5	+3.2	+3.2
	Experian	+6.0	+2.0	+3.0	n/a	n/a
	CPA	+8.5	+3.8	+1.7	n/a	n/a
Public works (non-housing)						
	BCIS	+0.3	+4.2	+5.0	+2.4	+2.3
	Oxford Economics	-1.2	+2.5	+2.4	+1.9	+1.8
	Experian	+3.5	+4.7	+2.8	n/a	n/a
	CPA	+0.7	+7.3	+3.5	n/a	n/a
Private industrial						
	BCIS	+19.9	+1.8	+3.4	+4.2	+2.4
	Oxford Economics	+41.5	+5.1	+1.5	+1.5	+1.5
	Experian	+18.8	+8.9	+3.2	n/a	n/a
	CPA	+15.0	+9.8	+5.0	n/a	n/a

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		2022	2023	2024	2025	2026
Private commercial						
	BCIS	+4.0	+2.2	+2.1	+2.1	+6.1
	Oxford Economics	+0.8	+2.1	+1.8	+1.3	+1.3
	Experian	+10.3	+4.8	+2.9	n/a	n/a
	CPA	+3.5	+3.3	+3.8	n/a	n/a
Total new work						
	BCIS	+4.9	+2.0	+2.8	+2.4	+3.0
	Oxford Economics	+4.6	+2.8	+2.7	+2.5	+2.4
	Experian	+6.1	+3.2	+2.9	n/a	n/a
	CPA	+4.1	+2.8	+2.9	n/a	n/a
Repair and maintenance						
	BCIS	+6.5	+0.9	+0.8	0.0	+0.1
	Oxford Economics	+6.6	+1.7	+2.1	+1.9	+1.9
	Experian	+3.7	+3.5	+2.4	n/a	n/a
	CPA	-0.3	-0.6	+1.8	n/a	n/a
Total all work						
	BCIS	+5.5	+1.6	+2.0	+1.3	+2.0
	Oxford Economics	n/a	n/a	n/a	n/a	n/a
	Experian	+5.2	+3.3	+2.7	n/a	n/a
	CPA	+2.5	+1.6	+2.5	n/a	n/a

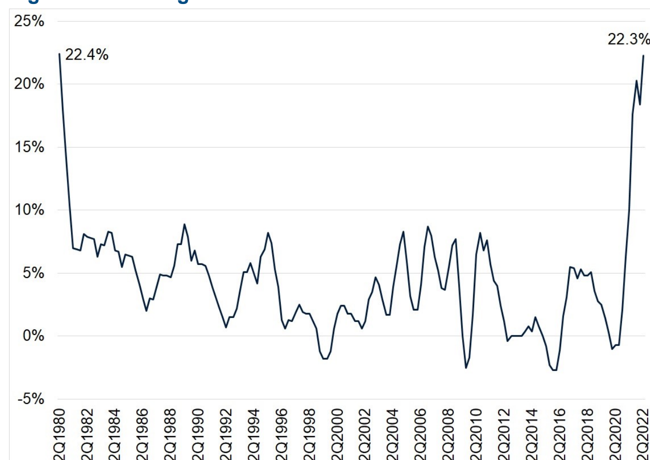
Source: BCIS (August 2022), Experian (July 2022), CPA (July 2022), OE (July 2022)

The CPA forecasts for 2023 are based on their 'main scenario'. They refer to their forecast for 2024 as a projection.
The Experian forecasts have been prepared for publication by the Construction Futures team, which is part of Experian's economics unit, with guidance from its Forecasting Committee for the Construction Industries.
Chain linked in 2019 prices (Experian and OE). Percentage change at constant prices (CPA).

Appendix C - Materials

Materials' prices continue to grow, with BCIS Materials Cost index rising by 22.3% in 2Q2022, levels of growth last observed in 1980s.

Figure 8: Annual growth in BCIS Materials Cost Index



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Source: BCIS

Oil and steel products continue to be the main growth drivers of the BCIS Materials Cost Index, both categories have been experiencing extreme price hikes since the pandemic. This trend is supported by the latest release of the Department for Business, Energy and Industrial Strategy's (BEIS) monthly statistics of building materials and components, reporting the highest annual price increases in June for concrete reinforcing bars (58.2%), fabricated structural steel (46.3%) and pre-cast concrete products (28.3%).

