

## **Scotland Excel**

**To: Chief Executive Officers Management Group**

**On: 18 August 2021**

### **Chief Executive's Update Report**

#### **1. Introduction**

The purpose of this report is to provide the group with an update on key developments within Scotland Excel since the last meeting of the Chief Executive Officers Management Group on 29 June 2021.

#### **2. Summary**

Since the group last met there have been a number of developments:

##### **2.1 Digital Update**

Analysis of the data that has been collected through STAMP (Scotland's Technical Asset Management Platform) is ongoing. The output of this will be used to develop a pipeline of potential collaborative contract opportunities going forward. It is planned that a new UIG (User Intelligence Group) will meet by the end of September to review, prioritise and agree outline timescales to take this work forward. An early output of this is a current exercise looking at the potential to build a consolidated demand plan for Office 365 licences.

Initial UIG's have been held to begin to establish the scope and requirements for the Robotics Process Automation / Intelligent Automation (RPA/IA) project. Discussions to date would suggest that there is an appetite to support a collaborative opportunity. The procurement strategy is under development, although early challenges are likely to be around reaching agreement on final specification. Subject to satisfactory conclusion of issues identified so far, it is anticipated that a framework will be available from April/May 2022.

As previously discussed, work has been ongoing to establish a Dynamic Purchasing System (DPS) for Digital Telecare products. Recommendations for initial entrants to the DPS will be presented to the August Executive Sub Committee meeting. Following this, councils will be supported through the initial mini-competition exercises to ensure effective mobilisation.

## **2.3 Care Services**

### **2.3.1 Children's Services and The Promise**

Scotland Excel is liaising with colleagues in COSLA, Scottish Government and The Promise to consider the impact of the Promise and related policy on national contracts and Scotland Excel's work.

While significant changes are envisaged in relation to the secure care and children's residential sectors these is not anticipated to be agreed in the short term. It is likely that existing arrangements will be extended while longer term plans are agreed.

The social care team has committed to revisit previous work around commissioning options for secure care and provide an updated paper on this reflecting the latest occupancy statistics.

A mapping exercise on The Promise and residential sector requirements is underway with the aim of reflecting more straightforward requirements in any extension period agreed with providers. This amended contract would then continue to run while the more significant and transformational requirements are discussed and agreed.

The social care team is working with CCPS, directors of finance, SWS and provider representatives on the COSLA led working group on commissioning & procurement for family-based support. The group is scheduled to meet again in August to consider next steps.

### **2.3.2 Fostering**

The new generation foster care services framework went live in July. Mobilisation activity will focus on pre-existing placements and working with local authority colleagues to support these to be transferred to the new framework. There is no automatic transfer of pre-existing placements therefore the new framework will only apply to placements made from July onwards unless placement transfer is agreed.

### **2.3.3 Independent Review of Adult Social Care**

The Scottish Government's consultation on the national care service is due for publication on the 9 August; Scotland Excel will be carrying out a detailed review of this consultation and will produce a response. Consultation has not yet taken place with stakeholders out with Scottish Government in relation to the proposed national care service with the exception of the newly formed Social Covenant Steering Group. The steering group, chaired by Kevin Stewart, is comprised of individuals with day-to-day experience of social care and is tasked with developing a set of values and beliefs which will underpin the national care service.

Scotland Excel has made a number of attempts to engage with colleagues within the Scottish Government Adult Social Care Directorate regarding the future of national commissioning within adult social care; these have been unsuccessful. Feedback from the Director of Procurement & Property at the Scottish Government suggests

that a number of workstreams have been agreed to take this work forward and a team is being recruited for that purpose. We would hope that Scotland Excel has an opportunity to provide professional insight based on the long standing role we have played in delivery of this service.

#### **2.3.4 National Care Home Contract**

In order to support the significant development work required on the national care home contract, Scotland Excel has recruited for a category manager to lead in this area. A stakeholder mapping exercise is underway as is the development of a plan for the redevelopment work including proposed governance arrangements.

The development work will look at the recommendations from the Feeley report, learning from the pandemic as well as a number of other changes in best practice in the care home sector. The proposals will encompass working with a broader range of stakeholders including representatives of care home residents and trade unions.

#### **2.3.5 Care & Support**

Mobilisation activity is underway with new providers joining the care & support framework in April.

Discussions around a further re-opening exercise have been taking place to enable more providers to sign up to the national arrangement. A number of providers have been unable to participate to date, due to them not being able to meet the minimum Care Inspectorate grade requirements. Care Inspectorate are prioritising inspections for providers not inspected last year so the timing of any re-opening is being considered in relation to Care Inspectorate plans to ensure maximum participation.

#### **2.3.6 £500 Project**

The first phase of the project, involving payments being made to staff of registered providers, has largely been concluded. A recent survey confirmed that 97% of providers who have received the payment had passed this onto eligible staff, with a small number of providers still working to make payments (some issues relate to paying former staff as anticipated).

Payment adjustments are underway for providers requiring a further payment, which will be made to them via their nominated council, and for those requiring to return an overpayment, which will be returned to Scottish Government directly. A small number of providers which did not apply to the original process have also been provided with a payment as part of this exercise.

