



## Building repair cost review

*Quarterly update  
January 2022 to April 2022*

April 2022

## The review

*Each quarter, Sedgwick Repair Solutions quantity surveying team reviews the building and construction industry market to understand the primary drivers of cost and ensure that our rates remain competitive. This report provides an overview of the current situation and looks at the issues that could potentially impact insurers' building repair costs over the months ahead.*

In our last report, we forecasted a 6% increase in insurance building repair costs over 2022. That was based on the optimistic view that the market had stabilised. Recent events, particularly the war in Ukraine, mean that cost inflation factors persist, and we've revised our annual repair cost inflation increase to 10%. However, there remains a high degree of uncertainty. Material cost increases have continued, and contractors reported ongoing difficulties recruiting and retaining labour.

### HEADLINES

- January to the end of March, we've recorded an increase in costs of 3.35%
- Merchants have continued to introduce cost increases, including advance notification, for example, significant insulation costs from 1<sup>st</sup> July
- Rising petrol and diesel prices are adding to repair costs
- Data indicates rising tender costs where contractors can price freely
- Difficulties remain in finding materials, and so price increases continue
- Retaining and securing labour continues to be a significant problem for contractors working in insurance repairs. Higher wages are offered in other sectors

## PART 1 – BUILDING COST INFLATION

To track the impact of inflation on insurance repair work within the building industry, we use our own index that focuses specifically on this market. We call this the Insurance Repair Specific Index (IRSI). It monitors the four main cost components typically found in insurance repairs: labour, plant, materials and waste disposal.

Positive cost inflation has continued, and the latest IRSI review shows that input costs increased from January to the end of March by 3.35%. The market remains volatile, and construction material costs have risen for reasons detailed in previous reports – including manufacturing disruption and global demand caused by the COVID pandemic. Material shortages continue and many products supply are still on long lead in periods. Contractors have particularly highlighted to us difficulties in sourcing concrete blocks.

More recently, the war in Ukraine and fuel price increases are pushing up costs. The war is likely to lead to further increases for several reasons, including:

- **Reduced supply** – trade associations have urged members to cease trading with Russia. For example, the Timber Trade Federation and the European Federation of Building Material Distributors have asked members to stop Russian and Belarusian imports
- **Shipped import disruption** – Ukrainian and Russian nationals comprise 15% of the merchant shipping workforce. With Ukrainians returning to join the military, disruption to the supply chain is expected
- **Energy costs** – efforts to provide alternatives to Russian gas come at an increased cost. Energy-intensive material production, such as European manufactured bricks and steel, will increase in price

We've also discussed fuel increases and the impacts of the war in section 4. UK merchants have continued to advise material price increases including advance notifications, for example:

- Plumbing components prices increase between 4% and 33% from 1<sup>st</sup> April
- Skip and waste cost increases of 5-10% due to the changes in red diesel from 1<sup>st</sup> April
- Insulation price increases by 15-30% from 1<sup>st</sup> July

Agricultural building costs have been affected by increases in two key areas:

- Concrete – for example one national supplier has increased the cost of concrete by 15% from 1<sup>st</sup> April
- Steel – British Steel recently announced a £250 per tonne price rise

The Government Department for Business, Energy and Industrial Strategy's latest construction building material costs show comparable increases with the IRSI. It reports an average 9.97% uplift over the last nine months across sectors, as shown in table 1 below.

*Table 1 – Department for Business Construction material increases July 2021 – March 2022*