Price increases above 20% for materials in PAFI Series 4 - Civil Engineering and related Specialist Engineering are summarised below:

Table 12: Percentage growth in selected materials price indices

As at June 2022. Note: values for June 2022 are provisional and subject to change

Series name and number	On year	On quarter	On month
4/CE/28 Gas Oil (Diesel in Construction)	178.9	56.3	9.2
4/CE/11 Steel Sheet Piling	55.6	11.6	-1.0
4/CE/20 Steel Sections	55.6	11.6	-1.0
4/CE/ST/02 Structural Steelwork Materials	52.3	10.3	-1.6
4/CE/27 DERV Fuel	52.0	11.8	9.1
4/CE/18 Steel for Reinforcement	44.8	4.4	-4.8
4/CE/23 Steel Pipes	41.9	12.2	2.2
4/CE/15 Precast Concrete Structural Components (including pipes)	32.0	13.2	2.7
4/CE/25 Aluminium Products	31.2	-7.3	-3.4
4/CE/LE/02 Lifts and Escalators Materials	29.7	6.4	-0.1
4/CE/19 Bricks and Clay Products	25.6	5.6	-0.3
4/CE/14 Precast Concrete Non-Structural Components	25.4	6.4	-0.5
4/CE/16 Stone	24.8	1.9	1.9
4/CE/13 Ready Mixed Concrete	22.1	4.6	4.4
4/CE/10 Aggregates excluding Levy	22.0	9.7	0.4
4/CE/26 Metal Structures	21.5	7.3	0.1
4/CE/29 Geotextiles and Membranes	21.4	8.2	3.2

Source: Price Adjustment Formulae Indices Series 4 - Civil Engineering and related Specialist Engineering

Steel

Steel products have seen some of the sharpest price increases of all construction materials over the past two years. The annual growth for steel sections stood at 55.6% in June 2022.

The situation is exacerbated by the ongoing conflict in Ukraine. Steel imports from the region have reduced significantly while widespread sanctions have led to soaring global energy costs, further driving up the cost of domestic steel production.

Based on the government's latest estimates, at least eight million metric tonnes of steel will be needed over the next decade (excluding Devolved Administrations) to fulfil the UK's infrastructure requirements. Meanwhile Tata Group, owners of the UK largest steelworks, have requested an additional £1.5b loan in order to secure the future of Port Talbot steelworks. This decision has been deferred until a new government is in place in the Autumn.

In July 2022, the UK Trade Remedies Association proposed removing import tariffs for Chinese reinforcement bar. If implemented the measure is anticipated to significantly reduce rebar prices in the UK. Meanwhile there are early indications in China of a cooling in domestic steel demand with global iron ore prices falling to a six-months low in June.

Looking at the annual change for selected PAFI series for the steel for reinforcement, steel sections and structural steel, it can be seen that the annual growth in prices has slowed down when compared to the peak in August last year; however, still remaining at very high levels.

Figure 9: Annual change in PAFI steel series: 4/CE/18 Steel for Reinforcement, 4/CE/20 Steel Sections, 4/CE/ST/02 Structural Steelwork Materials

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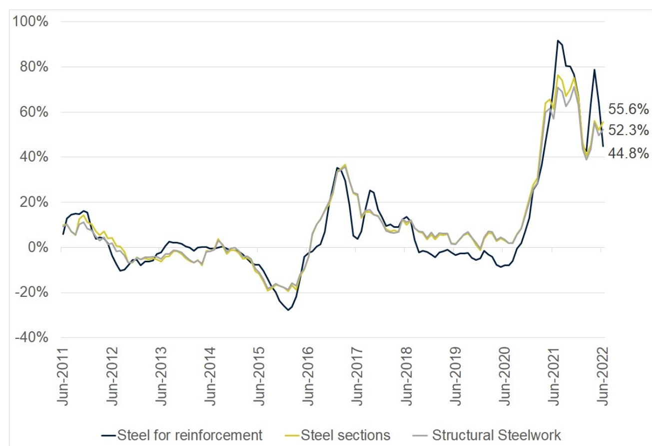

Source: BCIS. Index for June 2022 is provisional and subject to change

Oil

After the latest prolonged period of volatility in oil markets, beginning with the pandemic in 2020, the ongoing conflict in Ukraine continues to add inflationary pressure to global energy markets. In recent weeks however spot prices for Brent crude have begun to stabilise closer to US$100.

Figure 10: Brent crude oil prices (monthly average prices in US$ per barrel)

Source: EIA

The reduction in domestic and global refining capacity over the past decade, prompted by energy transition and industry under investment, remains a concern. As a result of reduced refining capacity, increased refinery margins ensure fuel pump prices continue to outpace crude oil prices. This is particularly significant for diesel and other distillates and will continue to be a concern for the construction industry which relies heavily on diesel.

