

# Workshop 3c:

## Developing a Four Star Gas Model

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Room: Packwood Room



National Housing Maintenance Forum

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# Procuring Gas Contracts and the 4\* Model



**NHMF CONFERENCE 2015**

- Passion for...
- People
- Performance
- Procurement
- Partnering



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## Presentation

- How well are gas contracts procured?
- Can we improve the 3\* Model?
- Introduction to the echelon 4\* model
- 4\* model - considerations
- 4\* model - benefits
- 4\* model – Case Studies (NHG & YHG)
- Procurement considerations
- Questions





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## How well are gas contracts procured?

- AGSM Review critical of the way boilers are bought, installed and serviced “*billions wasted*”
- Procurement processes “*bureaucratic, expensive, a waste of public money, no longer fit for purpose, unsustainable, lacking in innovation and collaboration, leading to fragmented economies*”.



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## How well are gas contracts procured?

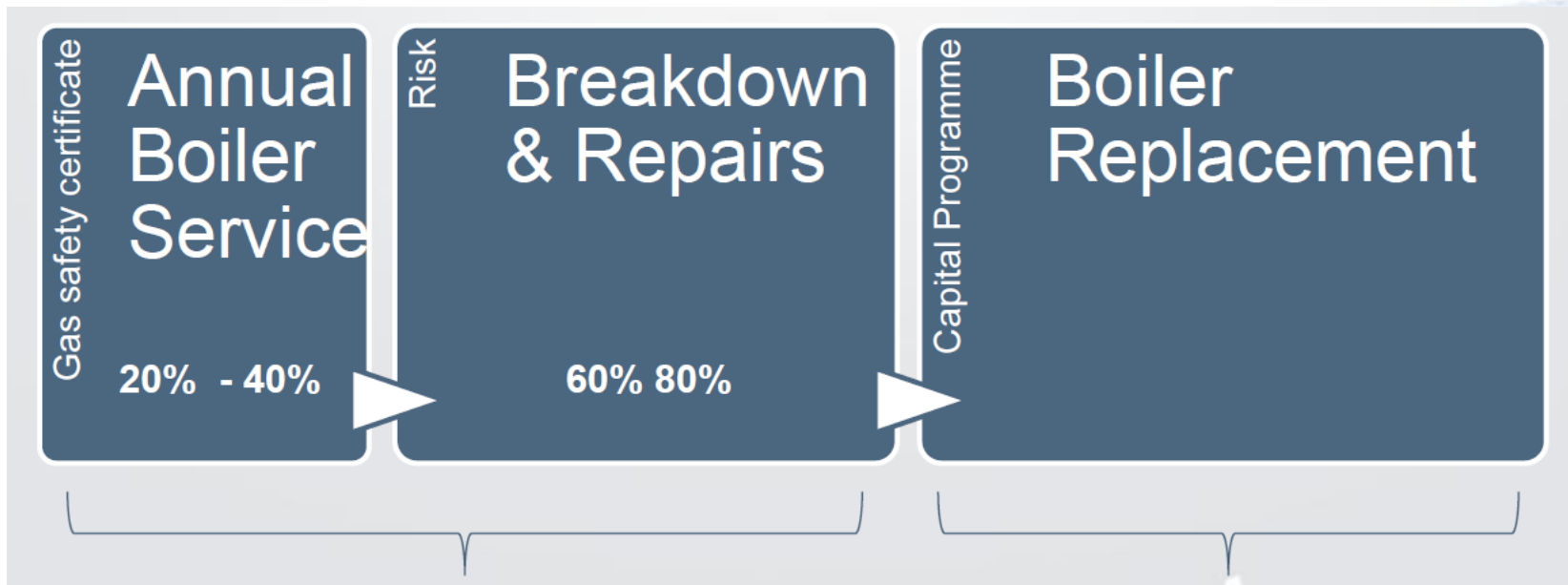
- Procurement frameworks don't always encourage the best value for money over the lifetime of a boiler.
- AGSM recommends wider benchmarking and standardisation, lifecycle costing rather than “*cheapest wins*”, increased tenant engagement, industry collaboration and a review of legislation.

<http://www.supplymanagement.com/news/2014/billions-of-pounds-wasted-by-housing-associations-on-boiler-procurement?sthash.YJLCRXYo.mjjo>



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## Traditional 3\* Model



**3\* Model**

**Separate Replacement Contract**



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## Improving the 3\* Model?

