

Report to:	Cabinet	Date of Meeting:	7 April 2022
Subject:	Water Self-Supply Services (2022 - 2026)		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt Confidential Report:	No		

Summary:

Report to seek approval of the continuation of water utility 'self-supply' arrangement with the support of the existing Managing Agent after a positive evaluation of the initial first full year of operation.

That members note the investment in 'mobile data loggers' as a cost-effective approach to address 'unaccounted water losses' to net financial/environmental benefit across the Council portfolio (Corporate, Schools and New Directions).

Recommendation(s):

That

- (1) the continuation of the wholesale contract, which is deemed to be 'rolling' (without end date); and that the contract can only be terminated should Sefton Council choose to revoke its licence or break the terms of business be noted; and
- (2) authority be granted for the Executive Director of Corporate Resources and Customer Services, in consultation with the Cabinet Member - Regulatory, Compliance and Corporate Services, to directly award the Contract for a managing agent to Waterscan, for a maximum period of 4 years comprising an initial 3 year period with an option to extend for up to 1 period of 12 months.

Reasons for the Recommendation(s):

Current arrangements expire on 30 September 2022. All options available to the Council have been assessed and the option of self-supply with a managing agent is recommended based on an assessment of the first full year of operation which highlighted

- A substantial increase in reliable/real meter readings. This reduces the reliance on estimated readings being used for billing, keeping expenditure in line with water consumption.
- A data cleanse and monthly billing tariff analysis (yielding £25K of savings/refunds) and ongoing financial benefits.
- Ongoing/real time proactive support to manage high/unaccounted for (e.g. leaks) water consumption.

Alternative Options Considered and Rejected: (including any Risk Implications)

Option 1

Do nothing – Under self-supply, the wholesale contract would not expire under the terms of the licence agreement. Sefton would still be required to operate under the terms of the licence. Allowing the current Managing Agent contract to expire (30 September 2022) would mean Sefton Council would operate under self-supply unsupported as there is no in-house capacity to deliver this service. This would expose the Council to significant risk of (a.) paying water & sewerage charges without validation and (b.) breaching licence conditions which could lead to significant financial, legal and operational demands and risks. Therefore, this option was rejected.

Option 2

Exit self-supply and return to the retail market – Existing retailers could displace all retail functions (meter readings, billing and customer service). However, under the current arrangement, Sefton have experienced benefits in improved data collection, financial savings and now has a 'voice in the market'. Returning to the retail market would mean Sefton would lose these benefits. Therefore, this option was rejected.

Option 3

Carry out an open procurement exercise for the appointment of a managing agent – This is not an option available to Sefton currently. Only one suitably qualified managing agent operates in the market (Waterscan) as confirmed by OFWAT and the market operator MOSL.

What will it cost and how will it be financed?

(A) Revenue Costs

The day to day costs of self-supply is met from individual departmental revenue budgets.

(B) Capital Costs

The anticipated costs of the mobile data loggers is estimated as £2K - £5K and would be fully funded from year one savings already secured.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):	
None	
Legal Implications:	
None	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y
The overall strategy to reduce wasted water, especially heated water, has potential to reduce Scope 1 carbon emissions and therefore contribute positively to the Net Zero carbon emissions by 2030.	
Equality Implications:	
There are no equality implications.	

Contribution to the Council's Core Purpose:

<p>Protect the most vulnerable: The vulnerable are highlighted as those most likely to be affected by climate change. More efficient use of water and disposal of wastewater supports the wider aspects of the Sefton Council climate change strategy (to mitigate and adapt to the effects of climate change).</p>
<p>Facilitate confident and resilient communities: The efficient use of water and disposal of wastewater contributes to adapting to the effects of climate change which is a key element of having a resilient community.</p>
<p>Commission, broker and provide core services: Not applicable.</p>
<p>Place – leadership and influencer: The more efficient use of water and disposal of wastewater allows the council to lead (by example) the community on its commitment to reduce carbon footprint of water and adapt to climate change.</p>
<p>Drivers of change and reform: Not applicable.</p>

Facilitate sustainable economic prosperity: Positive, through securing competitive prices and reducing waste.
Greater income for social investment: Not applicable.
Cleaner Greener: Reducing the demand for water/wastewater helps protect the environment.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6669/22) and the Chief Legal and Democratic Officer (LD.4869/22) have been consulted and any comments have been incorporated into the report.