Following international lobbying, OPEC+ met in August and agreed only a negligible production increase of 100,000 barrel per day. This decision is expected to maintain upside pressure on oil prices in the near term, particularly as many sanctions against Russian oil exports come into effect later this year.

Bricks

UK bricks and block production are at historically high levels, while stocks are historically low. Additional domestic brick manufacturing capacity is anticipated to come on stream in 2023/2024, thereafter improving brick supply concerns.

According to BEIS, brick production rose by 9% in 2Q2022 compared with the previous quarter. Deliveries rose by 7% on a quarterly basis. Stocks increased by 2% in compared with the previous quarter but fell by 3% on an annual basis. Stocks were equivalent to 7.1 weeks of current deliveries, slightly down from 7.4 weeks in the previous quarter. Historically, the number of weeks in stock in terms of current deliveries tends to range between 10 and 20 weeks but rose to 50 weeks at the height of the last recession.

Figure 11: Number of weeks deliveries in stock

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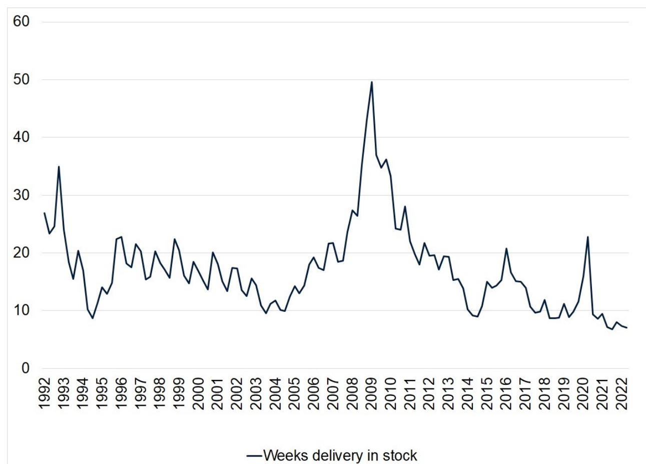

Source: BEIS, BCIS

Appendix D - Labour

The current position on construction industry wage awards is as follows:

Table 13: Percentage change on previously promulgated rate

Agreement	2021		2023		2023	
	Operative date	Award	Operative date	Award	Operative date	Award
Thermal insulation – engineering	01-Sep-21	2.50%				
Thermal insulation – H & V	01-Sep-21	2.00%				
Plumbers – England	-	-	03-Jan-22	2.00%	02-Jan-23	3.00%
Steelworkers	-	-	10-Jan-22	2.50%	09-Jan-23	2.50%
Electricians – England	-	-	03-Jan-22	2.50%	02-Jan-23	2.50%
Electricians – Scotland	-	-	03-Jan-22	2.50%	02-Jan-23	2.50%
Builders (BATJIC)	21-Jun-21	1.50%	20-Jun-22	5.00%		
Builders (CIJC)	28-Jun-21	2.50%	25-Jul-22	5.00%		
Civils (CIJC)	28-Jun-21	2.50%	25-Jul-22	5.00%		
Asphalters	28-Jun-21	2.50%	25-Jul-22	5.00%		
Plumbers – Scotland	05-Jul-21	2.00%	01-Aug-22	3.00%		
Demolition	20-Jul-21	2.10%	22-Jul-22	5.00%		
Builders – Northern Ireland	11-Jan-21	2.00%	03-Jan-22	3.00%		
Heating and ventilating	04-Oct-21	2.00%	03-Oct-22	2.00%		

Appendix E - Notes and definitions

The BCIS forecast is a national forecast. Regional differences in demand will have a consequential effect on tender prices in different parts of the country. The BCIS All-in Tender Price Index is constructed using projects based on traditional procurement routes.

Projects based on contractor-led procurement methods, such as design and build and partnering, are not included. However, the same general market conditions apply to all types of procurement routes but some will react more slowly to changes in demand.

Tender Price Indices and BCIS Tender Price Panel

BCIS introduced a new methodology for estimating the latest All-in Tender Price Index results in 2019.The method is based on a panel (Delphi) survey approach. BCIS enlisted a panel of cost consultants from firms involved in multiple tenders in each quarter. The BCIS Panel Tender Price Index is intended to measure the trend of contractors' pricing levels in accepted tenders at commit to construct, i.e., cost to client, in the previous quarter (mid-quarter to mid-quarter).

Further details of this index are available under notes and definitions for BCIS Tender Price Indices.

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Input Cost Indices

Further details of this index are available under notes and definitions for BCIS General Building Cost Indices.

Market Conditions Index

Further details of this index are available under notes and definitions for BCIS Market Conditions Factor.