- High risk element priced into breakdown
- Multiple breakdowns to non-performing boilers
- No incentive on Service Provider to drive down client cost
- 'Front-loaded' model
- Lack of visibility on 'actual' cost of service delivery
- Difficulty in identifying waste/use of data to drive replacements
- Lack of joined-up approach with boiler replacements
- Often leads to boilers being extended beyond life



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## echelon 4\* Model

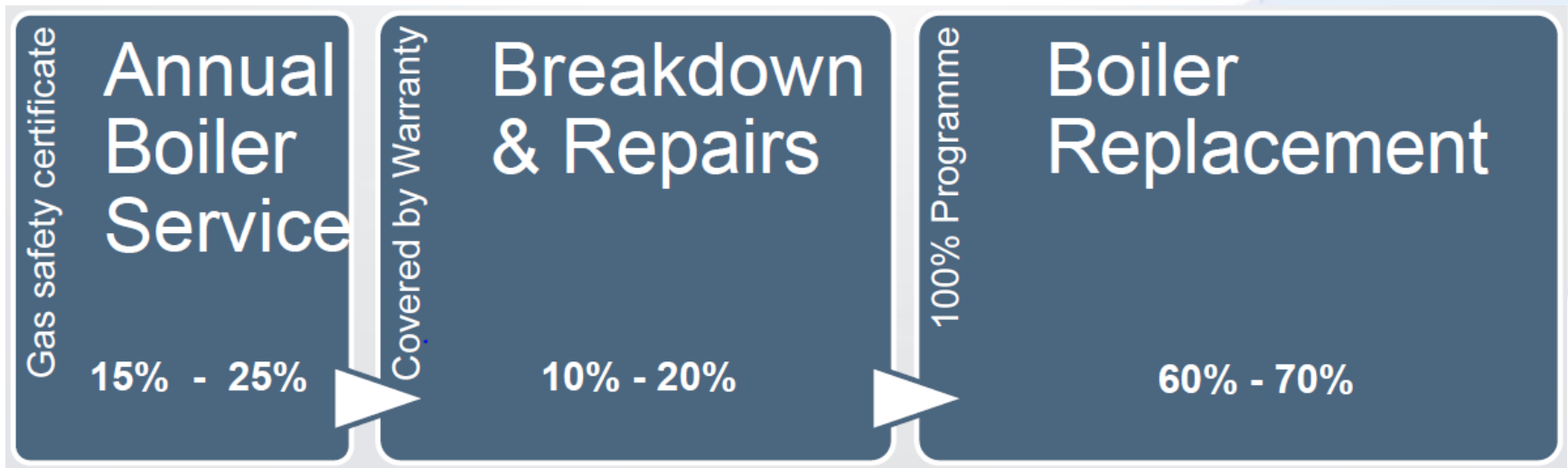
- Builds on 3\* with inclusion of boiler replacements
- 10-year contract/all boilers replaced\*
- Development of 10-year warranty to minimise Service Provider risk
- Service Provider dictates boiler replacement programme (from Year 2)
- Single annual price per property\*
- Agreed costs for additional works (e.g. full install - boiler)
- Cost model provides transparency on price build-up
- Risk is profiled over the 10-years
- Model identifies margin which links to performance





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## echelon 4\* Model





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## echelon 4\* Model - Considerations

- Must be prepared to align replacements with servicing
- Move to standardised components
- Must have good appliance data (incl. breakdown history)
- Acceptance that the age of the boiler shouldn't be the primary driver for replacement
- Development of 10-year warranty to minimise Service Provider risk
- Need to engage supply chain – boiler choice(s) key
- Direct or via framework/consortia?
- Increase energy efficiency – target inefficient boilers



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## echelon 4\* Model - Benefits

- Reduces the 'risk' element in pricing breakdowns
- Service margin recycled back into replacement cost
- Reduction in the number of visits to property
- Reduction in breakdowns = less calls to call centre
- Social Value – more attractive to Service Provider to attract staff/apprentices as install work included
- Standardisation of boilers
- Ability to maximise boiler warranties
- Budget certainty
- Efficiencies – Network saving £1.3m p.a./YHG ?????



