

BUILDING MATERIAL SUCCESS

Using partnering in building materials supply and management to drive efficiency, transform services and increase customer satisfaction in local government and social housing across the UK.

October 2017





Saint-Gobain are pleased to support delivery of this paper on behalf of the building materials sector. We believe it provides councils, registered social landlords and advisers with a deeper understanding of the issues, leading-edge thinking on solutions, and steps to ensure the practical application of robust models in different contexts across the UK.

This report can be found online at:
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1. Introduction

Public services across the UK are facing a number of unprecedented challenges in terms of demand, available capacity and pressure on resources. Responses vary, with each service having its own dynamic and history, and the policy context within which it operates evolving in different ways across the UK.

Grasping opportunities to improve performance, productivity, and overall cost-effectiveness across services is essential. This delivers efficiencies in its own right, and helps to improve both services and the experiences of customers and citizens.

This paper supports the notion of genuine partnership working in building materials supply and distribution in public services, and the positive impact it has on both service and asset management. It focuses particularly on responsive repairs, maintenance and planned improvement activity, although many of the messages will have a resonance in new build construction.

It is aimed at property, procurement and finance managers in the local government and social housing sectors. It will also be of interest to those service providers involved in both construction and maintenance, and advisers looking to inform public service organisations about improvement, value for money and effective partnership working.

The content has been generated through a desk-based review of literature around context, drivers and emerging models. This has been supplemented through extensive interviews with key players from across the UK local government and social housing sectors, including local authorities and registered social landlords (RSLs), sector umbrella bodies, professional advisors, service providers, and materials suppliers. Together, this aims to provide an independent and authoritative view as to developments in the sector, and an understanding of where key opportunities for further improvement may lie.

Success in building materials management will make a tangible difference in terms of both impact and efficiency, delivering measurable benefits to commissioners and customers alike. These range from improving the affordability of capital build projects and planned maintenance programmes - allowing commissioners to deliver more for the same or the same for less - to reducing reactive maintenance costs through reduced overheads, improved logistics, better supply chain management, less time spent on site, and product innovation.

The paper highlights practices that can be adapted for application across the UK, and its purpose is to:

- raise awareness of both service and commercial developments in building materials management, supply and distribution which can be applied in all geographies.
- highlight how these can deliver savings (in whole service costs), support improvements in customer/tenant service, and increase social value.
- indicate how councils and RSLs can engage with materials providers to realise these benefits.
- introduce new ways of working that deliver positive impact on commissioners' built environment and wider comfort and wellbeing ambitions.
- support the work of public services in maximising operational excellence and customer service.

The paper summarises the key messages arising from the literature and sector consultation. It also provides checklists for managers to consider what they can do to grasp highlighted opportunities or avoid pitfalls. These provide readers with a whistle-stop tour of the main points in the paper.

The proposals and recommendations are comprehensive in focus. They can be applied across the UK in the local government and housing sectors, delivering benefits to commissioners both large and small in urban and rural areas.

2. Key messages - Executive Summary

There are a number of complex policy, financial, demand and organisational factors influencing the management and delivery of public services. These all effect the decisions made by councils and RSLs in determining appropriate partnering arrangements for building materials. In this context:

- Different organisations are responding in different ways to current and foreseen challenges but collaboration as a tactic offers a breadth of opportunities to support transformation and reduce cost.
- The policy context across the UK is encouraging of early engagement around partnership. Collaboration remains an attractive and valuable option.
- More strategic and more outcome-based commissioning is a positive step forward, but the complexities of different projects and partnering dynamics make it one option rather than the rule.
- There are plenty of examples of successful collaborations and partnerships within and between different sectors. This should be seen as a positive step forward to introduce innovation, improve service and reduce costs.
- Organisations can work together to develop innovative new ways to better understand and manage whole life costs for goods and services, including the scope for new arrangements to support transformation on their own organisation
- There remains an opportunity for organisations to review their service and partnering approaches to building materials management, supply and distribution. This can help to maximise costeffectiveness, improve services, enhance the built environment and increase social value and wellbeing.
- Approaches to risk and liability transfer are being reviewed by many commissioners, with a growing recognition that these best lie with the organisation best placed to manage them, as well as an acknowledgement that wholesale transfer can sometimes be impractical and expensive.

There are a number of service models that can be used to access the benefits of a modern approach to building material management, supply and distribution. Key considerations include:

- The constraints and opportunities associated with the different arrangements that councils and RSLs have in place for construction, planned maintenance and responsive maintenance. Councils and RSLs should be aware of the opportunities associated with a coherent approach across these activities.

Service models have evolved significantly across the local government and social housing sectors over the last 20 years, with significant opportunities for councils and RSLs to reduce their whole service costs - assets, fleet and people - through collaboration with other organisations. These service changes dwarf scope to reduce building materials costs.

- Early engagement with materials providers can help to design out costs in new build and planned maintenance programmes, allowing councils and RSLs to deliver more for the same, or the same for less and create improved buildings and environments as part of the process.
- Materials providers can also remove or reduce overheads and direct costs, and improve cost certainty, through a range of techniques including asset sharing, more streamlined distribution, product innovation, and branded items.
- Significant developments have taken place in Logistics, Technology and Digital Services which have led to significant change in the way building materials management and services are planned and delivered.
- Partnering with the right building materials provider - or working jointly with other public services to access established relationships - provides access to innovation in all three areas without the need for significant financial investment.
- Attention will however be needed to managing the actual and perceived change associated with a move to any new arrangements.

In developing the right commercial partnerships, it is important to consider:

- Collaboration and commercial partnering is widespread in the building materials management, supply and distribution sector. Traditional models focused solely on materials supply; this has evolved to include management and distribution to reflect the scale of benefit that can be delivered to councils and RSLs as a result.
- Partnerships can help to identify new ways of delivering outcomes, eliminate duplication, reduce whole life costs, improve customer service, deliver social value and support growth.
- It is important to be clear as to the purpose of the partnership, the role of the selected partner, the scope of services to be included, and the intended outcomes from the arrangement.
- Affordability and the potential for savings are inevitable considerations. It is important to think about scope to reduce the whole life costs of service rather than solely reduce the costs of individual materials and products. Early and informal engagement around potential at a point of strategic review - before any tendering commences - is crucial to help shape the focus of the commercial partnership.
- While cost is a key consideration, councils and RSLs should also explore the potential of commercial partners to deliver a step change in both organisational and societal objectives. The former may focus on service improvement, efficiency and cultural change; the latter on wider impact and social value.
- Commercial partners can deliver a step change in social value through a breadth of activities associated with apprenticeships, employment, learning, community benefits and environmental sustainability. Many have national and regional arrangements in place that can be accessed locally by their partners.
- To make partnerships work effectively it is crucial to have a clear mandate, understand mutual expectations, and apply pragmatism in pursuit of desired outcomes. The right balance needs to be reached between ensuring probity and stewardship through robust contract terms, while retaining flexibility to respond to change.
- Commercial partners should be allowed space and incentivised to deliver innovation and improvement, with appropriate sharing of risk/liability/reward. It is important to have commitment from both partners to support the investment of time and resources needed to deliver success.
- Expert advisers can help shape the focus and process of any procurement exercise undertaken by councils or RSLs. Many sector umbrella bodies provide similar advice and support. Consortia and frameworks can also be used to ensure procurement is robust, effective and affordable.
- TUPE will apply when 'undertakings' associated with materials management, supply and distribution transfer from one organisation to another.
This protects the terms and conditions of transferring staff.
- Continuing changes in pension rules aim to make it more straightforward for commercial partners to manage pension liabilities associated with the transfer. This remains a complex area but can be managed through early dialogue with potential providers..

The paper concludes that:

- Grasping opportunities to improve performance, productivity, and overall cost-effectiveness, through effective building materials supply, management and distribution is essential.
- Genuine partnership working in building materials management, supply and distribution can have a significant positive impact on services, assets and communities, delivering measurable benefits to commissioners and customers alike.
- Partnering with building materials providers can access innovation in Logistics, Technology, and Digital Services that may be difficult for each council or RSL to progress in their own right.

- Councils and RSLs should explore options through early and informal discussions with a breadth of service and material providers, seeking a bespoke and fit for purpose solution that is relevant to their local circumstances.
- Larger materials providers have expertise in delivering approaches across the UK and beyond, so engaging with them as to how they can meet your needs while supporting your local business networks is an opportunity not to be missed.

3. Challenges and opportunities

This chapter highlights a number of important contextual developments in the local government and social housing sectors. These are grouped under:

- developments in the context within which councils and RSLs are commissioning.
- evolving commissioning and procurement practices.
- more specific developments in building materials partnering and service models.

Key messages from the desktop review

- The policy context within which councils and RSLs are operating varies across the UK, as does the chosen response of each council and RSL in its own area.
- Growing the availability of environmentally sustainable affordable housing is a common theme, as is responding to a desire to support older people to live more independently as part of a wider drive for community health and wellbeing.
- Many councils and RSLs are on the front foot in responding to changing policy drivers and are clear as to how they intend to move forward.
- Financial pressures - both revenue and capital - are a common consideration across the board. This goes beyond simple availability of funds. Councils and RSLs are used to having to manage demand for services, but an ageing population and often deteriorating property asset base is creating particular challenges in many areas.
- Partnering with public, private, charitable and social enterprise organisations is common, although the nature and extent of this partnership varies from one organisation to another
- Close working with the private sector is particularly prevalent in new build construction and planned maintenance activities, with a varying mix of direct in-house delivery and outsourcing in responsive repairs, maintenance and improvements.
- Commissioning practices are evolving, with more collaborative commissioning (through frameworks and consortia) and more outcome-focused commissioning (focusing on deliverables and their impact) in many areas. Social Value is now a key component in any decision. Procurement is formal, with the associated bureaucracy impacting on both commissioners and providers.