Procurement & Legal Services regarding the procurement options for a managing agent.

(B) External Consultations

The water industry regulator (OFWAT) and the market operator for the non-household retail market in England, MOSL (Market Operator Services Ltd) both confirm the lack of existence of an alternative qualified Managing Agent at this moment in time.

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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Appendices:

There are no appendices to this report

1. Introduction/Background

- 1.1 In July 2019 Cabinet approved the decision to access water services directly from the regional wholesaler, United Utilities, via the support of a Managing Agent. In the current water market, United Utilities is the only water wholesaler for the North West region, however, non-domestic customers are able to access the wholesale supply through either a retailer or via a self-supply licence (with an internal or external managing agent).
- 1.2 This move was designed to improve service and reduce costs. Having an external managing agent has ensured that Sefton Council can operate without the need for a retailer, displacing retail support such as meter readings, billing, validation of consumption and customer service. It also provides 100% compliance according to its self-supply licence conditions.
- 1.3 Within two years of the service being introduced, an assessment was to be made of the move from retail services to self-supply, and a recommendation made. This report outlines performance to date and a recommendation on future water services.

2. Cost reductions/savings

- 2.1 Following the first full year of operating 'self-supply' (Nov 20 – Nov 21) the annual wholesale cost to the Council (Council, schools and New Directions) portfolio was approximately £1.280M per annum. With additional fees (Regulatory and Managing Agent fees) added, the total cost is approximately £1.345M per annum.
- 2.2 In order to provide a comparison of the equivalent retailer costs, the following estimate is provided. The 'retail margin' previously applied prior to self-supply was estimated to add 8-9% (approx. £109K) on to the annual wholesale charge. If the same percentage uplift is applied to current wholesale charges it is likely that remaining as a retail customer would have meant the full charges for water services would have been £1.389M. This equates to an avoided cost of approx. £44K p.a. Additionally, small savings have been achieved on the charges and fees which are returned to Sefton Council. A net saving of approximately £1K per month is achieved and ringfenced to provide small water saving projects and interventions that avoid cost/ generate savings to the Council.
- 2.2 In addition to the operational savings detailed in 2.1 and 2.2, the Managing Agents stewardship of Sefton Councils water accounts have also achieved the following savings by correcting incorrect surface water tariffs.

Site	Saving over 2-year period
Southport Crematorium	£6,299.38
Sports Pavilion Buckley Hill Lane	£3,181.02
Cambridge Nursery	£495.77
Rowan High School	£1,102.27
Strand Shopping Centre car park	£1,212.98
Sefton Security	£1,212.98
Total	£13,504.41

3. Other efficiencies

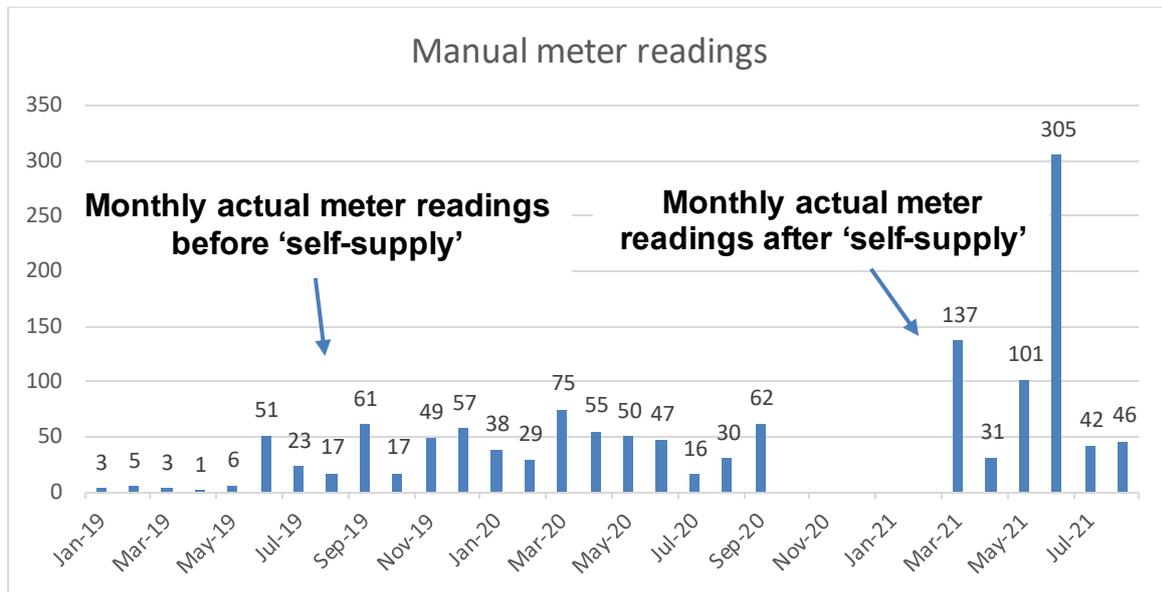
- 3.1 In addition to financial benefits from improved billing practices, increased meter reading (in spite of the pandemic), has greatly improved Sefton's ability to identify and resolve water consumption issues. These have also led to financial savings, including a school that had not received a meter reading for several years that had been overcharged. Sefton was able to attain a refund of £11.4K for the school and ensure correct charges were applied going forward.