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Network Housing

## Case Study 1 - NHG

- Network Housing Group 2013
- 4-Lots using variant models
- Focus on cost certainty over 10-years
- All boilers replaced over 10-year life of contract
- Fixed annual price per dwelling (including boiler)
- Improved customer experience through overhaul of appointment system
- Full transparency on costs through model
- Engagement of boiler manufacturers
- 30% of properties identified for full install (extra-over)
- £9m contract saving (£1.3m in first year)



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## Case Study 2 – YHG

- Your Housing Group 2014
- 6-Lots using variant models
- Focus on cost certainty over 10-years
- 80% boilers replaced over 10-year life of contract
- Fixed annual price per dwelling (including boiler)
- Intelligence growing – decreasing 3\* rate
- Savings (just on breakdowns – c £1m)
- Detailed analysis of savings....





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# Cost Comparison – Detail (Example)

Note discounted  
breakdown rate

Lot 2	3*	Servicing	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	340.00	4,396	1,494,640.00
		Repairs	67.00	67.00	67.00	67.00	67.00	67.00	67.00	67.00	67.00	67.00	67.00	670.00	4,396	2,945,320.00
	4*	Servicing	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	34.00	340.00	4,396	1,494,640.00
		Repairs	65.00	64.75	64.50	64.25	64.00	63.75	63.50	63.50	63.50	63.50	63.50	640.25	4,396	2,814,539.00
Lot 3	3*	Servicing	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	380.00	416	158,080.00	
		Repairs	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	750.00	416	312,000.00	
	4*	Servicing	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	380.00	416	158,080.00	
		Repairs	73.00	72.75	72.50	72.25	72.00	71.75	71.00	71.00	71.00	71.00	718.25	416	298,792.00	
Lot 4	3*	Servicing	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	330.00	1,707	563,310.00	
		Repairs	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	650.00	1,707	1,109,550.00	
	4*	Servicing	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	330.00	1,707	563,310.00	
		Repairs	63.00	62.50	62.25	62.00	61.75	61.50	61.25	61.25	61.25	61.25	618.00	1,707	1,054,926.00	



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# Cost Comparison – Overview of Savings

## Savings on both Servicing & Breakdown

			Bidder 1	Bidder 2	Bidder 3	Bidder 4	Bidder 5	Bidder 6	Bidder 7
Lot 1	4*	Servicing	-	105,968.30	-	-	139,535.10	-	24,686.80
		Repairs	-	273,867.96	226,656.00	134,349.90	209,444.31	-	20,685.14
Lot 2	4*	Servicing	-	86,135.98	-	-	82,882.18	-	-
		Repairs	130,745.83	174,652.56	130,781.00	78,883.61	124,318.88	-	-
Lot 3	4*	Servicing	-	-	-	2.66	6,327.36	-	-
		Repairs	-	-	13,208.00	3,147.27	9,497.28	-	-
Lot 4	4*	Servicing	-	-	-	14.01	41,889.78	-	5,949.51
		Repairs	-	-	54,624.00	23,387.71	62,868.81	-	4,985.11
Lot 5	4*	Servicing	-	-	-	49.78	53,379.81	-	-
		Repairs	-	-	85,536.00	56,307.40	94,544.01	481,327.11	-
Lot 6	4*	Servicing	-	93,198.74	-	11.30	91,452.66	-	17,081.75
		Repairs	-	193,259.80	156,832.00	52,541.33	129,876.50	-	14,312.84
<b>Total</b>			<b>130,745.83</b>	<b>927,023.35</b>	<b>667,637.00</b>	<b>348,595.40</b>	<b>1,046,016.68</b>	<b>481,327.11</b>	<b>87,701.15</b>

This tab shows a summary of the variance between the 4\* price for servicing and repairs and the 4\* price for the 10 year period

All Repairs rates are less over the 10 years for the 4\* model than for the 3\*



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## Procurement Tips







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## Full Review?

- Ensure Appliance data is accurate
- Understand breakdown history (3 years)
- Review servicing and boiler replacement budgets
- Test the service – customer satisfaction
- Soft market testing – include suppliers
- Stakeholder engagement
- 1:1s with all incumbent contractors
- Resident workshops/surveys
- Understand and align expectations
- Opportunity to drive change!



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## Key Considerations?