Developments in the context within which councils and RSLs are commissioning

The demands and expectations on councils and RSLs are multi-faceted and dynamic.

Furthermore, they vary from geography to geography across the UK, and impact differently on organisations depending on location, scale, focus, policy priorities and service delivery preferences. They include responding to policy, political or legislative change, financial pressures, socio-demographic trends, social value expectations, or opportunities associated with technology and digital communications.

Further challenges arise from:

- increasing customer and stakeholder expectations.
- growing demand for many services.
- the paradox of having less money but more cost.
- increased external scrutiny of the process and the outcomes.

Key messages from the market engagement

- The policy context is one important factor shaping the response of each council and RSL, but respondents indicated that there are further considerations around local political priorities, socio-demography, community wellbeing, service performance and organisational change that are equally important.
- Social housing policy objectives in England are seen by a number of respondents as disincentivising councils and RSLs from developing further affordable housing for social rent compared to other parts of the UK. Some English councils and RSLs are developing housing for sale or market rent as part of their commercial response (although similar arrangements are being explored in other parts of the UK too).
- While the financial context is clearly important, respondents indicated that specific challenges vary between different councils and RSLs (even in the same geography) associated with their particular localities, relationships, asset base and organisational dynamic.
- Respondents indicated that public/public partnership is now very much the standard model across the UK, with councils in particular working strategically and tactically with partners to identify and deliver for the communities they serve. RSLs are often included in these discussions, in particular around the strategic housing plan and in joined-up responses to community wellbeing.
- Public/private partnerships appear to be widespread in new build and planned maintenance, while outsourcing of responsive repairs is common in England (and for smaller RSLs across the UK). Some respondents saw real cost-efficiency in outsourced delivery, others felt that inhouse delivery offered value for money and sat more comfortably with local political preferences.
- Respondents indicated that individual procurement exercises were often more strategic in their focus than they had been previously. Many pointed to benefits of early engagement with the market as part of this process. The delivery of savings through procurement was of particular significance at the current time, though positive impact on communities and strong service performance were key quality criteria.

Resources

The financial pressures associated facing public bodies are well documented. While their impact varies from one organisation to the next, they include direct pressures on revenue spend and capital investment, as well as a reduced ability to maintain assets (and asset value) and other elements of physical infrastructure that inevitably deteriorate over time. Often, associated liabilities and costs increase in parallel with a shortage of available funds.

Policy context

The policy context varies by sector and by geography. Across the UK, there has been an increase in devolved settlements for cities and regions, giving groups of councils (and their public service partners) greater control over a breadth of public service solutions. In many areas this is being matched by greater local control over business rates and reductions in constraints on the levels of Council Tax being levied.

'An extra £1.4bn spend on new affordable housing is also a welcome addition to the current fiscal housing package'
SOLACE, Response to the Autumn Statement, 2016

Much of this additional revenue is being absorbed into ring-fenced Education spend and growing demands for Social Care. Throughout the UK, projections of levels of demand for care - not just for older people - demonstrate that a growing proportion of public service spend will be diverted to caring for vulnerable people, many of whom are living with a breadth of complex conditions. Technology and building design are evolving with these needs in mind.

In social housing, there is a wider recognition of a shortage of affordable homes across the UK, with a particular challenge of dealing with a growing and increasingly diverse older population with a wide range of support needs. Improved energy efficiency remains a further objective, including greater use of renewable technologies to improve air quality and alleviate fuel poverty.

While this will see greater levels of investment in social housing in some parts of the UK, in others (most notably England) year on year reductions in social rent levels until 2020 (introduced by the Treasury in 2016) has meant many RSLs are looking at alternatives to new social housing development. A number are looking to develop new housing for sale or rent at full market rates (often as part of mixed tenure developments). This picture is being exacerbated by the roll out of Universal Credit, with many landlords (outside Scotland) concerned about their ability to access benefits paid directly to tenants, as well as the potential implications of caps in the local housing allowance.

While the picture varies across the UK, the number of new homes for social rent in England continues to decline as RSLs build fewer homes and acquire fewer properties. Furthermore, where in England the Government has extended the right to buy to those in housing association tenure, Scotland has removed this right, with Wales planning to do the same. The Northern Irish position is similar to that in England.

The reduction in relative and absolute levels of rental income will inevitably reduce the funds that social landlords in England - both councils and RSLs - have available to build new homes, leading to a potential cumulative reduction of between 14,000 and 27,000 social rented houses by 2020¹.

New build housing

In terms of new house building, between 160,000 and 173,000 new houses were started each year across the UK from 2013/14 to 2015/16. Social housing accounted for around 15% of the total (although both the actual number and relative proportion of overall new start social housing developments dropped slightly over the period).

Modest growth in new build social housing is projected in all UK regions between 2017 and 2021, with Scotland making the boldest commitments in terms of growth.

As a whole, the housing stock in the UK is amongst the oldest in the developed world. With 50% of homes over 50 years old and 20% are more than 100 years old, there is an urgent need to address energy efficiency. While the local authority and RSL stock is typically younger, similar energy efficiency challenges apply in many areas.

Under the Climate Change Act 2008, local authorities have a duty to reduce carbon

'Communities across Northern Ireland face the challenges of living in housing, and a wider environment, that does not always support their health and wellbeing as well as it might'

Northern Ireland Housing Executive, Annual Report and Corporate Strategy, 2016

'The government's ambition to solve the housing crisis will not be possible if an imbalance in housing funding continues'

Chartered Institute of Housing, Website news article, 3 March 2017

'The Government now, rightly, recognises that our housing market is broken, caused by decades of not building enough homes - acknowledging that this is one of the biggest barriers to progress that the country faces.'

National Housing Federation, Response to the Housing White Paper, 2017

'A step change in house building is critical to the health of the national economy and the quality of life and life chances of current and future generations'

Lyons Housing Commission, Final Report, 2016

'We will support consortia of councils to access significant development funds for housing through the creation of new partnership models'

LGA Business Plan 2016-17

¹ Office for Budget Responsibility and National Housing Federation

emissions. In this context, commissioners and providers are striving to make existing buildings safer, warmer, more energy efficient through a breadth of retrofit projects which offer particular solutions to the problem of an ageing housing stock. This takes place in the context of increasingly stringent building regulations associated with low and zero carbon buildings.

'Meeting the Scottish Government's target of 50,000 new affordable homes, of which 35,000 are to be for social rent, requires a substantial increase in any Council's new-build programme.'

COSLA Housing Conveners Event 2016

In 2015, the Government announced the withdrawal of the Code for Sustainable Homes. In its place, a number of changes to existing Building Regulations standards were introduced, along with new (optional) technical standards on Accessibility, Water, Waste, Security and Space. These are typically adopted by a local authority via its Local Plan². As such they are of major importance to both councils and RSLs, and those organisations wishing to work with them on construction and maintenance. Many smaller organisations - particularly SMEs - will struggle to meet the expectations without support from larger service or building materials providers.

Councils and RSLs are clearly ideally placed to help bridge the housing gap, and many are seeking new approaches to financing and supporting house building directly and in partnership with developers. This includes building homes for rent and sale through new and often joint delivery vehicles, motivated by the need to increase supply, close certain gaps in the market, and generate revenues for re-investment in other services.

Repairs, maintenance and improvement

Revenue spend on social housing maintenance across the UK has exceeded £2.5bn per annum in recent years³. In parallel with spend on more traditional repairs and maintenance, there has been significantly increased investment in smart technology for buildings management, energy efficiency, or telehealth and telecare. This is in part due to advancements in technology, but also a result of a growing focus on policy objectives associated with independent living, health and care integration, sustainability and fuel poverty.

'The on-going lack of council housing is generating significant problems in the housing market. ... the UK would greatly benefit from councils building more and better homes for social rent'

APSE and TCPA , Homes for all: Ensuring councils can deliver the homes we need, 2016

Responding to change

Responses to these challenges have varied, some organisation are retrenching, looking to retain and sometimes regain control over their activities and costs. Some are divesting themselves of responsibilities, seeking to pass services and projects to other organisations. Others are aggregating, where they increase control to create options for cost reduction or income generation.

Almost without exception is a recurring emphasis on partnership working and collaboration around outcomes. This ranges from structured relationships with other public service providers (through a range of broadly similar strategic partnering arrangements across the UK), through formal and informal agreements with the charitable and social enterprise sector, to a range of new service delivery arrangements aimed at improving commercial performance (from the establishment of local authority trading companies or wholly-owned RSL subsidiaries to joint venture or partnering arrangements with private providers). This has helped raise levels of commercial understanding and accountability in many commissioning councils and RSLs.

Evolving commissioning and procurement practices

The growth in partnership working has created an often complex and dynamic public commissioning/procurement environment for goods, works and services. Within local government and social housing this has led to a number of different arrangements around how commissioning is organised on the 'client side' of the transaction. More collaborative approaches include shared services commissioning/

² UK Green Building Council (2017), The Role Of Local Leadership In Creating Sustainable Homes

³ Beaver and Struthers, 2016 Annual Review of Social Housing

procurement exercises (often hosted by one organisation on behalf of a number) or the use of both commissioning framework agreements or formal purchasing consortia. Single agency approaches can range from direct commissioning/procurement of individual goods, works or services, through to more of a managed service approach where a lead or prime contractor/service provider manages a breadth of suppliers on behalf of the commissioning organisation.

