



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 December 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 136. At this index level it would be possible to increase the price level of DCAs by about 5% but it has been decided to defer any adjustments until a stable price trend has been confirmed.

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 responsibilities for capital projects.

Other Information

5. Tender prices have shown a further increase over the previous quarter and this has proved to be slightly greater than expected. It is not yet clear whether this rise reflects an establishing trend in Scotland or whether it constitutes an isolated peak. Tender prices for health building projects in England, where tender prices had dipped significantly, continue to rise steadily and more rapidly than in Scotland. The possibility remains of continuing slight, upward pressure on Scottish tender prices.

6. As noted before, the purchasing power of NHS Trusts and other health bodies is significant and therefore Trusts should be very cautious about accepting tenders where it appears that prices show

25 February 1995

Addressees

For Action:

Chief Executives, NHS Trusts

Acting Chief Executives, Shadow NHS Trusts

Unit General Managers
Island Health Boards

General Managers,
Health Boards

General Manager,
Common Services Agency

General Manager,
State Hospital

Enquires to:

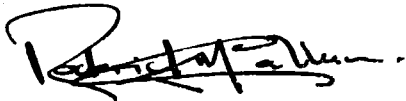
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inflationary increases. Well-conceived, well-managed projects should inspire the confidence of bidding contractors and attract the most competitive tender prices. The general level of inflation in the UK remains very low and the acceptance of increased tender prices has a knock-on effect on revenue costs and, hence, on contracting viability. In view of what is said in this letter, however, you may wish to be alert to the risk that some tenders for capital projects may prove to be higher than expected and that it may prove necessary to require savings to be made before deciding whether the project can be afforded and may proceed.

Yours sincerely



H R McCALLUM
Head of Estates Division
Directorate of Trusts



THE SCOTTISH OFFICE

Building Directorate

SCOTTISH PUBLIC SECTOR BUILDING PRICE AND COST INDICES

(For definitions see reverse)

December 1994

1985 = 100		HTPI	SPSBTPI	BUILDING COST INDEX
1985	YEAR	100	100	100
1986	YEAR	103	101	104
1987	YEAR	106	105	109
1988	YEAR	117	115	115
1989	YEAR	134	130	124
1990	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	130	142
	Q2	131	123	143
	Q3	124	122	146
	Q4	124	123	147
	YEAR	129	125	145
1993	Q1	128	127	148
	Q2	*131	128	149
	Q3	129	124	150
	Q4	131	128	151
	YEAR	130	127	150
1994	Q1	133	131	152
	Q2	138	136	153
	Q3	139 P	136 P	156 P

* Relatively small sample

P = Provisional

Note:

- (1) Tender documents will be accepted, **UP TO 7 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 (except those for Scottish Homes) should be sent to - The Scottish Office, Building Directorate, Division BD-A.1, Room 035, St Andrew's House, Edinburgh, EH1 3DG. (Tel. 031-244-2087 or 2090).
- (3) Documents for non-housing projects and Scottish Homes should be sent to - Mr T L Stirling, The Scottish Office, Building Directorate, Division BD-A.3, Room 6/23, New St Andrew's House, Edinburgh EH1 3TG. (Tel. 031-244-4184 or 4176).
- (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 4 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 Department of the Environment Construction Directorate 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 3 functional types, namely school, hospital and housing. The inputs to the index are the Work Category Indices (Series 2) prepared by The Department of the Environment 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 unit costs.

Prepared by the Building Procurement - Policy and Support Division (BD-A) of The Scottish Office Building Directorate