



SUPPLY CHAIN MANAGEMENT GROUP

PPC/TPC Awards Application - Innovation in Partnering using PPC2000 & TPC2005 - 2014

• In no more than 250 words summarise why your application deserves to win this award in 2014?

Hackney Homes and Homes for Haringey as members of the Supply Chain Management Group (SCMG) have used Two Stage Open Book to demonstrate a breakthrough that will enable public sector clients to deal directly with Tier 2/3 subcontractors and manufacturers, working with Tier 1 contractors, to build up fully integrated working relationships.

SCMG has created a multi-client, multi-contractor team engaged on housing refurbishment that has worked with a wide range of SME subcontractors and manufacturers under a standardised system of costing and long-term engagement that has created major savings and significant qualitative benefits.

The SCMG relationships and structures are sustained by training and support to embed a collaborative culture. Both Hackney Homes and Homes for Haringey re-procured their Tier 1 contractors during the Trial Project Case Study period, and demonstrated significant savings in the procurement process itself and in the outturn costs / rates.

Contact Name: Alan Turner

Job Title: Director

Company Name: Supply Chain Management Group

Address: Hackney Homes, 72 Wilton Way

Postcode: London E8 1BJ

Telephone and Email: alanwturner@msn.com

Signed: Alan Turner

Date: 6th October 2014.

Supply Chain Management Group - Integration & Collaborative Working

Early Contractor Involvement:

The Tier 2 collaboration process, embraces the early contractor and Supply Chain involvement. The process requires a transparent approach to costs, innovation in delivery, negotiation of long-term Asset Management benefits and the full engagement of all partners in delivering effective solutions.

Traditionally this has not been area where the Client had any involvement.

Selection by value:

The conventional supply chain procurement process can lead to hidden profit increasing distrust between partners and a failure or lack of opportunity to address longer term maintenance issues.

The open procurement carried out by through Tier 2 collaboration seeks to arrive at a balance between quality and cost and is not a search for the lowest price. Main Contractor discounts are not allowed and retentions are not required.

Common processes and tools across organisations:

Tier 2 collaboration is a process. It is not another form of procurement, nor does it conflict with the contractual obligations within the Tier 1 appointment.

It is essential that there is a thorough and consistent approach to operational implementation. A detailed handbook has therefore been produced, together with a suite of documents which form our training and on-going support for delivery teams.

Long-term relationships:

Many of the 100 plus Supply Chain members and nine major contractors have operated the process since 2004. It is vitally important for the Supply chain that work continues to flow year on year through these framework contracts and that site delivery teams are sustained and developed.

Modern commercial arrangements:

In order to introduce the ability for the Client to gain the range of benefits available through engagement at Tier 2, a modern form of contract is essential. We have operated with PPC, TPC and NEC contract frameworks.

Fair payment practices:

Suppliers are engaged on a common form of Supply Chain Framework Agreement (SCFA) for each element of work. All contractors and all suppliers, sign up to the SCFA which includes commonly agreed payment terms. No contractor may introduce payment or other terms which are less favourable to the supplier than those stated in the SCFA.

SCMG monitor this process with the Supply Chain and take up issues with Clients and contractors.

Less adversarial approach :

By using transparently costed, comprehensive Basket Rates for each element of work, the likelihood of disputes is significantly reduced. There have been no significant contractual disputes relating to the SCMG process. A common reason for lack of trust is the sometimes opaque way in which costs are derived. The SCMG process deals with that issue on day one and a range of operational and behavioural benefits have been found to flow from that clarity.

Delivery against client performance measures:

Clients will measure performance against Main Contractor KPIs. SCMG measures KPI performance of the supply chain directly and makes data available to Clients and Contractors.

Workforce integration :

The co-location of Client Contractor and Supply Chain teams has demonstrated significant behavioural benefits. The use of "savings" to increase workflows has also enabled teams to be retained, rather than disbanded.

This bid is part of SCMG's ongoing intention to introduce tier 2 collaboration into the mainstream of procurement thinking. It is not intended as a marketing tool for SCMG membership.

As part of this intention we have been engaged for 3 years with the Cabinet Office in developing new procurement models as part of the Government Construction Strategy. The Cabinet Office in 2012 produced a report, "The Construction strategy one year on". An existing example of collaboration at tier 2 between appointed contractors, Supply Chain members and the Client was considered. This mature model, developed by the Supply Chain management group (Hackney Homes, Homes for Haringey and LB Newham) has been proved to deliver very significant savings, improved quality, long-term asset management benefits, and a reduction in the Client and contractor resources required to deliver projects.

Since then the Government has published the final report on the SCMG Trial Project <https://www.gov.uk/government/publications/government-construction-strategy-trial-projects>

The Trial report is appended (D).