It would be wrong to assume all organisations have responded in the same way. Some have decided not to outsource or collaborate on works and services, some have brought previously outsourced services back in-house, and others have either streamlined the breadth of services or shortened the length of contracts.

Generally speaking, the current financial environment in local government has created interest in new delivery models that support greater integration between councils and service providers (with an aim of further improving efficiency, and delivering both savings and and outcomes). Integration provides scope for improved alignment of the systems and processes that support partnership working. This in turn provides an opportunity to revisit building materials arrangements across the partnerships to ensure value for money is being maximised.

The issue of risk and liability management is particularly important, with indications that the use of outsourcing to facilitate the wholesale transfer of risks and liabilities are beginning to reverse in some circumstances. This reflects an improved understanding amongst commissioners of the realities of risk and liability transfer on both the likelihood of attracting bidders, and the impact on the submitted prices. It also reflects precedents of providers being unable to accept risks and liabilities in some instances, and the ultimate knock-on impact on the reputation, service and costs for the commissioners.

Building materials commissioning

Looking at building materials commissioning/procurement, two trends become apparent.

First, different categories of buildings-oriented works/services are often procured in distinctly different ways:

- New build construction activity will often be shaped by an architect, developer or contractor, with decisions about building materials (both the providers and materials themselves) made by that organisation - working within regulatory and building standards expectations - rather than the commissioner. The commissioner will clearly have a pivotal role in selecting partners, though less subsequent influence over their supply chain and their building materials arrangements.
- Planned maintenance work will often be progressed using a similar approach, with types and volumes of building materials planned and sourced in advance as part of the process. Commissioners tend to either use frameworks or purchasing consortia to procure the materials for planned works, or alternatively they outsource the materials to a contractor or service provider who carries out the work.
- Responsive or reactive repairs, however, tend to be different with commissioners having to respond to a breadth of wide reaching and relatively low value activities. Customer service and speed of delivery are especially important for responsive maintenance, with most service requests being generated directly by tenants and customers (rather than part of a scheduled programme of work generated by the commissioner). In these instances - unless responsive maintenance has been outsourced - the commissioner is more likely to have direct relationship with a building materials provider.

Second, it is increasingly common from the market engagement for commissioners/procurers to use one of three mechanisms to deliver economies of scale:

- through their membership of a formal purchasing consortium - often a regional or national entity - whereby agreed categories of goods and other activities are sourced using pre-agreed or tendered contracts with suppliers

- through involvement in one or more framework agreements operated by a breadth of different commissioning bodies, providing access to a list of agreed suppliers who themselves have gone through a competitive qualification exercise
- through the outsourcing of responsibility for accessing goods and services to a prime contractor or service provider, who is then able to access these through their own established supply chain of providers as part of a managed service model.

It is important for commissioners to understand the potential of effective building materials supply and management in each instance, and look at a solution that maximises the benefits to them in terms of overall cost-effectiveness, as well as its impact on their built environment and wider social value objectives. Many of the collaborative arrangements favour larger providers, placing an onus on local commissioners to ensure smaller or local providers (typically SMEs) are protected through subsequent supply chain arrangements.

Equally, there is an onus on material providers to explore scope for a single point of contact relationship with councils and RSLs on all categories of works. This would allow partnering details and desired benefits to be scoped at the outset between both parties, with valued building materials relationships novating into subsequent wider service delivery arrangements.

Most smaller community-based RSLs will outsource their building maintenance activities with a preference for local contractors given their strong community based ethos. On this basis, with a few exceptions, the community-based RSL sector may offer fairly limited opportunities for public/private partnerships on building material supply.

Important messages

- There are a breadth of complex policy, financial, demand and organisational factors influencing the management and delivery of public services
- There is no escaping that financial pressures have impacted, and continue to impact, on both councils and RSLs
- Different organisations are responding in different ways to current and foreseen challenges but collaboration as a tactic offers a breadth of opportunities to support transformation and reduce cost
- The policy context across the UK is encouraging of early engagement around partnership. Collaboration remains an attractive and valuable option
- More strategic and more outcome-based commissioning is a positive step forward, but the complexities of different projects and partnering dynamics make it one option rather than the rule
- There are plenty of examples of successful collaborations and partnerships within and between different sectors. This should be seen as a positive step forward to introduce innovation, improve service and reduce costs
- Organisations can work together to develop innovative new ways to better understand and manage whole life costs for goods and services, including the scope for new arrangements to support transformation on their own organisation
- There remains an opportunity for organisations to review their service and partnering approaches to building materials management, supply and distribution. This can help to maximise cost-effectiveness, improve services, enhance the built environment and increase social value and wellbeing
- Approaches to risk and liability transfer are being reviewed by many commissioners, with a growing recognition that these best lie with the organisation best placed to manage them, as well as an acknowledgement that wholesale transfer can sometimes be impractical and expensive.

Challenges and opportunities checklist

In thinking about how your organisation responds, have you:

1. identified the key challenges being faced in your organisation as it responds to changes in policy or the wider strategic context within which you operate?
2. set out particular objectives associated with housing - particularly social housing - with an understanding of the desired arrangements for new build, planned maintenance and responsive maintenance in moving forward?
3. considered the role that partners - public, private or third sector - might play in helping you respond to these challenges?
4. identified the tangible and measurable benefits that will be delivered through the partnership arrangements you have in place (both in terms of service outputs and wider built environment and community wellbeing outcomes)?
5. considered explicitly how your approach to building materials supply, management and distribution maximises opportunities for improved performance, productivity, costeffectiveness and wider impact?
6. thought about the impact of, and the opportunities associated with, the digital agenda?
7. engaged colleagues on both the commissioning and delivery sides of your current arrangements about how associated benefits may be realised?

Important things to avoid:

1. assuming that the context in which you operate is fundamentally different from that elsewhere
2. assuming that solutions in different geographies have limited relevance in your area
3. assuming you need to be certain as to your needs before engaging informally with potential partners
4. assuming that the simplest option is the best one
5. assuming that the financial context inhibits the opportunity to change.

4. Selecting the right service model

It is important to consider both the service model and the partnering model when selecting the most appropriate arrangements for building materials management, supply and distribution. This chapter focuses on the service models. The following chapter considers the partnering approaches available.

The chapter talks about both 'service providers' and 'materials providers'. The former relates primarily to the organisation undertaking the construction or maintenance service on behalf of the council or RSL. The latter refers to the organisation providing the building materials. Increasingly, materials providers are now providing a suite of services associated with materials management, supply and distribution - rather than simply supplying the materials.

Key messages from the desktop review

- Building materials purchasing in local government and social housing is typically undertaken through regional purchasing consortia, framework agreements, or through appointed construction or maintenance service providers. Stores management and distribution is increasingly undertaken by building materials providers working directly to the council or RSL, or to their appointed maintenance providers
- There have been significant advances in storage and distribution practices in recent years supported by innovations in technology and digital communications. This has changed the way services are delivered, materials and costs are managed, and information is used to improve certainty, efficiency and effectiveness
- Technological innovation and digital communications will act as multipliers in terms of the innovation that materials suppliers will be able to provide to councils, RSLs and other customers moving forward. These will be hard to grasp through more traditional in-house arrangements
- The new models/practices have reduced the need for many councils and RSLs to retain assets, overheads and staff costs that were necessary when undertaking stores management and distribution in-house. This has reduced whole service costs way beyond any reductions in materials costs. Further savings have been generated through reduced maintenance time on site (through better products and distribution practices), increased productivity, and improved asset, fleet and plant utilisation
- In terms of service enhancement, product availability and on-time delivery (through effective sourcing and distribution) are crucial. Improved fitness for purpose, appearance and product resilience are further considerations, improving customer satisfaction and reducing product failure
- New service models provide a lever for driving wider transformation of council and RSLs delivery arrangements (in terms of assets, people and technology). The challenge of change is not insignificant and demands clarity of message around the benefits of new ways of working.

Developments in service models

A number of things have changed in the management, supply and distribution of building materials in recent years. In the early 1990s, many councils and larger RSLs retained their own purchasing teams, in-house stores and distribution fleet. Where services were outsourced, this activity was often undertaken by the appointed service provider.

Smaller RSLs often relied on direct relationships with materials providers (where they had their own in house building maintenance capability) or used a breadth of local service providers to deliver these services (who in turn used local materials providers to provide products).