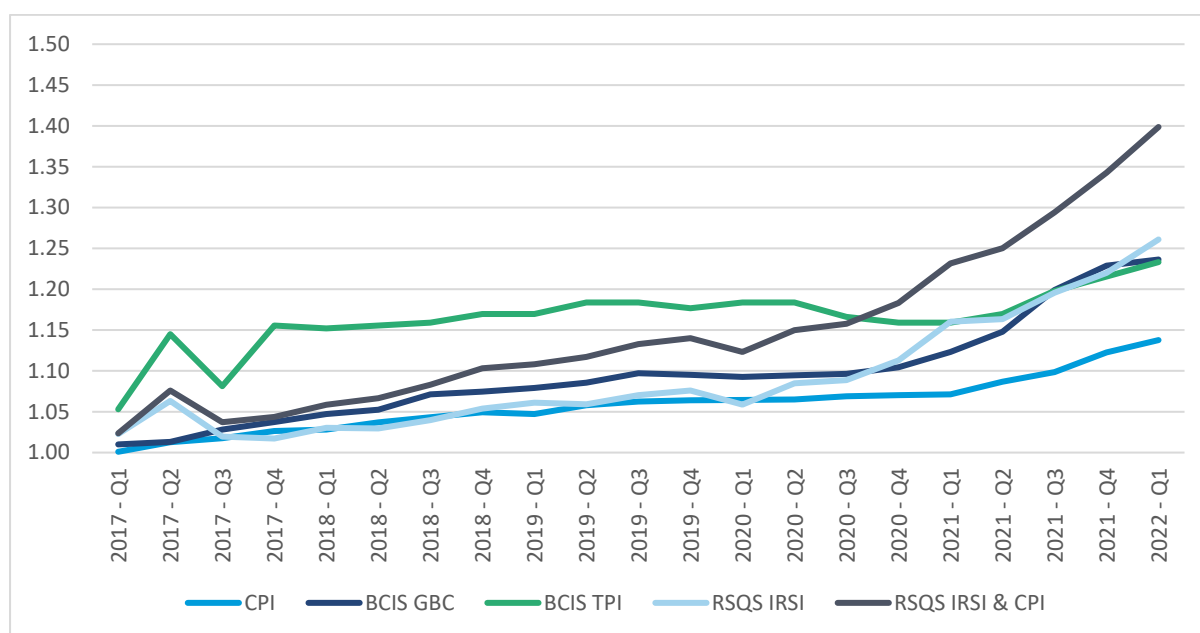
**National statistics**

(a) New Housing	10.72%
(b) Other New Work	9.28%
(c) Repair and Maintenance	10.45%
(d) All Work	9.43%

Difficulties around contractor labour availability remain. The industry highlights problems of working on fixed-price contracts, including insurance repairs, as more profitable and price flexible work is available in the general market – particularly new build housing.

Table 2 below shows how the IRSI compares to the other key indices – the 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 the continuation of an upward trend in cost.

Table 2 – Inflation increases 2017 Q1 – 2022 Q1.



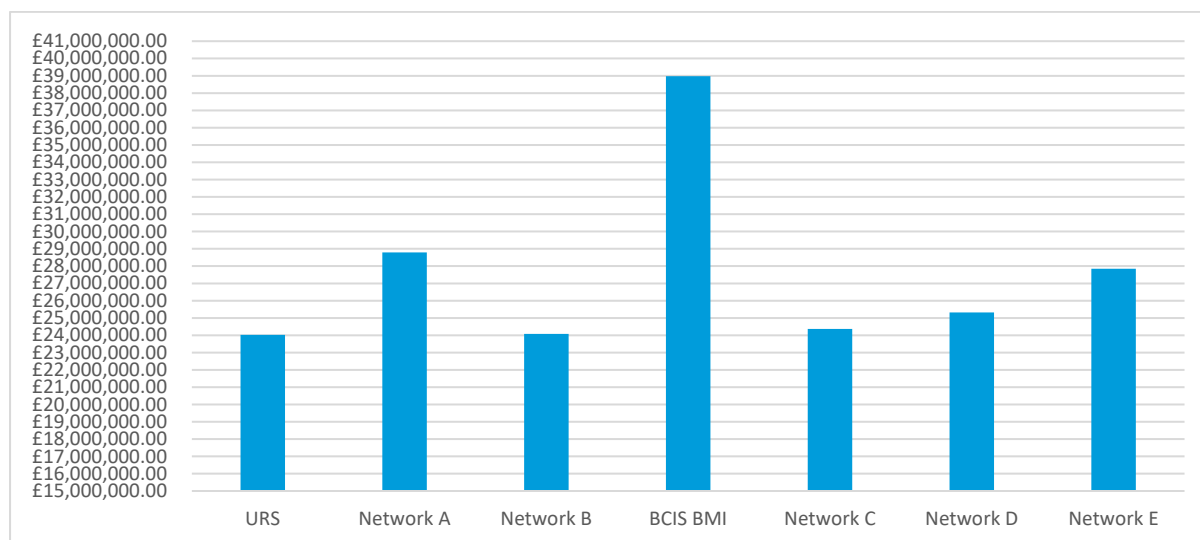
## PART 2 – RATES BENCHMARKING

To ensure that Sedgwick Repair Solutions repair costs are competitive, our quantity surveying team undertake a quarterly review of our repair rates – known as the URS. The URS is compared with other market repair costs. The benchmarking exercise include:

- 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
- A review of the output costs typical of flood, subsidence and fire repairs

The results of this review are shown in table 3 below. The URS remains competitive. It's important to note that the Sedgwick Repair Solutions rates are inclusive of all network management costs or fees. To allow comparison, 10% for management costs has been included with the net rates of other networks.