The personal assistants (PA) pathway was launched at the end of June and will remain open until the 25<sup>th</sup> August. Eligible PAs must apply directly either by completing the form on the online portal or by calling the helpline run by Self Directed Support (SDS) Scotland. Latest estimates suggest around 6,000 PAs are likely to be eligible. Validated applicants are being paid by Independent Living Fund (ILF) Scotland via a weekly pay run. As of 3 August circa. 2,400 payments have been made.

## **2.4 The Scotland Excel Academy**

The Academy continues to support councils and public / third-sector organisations across our accredited and non-accredited programmes and workshops with 901 registered learners accessing content on our Moodle platform and 101 learners engaged in accredited programmes across 11 cohorts - comprising three in procurement, four in leadership & management, three in project management and one in business analysis & innovation, decision making and innovation.

A further 10 accredited programmes are planned to launch in fiscal year 2021/22 - comprising two in procurement, three in leadership & management, three in project management and two in business analysis & innovation, decision making and innovation.

Responding to our customers' needs, whilst building upon the success of the one-hour Stay Connected workshops, the Academy will launch a series of four-hour online Evolve workshops commencing September 2021.

The Academy is delivering a procurement development programme for East Lothian Council, developing a training programme to counter Serious Organised Crime in procurement for the Scottish Government and is developing a delegated procurement programme for Dumfries and Galloway council. We will also launch our first development programme for the NHS in August 2021, teaching a blended procurement and leadership programme for NHS Lothian and NHS Tayside.

Looking to the future, a strategic review will be undertaken considering the Proxima research report commissioned by the Scottish Government to ensure the Academy continues to evolve to meet our customer needs and our national needs.

## **2.5 Housing Update**

Scotland Excel continues to work closely with housing associations across Scotland, promoting the benefits of membership, particularly the construction frameworks including new build housing. Housing associations (both members & non-members) have been keen to discover how the Scotland Excel consultancy, energy efficiency and new build frameworks can meet their future deliverables.

## **2.6 New Build Update**

### **New Build Housing**

Following delays of 9-12 months attributed to Covid-19, activity under this framework has increased significantly as the construction industry and our members have renewed their activity on new build housing projects. To date, 12 projects delivering over 500 homes to the value of £95m have been awarded which cover a wide range of affordable homes; these include fully accessible homes, sheltered housing units, flats, bungalows, houses and a care facility. In addition, there are 25 further projects due to be tendered by the end of the calendar year which will deliver over 1600 homes valuing c.£270m.

The framework includes a requirement for contractors to consider and maximise the use of local subcontractors. So far around £20m subcontracts have been awarded with all of these going to small or medium sized enterprises, and 60% (£12m) awarded to local subcontractors who are located within the council area of the development.

Our dedicated new build team have been working closely with our member to assist the build of sustainable homes as we move towards a net zero society. Homes are currently being built to Passivhaus, Net Zero and Gold standards. The framework is also being used to deliver other environmentally sustainable measures such as solar panels and heat pumps.

Scotland Excel has been primarily focused on support for members using the framework, particularly with the well documented supply constraints the construction industry is currently experiencing. Meetings have been held with the framework contractors to discuss the Scotland Excel pipeline, their capacity for tendering and the effects of COVID and Brexit on their business and supply chain. It is imperative that members provide as much notice as possible to contractors on upcoming developments; keeping Scotland Excel updated of any forecast changes.

Members can support Scotland Excel and the framework suppliers by encouraging utilisation of the framework within their own organisations and where appropriate and encouraging others to use it as a delivery mechanism.

## **2.7 Construction Materials Update**

It has been widely reported that the construction materials supply chain has been subject to unprecedented disruption through a combination of the Coronavirus Pandemic and Brexit, with the recent delays to global supplies caused by the Suez Canal blockage also contributing. The Construction Leadership Council (CLC) continues to report shortages of construction materials and forecasts this disruption to continue for the foreseeable future.

Ongoing engagement with suppliers confirms that materials shortages, longer lead times and steep price increases will continue to impact the supply chain. This represents a significant risk to Scotland's construction-led recovery and the planning of a backlog of maintenance and repair programmes now permissible with the easing of restrictions.

Scotland Excel issued a report in June 2021 setting out recommended mitigating actions to be considered in response to the ongoing volatility. It also provided more information on the price variance process undertaken by Scotland Excel when assessing increase requests submitted by suppliers. An updated position will be issued to members during August 2021.

Scotland Excel manages four goods-based frameworks in the Refurbishment and Maintenance category, building and timber, plumbing, electrical and trades materials. To date, fluctuations in key raw materials of copper and timber have been the most influential for framework prices and are responsible for a c. 9.7-9.9% increase in schedule rates effective from April 2021.

Further to the impact of the Coronavirus Pandemic, the UK's exit from the EU has also impacted supply chain price inflation by way of extending lead times for materials due to non-tariff barriers. Brexit has also been a huge factor in timber supply shortage given that 90% of softwood used for construction comes from Europe. Recent reports highlight the situation to be worsening with industry bodies stating that there is unlikely to be an improvement in timber supplies this year with almost no timber coming into the UK that is not already pre-sold.

Whilst manufacturers are working hard to overturn this decrease in supply by increasing production to seven days a week and establishing new supply chains it appears the increasing costs and issues with supply are only set to continue. Over several generations of our construction materials frameworks, Scotland Excel has developed and maintains close working relationships with key suppliers from its portfolio. Informed by this ongoing engagement, set out below are a range of mitigating actions recommended in response to the ongoing market conditions.