'We've always left decisions about building materials selection to our maintenance provider. They know what's available and can access the best deals through the relationships they have.'
National RSL, 2016

Key messages from the market engagement

- Responses indicate that most councils and RSLs are now making use of either (or both) regional consortia or established framework agreements to purchase goods and services. Appointed construction or maintenance providers will often lead on building materials purchasing where partnering with the private sector is the chosen route. In-house teams typically have established relationships with a building materials provider for both stores and distribution
- Virtually all respondents indicated that such collaborative procurement arrangements would endure moving forward, partly as a result of the potential for bulk discounts, partly due to local political commitments, but largely due to the reduced client-side costs of using an established arrangement. One respondent did feel that collaborative procurement favoured the larger national/regional players and that it was crucial that local SMEs were protected through the detail of any subsequently procured contract
- In terms of building materials, respondents had different levels of direct engagement with materials providers. In the main, new build and planned maintenance work was undertaken by a construction or service delivery partner, and they then liaise directly with the materials provider. The picture was similar where responsive maintenance was outsourced, although in-house teams tended to establish their own direct relationships with building materials providers. Many respondents saw benefits in a more joined up approach across all three categories of work, although a similar number felt existing commitments may make this difficult in practice
- Where partnering with a building materials provider has taken place, respondents indicated that there had been some difficult discussions with staff and trades unions around the impact of change. Typically the number of staff affected was relatively small (compared to a major service outsourcing) and arrangements had been agreed to either redeploy or TUPE staff. Where TUPE occurred, the successful provider had typically been given 'admitted body' status to the relevant pension scheme
- Where building materials activities had been transferred to a partner, respondents pointed to the opportunity to reduce operating costs as the major driver. Additional reference was also made to the improvements in management information, distribution and cost-effectiveness under the new arrangements
- Most respondents indicated that they had realised the initial financial benefits through a transfer, and were satisfied with the new arrangements in terms of responsiveness and reliability. This had helped enhance productivity and utilisation, and improve customer service. One respondent did indicate that they were still waiting to see some of the innovation and social value benefits of the new arrangement, while another felt that an element of silo working remained on the provider side associated with different product/material categories.

Generally speaking, these models have evolved in the intervening period, with purchasing typically done through regional consortia, frameworks or directly by (external) service providers, and supply, stores management and distribution undertaken by materials providers (working directly to the commissioner or their appointed service providers).

This has helped release efficiencies in the materials delivery chain. 'Click and collect' models have been adopted from the retail sector, and a principle of only paying for materials as they are used has become widespread.

As importantly though, the new models have reduced the need for many commissioners to retain assets, overheads and staff costs that were necessary to support the old arrangements. Storage facilities, store management and fleet costs for example have been reduced as these activities have been passed to service and materials providers. This allows commissioners' whole service costs to be significantly reduced, dwarfing any reductions generated through unit cost reductions in particular products.

'All of these developments drive change - we're increasingly looking at collaborative opportunities through the use of frameworks and hubs'.

Scottish Unitary Council, 2016

Sharing assets and overheads is a common way for materials providers to reduce costs to their customers. There are a number of accommodation options for stores: it could be in a standalone site procured by the materials provider; it could be in the customer's site; or it could be in one of the existing trading branches if space was available or the business case for investment in extra space stacks up.

In a number of instances Saint Gobain have brought other customers, service or retail organisations into the one store, diluting the cost of the store asset and other overheads and allowing them to reduce prices to their main customers. Clearly to work the additional organisation and their customers must also benefit from improved prices and improved service. In York, Saint Gobain supply both the University of York and City of York Council from the original City of York Council store. This allowed both parties to access savings generated through the dilution/sharing of overheads, leading to a double-digit reduction in costs as well as giving both access to additional resilience, expertise and products.

Early engagement between commissioners and materials providers around service and materials needs has been central to these evolving arrangements. Some councils and RSLs have gone a step further and given materials providers responsibility for all elements of materials management, supply and distribution.

A small number allow the materials providers to specify the specific products (within agreed parameters) or engage the materials provider in construction or planned maintenance programme planning to help design materials costs out ahead of the the programme being finalised. This allows the council or RSL to reduce programme costs, or deliver more within the same budget.

Three recurring themes are being adopted to underpin new service models:

1. Logistics - introducing new service models that reduce costs and improve service through enhanced asset, fleet and plant/tool utilisation, improved productivity, economies in materials storage, and streamlined distribution
2. Technology - allowing robust materials and cost management, more comprehensive asset management, better business intelligence, lower 'cost to serve', and more effective service delivery
3. Digital services - using data to better articulate and respond to identified need, drive efficiency and create product consolidation opportunities (further reducing costs to customers through improved tracking, control, rationalisation, cost reduction, standardisation).

In each instance, councils and RSLs can look at collaboration with service providers and materials providers as a mechanism for accessing the benefits associated with these new approaches, rather than seeking the investment necessary to implement them themselves.

Logistics

There have been a number of important developments in logistics over the past 40 years:

- in the 1970s, suppliers typically distributed direct to shops
- in the 1980s, centralised distribution centres grew
- in the 1990s, an increasingly global market saw the introduction of retail import and distribution centres
- from 2000 saw the development and growth of e-commerce with the introduction of e-fulfilment centres, parcel hubs, sorting centres and distribution centres direct to the consumer or for collection from stores and other outlets.

'It makes sense for us to let the materials providers identify and propose innovation in different products. They have a better understanding of the breadth of products that are available and the benefits they can bring.'
English regional RSL, 2016

'In terms of capacity, we've lost a lot of experience through cuts, and we're not replacing people as they retire.'
Welsh County Council, 2016

The pace of change and innovation in recent years has been significant. Improvements in digital information and technology are creating a multiplier effect, seeing the scale of innovation increasing exponentially as a result.

Such developments - many of which emerged from within the retail sector - have led to increased customer expectations in terms of faster (within the same-day) and individually tailored delivery in public services. Materials providers have responded with a breadth of service and product innovations that seek to meet these expectations. Service innovations include:

- 'Click and collect' arrangements to simplify purchasing
- A delivered service seeking to minimise customer collections from the store
- Van stock stores whereby the council or RSL fleet is stocked with appropriate items linked to patterns of usage and scheduled works
- The provision of a comprehensive suite of materials and products under one roof
- Joint training and awareness raising around workforce behaviours resulting in improved product rationalisation and workforce productivity.

Other service innovations from material providers are more tactical. They are often based on a rationalisation of either the product range (to stop unnecessary spend) or of the supply chain (to remove unnecessary costs).

In the former, branded product ranges that cover a whole range of widely used items in repairs (tools and consumable items) can improve price certainty as well as reducing product costs. These typically offer a high quality range of items at more affordable prices than leading brand alternatives. In addition to being less expensive to produce (and purchase) in themselves, the use of branded products can allow materials providers to streamline their supplier lists and pass on value directly to their customers.

In the latter, accessing materials from the material provider rather than the original manufacturer can also reduce cost and improve service. In such instances, materials providers play a broker or consolidator role with original manufacturers, identifying solutions through surveys, negotiating bulk discounts and allowing full palette delivery of kitchens or bathrooms to sites. This helps to ensure orders are fulfilled and checked in a comprehensive manner, supporting on-site trade alignment and associated productivity of maintenance staff. In other instances, material providers can help reduce and simplify product lists for councils and RSLs, reducing costs and increasing cost controls while still ensuring that the vast majority of products are always available in the branch or for timely distribution.

Technology

Technology can play a key role in improving both customer service (through improved communications and interaction) and overall service management (through improved business intelligence). Technology is pervasive in building materials management, ranging from processing and tracking transactions to planning, scheduling and managing. It enables a truly integrated, visible and efficient response for end customers, commissioners, materials providers and suppliers.

Developments in service management technology include:

- **Transaction processing** - resulting in a reduction of manual work and costs, improvement of information quality, speeding up of information transfer, and better management of large volumes of transactions
- **Supply chain planning and collaboration** - information is used for processes such as demand forecasting, production and distribution planning, procurement, sales and operations planning (S&OP), as well as Vendor-managed inventory (VMI) and Collaborative Planning, Forecasting and Replenishment (CPFR) initiatives
- **Order tracking and delivery coordination** - for tracking the progress of orders or deliveries or in providing this information to customers and other interested parties.
- **Supply chain analytics** - providing all members of a supply chain with improved data accuracy, clarity and insights, which can lead to improvements in customer service and overall efficiency.

Similarly, operational technology is increasingly used in areas such as:

- **Distribution and fulfilment operations** - automated equipment ranging from forklift trucks and carousels to Kiva robots move material quickly and efficiently through a facility, and other tools such as bar code scanning and radio frequency identification (RFID) improve not only increase speed of processing but also accuracy
- **Transportation** - GPS and telematics are used to improve the efficiency of delivery of product on traditional vehicles. More modern potential forms of delivery, such as air and land-based drones - also seek to optimise delivery routes and make it easier to meet promised time slots to customers
- **Plant and equipment** - technology that supports equipment testing, recording, administration, re-ordering, PAC test compliance and checking.

There is also the emerging use of social media to communicate with customers, respond to questions, report accidents or weather conditions that may impede delivery schedules, and create automated updates of inventory, which is especially useful in today's omni-channel marketing and distribution environment.

In the building materials sector, technology systems have become instrumental in controlling daily operations. Technology, such as those that track goods accurately, makes it easier to implement inputs like GPS and bar codes and help organisations save both money and time. With new technologies, like GPS mapping software, it enables materials providers to deliver stock to tight deadlines, thus improving customer service. In parallel, the implementation of proper warehouse management solutions will ensure that the stock is efficiently stored once it arrives.

'It would have been hard for us to justify a significant in-house investment in new stores and distribution technology in the current financial climate. Partnering with a materials provider allowed us to access all of required technology and the service management benefits it can bring. These were on top of the cost reductions we made from moving away from direct delivery'
Unitary Council, 2016

Emerging technologies

Emerging innovation is likely to accelerate the benefits available to councils and RSLs moving forward. Technologies to watch include:

- 3D printing - the ability to print exact working replicas of parts and products using metals, plastic and composite materials
- Communications - allowing devices to communicate with each other within an existing internet infrastructure without human intervention. Its application in the future of logistics is expected to increase speed, decrease waste and reduce overall costs
- Drone Delivery - the use of drones to deliver products to customers
- Driverless Vehicles - Google's vision of driverless electric vehicles has had a lot of people predicting that the future belongs to self-driving vehicles. Its potential application in logistics may support significant reductions in operating costs once initial investment has been recouped.