This submission relates to the introduction of a process which follows the appointment of a Tier 1 contractor. The Client will as part of their review of Tier 1 bids and operational activities, monitor all activities on site to ensure that H&S is embedded in the culture and operations of all on site.

The SCMG model cannot of itself claim to have a direct impact upon H&S, it being essential that the lines of responsibility for managing these obligations are clear and unambiguous.

Economic: The economic benefits of direct engagement between the Client, Contractor and Supply chain have been well demonstrated. Constructing excellence in 2006 awarded Hackney Homes Demonstration Status for their Decent Homes Phase 2 programme, which employed this process. **The appended report from MACE (A)** also provides detail on savings. It is important however to recognise that savings which are re-invested in the stock provides a sound base for engaging with suppliers, installers and contractors, to increase demand for their services over a longer period.

Social: A significant advantage of appointment of the Supply Chain through the appointed Tier 1 contractor is that there is greater flexibility for that contractor in the choice of supplier than there is at Tier 1 for clients. This means that access to local businesses and their introduction to projects create a local legacy from the investment. Providing local training and employment opportunities through our innovative partner contractors, such as "Building Lives", an initiative created and developed by Lakehouse contracts (<http://www.buildinglives.uk.com/>), offers the opportunity for our Supply Chain and Contractor members, as well as local people to have sustainable careers in construction.

Environmental: The refurbishment of existing stock creates significant waste. Our processes include basket rates for managing waste and minimizing waste to landfill. At present our KPI monitoring progress reveals that in excess of 90% of waste does not go to landfill. **Attached (B) is a report from our waste Supply Chain provider McGrath**, demonstrating this commitment, developed as a result of Tier 2 engagement with the Client

Cost Savings

The cost savings achieved include **16.5%** by Hackney on its 2010 framework/alliance procurement, plus further savings averaging **14%** achieved by Homes for Haringey and Hackney Homes through the application of the SCMG processes from 2010 to 2013. Overall savings equate to an average of 31%, achieved through reduced contractor costs (reflected in the alliance/framework procurement), reduced Tier 2/Tier 3 costs offered in return for clarification of work throughput, improved client briefs and simplification of pricing under basket rates, greater visibility of the forward pipeline of work and establishment of common Supply Chain Agreements securing prompt payment and an open forum for resolution of problems. The detail of these savings are described more fully in the Trial Project report.

Non-Cashable and non construction cost Benefits – Client, contractor and Suppliers

The benefits of the process include both cashable and non-cashable benefits, including reduction in resourcing costs (staff & Consultancies).

The non-cashable benefits are very considerable and are established and valued as far as

possible in the **Davis Langdon reports appended (C)**.

Analysis of the Homes for Haringey and Hackney Homes tender processes revealed that consultant costs incurred by both clients during the course of their procurements were substantially reduced by reason of the pre-existing SCMG data and documentation.

Independent confirmation was also provided by a sample Tier 1 contractor, Keepmoat, to explain how their own bid costs on a procurement supported by Two Stage Open Book under SCMG were far lower than the bid costs they incurred under a comparable single stage procurement, specifically £719 per £1 million of turnover (under SCMG) as against £4,808 per £1 million of turnover (under the comparable traditional bid).

Contractors are **not** required to operate a procurement process for creation and management of the Supply Chain and Supply Chain members, using the common elemental Basket Rates are not required to undertake further tendering activity until the annual review is carried out by SCMG.

This allows the Supplier to commit resources to building AMPs on behalf of the Tier 1 Contractor, in the knowledge that they will appoint them for those works. Their risk is therefore significantly reduced.

The contribution which the Supply chain makes to the success of the project has often been masked by the inflexibility of historic contract relationships.

Direct engagement with the Supply Chain unlocks their potential, experience and expertise for the benefit of the project. This is demonstrated in design, cost, and on-going Asset Management maintenance opportunities, such as extended guarantees and training of local maintenance teams.

External reviews and annual lessons learned and cost reviews are an established route to refining the process for the team.

We also carry out audits of completed sections of work to ensure compliance and learn from that experience. The results of these reviews are contained in the annual review of each building work element.

As a not for profit organisation funded by local authorities and set up with support from DCLG and HCA, we are committed to ensuring that the impact of the process we have developed for Housing projects is brought into the mainstream of procurement and contract management thinking.

We have put considerable effort into widening knowledge of the benefits of adopting the process through our existing members, other consortia, local authorities/AMOs, Central Government and the Industry generally.

The cultural changes required are very significant. The cornerstone to sustainable change is TRUST. We believe that our open transparent and fair processes, alongside leadership and sustained commitment from our members, has allowed trust to develop and performance and quality to improve.