- Demand Planning – engagement with local branches/local account managers to confirm planned maintenance and repair programmes over the coming months to plan stock levels and stockholding.
- Buying patterns and stockholding – review buying patterns to consider what additional stock can be stored for products likely to be impacted.
- Local Supply Chains – our frameworks suppliers range from local micro suppliers and large national merchants with local branch networks facilitating consideration of alternative sources of supply.
- Core Spend and Non-Core discounts – as core spend is subject to the price variance procedure and negotiation, unlike non-core lines, increasing core spend will mitigate increases experienced.
- Alternative materials/finishes – suppliers have encouraged members to be flexible where possible in the colour/finish of key lines which may be better value or have higher stock levels.
- Bespoke Benchmarking – Following the collection and upload of quarter four management information, Scotland Excel has run bespoke benchmarking for members, to inform purchasing options and best value available through the framework.

Scotland Excel will offer support, including data and market intelligence to support our customers as they implement measures. Members are asked to prioritise attendance at upcoming UIGs for the relevant frameworks to share experiences and forward planning which can in turn be used to inform ongoing strategic procurement activities.

Scotland Excel is also closely monitoring our indexation models, to inform negotiations with our supply base and monitor contract performance. This will facilitate dialogue with suppliers about price decreases when conditions stabilise.

Appendix 1 is a copy of a report which was provided to councils giving a detailed view of construction price increases.

## **2.8 Update on the Contract Plan and Contracts approved since June 2021**

There are 72 current frameworks in the Scotland Excel contract portfolio, with thirty of these frameworks to be renewed before 31 December 2022. It is also planned that a further four new frameworks will be added to the contract portfolio by 31 December 2022.

A total of 15 of the frameworks on the current portfolio have extension options that are likely to be exercised in 2021/2022 with three of these extensions already approved.

The overall efficiencies across the whole portfolio year to date is 3.1% compared to the 2.5 % forecast range. This efficiencies figure will continue to be monitored throughout 2021/2022.

Four frameworks, as detailed in the previous CEOMG (Education Materials: Education and Office Furniture: Fostering and Continuing Care Services: Organic Waste) report) were approved at the June Executive Sub Committee. The next Executive Sub Committee Meeting is due to be held Friday 20 August.

## **2.9 Projects update**

### **2.9.1 East Lothian Council**

The East Lothian Improvement Programme is progressing steadily and is reviewed regularly by the council's, Procurement Improvement Panel. To date £1.2m of savings have been delivered with other substantial benefits in areas such as community benefits, local wealth building, sustainability; and an integrated purchase to pay review.

As the programme matures further, a key focus of activity will remain on digital transformation and on their end-to-end systems review.

In relation to the activities of the procurement team, further work is focusing on the greater skills development within the team.

### **2.9.2 East Renfrewshire Council**

The East Renfrewshire Programme has now entered a third year building on the positive improvements already implemented and a clear strategic direction. Delivery of "Procurement Bitesize" training across the organisation is proving very popular and focussed work has been undertaken in ICT and Housing Services to recommend areas for improvement and savings. Work is currently underway to

develop a corporate approach to Contract and Supplier Management for the Council and User Acceptance Testing is currently underway for the delivery of a new online contracts registers which will support the wider organisation.

### **2.9.3 Tayside**

In June 2021 Scotland Excel concluded a two-year programme of work with three Councils in Tayside. The councils involved in the programme were Angus, Dundee City and Perth and Kinross. The final contribution to the programme was attendance at the local Board meeting on 25 June to hand over a summary of all the approved actions arising from the programme.

The summary of recommendations has been developed into an Action Plan for delivery over the next 18 months to the end of 2022. This work has been designed to run concurrently with another group of activities arising from the programme. The Tests of Change projects approved by the Tayside Chief Executives have started and will look at the most effective and innovative ways of taking fleet management, facilities management, and roads maintenance into the future. These tests of change will reshape the specifications for future procurement work, taking account of economic recovery, net zero and shortening supply chain to support greater local resilience.

Scotland Excel and the teams working on the Tests of Change are continuing to engage, share information and support delivery where appropriate.

### **2.9.4 Stirling Council**

Scotland Excel has been providing Stirling Council with a Head of Procurement since December 2020. During this time, a development plan has been put in place which focuses on management of the corporate procurement team and review of the function, the creation of a community wealth building strategy, and a review and implementation of a procurement savings strategy across the organisation.

Focus has been placed on community wealth building with Stirling Council now working with Scotland Excel on a dedicated project in this area. The project will look to understand current practice and build the strategy, policy, and action plan which will link to the Council's wider Economic Development Strategy.

### **2.9.5 Dumfries & Galloway Council**

A programme of work within Dumfries and Galloway Council is in progress to support the organisations strategic procurement aims. The aim of the programme is to improve control and visibility of procurement spend by restricting delegations to services for a period to give time for a full improvement programme to be delivered. Scotland Excel is liaising with the Programme Lead on a number of key areas such as Training to develop procurement skills within the wider organisation, and Community Wealth Building including use of the Scottish Government Grow Local tool and review and analysis of Quick Quotes.



### **2.9.6 Early Learning & Childcare (ELC) provision for 1140 hours – setting the sustainable rate**

Scotland Excel continues to support a number of councils to engage with their local early learning and childcare (ELC) providers as part of the national policy to expand childcare provision. Work is progressing with East Lothian Council to help them determine a sustainable hourly rate.