Digital

Technology provides a sound basis for capturing and analysing data and transferring it into meaningful business intelligence. This provides a more rounded picture of both performance and opportunity, combining both external data from the market with internal data on operations and financial performance. By effectively interpreting this data commissioners, service providers and materials providers are better able to inform decisions and develop strategies for moving forward.

Common functions of business intelligence technologies are reporting, online analytical processing, analytics, data mining, process mining, complex event processing, business performance management, benchmarking, text mining, predictive analytics and prescriptive analytics.

The past couple of years has seen a shift towards data manipulation capabilities such as predictive analytics and real-time event processing. These processes have helped organisations turn large-scale

data into a unique asset capable of boosting efficiency in areas of their business. This has included planning, risk evaluation, resilience planning, real-time route optimisation and crowd-sourced pickup and delivery operations⁴.

Value-adding approaches include:

- **Digital communications** - for photographing, tracking, cataloguing, ordering and checking order fulfilment and job completion
- **Data Warehousing** - for reporting and data analysis and useful for providing a single source overview of an organisation
- **Dashboards** - an informative, easily readable, usually one page, real-time (can be accessed via the web and linked to a database) user interface that shows a visual representation of performance data using graphs and charts.
- **Ad Hoc Reporting** - a report or model that is produced for the purpose of answering a specific 'as requested' business question or to aid the making of an important business decision
- **Data Discovery** - essentially a pattern finding tool where software can analyse a large amount of data to locate information from that set and extract previously unfound patterns, outliers, associations, and correlations.
- **Cloud Data Services** - Most organisations are now using some form of cloud base service due to the new efficiency and capabilities they can offer. Using cloud data services allows unrestricted, quick and secure access to IT resources, data storage, customer relationship management, enterprise resource planning, and marketing automation from anywhere.

The ability to collect and analyse large volumes of data in economic transactions has revolutionised customer care in the retail and finance sectors. In the building materials sector, 'Big Data' will similarly accelerate the integration of management, supply and distribution leading to better forecasting and performance management.

Moving forward

There are a number of key issues to recognise in embracing a more modern and cost-effective service model.

Finance

From a purely financial perspective, 'whole service costing' is a critical consideration in construction, planned maintenance and responsive maintenance. Traditionally, decisions about which relationship to pursue were often made largely on the basis

of individual product prices. However, this failed to acknowledge scope to remove more significant 'client-side' costs - property, fleet, unused stock, and both management and staff costs - through a move to a more comprehensive partnership around materials management, supply and distribution. It also 'commoditised' materials/products, masked hidden costs, and dis-incentivised both service and product innovation.

Cost certainty is a further important consideration. This goes beyond the relative costs of individual products and materials. Rather, it looks at creating greater service-wide budget certainty for councils and RSLs at a time of particular financial pressure.

Once again, early engagement with materials providers can help to ensure that costs can be factored into construction or planned maintenance activities as highlighted earlier. It can also help reduce unnecessary spend on responsive maintenance through both product innovation and restricting spend on certain categories of products where better value alternatives are available.

Finally, looking to develop an agreed 'capped profit model' rather than a fixed price approach incentives both commissioners and materials providers to share risk and reward wherever possible.

'We like the idea of developing long term relationships that avoid commercial confrontation and unexpected price variations'.

English County Council, 2016

⁴ DHL Trend Radar 2014

Under such arrangements, commissioners have more of an open book approach to understanding the make-up of both the materials providers' costs and the costs of the required products and materials. This allows a more informed approach to agreeing refinements in service delivery arrangements or new product innovations, creating a far more dynamic and sustainable arrangement for both parties.

'Return on Sales' (ROS) models put a cap on the profit that the materials provider can earn, providing their customer with increased cost certainty. Any profits earned over and above the cap are returned. The process involves the customer provides a service specification and from this the provider calculates the operating costs and set the material prices at a level that will deliver the agreed profit level.

In the event that sales increase this allows the provider to reduce material prices and still reach the capped profit level. So if the ROS is 6% and the customer sales through the store are £1,000,000, then the profit is capped at £60,000. The £60,000 is the profit once the agreed operating costs (overheads, employment costs, transport, rent and rates, etc) have been recovered. The materials provider will agree the costs with the customer in advance and use this financial model to set prices. They then work together to 'sweat' the asset by trying to grow the sales, without growing the costs.

Customer service

From a customer service perspective, product availability and on-time delivery (through robust sourcing and distribution arrangements) are key requirements, particularly in the responsive repairs market where there is less certainty over the nature and timing of service demand. Equally, fitness for purpose, appearance, and product resilience are further considerations, improving customer satisfaction and reducing product failure (and associated costs) in the longer term.

Once again, service considerations go far beyond product price and suitability. Rather, the costs and reliability of storage and distribution can impact significantly on the ability to provide a good service within an agreed budget. Together, these can lever benefits beyond product price, retain customer choice and flexibility, ensure resilience, and protect local businesses/employment.

Options for councils and RSLs

There is no 'one size fits all' approach with the need for the market to offer flexible models for different geographies. What is key, is that commissioners throughout the UK both understand and have access to options which seek to provide access to the improvements in customer service, cost-efficiency and wider impact offered by evolving service models. In most instance, joint working with materials providers will be pivotal in providing access to these new arrangements, whether that be in the context of in-house service delivery, collaboration with other public services (who already have access to new arrangements), or partnering with external service providers.

Purchasing consortia and framework agreements undoubtedly offer some client side cost efficiencies to those participating councils and RSLs. These typically more than offset the 'membership' costs of using the consortia or framework channels. They may also sit with wider organisational commitments to using such collaborative arrangements (for either political, organisational or financial reasons).

Direct engagement - early and informal - with building materials providers is worth considering. While purchasing consortia and frameworks may seem to be a more deliverable and straightforward route, there can be a number of disadvantages. These include the development of a one-size fits all approach and a potential loss of local control. Both routes tend to favour larger players, potentially challenging the viability of many local suppliers. The trend for a smaller number of larger tenders (whether consortia-sponsored or framework based) inevitably increases commoditisation in the market.

'Decreasing impact/disruption associated with storing or distributing materials will be increasingly attractive.'
London Borough, 2016

'My Director of Finance would be down on me right away if we didn't use the purchasing consortia as our first port of call'
Scottish Unitary Council, 2016

Irrespective of the preferred arrangement, opportunities to work with materials providers to identify both core and add-on strands of their service models will influence where the balance of investment, risk and liability ideally lie.

Managing change to maximise benefit

Changing a model is never straightforward. There will be a range of real and perceived hurdles to clear in moving to any new ways of working. These are not insignificant and include:

- internal hurdles associated with a move to a new way of working. These comprise the psychological and social challenges linked to the understanding, attitude and behaviour of decision-makers or those most impacted by any change
- technical hurdles linked to established delivery arrangements, current contracts, established IT systems and other embedded practices on the ground
- commercial hurdles associated with the change, from the realities and perceptions of cost, risk, liability and reward linked to the move away from the current arrangements and the move to a new way of working
- procurement hurdles such as committed contracts, wider partnering commitments or protocols, the ability to access the capability to inform and deliver the right model. These may need to be revisited and renegotiated, with the associated legal considerations. Moving forward, it will be important to avoid rigidity, increasingly building the trust and flexibility needed for today's dynamic context.

In each instance, the challenge of the hurdles needs to be considered against the backdrop of the potential benefits in terms of investment, innovation, improved cost-effectiveness, enhanced customer service and the potential for greater impact on the built environment and wider wellbeing objectives.

As importantly though, change offers an opportunity for transformation; and this transformation in itself can be significant in supporting the commissioning organisation in realigning itself with its evolving context, or creating momentum for wider positive change.

This could work on a number of levels, and might include transforming:

- the customer experience in terms of reliability or other aspects of service quality
- the management and staffing arrangements (and related costs base)
- the store, depot or fleet base
- the use of technology or the rigour of management information/business intelligence
- service processes and workforce behaviours

'We've been through a major change. We were carrying too much stock, materials were out of date or unlikely to be used, and it was hard to see how it was all being managed. The new model was a huge cultural change and the first year was pretty challenging. we're getting there now though'
Unitary Council, 2016

'We need to be agile. Fortunately we've done a lot of work around scenario planning and contingency planning. This included the impact of leaving Europe, planning for multi-site developments, planning different house types and different tenure types in a breadth of geographies'
English Regional RSL, 2016

'Service delivery has traditionally been planned locally so there have been a large number of suppliers across the country. We're currently seeking to rationalise these and move to a more centralised approach. The cost and bureaucracy associated with compliance in the old model was huge'
National RSL, 2016

'There's currently a wholesale transformation going on. First, the service operating model is changing. We have less of an estate focus and a growing reliance on area teams supported with technology. This in turn has led to office rationalisation and the need for a whole new people strategy'
National RSL, 2016

Important messages

- Different service models can be put in place to access many of the benefits of a modern approach to building material management, supply and distribution
- There are constraints and opportunities associated with the different arrangements that councils and RSLs have in place for construction, planned maintenance and responsive maintenance. Councils and RSLs should be aware of the opportunities associated with a coherent approach across these activities
- Service models have evolved significantly across the local government and social housing sectors over the last 20 years, with significant opportunities for councils and RSLs to reduce their whole service costs - assets, fleet and people - through collaboration with other organisations. These service changes dwarf scope to reduce building materials costs
- Early engagement with materials providers can help to design out costs in new build and planned maintenance programmes, allowing councils and RSLs to deliver more for the same, or the same for less and create improved buildings and environments as part of the process
- Materials providers can also remove or reduce overheads and direct costs, and improve cost certainty, through a range of techniques including asset sharing, more streamlined distribution, product innovation, and branded items
- Significant developments have taken place in Logistics, Technology and Digital Services which have led to significant change in the way building materials management and services are planned and delivered
- Partnering with the right building materials provider - or working jointly with other public services to access established relationships - provides access to innovation in all three areas without the need for significant financial investment
- Attention will however be needed to managing the actual and perceived change associated with a move to any new arrangements.

