

slattery



Market Update

Cost considerations in navigating COVID-19 challenges 01

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Australia has not yet seen widespread community transmission and to contain the spread, it seems inevitable that we will face continued 'social distancing', an increase in working from home and potentially enforced lockdowns. With the future unknown, this will clearly impact significant parts of our industry for which physical collaboration is an absolute necessity.

While the safety of our staff and workers remains the number one priority for the industry, the financial viability of our projects will also remain crucial. The arrangements we make in the coming weeks will dictate how we emerge from the crisis.

To navigate these challenges, the Slattery Leadership Team recommend the following.

Cost Considerations

Whether your project is in design or construction, there will likely be additional cost incurred due to lost productivity and project delays. Leaving aside who is responsible for these costs, the following should be considered.

During the design phase:

- **Tender timing:** Should the decision be made to delay the release of tender; this may impact trade pricing received from the market. Careful consideration needs to be made to when you release, noting that we will likely see heightened tendering activity once the industry recovers.

For projects which are seen to be 'attractive' by Contractors, releasing to the market as soon as the industry recovers (which we hope will be in a few months) may work to a Clients advantage. For other projects, it may be prudent to withhold tender release until later in 2020.

- **Cost escalation:** Where the decision is made to withhold tender release until a later date, consideration needs to be made for increases in trade costs, albeit in short term we expect these to be minimal.
- **Consultant fee prolongation:** The situation may arise where a decision is made to delay tender release and spend more time refining the documentation, exploring alternative options and undertaking further due diligence in anticipation of the industry recovering. This will necessitate additional work, and cost, from the consultants but will ultimately make your project more attractive to the tender market as the industry re-commences works.

During construction:

- **Contractor running costs:** Should a site shut down and a project be delayed, the Head Contractor will incur considerable ongoing expenses during the delay period including employee salaries, crane costs, site sheds, etc. Whilst we recommend seeking legal advice with regards to where liability for delay falls, there is no disputing that the costs are significant and will vary depending on the project size. For example, weekly delay costs on a \$10M project may be upwards of \$25,000 per week, whereas on a \$150M

project they may be up to \$150,000 per week.

- **Loss of productivity and extension to program:** Despite the majority of sites remaining open, anecdotally we are hearing that workforces on site have already dropped to around 80% due to workers self-isolating or being unable to work to care for children, etc. This combined with enhanced hygiene procedures, staggered break and start times, etc. will impact the Head Contractors ability to meet program. In this situation, similar ongoing costs to those noted above would apply.
- **Remobilisation costs:** In the event a site is shut down, there will likely be costs associated with remobilisation at site including safety inspections, inducting workers, etc. We do not anticipate these costs to be significant, possibly in the order of \$50,000 to \$100,000 on a \$100M project.
- **Acceleration costs:** Should a delay occur, and the Client be adamant that the original practical completion date must be met, they may direct acceleration of the works under the contract. Acceleration costs will vary depending on the project value and works being undertaken and are only achievable to a point.
- **Client costs:** Whilst the above costs relate to the Head Contractors site costs, the Client will be subject to similar ongoing expenses associates with the project including staff costs, office expenses, bank interest, etc.

In light of the above, it is paramount that every Client fully understands their financial exposure in the event their project is delayed.

What can you do now?

Despite the above, the common advice we are hearing from Contractors is that sites remain open, and it is in no one's interests (including the unions) to shut down sites unless enforced by government. We recommend however that our Clients ensure that they are best positioned to navigate through a lockdown by considering the following:

- Understand the business continuity plans put in place by all stakeholders on your project, outlining communication protocols, remote working capabilities, etc. Maintaining project productivity in the coming months will ensure the project is best placed to emerge in a stable position.
- For projects under construction, ensure the Head Contractor has a detailed mitigation strategy to prepare them for supply chain issues, program delays, increased welfare and hygiene measures and a reduced workforce. Whilst the impacts to construction projects will likely be out of the Head Contractor's control, the ability to plan and recover from the likely delays is vital to your project weathering the storm.
- Seek legal advice to understand your contractual position in relation to the Head Contractor's ability to claim time and possibly cost, most likely through a force majeure event or an unforeseeable legislative or authority event. If entering into a contract, again seek legal advice and consider excluding COVID-19 supply chain issues as a qualifying cause of delay, noting it would be difficult to include government enforced lockdowns in the same category. This may come at a cost premium as Contractors will look to include the risk of material premiums and above average delays in their tender price.
- Undertake a financial health check on your Head Contractor to ensure they are equipped to continue working through the current climate.
- Keep up to date with any government stimulus assistance that is announced and take advantage of it when it is applied to you.
- Have a 'Plan B' to mitigate the risk of your project being delayed and not being ready for handover when required. For example, a temporary facility, a lease extension, etc. Jump on the front foot and do not wait for the delay to happen.

In Summary

It is paramount that Clients fully understand their financial exposure if a project is delayed. Informed decision making now will save both time and money in the long run.

During a crisis, successful projects **will** rely on positivity, a sense of calm and good sound advice from your QS.

About Slattery

Slattery is a property and construction advisory firm specialising in quantity surveying, cost management and early phase project advisory, with an outstanding history spanning more than 40 years.

We work hand-in-hand with governments, institutions and organisations as well as planners, developers, architects and design teams on a broad range of property and construction projects.

A commitment to excellence and innovation, and an ability to become an integral part of the project team has earned Slattery the trust and respect of clients and project teams alike. Slattery adds value by taking control and ownership of the cost management process from the outset. We understand the importance to drive innovation and productivity.

We invite you to explore our knowledge sharing further at www.slattery.com.au/thought-leadership