### **2.9.7 Hosted Procurement**

There continues to be a growth in demand for Hosted Procurement services where Scotland Excel undertakes a full procurement exercise on behalf of the customer. Tendering exercises are progressing well with Dumfries & Galloway Council and Scotland Excel is providing short term procurement resource to University of Strathclyde under an agency model. The current tendering activity for Glasgow Life (an Arm's Length Organisation (ALEO) of Glasgow City Council) is complete and Scotland Excel is engaging with the Procurement Manager to support future delivery of procurement exercises.

### **2.9.8 City Property Glasgow (Investments) LLP**

City Property Glasgow (Investments) LLP continues to engage with Scotland Excel as their 'Procurement Partner' with a number of tenders being prepared covering the waste streams from the Blochairn Food Market in the City.

The publishing of a tender for a General Waste recycling partner has been delayed until early August 2021 with focus being on the Terms & Conditions of the contract. Scoping work is underway for a Wood Waste tender via the Scotland Excel Recyclable and Residual Waste Framework. A mini-competition is being prepared for Estate Management Services using the forthcoming Crown Commercial Services (CCS) framework to support the sale of land in the Charing Cross area of Glasgow, formerly the site of Nye Bevan House which is currently owned by City Property Glasgow (Investments) LLP. The CCS framework goes live on 21<sup>st</sup> August 2021 and tendering activity will progress thereafter.

### **2.9.9 Zero Waste Scotland**

Scotland Excel is providing Tender Support to Zero Waste Scotland for the provision of suitably qualified service providers to conduct waste composition analysis. The framework, Waste Composition Analysis Services, was approved at the Scotland Excel Executive Sub Committee meeting in May 2021. The framework is now live and mobilisation meetings took place with service providers in June 2021.

### **2.9.10 Scottish Local Government Pension Scheme**

As previously reported, the Scheme Advisory Board (SAB) of the Scottish Local Government Pension Scheme met for the first time on 4<sup>th</sup> June. Project Purpose and Principles were agreed with Sub-Group, with these now to be agreed by SAB. Project Risk Register is in place with oversight by Project Sponsor and monitoring by Sub-Group.

Work has commenced to establish links with local authority CEOs, and Financial Directors, Authority Fund Managers etc. This resulted in initial meetings held with 7 of the 11 funds and relevant contacts for Pension Committee and Pension Board Chairs are now also being collated.

Other baseline work is setting out to establish communication channels/contacts across wider stakeholder/interest groups and with potential sources of research/information/evidence across the UK and internationally, including investigating UK/International case studies and research on pension structure trends, pooling and merger arrangements. This extends to contacting Investment Pool companies in England and other research to understand different models of delivery.

Proposal on undertaking current evidence baseline/gap analysis work submitted and discussed by Sub-Group on 22nd July. Further discussions on membership of the short-life focus group proposed for this work. This could lead to additional resources being necessary with a resultant impact on existing budgets and procurement process. The detail of this is currently being considered.

### **3.0 Climate Change**

The [cross-sector Climate and Procurement Forum](#) has been established to provide leadership and direction and to mobilise the public sector's £12.6 billion procurement spend to support our climate change and circular economy obligations. (Programme for Government 2019-20 and 2020-21)\_Over the past year, collectively this group has achieved the following outcomes :-

- Issued a Ministerial call to action letter to Chief Officers across the Public Sector, to maximise the positive impact procurement can have on addressing the Climate Emergency (March 2021);
- Developed Climate Literacy for Procurers eLearning, a unique, demand-led product that helps to encourage and assist public bodies in taking account of climate and circular economy in their procurement activity. Scotland Excel has made this mandatory training across the organisation.

### **3.1 General update**

#### **New Associate Members**

There have been two new associate members since the last CEOMG:

Sportscotland

Loch Lomond & The Trossachs National Park

## **Community Wealth Building**

Scotland Excel is working in partnership with Scottish Government to further develop Community Wealth Building (CWB) practices in local government. The programme is working with four councils; Stirling, Clackmannanshire, Dumfries and Galloway and Renfrewshire to emphasise the importance of the Scottish Model of procurement in supporting community wealth building aims.

Current activity includes arranging workshops with Elected Members to raise awareness of the topic of CWB and the power of public procurement as a key tool in delivering CWB, quick quote analysis, reviewing use of Scottish Government Grow Local tool and use of PCS, and internal and external partner engagement.

A key aim of the Programme is to generate intelligence, explore and develop good practice and advice that can be shared amongst the community.



**Construction Materials  
Market Update  
June 2021**

## Contents

.....	1
1. Introduction.....	3
2. Market Update .....	3
2.1 Copper .....	3
2.2 Timber .....	5
3. Engagement and Mitigating Actions .....	7
4. Price Variance Process .....	8
5. Conclusion .....	9

## *1. Introduction*

It has been widely reported that the construction materials supply chain has been subject to unprecedented disruption through a combination of the Coronavirus (COVID-19) Pandemic and Brexit, with the recent delays to global supplies caused by the Suez Canal blockage also contributing.