Service model checklist

In thinking about how your organisation responds, have you:

1. assessed how developments in logistics, technology and digital communications are reflected in your current maintenance service delivery arrangements?
2. established a coherent approach to commissioning across your direct procurement, use of consortia, and use of frameworks that reduce duplication, bureaucracy and procurement costs?
3. considered the extent to which your current procurement arrangements are fully grasping advances in storage and distribution practices in particular?
4. identified the different building materials arrangements that are in place for different categories of new build, planned and responsive maintenance work?
5. assessed how materials supply, management and distribution are now being delivered, including how materials and costs are managed, and information is being used to improve certainty, efficiency and effectiveness?
6. explored whether new materials management and delivery models/practices could reduce the need to retain assets, overheads and staff costs (that may be better reinvested elsewhere) or drive improvements in service productivity?
7. considered whether asking your buildings materials provider about vehicles, plants or tools could reduce your capital or revenue costs?
8. thought about the administrative burden of perpetuating the current arrangements and how changes could save times and reduce costs?
9. considered whether a different approach to building materials supply, management and delivery provide a lever for driving wider transformation in your organisation or your supply chain?
10. proposed a review of product selection, consolidation and management of the available product portfolio?

Important things to avoid:

1. assuming that influence over building materials supply, management and distribution is beyond your control or influence
2. assuming that building materials providers have a limited role to play in design or maintenance programme planning
3. assuming that the main financial opportunity is around reducing the cost of materials and products
4. assuming that current commitments inhibit your ability to discuss potential around different delivery models
5. assuming that technology is standing still and that limited opportunities arise to drive further improvements and efficiencies.

5. Creative opportunities for commercial partnership working

The previous chapter focused on developments in the service models being used for building materials management, supply and distribution. This chapter considers developments in commercial partnership working in the same area, as well as looking at how councils and RSLs might access the most commercially preferable and sustainable arrangements moving forward.

Councils and RSLs can expect a number of benefits to emerge from successful partnerships. These include the identification of new ways of delivering outcomes through collaboration; economies of scale and increased purchasing power; shared assets, premises, management and delivery teams; and the elimination of duplication of services and effort between agencies.

Key messages from the desktop review

- There is a growing trend for councils and RSLs to seek a full service partnership for building materials for responsive maintenance whereby the selected materials provider takes responsibility for all materials supply, management and distribution across the service portfolio. Similar arrangements may be in place between a materials provider and a construction contractor or planned maintenance provider (typically commissioned to work on behalf of the council or RSL)
- While affordability and price are clearly important, Social Value considerations have been of growing significance in the quality element of tender assessments since 2013 (when Social Value introduced in statute in England and Wales, and embraced more formally in similar requirements/practice in Scotland and Northern Ireland)
- Key Social Value considerations include creating local employment opportunities, supporting training, providing opportunities for excluded groups, minimising environmental impact, and working with local businesses (especially small to medium enterprises (SMEs))
- There are a number of key principles that underpin effective commercial partnership working. These emphasise certainty of purpose, clarity of roles and responsibilities, transparency, shared values, appropriate management of risk and reward, and flexibility to act within agreed parameters
- As procurement has become more complex, there is a tendency to make increasing use of specialist procurement advisers (often with a legal or commercial background). There are a breadth of specialist advisory firms able to provide this advice, as well as a set of umbrella or networking organisations in the local government and social housing markets. These organisations are often best used where a procurement is technically or commercially complex
- TUPE and pension considerations are particular issues which arise during service procurement exercises. Defined benefit schemes pension considerations can be onerous for prospective bidders (affecting their desire to bid and their quoted price), although these difficulties reduce significantly where successful bidders are allowed 'admitted body status' to commissioner's schemes, or where 'New Fair Deal' arrangements reduce much of the risk to those tendering for the work.

Key messages from the market engagement

- Where councils and RSLs engage directly with building materials providers, most respondents included materials purchasing, stores management and distribution in the scope of work. A small number had entered into a fuller managed service arrangement where the provider specified the most suitable products on behalf of the client. In some instances, the materials provider was invited to design sessions with the council or RSL to ensure that materials/product innovation could be built in to the programme/project finance projections for new build and planned maintenance works
- The vast majority of respondents emphasised affordability (ability to deliver savings) as the key factor affecting their procurement decisions. This assumed all quality requirements had been met

- A number of respondents indicated that where their relationship with materials suppliers was working well, they were very open to new ideas, approaches and products that would deliver further improvements or scope for savings. They were keen to grasp the specialist technical and service knowledge of their partner and allow them to propose new solutions. This flexibility went beyond any contractual commitments set out (and monitored through) the current contract. Where things weren't going so well, there was a greater tendency to fall back on the contract KPIs as a means of managing performance and improvement.
- In every instance, respondents indicated the increased importance of Social Value as an important consideration in informing procurement decisions (and monitoring subsequent contracts). Commitments were typically around apprenticeships, training, environmental quality and the use of local SMEs. A small number of respondents indicated that while Social Value remained an important criterion, its relative importance compared to price had slipped in the current climate. Others felt that more could be done to monitor impact, or bring further innovation and creativity to Social Value proposals
- Most respondents felt that approaches to sharing risk and reward, or transferring liability, had become better informed through experience. Some previous procurements had often been more focused on maximising risk and liability transfer to the private sector, but experience had highlighted the inability of some providers to manage this risk in practice (leading to price increases or contracts being handed back). They felt that this had led to a less forceful emphasis on risk transfer in some more recent exercises
- Some respondents indicated that an element of specialist procurement advice had been used to support tendering exercises. This was typically the case in more technically-challenging or commercially-complex tenders. In many instances, specialists had been available within the council or (larger) RSL. Suitable individuals were often more readily available to support work progressed through consortia or framework providers. In other instances a specialist consultant was appointed to support the exercise. The costs of this had to be considered against the anticipated benefits
- Council respondents indicated that successful providers typically achieve 'admitted body status' as a means of dealing with pension issues on service transfer. This was typically less of an issue for RSLs as services had seldom been delivered in-house and that neither TUPE nor pension transfer were therefore relevant considerations for them.

Scoping the desired service and associated outcomes

Commissioning success is clearly closely linked to all parties' understanding of:

1. the role of the selected partner
2. the scope of services
3. the intended outcomes from the partnership arrangement.

The role of the partner

Councils and RSLs typically engage service providers or materials providers in one of three capacities. The first is on a simple contractual agreement where the commissioner and partner will work collaboratively to deliver a service effectively and efficiently for an agreed period of time. The second is a managing agent model whereby the partner will have a more strategic involvement in accessing and managing a supply chain on behalf of the commissioning council or RSL. The third is on a simple call off type contract whereby council or RSL staff will use the materials provider's outlets to purchase goods (and either collect or have these delivered).

'We have large commercial ambition as a Council. We'll work with the right partners to help us deliver that ambition, but the days of wholesale outsourcing here are gone'
English County Council, 2016

'Commercial partnering used to be mainly about competition and price. There's now definitely a move to a more collaborative approach with scope for learning and ongoing improvement/efficiency'
Scottish Unitary Council, 2016

In the first two instances, the primary focus is typically on service quality, cost certainty, effective performance, efficiency, and improved value for money. There is often a secondary focus on innovation, improvement, cultural change and social value. The role of the partner is to bring expertise, capacity and innovation in managing the service and the supply chain, essentially delivering improvements in customer service, affordability and impact on behalf of the commissioning client.

In the third, the focus is typically on product price with an element of charges for other activities or services agreed on a contract by contract basis.

Either of the first two partnering models clearly demonstrate greater ability for councils and RSLs to harness the benefits introduced earlier than the solely product and materials based arrangements.

'It's no longer about the cost of materials ... we're expecting to pay 12-15% more for new build activity than we would have done a year ago due to market conditions and the value of the pound'
Regional RSL, 2016

Determining what's in scope

Once again, there are variations on what may be included in the scope of any partnership. From a service perspective this could range from input (expertise and capacity) into built environment or property asset design, materials specification, purchasing, management, storage, logistics, the provision of technology and digital platforms, and supply chain management. These service contributions can be accessed through a managing agent type approach, or through a full service partnership. There is also scope to introduce 'top up' arrangements to access particular expertise or additional resilience when needs be.

'The Procurement for Housing framework includes a full managed service from a material provider. This certainly seems to be a recurring direction of travel'
Scottish Unitary Council, 2016

Scope might also (ideally) include less activity-based service-specific contributions, including an element of initial investment, contributions in terms of asset and service improvement and efficiency, and wider social value impact through employment, learning and environmental sustainability objectives. In some instances it can include support for revenue generation by the council or RSL, or for growth of activities (from new assets to expanded services).

Impact as well as service

In each instance, commercial partnering is being used to lever investment, expertise and capacity to support an improvement in customer service or cost-effectiveness, or to provide momentum in a wider transformation in how councils or RSLs are working. This goes far beyond a simple economy or efficiency play associated with savings on materials purchasing. Indeed, any cost/benefit assessment might also consider the marketing and corporate social responsibility benefits levered through the partnership.

