



## BERKELEY HOMES - HOWARD SCHOOL DEVELOPMENT

### CONSTRUCTION COSTS & HOUSE PRICES INDICES FACT SHEET

Berkeley Homes submitted plans for a new school, financed by building 295 houses, to Guildford Borough Council (GBC) in October 2014. The proposal was rejected by GBC but was approved, on appeal, by the Secretary of State in March 2018.

Berkeley Homes claim that construction costs have increased since the plans were submitted and that the project is now no longer financially viable without the construction of more houses.

This note looks at movements in building costs and house prices since the beginning of 2015 to analyse whether the Berkeley Homes claim can be substantiated. It includes a number of indices both from the Government ("National Statistics") and the industry itself.

#### House construction costs

The Office for National Statistics (ONS) produces the official Government figures on the construction industry. The ONS Construction Output Price Indices measure inflation in the construction industry. Below are indices for the series "*New Work – Housing (private and public)*" (2015 = 100) <sup>1</sup>.

Date	Index compared to 2015	Increase since 2015
December 2020	116.3	+16%

<sup>1</sup> Source: Office for National Statistics. *Construction Output Price Indices for Great Britain*.

The construction industry also uses information compiled by the Royal Institution of Chartered Surveyors/The Building Cost Information Service (BCIS). This data measures changes for production factors in housing construction. But these data are only available on a subscription basis. However, we understand they show a similar percentage increase to the data from ONS.

#### School building costs

ONS Construction Output Price Indices measure inflation within the construction industry by using output prices which weight together labour, material and plant and machinery costs multiplied by a mark-up for profit margin. Below are indices for the series "*New Work – Public Sector construction (other than housing)*" (2015 = 100) <sup>2</sup>.

Date	Index compared to 2015	Increase since 2015
December 2020	113.6	+14%

<sup>2</sup> Source: Office for National Statistics. *Construction Output Price Indices for Great Britain*.

Berkeley Homes have said that the justification for the cost increase for building the school is based on The Building Cost Information Service (BCIS) Tender Price Index. However, this Index measures movements in prices between clients and contractors and does not measure changes to costs. The BCIS does produce an Output Price Index that measures the cost of what a contractor pays for their materials, labour and plant. Both BCIS series are only available on a subscription basis and are not freely publicly available. We understand that the Tender Price Index has increased by about 25% since 2015.

A more detailed discussion of changes to school building costs is set out in Annex A.

### House prices

ONS *UK House Price Index* compiled using data from the Land Registry (January 2015 = 100)<sup>3</sup>. For the UK and Guildford it has the following indices for December 2020:

	Type of building	Index compared to January 2015	Increase since January 2015
<b>United Kingdom</b>	All properties	131.9	+32%
<b>Guildford</b>	All properties	121.3	+21%

It also separates new build and existing properties. This series has the following indices up to October 2020:

	Type of building	Index compared to January 2015	Increase since January 2015
<b>United Kingdom</b>	New build	134.4	+34%
	Existing buildings	128.9	+29%
<b>Guildford</b>	New build	126.3	+26%
	Existing buildings	122.8	+23%

<sup>3</sup> Source: ONS *UK House Price Index*.

### Conclusions

- Since 2015, indices for the building costs for schools and houses have increased by less than the price indices for house sales.
  - The cost of building houses has increased by about 15% since 2015.
  - The cost of building schools is also likely to have increased by about 15% since 2015. See Annex A for more detail.
  - New house prices for Guildford, and therefore revenue, have increased by about 25% since 2015.
- Based on construction cost and house price indices, profits from this development should have increased since the planning application was submitted towards the end of 2014.

## ANNEX A - SCHOOL BUILDING COSTS

There are a number of data sources and indices that can be used to estimate the change in building costs for schools since 2014. This Annex sets out various relevant indices.

### Actual school building costs

The survey that is most closely related to measuring changes to school building costs is one on “*National School Delivery Costs Benchmarking*”<sup>4</sup>. It was endorsed by a number of organisations, including several Government departments. The data from the survey shows that between 2014 and 2018 costs (measured as cost per square metre) moved as follows:

#### Primary schools

	New build	Re-build and extension
2014	£3,488	£2,899
2018	£3,278	£2,888

#### Secondary schools

	New build	Re-build and extension
2014	£2,098*	£2,212
2018	£2,005*	£2,243

Note: \* Figures for this series are based on small sample sizes so are indicative only.

Unfortunately the survey only goes up to 2018. It was conducted during a period where the Government and local authorities were trying to drive down the costs of building and refurbishing schools. So the results are not unsurprising. But it does indicate that the costs of building schools do not appear to have increased greatly, if at all, over this period.

<sup>4</sup> Source: *National School Delivery Cost Benchmarking. June 2019*. Supported by the Infrastructure and Projects Authority.

### Costs of new build in the public sector

The closest series that is available from “National Statistics” compiled by Government is one using the ONS Surveys of the construction industry. *The Construction Output Price Indices* measure inflation within the construction industry by using output prices which weight together labour, material and plant and machinery costs multiplied by a mark-up for profit margin. The closest proxy for new schools appears to be the series “*New Work – Public Sector construction (other than housing)*”<sup>2</sup>. Using 2015 = 100 this shows:

Date	Index compared to 2015	Increase since 2015
December 2020	113.6	+14%

<sup>2</sup> Source: Office for National Statistics. *Construction Output Price Indices for Great Britain*.

The wider definition “*New Work – All construction*” series shows:

<b>Date</b>	<b>Index compared to 2015</b>	<b>Increase since 2015</b>
December 2020	114.5	+15%

### **Industry construction costs**

The industry (through the Royal Institution of Chartered Surveyors/the Building Cost Information Service) produces Tender Price Indices which measure movements in prices between clients and contractors. It is a general index for a wide range of different types of construction projects and is used by the private sector. But it is different from a cost index. The BCIS also compiles an Output Price Index which measures the cost of what a contractor pays for their materials, labour and plant; the BCIS Tender Price Index measures what a contractor charges a client. Both BCIS series cover the construction industry in general and may not represent cost changes for either buildings in the public sector or schools in particular. It is not possible to easily check the BCIS data because they are only available on a subscription basis and are not freely publicly available. However, we understand that the BCIS Tender Price Index may show an increase of about 25% between Q1 2015 and Q2 2020, the latest available data.

It is worth noting that in a recent note the Royal Institution of Chartered Surveyors said that they had suspended publication of the sub-sectors and regional splits of the BCIS series owing to a lack of data and therefore insufficient sample size.

### **Summary**

It is more difficult to assess the changes in costs of building schools since the beginning of 2015.

Detailed survey data on school costs suggest that costs did not increase between 2014 and 2018 (the latest available date).

Official Government statistics show that the cost of new work by the construction industry increased by 15% from 2015 to the end of 2020.

Industry figures are only available on subscription and, therefore, not so easily accessible. Although we understand that BCIS tender prices (which measure what a contractor charges a client rather than costs) may show an increase of about 25% between Q1 2015 and Q2 2020.

So balancing the main publicly available evidence – detailed school specific data between 2014 and 2018; and official Government statistics on the construction industry from 2015 to the of 2020; it seems reasonable to assume that school construction costs are likely to have increased by about 15% from 2015 to the end of 2020.

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