The Construction Leadership Council (CLC) continues to report shortages of construction materials and forecasts this disruption to continue for the foreseeable future<sup>1</sup>. Ongoing engagement with suppliers confirms that materials shortages, longer lead times<sup>2</sup> and steep price increases will continue to impact the supply chain. This represents a significant risk to Scotland's construction-led recovery and the planning of a backlog of maintenance and repair programmes now permissible with the easing of restrictions.

This report will set out a market update and recommend mitigating actions to be considered in response to the ongoing volatility. It will also outline the price variance process undertaken by Scotland Excel when assessing increase requests submitted by suppliers.

## *2. Market Update*

The Coronavirus (COVID-19) Pandemic can be considered the most significant peacetime disruption of global supply chains in modern times, the impacts of which have been further exacerbated by Brexit.

This has resulted in unprecedented disruption for the construction materials sector with a surge in demand and constraints on supply leading to price increases, shortages and longer lead times. Scotland Excel manages four goods-based frameworks in the Refurbishment and Maintenance category, building and timber, plumbing, electrical and trades materials. To date, fluctuations in key raw materials of copper and timber have been the most influential for framework prices and are responsible for a c. 9.7-9.9% increase in schedule rates effective from April 2021. Further detail on these specific product groupings are set out below and in-depth analysis in the price variance reports produced per framework.

### *2.1 Copper*

Copper continues to have a large impact on both Plumbing and Electrical materials frameworks. Figure 1 demonstrates the steep increases from April 2020 until April 2021. In April 2020 copper was \$4772 a tonne rising to \$9949 by the end of April 2021.

---

<sup>1</sup> <https://www.hvnplus.co.uk/news/clc-warns-of-further-construction-supply-chain-disruption-in-2021-07-04-2021/>

<sup>2</sup> <https://www.scottishconstructionnow.com/article/exclusive-scottish-construction-hit-by-unprecedented-perfect-storm-of-soaring-costs-material-shortages-and-lack-of-labour>

## LME COPPER HISTORICAL PRICE GRAPH

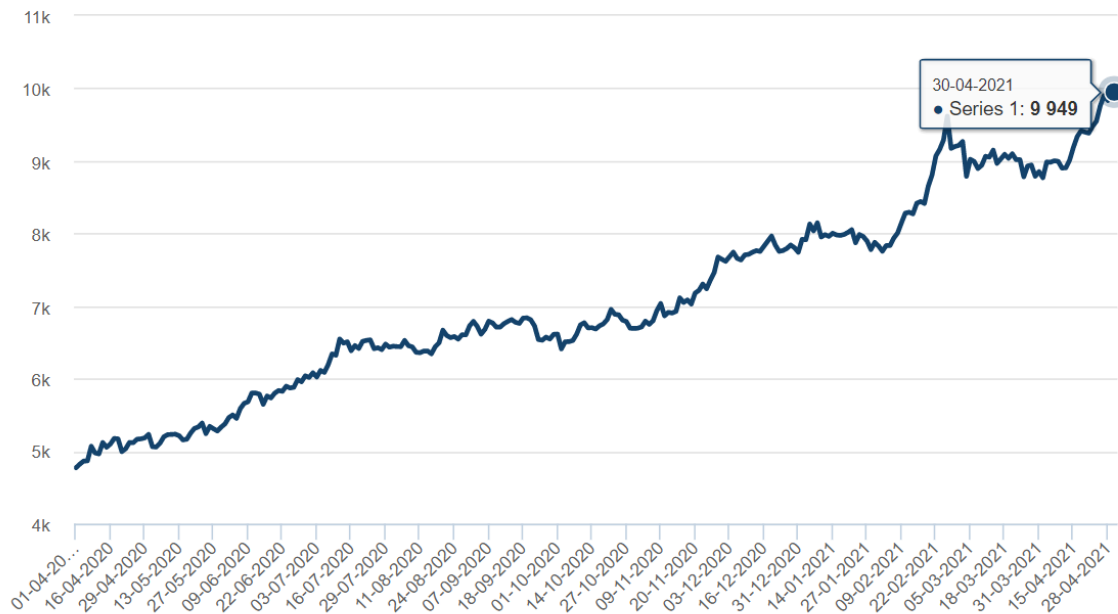


Figure 1 - LME Copper Historical Price Graph - 01/04/2020-30/04/2021

Following the Coronavirus (COVID-19) Pandemic lockdown, copper mining was brought to a halt creating a deficit in availability. There were 222,000 tonnes of copper on the stock markets in April 2020, in February 2021 there was just 74,000 tonnes available creating a sellers' market with huge upwards price pressure. Whilst companies are attempting to reduce this deficit, the environmental impacts of mining activities are making it difficult for the market to respond quickly to deliver new supply<sup>3</sup>.

Reports suggest the copper supply deficit is only set to continue as the widely used metal struggles to keep up with strong and growing demand from the power and construction sectors, compounded by the proliferation of electric vehicles.

A recent survey conducted by Focus Economics highlights a consensus forecast was that the average price in quarter four would be \$8340 dropping to an \$8130 average in quarter four 2022. Despite this, it should be noted that Goldman Sachs see prices averaging \$10,620 in quarter four 2021 rising to \$12,250 at the end of 2022<sup>4</sup>. This highlights the clear disparities and uncertainty around this raw material currently.

To date, there have been no supply issues with copper materials through the Scotland Excel frameworks, however, it has resulted in significant price increases across several key products, accounting for circa 78% of the total cost impact. The plumbing and heating materials framework has also been impacted to a lesser extent for copper tube and related fittings within lot 1.