Increasingly, partnerships are also being used to help commissioners make a step change in terms of impact on wider objectives. In the building materials market, these may relate explicitly to the built environment within which individuals and communities live their daily lives. Materials innovation can bring improvements in the way in which individuals interact with space, and their perceptions of confidence and wellbeing. Energy efficiency, carbon reduction and environmental sustainability are other related benefits.

Impact need not be constrained to the built environment though. Many partners are now moving beyond what was traditionally referred to as corporate social responsibility to make meaningful contributions to social value and wider comfort and wellbeing objectives.

Social value

The Public Services (Social Value) Act was implemented in January 2013 in England and Wales. This Act is the most significant development towards embedding social value in procurement. For the first time, all public bodies in England and Wales are required to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of the area. Simply put,

what additional benefit does the community get from a commissioning/procurement process, over and above the direct purchasing of goods and services?

The Social Value Act does not apply in Scotland or Northern Ireland, although the Procurement Reform (Scotland) Act 2014 includes a very similar 'community benefit requirement' for all public contracts above £4m in value (and an assumption of a similar commitment to community benefit for contracts value below that). In Wales, the Social Value Act applies to Welsh bodies that are not solely or mainly under the jurisdiction of the Welsh Assembly Government but does not apply to those authorities whose functions are wholly or mainly Welsh devolved functions⁵.

Delivering value for money will always be the dominant factor driving all public sector procurement decisions. However, there is a growing understanding of how value for money is calculated, and that social and economic benefits can deliver longer term public service savings as well as being important objectives in their own right.

The Public Services (Social Value) Act is not prescriptive about social value but gives councils and RSLs the freedom to determine what kind of additional social or environmental value would best serve the needs of the local community as well as giving providers the opportunity to innovate. This can include:

- creating employment opportunities and recruiting from the local area
- supporting training, work experience placements and apprenticeships
- providing opportunities for young people, long term unemployed, ex-offenders and those from disadvantaged backgrounds
- minimising environmental impact
- working with local businesses, particularly small to medium enterprises (SMEs).

A 2014 survey of public services found that two thirds of respondents now consider social value across all the services they procure. This has increased further in the interim period. The survey also found that consideration of social value has led to a range of noticeable benefits for these contracting authorities, including better service delivery, innovation, external relationships and cost savings⁶.

It is clear that within the local government and social housing sectors that there is a desire to explore different ways to implement social value into the procurement process. Provider responses vary, but often include:⁷

- **Apprenticeships and Training** - creating apprenticeship or further development opportunities for members of the local community as core requirements of the contract
- **Shared Employment and Skills Programmes** - which can see commissioners and providers partnering with partners including employment agencies, further education colleges, public service providers, contractors and umbrella bodies. This can ensure that expertise is pooled and that the costs of delivering an apprenticeship scheme and skill requirements are shared (enabling more SMEs to participate and this create more training and apprenticeship opportunities
- **Community Interest models** - some councils and RSLs have established subsidiary community interest companies to complete project or deliver services. Operational surplus is used to generate a social dividend, which contributes towards a fund used for employment and community initiatives
- **Trading dividends** - a percentage of contract value is placed into a fund designed to deliver social value. The fund can be used by the procuring organisation or other groups in an area to provide a simple way of delivering social value, with a high level of control and flexibility around the types of interventions that are possible.

Saint Gobain are working with South Lanarkshire Council to design and deliver a programme of training and skills support for SMEs. These SMEs can then work on behalf of the Council and other providers as qualified installers. This ties into Saint Gobain's wider Entrepreneurship Foundation established to help support SMEs across the UK.

⁵ Social Value and Public Procurement: A Legal Guide

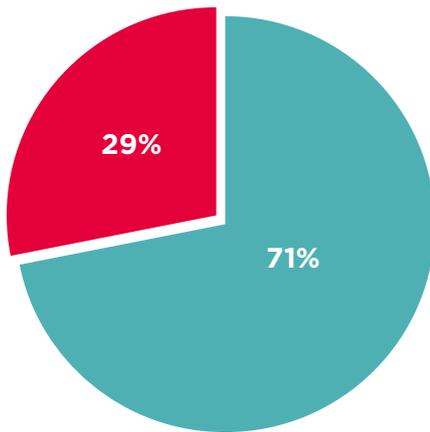
⁶ BSA Annual Report 2014 - The Social and Economic Value of the Outsourced and Business Services Sector

⁷ HACT 2015 Procurement and Social Value - A White Paper for Wandle

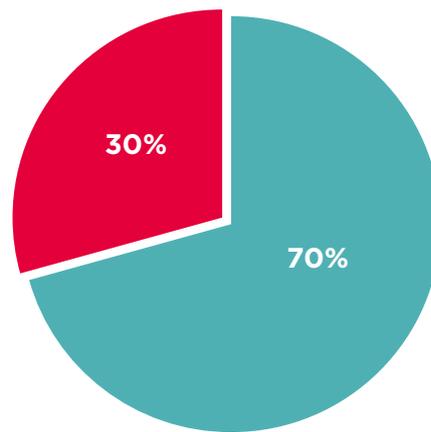
The Benefits of Social Value

● Agree ● Disagree

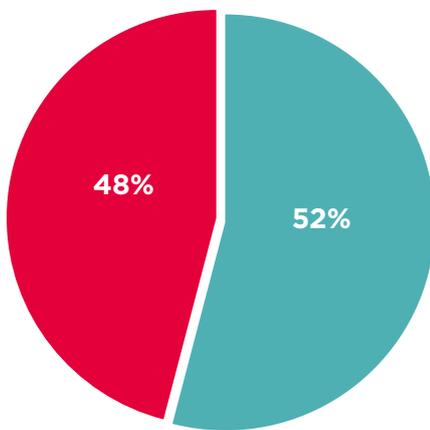
Social Value has led to better service delivery



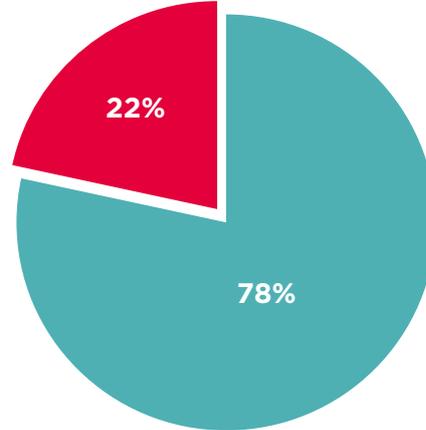
Social Value has led to opportunities for innovation



Social Value has led to cost savings



Social Value has led to better community relations



Without a doubt, the prominence of social value considerations in procurement decisions and subsequent partnering performance has increased over the last 10 years. Of course there are challenges, not least the understanding of social value, how it can be measured effectively and holding partners to account on their responsibilities

in this area. The next decade is likely to see a growing emphasis on the impact of social value activities, with more focus on the benefits derived to councils and RSLs and their customers and communities.

'It's now time to take social value commitments to the next level though ... more tangible activities, more measurement, more reporting and more communications.'

English Regional RSL, 2016

Use of Advisors

As public resources have become more constrained, many councils and RSLs struggle to access the capacity or expertise to run a complex procurement process. This can be particularly onerous where the goods or services being sought are technically complex, or where the commercial partnering route and associated commercial terms are more outcome-focused. In many instances councils and RSLs are turning to collaborative procurement exercises (using consortia) or pushing works through a established framework agreements. Both routes provides access to expertise as well as reducing the cost of procurement on the commissioning council or RSL.

In other instances, councils and RSLs are turning to experienced legal or management consultancy organisation to support their procurement. Drafting the outcome based specification, developing and producing the commercial cost model, engaging with prospective vendors during dialogue, project managing the overall process, debriefing, evaluating the submissions and managing the legal and contracting process are just some of the roles these organisations can fill. The costs associated with using advisers can be significant, and this needs to be considered in any assessment of the overall costs/benefits of the procurement exercise.

These may be provided by a specialist advisory firm, or accessed through a number of sector umbrella bodies providing expertise tailored to the needs of the local government or social housing sector. Many of these bodies will provide advice on individual procurement exercises, or broker access to service through a consortia or framework arrangement.

TUPE and Pensions

Many commercial partnerships involve a transfer of staff from councils and RSLs to other providers as the service 'undertaking' passes from one organisation to another. In such instances, the 'TUPE Regulations'⁸ are said to apply.

TUPE refers to the 'Transfer of Undertakings (Protection of Employment) Regulations 2006'⁹. The Regulations provide employment rights to employees when their employer changes as a result of a transfer of an undertaking. Generally, these ensure that employees are not disadvantaged when they move employer and retain their existing terms and conditions if the new organisations terms are less favourable. As with other 'undertakings', when buildings materials management, stores and distribution are passed from one organisation to another then TUPE rights apply and terms and conditions are protected.

In terms of council and RSL services, TUPE also covers pension rights, which in local government and social housing are often a defined benefit (final salary) pension scheme rather than a defined contribution scheme¹⁰. Absorbing pension liabilities under this scheme was typically a major direct cost/risk consideration for alternative providers looking to deliver services, unless some form of 'admitted body status' to the commissioner's pension scheme could be obtained.

In October 2013 the Government introduced revised and improved guidelines (the 'New Fair Deal'), removing the large bulk of pensions risks on public sector contracts. The option for employees on existing contracts to transfer their benefits back into the public sector at the end of a contract also gives contractors an opportunity to secure some current pensions liabilities at a much lower cost than by buying out through an insurance company.

