



National Health Service in Scotland
Management Executive

St. Andrew's House
Edinburgh EH1 3DG

Dear Colleague

**HEALTH BUILDING PROJECT COST CONTROL
TENDER PRICE AND BUILDING COST INDICES**

Summary

1. This letter announces the outcome of the quarterly review of the price level of the Departmental Cost Allowances (DCAs) and encloses a copy of the September 1994 edition of the index sheet prepared by The Scottish Office Building Directorate.
2. No change is to be made this quarter in the DCA price level, which is currently set at 129. The latest provisional index reading for the SPSBTPI, to which the price level of the DCAs is linked, is 132.
3. The differential addition for Firm Price contracts remains at 5%.

Action

4. I would be grateful if you would ensure that this letter is copied to others within your Trust, Unit or Board having estates responsibilities.

Other Information

5. Tender prices continue to remain generally stable with the small increase in index level predicted in the previous quarterly review (MEL(1994)77) having occurred. Tender prices for health building projects in England, where prices had dipped significantly, are now rising much more rapidly than in Scotland. The possibility of continued very slight, upward pressure on Scottish tender prices remains.
6. The purchasing power of NHS Trusts and other health bodies is significant and Trusts should be very cautious about accepting tenders where it appears that prices show inflationary increases. Well-conceived, well-managed projects should inspire the confidence of bidding contractors and attract the most competitive tender prices. The general level of inflation in the UK remains very low and it should be noted that the acceptance of increased

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Addresses

Chief Executives
NHS Trusts

Acting Chief Executives
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tender prices has a knock-on effect on revenue costs and, hence, on contracting viability.

Yours sincerely

A handwritten signature in black ink, appearing to read "H R McCallum". The signature is stylized with a large initial "H" and a long horizontal stroke.

H R McCALLUM
Head of Estates Division
Directorate of Trusts

Table 1

PUBLIC SECTOR BUILDING PRICE AND COST INDICES (1985 = 100)

		Scottish Office Indices			DOE Indices		
		Tender Price Indices		Building Cost Index ⁵	Tender Price Index PIPSH ³	Tender Price Index PUBSECTPI ⁴	Cost Index APSAB ⁶
		HTPI ¹	SPSBTPI ²				
1985	1Q	101	102	98	97	95	97
	2Q	98	98	99	99	98	99
	3Q	100	101	101	101	99	101
	4Q	101	99	102	104	99	101
1986	1Q	105	102	102	105	102	102
	2Q	101	99	103	103	101	102
	3Q	102	100	105	104	98	104
	4Q	103	103	105	103	104	105
1987	1Q	102	101	106	109	106	105
	2Q	101	103	108	112	110	107
	3Q	108	107	110	114	109	109
	4Q	111	107	111	117	115	110
1988	1Q	114	112	112	120	121	111
	2Q	112	109	114	124	125	113
	3Q	117	116	117	125	129	115
	4Q	124	121	118	132	127	117
1989	1Q	128	126	119	134	134	118
	2Q	134	129	122	138	135	121
	3Q	136	132	126	136	136	124
	4Q	138	133	127	137	131	125
1990	1Q	136	130	128	141	130	127
	2Q	138	135	131	134	128	130
	3Q	138	133	135	139	120	134
	4Q	140	133	136	132	121	135
1991	1Q	140	137	138	133	119	136
	2Q	137	136	139	126	115	138
	3Q	136	135	141	125	111	140
	4Q	133	128	142	127	109	140
1992	1Q	136	130	142	124	109	142
	2Q	131	123	143	124	105	143
	3Q	124	122	146	120	103	146
	4Q	124	123	147	116	104	147
1993	1Q	128	127	148	119	105	147
	2Q	131S	128	149	121	107	149
	3Q	129	124	150	128	109	151
	4Q	131	128	151	128P	111	151
1994	1Q	133	131	152	128P	113P	152
	2Q	134P	132P	153P			154P
	3Q	134F	132F				