<sup>3</sup> <https://www.bloomberg.com/news/articles/2021-03-19/the-world-will-need-10-million-tons-more-copper-to-meet-demand>

<sup>4</sup> <https://www.mining.com/copper-price-flies-high-but-further-out-forecasts-are-grim/>

## 2.2 Timber

During the initial lockdown in March 2020, UK timber mills closed which led to severe shortages, which the industry is yet to recover from. Demand was outstripping production with some UK products not being available until October 2020.

The imported market was similar, as a result of lockdown, imports of timber were halted for large periods of time with importers delaying as they didn't know how long the lockdown would last. The producers themselves generally found a home for their timber either in their own domestic markets (which remained buoyant) or exported the huge volumes of core material to predominantly the USA at prices far in excess of what the producers are achieving in the UK.

Figure 2 highlights the Softwood Sawlog Price index which provides an insight into the steep increases suppliers are currently experiencing on timber. From March 2020 until March 2021 shows a 15.4% increase, however from September 2020 through until March 2021 the index increased 36.6% almost surpassing previous highs recorded in March 2019. Similarly, from April 2020 until March 2021 indices such as Imported Sawn or Planed Wood (11%), Imported Plywood (6.5%) and Particle Board (18.66%) all experienced large increases.

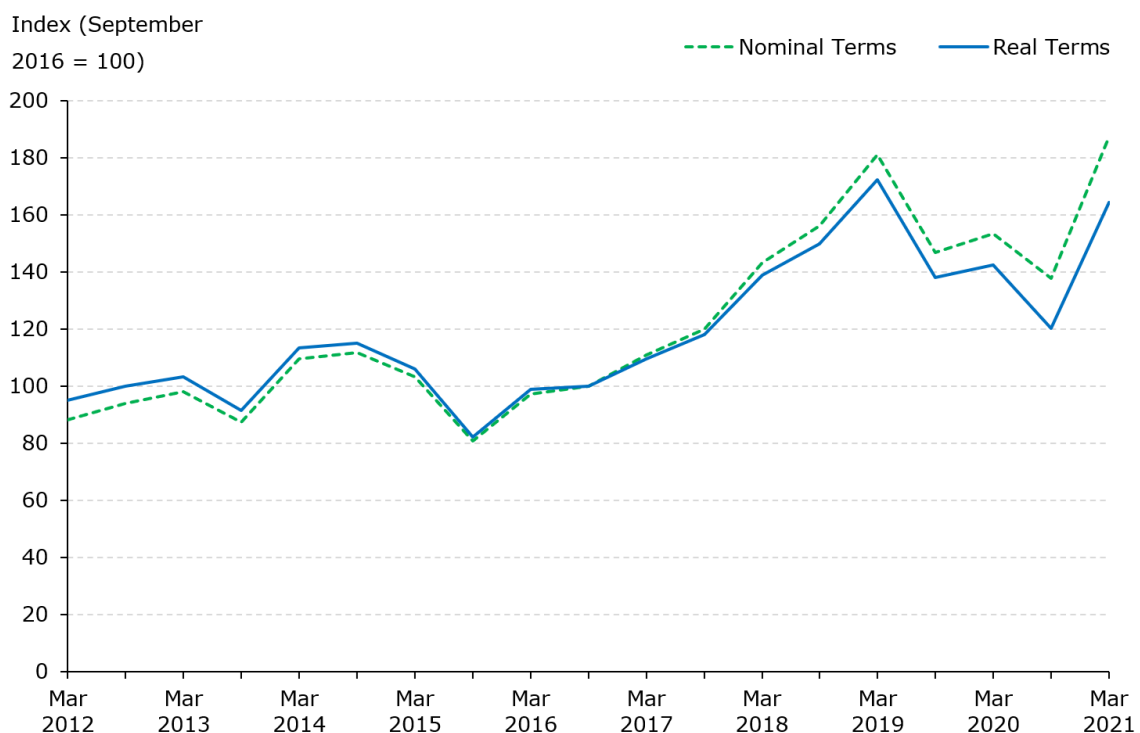


Figure 2 - Softwood Sawlog Price Index

Suppliers have provided several reasons for these steep increases, some of which can also be quantified in figure 3;

- Increases in demand – this has come from both domestic renovations and house builders accelerating works post lockdown.
- Freight rates – significant increases in container costs with many reports stating these have double or quadrupled since October 2020.



- Port Delays – shipping companies refusing to ship to the UK due to possibility of port delays.
- Reductions in manufacturing – timber mills were closed for three months due to the initial lockdown period; demand continue to soar ultimately leading to supply issues.