Table 3 – benchmarking



The increasing cost of materials and the significant inflationary pressures on contractor costs require an increase in some repair rates.

### PART 3 – DYNAMIC PRICING

Sedgwick’s Quantity Surveying team also conducts 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 SRS QS figure against:

- The lowest cost tender
- An average of the lowest two tenders
- An average of all four tenders (lowest quartile). This gives an indication of market pricing of repairs by evidencing the spread of tenders presented



The most recent analysis (as shown in table 4 and 5 below) is as follows:

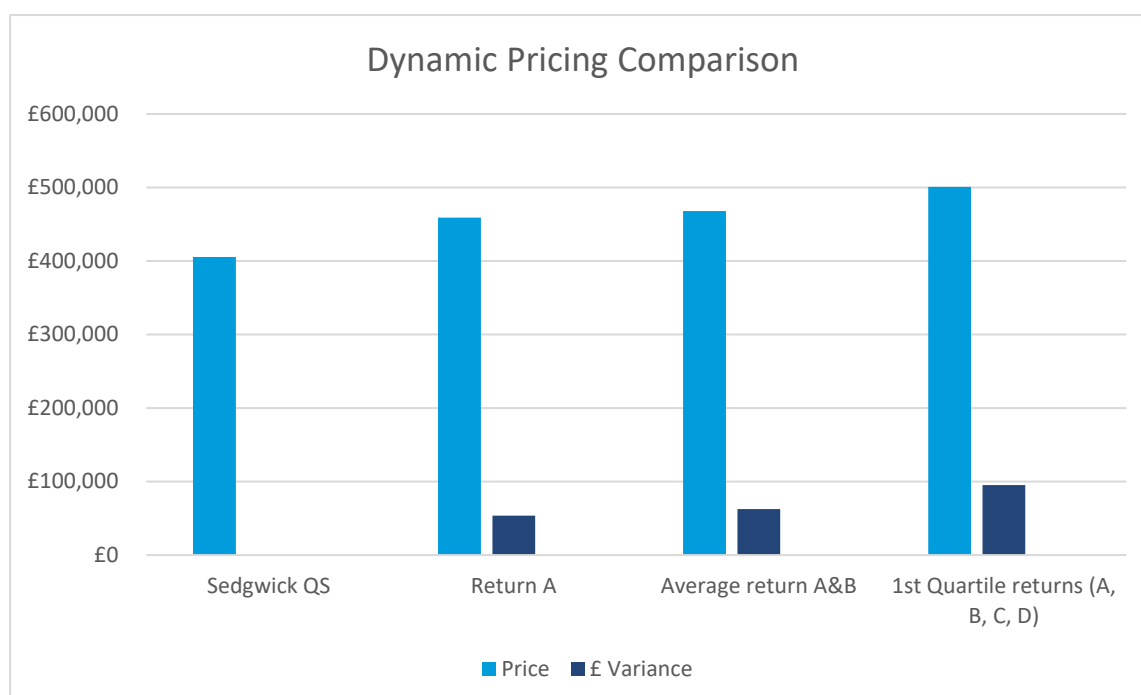
Table 4 – Dynamic pricing cost savings

	Sedgwick QS	Return A	Average return A&B	1 <sup>st</sup> Quartile returns (A, B, C, D)
<b>Price</b>	£405,452	£459,101	£467,997	£500,771.39
<b>£ Variance</b>		£53,649	£62,545	£95,319.00
<b>% Variance</b>		<b>13.23%</b>	<b>13.62%</b>	<b>20.37%</b>

The dynamic pricing shows the increase in tender cost compared to rates. We have a sample of a rising level of tender submissions. In the sample, we have five cases in this quarter one period. The comparison continues to show that contractors’ pricing reflects the availability of profitable work and contractors selecting projects. The increase is, however, lower than found last quarter.

The use of rates also indicates a saving of around 20% compared to the open market. Table 5 illustrates the variances.