As such, concerns around the loss of pension rights following TUPE transfer are diminishing amongst commissioners, as are fears over the impact of pension liabilities for providers. This helps create the right market conditions for greater partnering moving forward.

⁸ implemented under the European Union Acquired Rights Directive (originally Directive 77/187/EEC, amended by Directive 98/50 EC and consolidated in Directive 2001/23/EC)

⁹ as amended by the 'Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014'

¹⁰ Most government schemes have changed to defined contribution so it will depend whether the transferring employee joined on the old DB scheme or has transferred to the new DC scheme

Important messages

- Collaboration and commercial partnering is widespread in the building materials management, supply and distribution sector. Traditional models focused solely on materials supply; this has evolved to include management and distribution to reflect the scale of benefit that can be delivered to councils and RSLs as a result
- Partnerships can help to identify new ways of delivering outcomes, eliminate duplication, reduce whole life costs, improve customer service, deliver social value and support growth
- It is important to be clear as to the purpose of the partnership, the role of the selected partner, the scope of services to be included, and the intended outcomes from the partnership arrangement
- Affordability and the potential for savings are inevitable considerations. It is important to think about scope to reduce the whole life costs of service rather than solely reduce the costs of individual materials and products. Early and informal engagement around potential at a point of strategic review - before any tendering commences - is crucial to help shape the focus of the commercial partnership
- While cost is a key consideration, councils and RSLs should also explore the potential of commercial partners to deliver a step change in both organisational and societal objectives. The former may focus on service improvement, efficiency and cultural change; the latter on wider impact and social value
- Commercial partners can deliver a step change in social value through a breadth of activities associated with apprenticeships, employment, learning, community benefits and environmental sustainability. Many have national and regional arrangements in place that can be accessed locally by their partners
- To make partnerships work effectively it is crucial to have a clear mandate, understand mutual expectations, and apply pragmatism in pursuit of desired outcomes. The right balance needs to be reached between ensuring probity and stewardship through robust contract terms, while retaining flexibility to respond to change
- Commercial partners should be allowed space and incentivised to deliver innovation and improvement, with appropriate sharing of risk/liability/reward. It is important to have commitment from both partners to support the investment of time and resources needed to deliver success
- Expert advisers can help shape the focus and process of any procurement exercise undertaken by councils or RSLs. Many sector umbrella bodies provide similar advice and support. Consortia and frameworks can also be used to ensure procurement is robust, effective and affordable
- TUPE will apply when 'undertakings' associated with materials management, supply and distribution transfer from one organisation to another. This protects the terms and conditions of transferring staff. Continuing changes in pension rules aim to make it more straightforward for commercial partners to manage pension liabilities associated with the transfer. This remains a complex area but can be managed through early dialogue with potential providers..

Commercial partnership checklist

In thinking about how your organisation responds, have you:

1. scoped out what whole service cost savings might arise from a commercial partnership with a building materials provider?
2. considered the optimum arrangement for engaging with a building materials provider across different categories of construction and maintenance work with a view to maximising your potential cost and service benefits?
3. identified what your social value ambitions are, and how you might lever contributions from your building materials partners around employment, learning, environmental quality, and support for SMEs?
4. ensured your commercial partnerships fulfil your ambitions in terms of their purpose, impact, transparency, shared values, appropriate management of risk and reward, and flexibility to act within agreed parameters?
5. sought appropriate advice on procurement tactics from peers, networks and (if necessary) specialist advisers in helping you deliver the desired benefits from the procurement exercises you pursue?
6. considered offering pension scheme 'admitted body status' to successful bidders or assessed how the 'New Fair Deal' rules might be applied to TUPE transfers to help encourage potential partners to work with you?

Important things to avoid:

1. assuming that product price is the best way of judging value for money
2. assuming that change - and the benefits it can bring - are all issues for the partner
3. assuming that partnership benefits are restricted to those specified in any partnership agreements
4. assuming that relationships are best managed solely through contract KPIs
5. assuming that tightly defining terms and conditions is the best way to attract and sustain a relationship.

6. Key messages for the sector

This paper has aimed to identify and discuss a number of opportunities associated with the effective management, supply and distribution of building materials in the local government and social housing sectors. In doing so it has highlighted:

- key developments in the context within which councils and RSLs are operating
- important developments in the service models being adopted in the building materials market
- core elements of commercial partnership models increasingly being used to maximise the role of building materials providers in delivering benefits in terms of customer service, cost-effectiveness, sustainability and wider social value.

The paper has stressed the importance of taking a whole life cost perspective in making judgements about the most appropriate service and commercial models. This aims to meaningfully reduce the costs of construction, planned maintenance, and responsive maintenance rather than simply provide cost competitiveness in individual materials and products.

There are a number of key messages for organisations with an interest in the sector.

For Councils and RSLs

- Engage early and informally with building materials providers to discuss your needs and identify how service support can deliver financial and other benefits well beyond simple costs savings on materials and products
- Consider a breadth of potential benefits that may be of interest from cost reduction and improved customer service, through support for organisational transformation, to wider social value and community wellbeing benefits
- Think about how you might work jointly with building materials providers to identify and grasp these benefits irrespective of current commitments to service providers, buying consortia, or framework providers. It may be that many of the benefits can be accessed without cutting across existing arrangements
- Look at how you might best free up and incentivise building materials providers to deliver the breadth and depth of benefits you seek within the scope of a collaborative partnership
- Consider the impact and opportunities associated with the digital agenda.

For local government and housing 'umbrella bodies'

- Engage meaningfully with the building materials sector around the role they can play in delivering cost, customer service and wider impact benefits to your member organisations
- Consider guidance you may want to give about how your members can access these benefits, including how they might be delivered across a breadth of existing arrangements with developers, contractors and service providers for specific services
- Consider the current fitness for purpose of existing sector advice on commissioning commercial partnerships to gauge whether it facilitates the innovation, pragmatism and agility needed to sustainably deliver services and products in today's dynamic context
- Looking at best practice, scope out what social value and community engagement might mean in practice for your members over the next 10 years as organisations seek to go beyond current commitments to employability, learning, community benefit and environmental sustainability in delivering the next horizon of social value benefits.

For sector advisors

- Engage meaningfully with the building materials sector around the role they can play in delivering cost, customer service and wider impact benefits to your customers
- Identify the key commercial considerations and potential solutions in allowing your clients to access these benefits in the context of existing contractual commitments to developers, contractors and service providers in construction, planned maintenance and reactive maintenance settings
- Scope guidance you may want to give about how your customers can access these benefits, including how they might be delivered across a breath of existing arrangements with developers, contractors and service providers for specific services
- Consider the extent to which particularly onerous terms and conditions of contract can distort market interest in supporting your clients, or potentially reduce the innovation, pragmatism and agility needed to sustainably deliver services and products moving forward. Propose alternative arrangements which protect your clients while allowing these wider benefits to emerge.

For service and building materials providers

- Scope how you might work more proactively together on individual contracts with councils and RSLs to deliver cost, customer service and wider impact benefits to your customers and how all parties can share the risks and rewards of doing so
- Seek to engage early and informally with your current and potential customers to access these benefits, including how they might be delivered across a breath of existing contractual commitments
- Raise awareness in the local government and social housing markets - amongst customers, umbrella bodies and sector advisors - about how more manageable conditions of contract would continue to protect commissioners' interests while allowing materials providers scope to deliver the innovation, pragmatism and agility needed to sustainably deliver services and products moving forward
- Identify how you might make a step change in your social value and community engagement activity over the next five years to deliver ever more tangible impact in terms of employability, learning, community benefit and environmental sustainability.

7. Conclusions

Increasing demand for services and ongoing pressures on capacity and resources, make grasping opportunities to improve performance, productivity, and overall cost-effectiveness, across services essential. This can reduce cost, increase project or service affordability, improve services and support wider organisational transformation.

This paper has aimed to highlight how genuine partnership working in building materials management, supply and distribution can have a significant positive impact on services, assets and communities, delivering measurable benefits to commissioners and customers alike.

The paper has focused on opportunities in the local government and social housing sectors, highlighting practices that can be adapted for application across the UK. It has aimed to raise awareness of relevant developments in the building materials management, supply and distribution market, and highlight how these can deliver a breadth of benefits to councils and RSLs. It has described how partnering with building materials providers can access innovation in Logistics, Technology, and Digital Services that may be difficult for each organisation to progress in their own right.

The paper has also sought to indicate how councils and RSLs can engage with materials providers to realise these benefits and support new ways of working in the commissioning organisations. Together, these aim to deliver positive impact on the organisations themselves as well as supporting their built environment and wider comfort and wellbeing ambitions.

Crucially, the preferred arrangement for each council or RSL needs to closely reflect the interests of the individual commissioning organisation. Councils and RSLs should therefore explore options through early and informal discussions with a breadth of service and material providers, seeking a bespoke and fit for purpose solution that is relevant to their local circumstances. Larger materials providers have expertise in delivering approaches across the UK and beyond, so engaging with them as to how they can meet your needs while supporting your local business networks is an opportunity not to be missed.

It is important to take a wide view of what impact and value mean for your organisation. While commercial realism will always be important, be clear as to what success will look like for you, and how different approaches to partnering and sharing risk and reward can deliver that in the dynamic context within which everyone will be operating.

To receive a hard copy of this report or for further information regarding the report or working with the Saint-Gobain Building Distribution Public Sector Team please email publicsector@saint-gobain.com

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