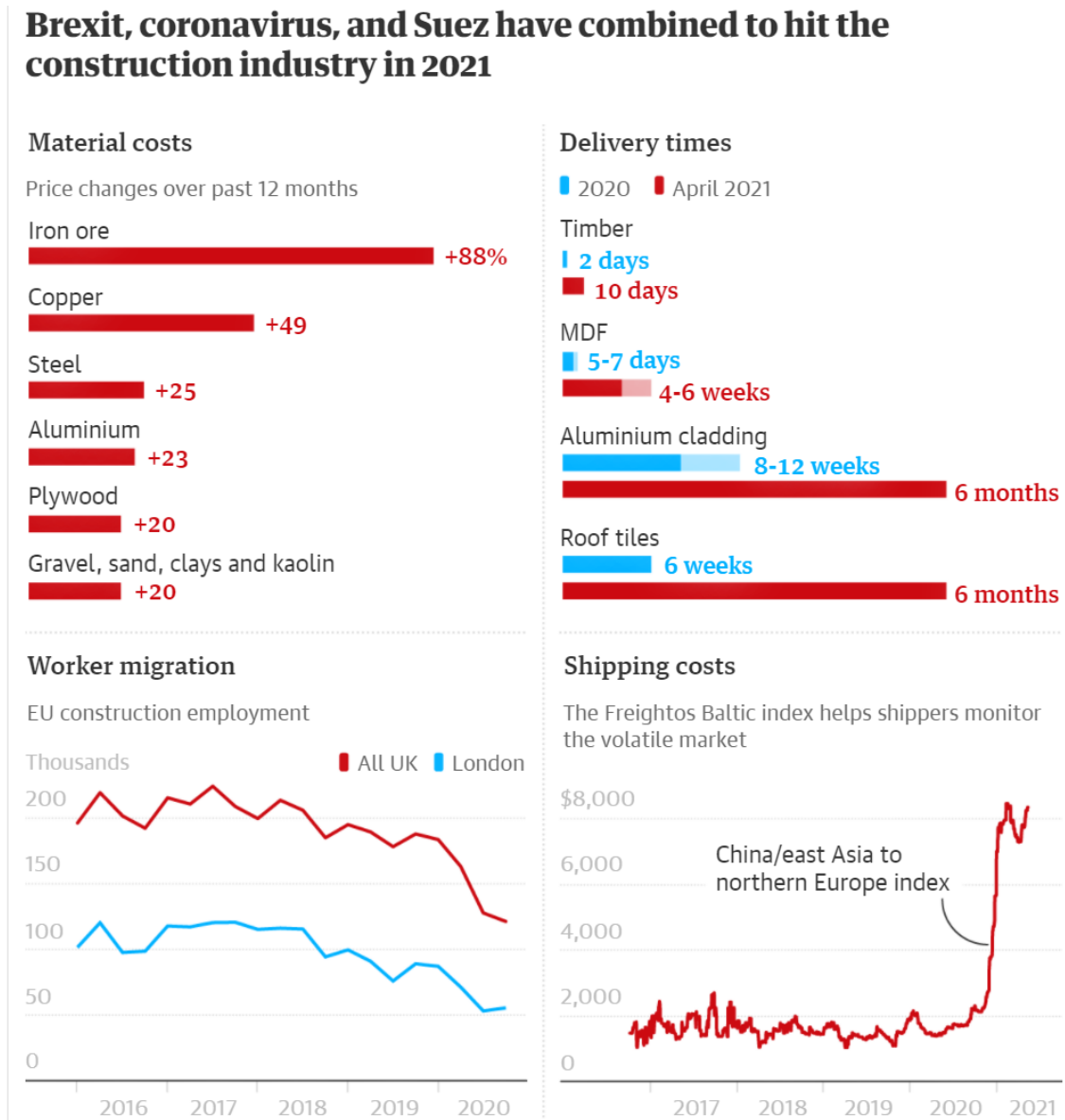


Figure 3 - Construction Materials Overview<sup>5</sup>

Further to the impact of the Coronavirus (COVID-19) Pandemic, the UK's exit from the EU has also impacted supply chain price inflation by way of extending lead times for materials due to non-tariff barriers. Brexit has also been a huge factor in the supply shortage given that 90% of softwood used for construction come from Europe<sup>6</sup>.

<sup>5</sup> <https://www.theguardian.com/business/2021/may/15/building-crisis-looms-as-dwindling-supplies-bring-sites-grinding-to-a-halt>

<sup>6</sup> [https://www.constructionnews.co.uk/supply-chain/construction-materials-shortage-5-key-items-in-short-supply-17-05-2021/?eea=dVVEeG9ob29UV2dUdFEExVvKQ5ZjdncG9YeVJyNWFiUXU2Wk9DTFVJQ3JpWXR3UDVvKRC9tQnJ3TFVXRmllYjJgdw==&n\\_hash=2207&mkt\\_tok=NDA3LUIYQi01MjkAAAF9GYskvHnhoNGnGfjWxQCW8hDGUM2RUIVNikxEscnxljCOU-npi2E9MBs8WGXgaPHTpk8qM9OcfMBR5EbtDZgCeizPvky-dFkYHjLP3SM6l3STVA](https://www.constructionnews.co.uk/supply-chain/construction-materials-shortage-5-key-items-in-short-supply-17-05-2021/?eea=dVVEeG9ob29UV2dUdFEExVvKQ5ZjdncG9YeVJyNWFiUXU2Wk9DTFVJQ3JpWXR3UDVvKRC9tQnJ3TFVXRmllYjJgdw==&n_hash=2207&mkt_tok=NDA3LUIYQi01MjkAAAF9GYskvHnhoNGnGfjWxQCW8hDGUM2RUIVNikxEscnxljCOU-npi2E9MBs8WGXgaPHTpk8qM9OcfMBR5EbtDZgCeizPvky-dFkYHjLP3SM6l3STVA)

Recent reports highlight the situation to be worsening with industry bodies stating that there is unlikely to be an improvement in timber supplies this year with almost no timber coming into the UK that is not already pre-sold<sup>7</sup>. Whilst manufacturers are working hard to overturn this decrease in supply by increasing production to seven days a week and establishing new supply chains it appears the increasing costs and issues with supply are only set to continue.