Table 2

OUTPUT PRICE INDICES

		Scottish Office Index ⁷	DOE Indices ⁸		
		Public Sector (1985 = 100)	Public Sector (1990 = 100)		
		Housing	Housing	Public Building	All New Construction
1990	1Q	129	100	101	101
	2Q	132	100	101	101
	3Q	133	100	100	100
	4Q	134	100	98	99
1991	1Q	135	99	96	97
	2Q	136	97	93	95
	3Q	136	95	90	92
	4Q	136	94	86	90
1992	1Q	134	93	84	88
	2Q	133	92	82	86
	3Q	132	91	80	84
	4Q	130	89	78	83
1993	1Q	128	88	77	82
	2Q	125	88	76	82
	3Q	125	89	76	82
	4Q	126	90	76	82
1994	1Q	127	91P	77P	83P
			92P	78P	84P

DEFINITIONS

1. Housing Tender Price Index (HTPI)

Is compiled by The Scottish Office Building Directorate Division A. It measures the movement of prices in competitive tenders for one to four storey public sector housing throughout the Scottish mainland. Up to and including 1Q 1983 the quarterly index was the mean of the individual contract indices. From 2Q 1983 the index has been constructed using a statistical method to insulate against the effects of erratic short term changes without interfering with the response to genuine changes in price levels.

2. Scottish Public Sector Building Tender Price Index (SPSBTPI)

Is compiled by The Scottish Office Building Directorate Division A. It measures the movement of prices in competitive tenders for public sector building work (both housing and non-housing) throughout the Scottish mainland. The index figures are the arithmetic mean of each quarter's sample.

3. Price Index of Public Sector House-Building (PIPSH)

Is compiled by DOE Housing Directorate B. It measures the movement of tender prices for public sector housing in England and Wales. A complete description of the index can be found in "Housing and Construction Statistics 1978-1988".

4. Public Sector Tender Price Index (PUBSEC TPI)

Is compiled by DOE Construction Sponsorship Directorate - Indices Group, Market Intelligence Division. It measures the movement of prices in competitive tenders for public sector non-housing work throughout the UK. A complete description of the index can be found in "Housing and Construction Statistics 1982-1992". It should be noted that the index included in Table 1 of the Building Cost Bulletin is the unweighted version intended for Quantity Surveyors' use. As from the third quarter of 1992 this index has been smoothed in order to eliminate erratic movement caused by unreliable sample sizes.

5. Scottish Building Cost Index

Is compiled by The Scottish Office Building Directorate Division A. It measures the movement of building costs by the application of the Series 2 Price Adjustment Formula Indices (Series 1 prior to 3Q 1979) to an amalgam of three functional types of building in the Public Sector and shows the change in the cost to contractors of labour, materials and plant reflected in the PAF indices weighted according to the tender amounts of similar work in each contract.

6. A Public Sector Average Building Cost Index (APSAB)

Is compiled by DOE Construction Sponsorship Directorate - Indices Group, Market Intelligence Division. It measures the movement of the cost of a public sector average building by the application of the Series 2 Price Adjustment Formula indices. The index is weighted in the proportion of 75% Building Work, 15% Heating Ventilation and Air Conditioning Work and 10% Electrical Work.

NB. Prior to January 1984, these figures were 87%, 8% and 5% respectively.

7. Housing Output Price Index

Is compiled by The Scottish Office Building Directorate Division A. It is derived from tender price indices and is used as a deflator to convert contractors' output on Scottish public sector housing work from current to constant prices. It can also be used for revaluing programme expenditure on Scottish public sector housing.

8. DOE Output Price Indices

Are compiled by the Statistics Construction Division of the Department of the Environment. They are derived from tender price indices and are used as deflators to convert contractors' output of new construction work from current to constant prices. A complete description of the indices can be found in "Housing and Construction Statistics 1982-1992".