4 Recommendation to remain 'self-supply'

- 4.1 Given the financial savings, efficiencies and carbon savings made to date, as well as the potential for further improvement, it is recommended that Sefton remain 'self supply' and maintain the services of the managing agent for the period 1 October 2022 – 30 September 2025, with a possible 12 month extension.
- 4.2 This will require a direct award to procure the services of the managing agent Waterscan, allowable under Regulation 32 of the Public Contract Regulations (2015). The justification for a direct award is that Waterscan are currently the only supplier who can deliver the services, required to maintain Sefton's licence obligations. This has been confirmed by both OFWAT & MOSL.
- 4.2.2 Members note the continuation of the wholesale contract, which is deemed to be 'rolling' (without end date). The contract can only be terminated should Sefton Council choose to revoke its licence or break the terms of business.
- 4.2.3 Waterscan have provided a recent quotation for maintaining their existing services over the next three year period. This represents a 6.5% increase in year 1 with no further price increase. This is within the margin that we would expect to pay to a retailer which demonstrates good value to money to the Council. Within this period, a watching brief will be maintained, for any developments and new agents entering the market.

5 Future performance improvements- increased water meter readings

- 5.1 The water industry requires retail water companies to manually read water meters just once every 2 years for 95% of all accounts. This industry standard is set (by the regulator, OFWAT) to ensure water companies bill accurately and any cumulative errors from billing from estimated readings does not fall to far out of line. However, in practice, difficult to access water meters can go un-read for several years. These sites may not be geographically remote, it may be only the meter e.g. in an underground water chamber, may be difficult to access.
- 5.2 This has meant that some of Sefton Councils sites have experienced large 'catch-up' bills, leaving a large liability to pay un-budgeted for expenditure.
- 5.3 The current Managing Agent works on a standard of 2 readings per year. This has been difficult to achieve, especially due to site restrictions due to COVID but a noticeable improvement has been achieved (see chart below).



- 5.4 Improved frequency of meter readings allows for better water management as well as more accurate billing. Actual 'true' water meter readings help identify high unaccounted water losses such as leaks, faulty cistern/urinal controls or general unaccounted for higher daily consumption. Identifying such issues allows for interventions to be targeted more efficiently, such as water audits, leakage detection as well as assisting at site level on checks and behavioural change.
- 5.5 During 2022/23 with the support of the Managing Agent 'mobile data loggers' will be installed on sites that demonstrate the need for investigation. Typically, sites which lack data or have readings that indicate high consumption and warrant further investigation
- 5.6 The full cost of this work is estimated cost between £2k and £5K depending on the number of sites identified for analysis. This will be fully met through the income generated in the first year of self supply operation.
- 5.7 The option of installing Automatic Meter Readers (AMR) at all of Sefton Councils sites has been explored and it was concluded that this would not be the most effective option for Sefton. Whilst it would lead to a saving of approximately £10K annually on the services provided by the managing agent in providing true meter readings, the set-up fees (with the Wholesaler application charges) and annual delivery charges would likely add an overall additional cost of £95K per annum in the first year and £44K in following years. This option would also likely add a further administrative burden currently beyond the capacity of the existing Energy & Environmental Management Team.