Scotland Excel are experiencing an unprecedented level of price increase requests across the building and timber framework. The most recent window saw 17 suppliers submit increases, more than twice the number received in any other window including previous generations of the framework. Suppliers are currently experiencing weekly increases on timber from importers and as such have contacted Scotland Excel requesting exceptional monthly windows for submitting increases as opposed to the six months fixed pricing for timber set out in the terms. During contract management meetings, in addition to exceptional price increases, framework suppliers have issued warnings that currently key products are on limited allocation and over the coming months there may be no product available for key items.

### *3. Engagement and Mitigating Actions*

Over several generations of our construction materials frameworks, Scotland Excel has developed and maintains close working relationships with key suppliers from its portfolio. Informed by this ongoing engagement, set out below are a range of mitigating actions for consideration in response to the ongoing market conditions.

- **Demand Planning** – engagement with local branches/local account managers to confirm planned maintenance and repair programmes over the coming months to plan stock levels and stockholding. Scotland Excel will consult with members on any required regional/national demand planning where appropriate.
- **Buying patterns and stockholding** – review buying patterns to consider what additional stock can be stored for products likely to be impacted. Scotland Excel can provide line level data or conduct targeted analysis to assist in this process.
- **Local Supply Chains** – our frameworks suppliers range from local micro suppliers and large national merchants with local branch networks facilitating consideration of alternative sources of supply. All contact details and ability to service are confirmed in master schedules and Scotland Excel can support any introductions to suppliers not previously utilised.
- **Core Spend and Non-Core discounts** – as core spend is subject to the price variance procedure and negotiation, unlike non-core lines, increasing core spend will mitigate increases experienced. Both Plumbing and Electrical contain multi-brand lots to maximise potential for core call off. If purchasing non-core, please ensure those non-core discounts offered are being utilised.
- **Alternative materials/finishes** – suppliers have encouraged members to be flexible where possible in the colour/finish of key lines which may be better value or have higher stock levels.
- **Bespoke Benchmarking** – Following the collection and upload of quarter four management information, Scotland Excel can rerun bespoke benchmarking for members, to inform purchasing options and best value available through the framework

---

<sup>7</sup> <https://www.constructionenquirer.com/2021/04/29/timber-and-steel-shortages-to-worsen/>

- **Indexation** - Scotland Excel is closely monitoring our indexation models, to inform negotiations with our supply base and monitor contract performance. This will also facilitate dialogue with suppliers about price decreases when conditions stabilise.

Framework risk registers are currently being updated, Building and Timber materials has been reclassified on the segmentation tool owing to the current risk set out above. Engagement with UIGs is commencing from 2<sup>nd</sup> June to share experiences of access to materials, ongoing planned and reactive maintenance requirements, supplier engagement, emerging risks and spend data.

Scotland Excel encourages attendance at these sessions to collaborate on the construction materials shortages and consider appropriate strategic activity to mitigate impact on our members.

#### *4. Price Variance Process*

Over the course of the last year the Scotland Excel Refurbishment and Maintenance team have worked extensively to manage a higher volume of price variances requests and negotiate sustainable rates whilst providing supplier relief where appropriate.

In accordance with the terms and conditions for construction materials frameworks, at the conclusion of confirmed fixed pricing periods, price variance windows periods are incorporated to maintain sustainable rates for both councils and suppliers.

Any price variance submission from suppliers must be substantiated and must be accompanied by independently verifiable evidence. Evidence submitted by suppliers must be to the complete satisfaction of Scotland Excel and failure to comply or participate to agreed timescales or to negotiate fairly can result in a price variance submission being rejected.

Once the increase is submitted, the data is input into the master price variance tool which provides a breakdown of the cost impact per product, lot, and supplier. It is important to note, a cost impact can only be produced across core items if members are purchasing core products, further emphasising the importance of purchasing core products as they can be regulated through the price variance procedure.

This tool will also provide a revised position for the indexation model which is utilised to track a relevant basket of indices, specific to each framework. This allows Scotland Excel to monitor how the contract is performing in comparison to the market and ensure members will continue to receive value through the framework.

Once the cost impact and revised indexation position is known, Scotland Excel conducts further market research based on the information provided in manufacturers letters. Negotiations will then take place to seek cost avoidance to minimise the cost impact on members.

All of this information forms a price variance report which is submitted for internal review and approval and details upcoming contract management activities to consider ahead of the next price

variance window as appropriate. Scotland Excel will demonstrate the price variance tool/reports with members in more detail at the upcoming UIGs.

## *5. Conclusion*

This market update has set out the materials most impacted to date by the Coronavirus (COVID-19) Pandemic and Brexit and shares insights from key suppliers on anticipated shortages, longer lead times and steep price increases for construction materials throughout 2021.

A range of mitigating actions have been outlined and Scotland Excel will continue to engage with suppliers and members to offer any additional support during these unprecedented times. Members are asked to attend upcoming UIGs for the relevant frameworks to share experiences and forward planning and to inform ongoing strategic procurement activities.