Table 5 – Dynamic pricing comparisons



## PART 4 – FUEL INCREASES AND GENERAL COST FACTORS

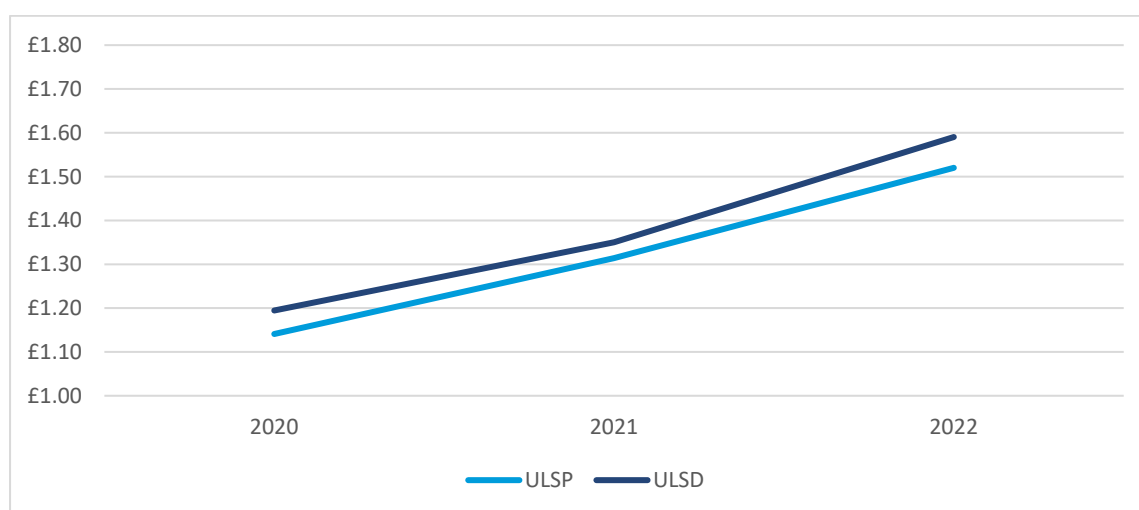
### Fuel increases

The price of petrol and diesel fuel has increased. From 6<sup>th</sup> January 2020 to date, costs have risen by 33.2% for Ultra Low Sulphur Petrol (ULSP) and 33.1% for Ultra Low Sulphur Diesel (ULSD). Tables 6 and 7 show the average price per year for this period and the rate of increase.

Table 6 – Average cost of fuel by year for period 2020 to date

Row Labels	ULSP	ULSD	Variance % ULSP	Variance % ULSD
2020	£1.14	£1.19	0%	0%
2021	£1.31	£1.35	15%	13%
2022	£1.52	£1.59	16%	18%
<b>Increase for period 2020 to 2022</b>			<b>33.2%</b>	<b>33.1%</b>

Table 7 – Average cost of fuel by year for period 2020 to date





### *UK Government Red Diesel Policy Change*

HMRC has introduced a policy that removes the entitlement to use 'red' diesel and tax-rebated biodiesel in various applications, including construction. According to the Civil Engineering Contractors Association (CECA), losing the red diesel rebate could cost the UK construction industry between £280m to £490m a year.

Whilst insurance repair contractors may not directly use red diesel, the impact will be felt through the supply chain. For example, manufacturers of quarry-based products and landfill site operations will be looking to pass the cost increase resulting from this policy on to their customers.

### *War in Ukraine – further comments*

The Construction Leadership Council (CLC) has reported it expects the war in Ukraine to have a wider impact on the UK construction industry. While products from Ukraine, Russia and Belarus only accounted for 1.25% of building product imports into the UK last year, the conflict may have a bigger knock-on effect on raw materials. They forecast the squeeze is likely to come from the cost and availability of raw materials such as copper, aluminium ore, oil and bitumen, which are used in the manufacturing process of other building materials, such as:

- Copper – used in plumbing, electrical wiring, cladding, flashing and solar panels
- Aluminium ore – alloys used in window and door frames, air conditioning and heating components, solar protection, exterior facades
- Oil – fuel, plastics, engine oils and lubricants
- Bitumen – road and path surfacing, roofing, plastics, sealing and insulating materials, e.g. paint and damp proofing

### *UK Building Regulation changes*

Changes to Building Regulations come into force in June. These are to documents F, L and O and new approved document S and apply to new residential and non-residential construction as well as home renovations and extensions. The impacts are:

- Increase insulation – so wider cavities, more insulation to loft space, so difficult to board out etc. This will most likely affect the plan area due to the thicker walls – so if the external leaf needs to be rebuilt, as per existing due to the position of windows on the main building, the insured may lose floor area
- Add trickle vents to windows and doors
- Fit electric charging points for cars
- Ensure the property cannot overheat (Part O) – awnings to the rear, shutters, etc.
- Assess heating systems – these may need to change or be amended to meet new regulations

Some insurance repairs will have to comply with the changes, which may mean additional costs.



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