



THE SCOTTISH OFFICE

9521

NHS
MEL(1995)38

National Health Service in Scotland Management Executive

COMMON SERVICES AGENCY	
RECEIVED:	22 JUN 1995
St Andrew's House Edinburgh EH1 3DG	
FILE No.	20 June 1995
REFUSED TO	ACTION TAKEN
	June 1995
Addressees:	

Dear Colleague

- a. **HEALTH BUILDING; QUARTERLY REVIEW OF DEPARTMENTAL COST ALLOWANCES**
- b. **SUBMISSION OF HEALTH BUILDING TENDERS FOR ANALYSIS**
- c. **COMPLETION OF RETURNS FOR CONTRACTOR MANAGEMENT INFORMATION SYSTEM**

Summary

1. This letter explains the current position regarding the price level of the Departmental Cost Allowances (DCAs) used by Trusts in preparing budgets for capital building projects; no change need be made at present. Also enclosed is a copy of the March 1995 edition of the index sheet prepared by the Scottish Office Building Directorate.
2. The letter also draws attention to the need to submit tender documents for accepted tenders to the Scottish Office Building Directorate for analysis to determine their price levels; this information is used to ensure that the price level of the DCAs reflects market conditions.
3. Finally, the letter reminds Trusts that the usefulness and relevance of the Contractor Management Information System, which they access for information when short-listing contractors, depends on information feedback about contractor performance.

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.

Quarterly Review of Departmental Cost Allowances

5. No change need 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. In view of this index level, consideration has been given to increasing the price

For action:

Chief Executives,
NHS Trusts

Unit General Managers,
Island Health Boards

General Managers,
Health Boards

General Manager,
Common Services Agency

General Manager,
State Hospitals Board
for Scotland

Enquiries to:

Mr Jim McCulloch
Directorate of Trusts
Estates Division
NHS Management
Executive
Room 354
St Andrew's House
Edinburgh
EH1 3DG
Tel: (0131) 244 2084
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level of DCAs by about 5% but it has been decided to defer any adjustments until it is clear that such an increase would be representative of the pattern for health building projects.

6. Tender prices have not shown any further increase over the previous quarter but it is not yet clear that market conditions and tender price levels have stabilised. There is a possibility that the earlier slight rise in the Index has been partially caused by a tendency for tenders for smaller, domestic scale projects such as housing to have increased in price level at a greater rate than has occurred in tenders for larger projects. The possibility remains, however, of continuing slight, upward pressure on Scottish tender prices.

7. The differential addition for Firm Price contracts remains at 5%.

8. In view of the above evidence about tender prices it is worth reiterating that the purchasing power of NHS Trusts and other health bodies is significant and caution should be exercised in accepting tenders where it appears that prices show inflationary increases. There is no doubt that value for money is to be found from well-conceived, well-managed projects which inspire the confidence of bidding contractors and hence attract the most competitive tender prices. 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 may proceed.

Submission of Health Building Tenders for Analysis

9. The ability of Management Executive to set the price level of DCAs at a level which accurately reflects market conditions is dependant on health bodies submitting tenders for analysis. For all accepted tenders exceeding £70,000 in value tender documents including priced bills of quantities and specifications should be sent as early as possible to:

Mr T L Stirling
The Scottish Office
Building Directorate Div. A-3
Room 6/23
New St Andrew's House
Edinburgh
EH1 3TG
Tel: (0131) 244 4184

The analysis process takes about 2 weeks and every endeavour will be made to return documents quickly or to meet urgent deadlines as requested.

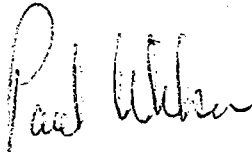
Returns for Contractor Management Information System

10. MEL(1993)50 announced the availability to the NHS in Scotland of the Contractor Management Information System (CMIS), which provides information about status of contractors whom health bodies may be considering for inclusion on tender lists for projects. EPM(1994)8 introduced some minor changes to the CMIS procedure. CMIS is a system

which depends on user feedback and while many Trusts and others in Scotland have drawn upon CMIS when compiling tender lists, there has only been a very small amount of information fed back to CMIS through the series of quite straightforward returns about tender acceptance and contractor performance. The potential for CMIS information to improve in scope and quality depends largely on the users. You are therefore urged to participate fully in CMIS. The service is free to the NHS and by using it valuable data on the performance of contractors in Scotland will become increasingly more comprehensive and more useful. Any Trust not possessing information about CMIS and the way it operates should contact:

Mr J McCulloch
Management Executive
Estates Division
Tel: (0131) 244 2084.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Paul Wilson', written in dark ink.

PAUL WILSON
Director of Trusts



THE SCOTTISH OFFICE

Building Directorate

SCOTTISH PUBLIC SECTOR BUILDING PRICE AND COST INDICES

(For definitions see reverse)

March 1995

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	<u>133</u>	<u>128</u>	<u>142</u>
	YEAR	<u>137</u>	<u>134</u>	<u>140</u>
1992	Q1	136	130	142
	Q2	131	123	143
	Q3	124	122	146
	Q4	<u>124</u>	<u>123</u>	<u>147</u>
	YEAR	<u>129</u>	<u>125</u>	<u>145</u>
1993	Q1	128	127	148
	Q2	*131	128	149
	Q3	129	124	150
	Q4	<u>131</u>	<u>128</u>	<u>151</u>
	YEAR	<u>130</u>	<u>127</u>	<u>150</u>
1994	Q1	133	131	152
	Q2	138	136	153
	Q3	144	137	156
	Q4	144 P	136 P	157 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.