- Duration of Contract (10-years?)
- Form of Contract – consider carefully & understand
- Gaps in data – can you fill them?
- Incentivisation – what incentives can be included?
- Lot structure – what is optimal delivery model
- Social Value – what can be delivered?
- Call handling – who is best placed to take calls?
- Property MOT – consideration of single visit
- *Which procurement route.....?*



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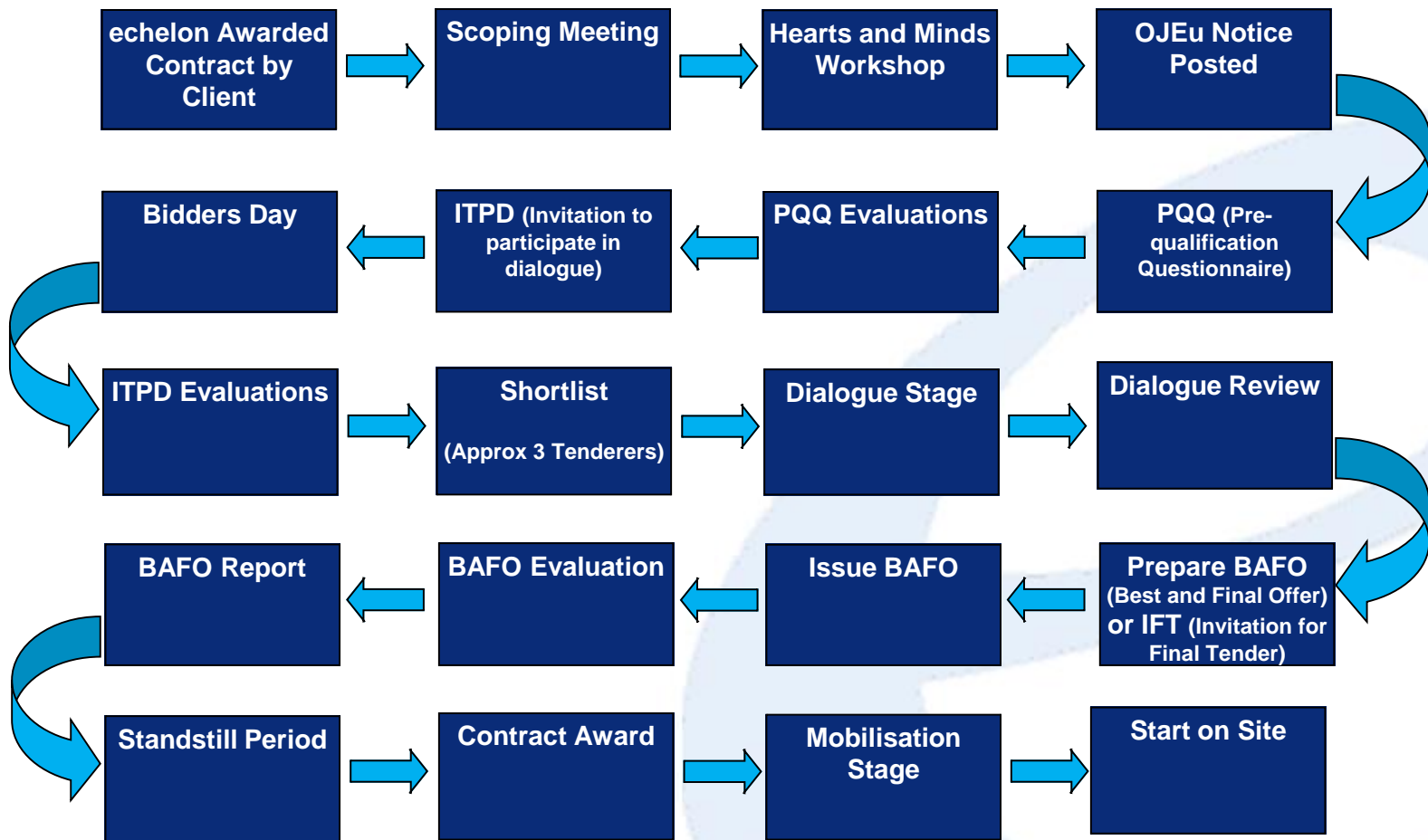
## Restricted versus Competitive Dialogue (CD)

- Restricted is traditional route and both routes work, but...
- Effectively a single stage tender
- CD can be used where 'complex' procurement
- CD – PQQ in same way
- Initial 'outline' solution – shortlist down (3)
- Enter dialogue stage with bidders
- Final tender issued after dialogue
- Echelon 'lean' model adds about 4 weeks
- Key benefit – engagement of team
- Changes are coming!



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## CD Model





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**Questions?**

