



National Health Service in Scotland
Management Executive

St. Andrew's House
Edinburgh EH1 3DG

Dear Colleague

**HEALTH BUILDING PROJECT COST CONTROL
REVISED COST ALLOWANCES**

Summary

1. This letter announces changes in the price level of the Departmental Cost Allowances (DCAs) and encloses information on the performance of the Scottish Public Sector Building Tender Price (SPSBTPI) and Building Cost Indices at December 1992.

Background

2. The DCA current price level of 134 was announced in SHHD/DGM(1990)74 on 28 September 1990. An additional allowance of 9% for firm price contracts was also intimated. In the ensuing period, Scottish tender prices have remained relatively static, particularly in comparison with the long downward trend experienced in England.

3. There is evidence that tender prices in Scotland are now reflecting market conditions in England. While four-quarter averages had generally ranged close to 134, a decline in tender price levels was first identified in September 1992 and had become more pronounced by December. The attached index sheet for December 1992 also shows the September 1992 provisional index values for Q2 1992. Assessment of trends has been complicated because almost all tenders analysed have been for firm price schemes and there have been no very large VOP projects. Our review of the DCA price level, therefore, has also been informed by a range of economic commentaries on the outlook for tender prices in Scotland.

4. From evidence seen by the Management Executive, it is unlikely there will be any significant upward movement in tender price levels in the next few months. Tender price levels will continue to be monitored to ensure that trends are identified. The diligence of health authorities in submitting tenders for analysis is appreciated and it is expected that this will continue.

29 January 1993

Addressees

For action:

General Managers,
Health Boards
Chief Executives
NHS Trusts

General Manager,
State Hospital

General Manager,
Common Services Agency

For information:

General Manager,
Health Education Board
for Scotland

To be copied to Unit
General Managers for
action

Enquiries to:

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Estates Division
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COMMON SERVICES AGENCY	
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Action

5. It has been decided that a reduction in DCA price level must now be effected and that there should be 2 elements:-

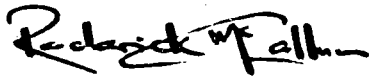
the basic DCA price level is reduced to 129, and

the firm price allowance is reduced to 5%.

6. These changes take effect from the date of this letter. It is important that health authorities currently planning capital projects take immediate account of the changes in estimating costs in order to avoid any potential problems at tender stage.

7. This letter should be copied to Unit General Managers and Project Directors for action as required.

Yours sincerely



H R McCALLUM
Director of Estates



THE SCOTTISH OFFICE

Building Directorate

SCOTTISH PUBLIC SECTOR BUILDING PRICE AND COST INDICES

(For definitions see reverse)

December 1992

1985 = 100		HTPI	SPSBTPI	BUILDING COST INDEX			
1988	Q1	114	112	112			
	Q2	112	109	114			
	Q3	117	116	117			
	Q4	124	121	118			
	YEAR	117	115	115			
1989	Q1	128	126	119			
	Q2	134	129	122			
	Q3	136	132	126			
	Q4	138	133	127			
	YEAR	134	130	124			
1990	Q1	136	130	128			
	Q2	138	135	131			
	Q3	138	133	135			
	Q4	140	135	136			
	YEAR	138	133	133			
1991	Q1	140	137	138			
	Q2	137	136	139			
	Q3	136	135	141			
	Q4	133	128	142			
	YEAR	137	134	140			
1992	Q1	136	Sept 92 132 P	130	Sept 92 126 P	142	Sept 92 143 P
	Q2	131		123		143	
	Q3	128 P		124 P		146 P	
	Q4	—		—		—	
	YEAR	—		—		—	

P = Provisional

Note:

- (1) Tender documents will be accepted, up to 9 months after the date of tender, for analysis and possible inclusion in one or both of the above tender price index series.
- (2) Documents for "new-build" housing projects should be sent to - The Scottish Office, Building Directorate, Division BD-7, Room 245, St Andrew's House, Edinburgh, EH1 3DG. (Tel. 031-244-2087 or 2090).
- (3) Documents for non-housing projects should be sent to - Mr T L Stirling, The Scottish Office, Building Directorate, Division BD-5, Room 6/27, New St Andrew's House, Edinburgh EH1 3TG. (Tel. 031-244-4184).
- (4) Every endeavour will be made to return documents quickly or to meet urgent deadlines as requested.

DEFINITIONS

1. General The tender price indices may be used for discounting the effects of inflation and other time-related influences, such as changes in the tendering "climate", on tender prices. The quarterly index can therefore be used, for example, to 'update' an estimate to its equivalent price level at a different date or adjust several tenders to their equivalent price levels at a common date in order to enable comparison.

2. The Scottish Office - Housing Tender Price Index (HTPI) Measures the movement of prices in competitive tenders for one to four storey public sector housing contracts throughout the Scottish mainland.

Each project index is calculated by comparing prices of items with standard base prices, to a minimum value of 25 per cent for each trade or section of the Bills of Quantities analysed; information is combined by applying weightings representing the proportion each trade or section is of the total of the items analysed. Preliminaries and other general charges are spread proportionately over each item of the Bill of Quantities. This methodology is also used by the Property Services Agency Specialist Services and the Royal Institution of Chartered Surveyors Building Cost Information Service.

The quarterly index is compiled from the average of the project indices allocated to the quarter by tender date and constructed using a statistical method to insulate against the effects of erratic short term changes.

3. The Scottish Office - Scottish Public Sector Building Tender Price Index (SPSBTPI) Measures the movement of prices in Scottish public sector housing and non-housing projects. The housing element is as described for the HTPI. The non-housing element embraces all other public sector building contracts including industrial, administration, health and welfare, entertainment and recreation, educational and scientific. It does not include defence work or contracts with a value less than £75,000, those awarded without prior-competition (ie non-competitive) or those in island areas. It also excludes contracts for work of a mainly civil engineering nature, tenders not accepted by the client, projects incapable of proper tender price analysis (eg no BQs) and contracts for work of a mainly alteration nature.

The project index is calculated in the manner described for the HTPI and the quarterly index is compiled from the average of the said indices.

4. The Scottish Office - Building Cost Index Measures changes in costs of labour, materials and plant, ie basic cost to contractor. The Scottish Office index is based on cost models of three functional types, namely school, hospital and housing. The inputs to the index are the Work Category Indices (Series 2) prepared by the Property Services Agency Specialist Services for use with the Price Adjustment Formulae. The index allows for changes in the costs of nationally agreed labour rates, material prices and plant costs; it does not necessarily reflect changes in contractors' actual site costs which will additionally be affected by changes in productivity and the effect of market conditions on units costs.

Prepared by the Construction Industry & Procurement Policy Division (BD5) of The Scottish Office Building Directorate.