Hays/BCIS Site Wage Cost Index

The Hays/BCIS Site Wage Cost Indices are the result of collaboration between BCIS and Hays Recruitment to provide direct measurement of movement in the cost of UK construction site labour. Further details of this index are available under notes and definitions for Hays/BCIS Site Wage Cost Index

Appendix F - References

The documents referred to in this report are:

1. Monetary Policy Report, August 2022, Bank of England's Monetary Policy Committee
2. AWA Hybrid Working Index, August 2022, Advanced Workplace Associates Ltd
3. Construction Skills Network, Industry Outlook 2022 - 2026, Construction Industry Training Board (CITB), June 2022
4. Forecasts for the UK economy, HM Treasury, August 2022
5. UK Construction Forecast, Experian, Summer 2022
6. Construction Industry Forecasts 2022-2024, Construction Products Association, Summer 2022
7. Bespoke forecasts for BCIS, Oxford Economics, July 2022

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Update on the Quarterly briefing, September 2022

16-Sep-2022

Update on the BCIS Quarterly briefing of building costs and tender prices

September 2022

BCIS update of tender prices and building costs

The General Building Cost Index (GBCI) for 2Q2022 has been revised slightly upwards to 432 from 431, and now shows costs rising by 5.6% compared with the previous quarter, and by 14.3% on an annual basis.

The BCIS All-in Tender Price Index (TPI) for 3Q2022 has been revised down to 366 from 371, the figure published in the August 2022 edition of BCIS Quarterly briefing - five year forecast of building costs and tender prices. Prices rose by 1.4% compared with the previous quarter, and by 8.0% compared with a year earlier. The revised index for 3Q2022 is based on the new TPI Panel Index. The panel reported that contractors were keen to maintain their order books which resulted in keen pricing for suitable projects while the spread of tenders received was widening. Contractors were more able to manage inflation by pre-ordering materials and this was resulting in earlier requests for information. Prices of materials continue to move upwards, with fuel and energy prices having the largest impact. Prices for imported European goods continue to escalate and affect trade pricing.

In September, the UK government announced an estimated £150bn support package for businesses and households struggling with record high energy costs. Confirmation of the six-month business support scheme is due in November and there is concern for the end of this month when many businesses reach the end of their fixed price contracts.

The Office for National Statistics (ONS) reports the total volume of new construction orders (excluding infrastructure) in 2Q2022 fell by 13% compared with the previous quarter, or by 16% compared with the same quarter in 2021.

The labour market remains tight with the current cost of living crises continuing to put upward pressure on costs. Availability of suitable labour remains a long-term issue for construction.

The forecast of building costs has been adjusted upwards for 2024, mainly driven by an expectation of increase in wages due to labour shortages and rising living expenses.

Table 1: BCIS Forecast of building costs

Year on year	Forecast	
	Aug 2022	Sep 2022
2Q2022 to 2Q2023	+3.2%	+3.2%
2Q2023 to 2Q2024	+3.6%	+5.8%
2Q2024 to 2Q2025	+3.0%	+3.4%
2Q2025 to 2Q2026	+3.2%	+2.9%
2Q2026 to 2Q2027	+2.2%	+2.4%

Source: BCIS

The forecast of tender prices has been revised down for 2023 due to reported efficiencies in procurement, softening in the materials price growth and increased competition to maintain order books. An upwards adjustment for 2024 is mainly driven by an expected increases in labour costs. Over the remainder of the forecast period, annual percentage changes remain at similar levels.

Table 2: BCIS Forecast of tender prices

Year on year	Forecast	
	Aug 2022	Sep 2022
2Q2022 to 2Q2023	+5.5%	+4.4%
2Q2023 to 2Q2024	+4.7%	+6.9%
2Q2024 to 2Q2025	+3.8%	+4.2%
2Q2025 to 2Q2026	+2.7%	+2.6%

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Year on year	Forecast	
	Aug 2022	Sep 2022
2Q2026 to 2Q2027	+2.4%	+2.1%

Source: BCIS

The BCIS new work output forecast remains unchanged from August 2022 publication.

Table 3: Summary of forecasts

	Percentage change 2Q on 2Q				
	2022 to 2023	**2023 to 2024**	**2024 to 2025**	**2025 to 2026**	**2026 to 2027**
TPI	4.4%	6.9%	4.2%	2.6%	2.1%
GBCI	3.2%	5.8%	3.4%	2.9%	2.4%
New work output*	+4.9 (2022)	+2.0 (2023)	+2.8 (2024)	+2.4 (2025)	+3.0 (2026)

* Constant prices 2019

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