

18th January 2017

Bruce Crawford
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Dear Bruce,

Committee Meeting with Scottish Futures Trust 21st December 2016

During SFT's evidence session on 21st December, Mr Patrick Harvie asked a question about the cost of trade work undertaken through financed hub projects¹ and I offered to provide some follow up information. Mr Harvie's concern was that "We have also seen that, in some cases, public sector bodies such as the national health service are paying three times the actual labour costs to have contractors undertake work".

I was able to state in that session that I believed that costs of employment, such as pension contribution and national insurance were excluded from NHS pay rates in that comparison but that this did not lead to the full "three times" factor quoted by Mr Harvie. I also stated that an hourly rate charged by any tradesman for a service, even in a domestic environment, will be significantly different to the hourly rate that might be seen on a payslip but would provide further information to the Committee.

The factor of three difference quoted by Mr Harvie compared the starting hourly wage for a tradesperson directly employed in the NHS and the hourly rate used to build up a price for a service delivered by a company on a one-off or occasional basis. The hourly all-in cost for a service has to include both cost of employment such as pensions and national insurance, and also all the overhead costs of that large or small business such as training, health and safety, sickness and holiday absence, utilisation factors, management, supervision, processing quotes, billing and trade consumables. These hourly all-in rates used by a contractor to price minor works under hub contracts are broadly consistent with other similar contracts and with those in other contracts which are not PPP. The NHS body concerned has said that the contract rates are competitive.

Notwithstanding this, SFT recognised that additional safeguards and flexibility for public Authorities could improve value for money compared to historic contracts of this nature and introduced a range of further protections:

- If the contractor has suitable resources on-site already carrying out its general responsibilities, it is not allowed to separately charge for the labour associated with carrying out low-value changes such as moving a socket, or putting up hooks / shelves where the work has a cost of up to £5,000. This is to ensure that low-cost requirements for changes which should reasonably be included as part of a general construction and facilities management service are not charged for as extras;

¹ Official Report Column 31

- The SFT standard contract also allows for the public Authority to undertake many small works and service changes themselves if that represents value for money and they can undertake the work to the standard which would have been applied to the contractor. This allows Authorities to choose to self-deliver a range of small works where it is practical and efficient to do so;
- A catalogue of capped prices for common tasks has been introduced. This may be used by an Authority to give certainty of a maximum cost up-front and allow clearer scrutiny of the all-in cost for change requirements which it may perceive as being likely during the project life; and
- Areas which have proved especially difficult in the past such as internal decoration, where building occupiers have for example complained that restrictive contracts prevented straightforward activities such as displaying things on walls, have also been changed. Under SFT's contract, Authorities may take responsibility for both internal decoration and replacement of floor coverings themselves over the life of the contract if they see better value for money and flexibility in doing so.

In achieving value for money across public sector contracts, much will always depend on active contract management by the public sector. As mentioned to the Committee we have an operational PPP team working with public bodies across Scotland reviewing existing contract management and contract performance in a number of PPP and PFI contracts. We see this as an area of continuing work as we develop our business plan for 2017-18.

In summary, a comparison between the hourly salary cost of an employee and the all-in hourly cost used by an employer to price a job is always going to show a significant difference. Furthermore, SFT has made significant changes to standard contracting arrangements which introduce a range of further safeguards to protect value for money and improve flexibility in these long-term contracts.

I trust that this response assists the Committee in its scrutiny work and would be happy to provide further information if that would be useful.

Yours sincerely

Barry White
Chief Executive