

Report to:	Cabinet	Date of Meeting:	25 July 2019
Subject:	Water Utility Procurement Plan		
Report of:	Head of Corporate Resources	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:

This report will provide members with the options available to Sefton Council in the procurement of water services, with a subsequent recommendation that the Council becomes “Self-Supply” in the water market and appoints a managing agent as partner for market entry, data collection and billing.

Recommendation(s):

It is recommended that Cabinet approve:

1. The purchase of Water & Wastewater Wholesale services directly from United Utilities as the sole wholesale provider for all Council buildings, including all LA supported schools, and that this service is made available to partners (New Directions & Academies) currently included in existing utility supply contracts.

2. Run an advanced request for quotation exercise to appoint a management agent, that will be published in the Governments Contracts Finder and on the chest portal, for a contract duration of 2 years.

3. That authority be delegated to the Head of Corporate Resources in consultation with the Cabinet Member for Regulatory, Compliance and Corporate Services to award the contract for a managing agent resulting from the procurement.

4. That Authority be delegated to Head of Corporate Resources and the Head of Strategic Support for the review, approval and signature of the Water Supply and Sewerage Licence Application and Wholesale Contract for a 2 year period.

5. That the pilot project be reviewed and the results reported to the Cabinet Member for Regulatory, Compliance and Corporate Services six months prior to its end date.

Reasons for the Recommendation(s):

These recommendations will allow the Council to move away from our current 'deemed' contract rates and comply with Public Contracts Regulations (2015), achieve the largest potential savings from the options examined and have maximum control over cost saving activities that rely on accurate billing. In addition the Council will have

- voting rights as a market participant, allowing Sefton Council to directly influence the market;
- a direct relationship with the wholesaler for quicker issue rectification;
- more regular water meter readings and improved provision of water consumption data; and
- access to specialist software to allow Sefton Council and site managers to more efficiently and effectively manage water consumption;

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

- Do nothing

Remaining on deemed retailer rates currently does not provide best value for Sefton. Remaining on deemed rates also conflicts with our requirements under the Public Contracts Regulations (2015).

- Switch retailer

Not considered cost effective and unlikely to yield significantly large saving for retail services due to OJEU procurement costs.

- Sefton MBC access the retail market via a framework

Although this method would avoid OJEU costs and could improve benefits secured as part of a group procurement cost savings are still likely to be marginal.

- Access the CCS framework as part of a larger procurement group in the Liverpool City Region

Potentially higher savings possible than Sefton MBC accessing a framework alone, however, there are no plans currently to progress. Results of this pilot will be relayed to the LCR group to aid progress.

What will it cost and how will it be financed?

(A) Revenue Costs

The cost of all utilities is met from individual departmental revenue budgets and any resulting savings will contribute to the councils overall financial position .

(B) Capital Costs

None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): All resource implications are contained within the report

Legal Implications: This proposal will ensure that the Council complies with the Public Procurement Regulations 2015
Equality Implications: There are no equality implications

Contribution to the Council’s Core Purpose:

Protect the most vulnerable: Not applicable
Facilitate confident and resilient communities: Not applicable
Commission, broker and provide core services: The provision of these services will enable to the Council to deliver its core services
Place – leadership and influencer: This is an opportunity for the Council to work with partners to reduce utility costs in Sefton.
Drivers of change and reform: Not applicable
Facilitate sustainable economic prosperity: The benefits of access to water meter and other charging information centrally/at a site level, coupled with the Corporate Landlord model will greatly improve short/long term savings and investments for the Council and its partners.
Greater income for social investment: Not applicable
Cleaner Greener: Our approach includes the ambition to reduce water losses/consumption and positively contribute to flood risk management. This makes a positive contribution towards Sefton Council efforts to adapt to a changing climate.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD.5705/19) and Chief Legal & Democratic Officer (LD4829/19) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

As part of our correspondence to schools and partners within our energy contracts, we have made them aware of our intention to secure a new contract for water services and will contact them again post Cabinet decision.

Implementation Date for the Decision

Immediately following the Cabinet meeting.

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Appendices: None

Background Papers:

Utility Procurement Plan - Cabinet on Thursday 6th September, 2018. Agenda Item 43

<http://modgov.sefton.gov.uk/moderngov/mglIssueHistoryHome.aspx?Id=53511>

1. Introduction/Background

- 1.1 This report will consider the procurement plan for the Council's water utility contract and recommend a preferred option as required under "Utility Procurement Plan" - Cabinet Report 6th September, 2018.
- 1.2 Sefton Council is currently on 'Deemed contract rates' with water services retailer, Waterplus. Since competition was introduced into the non-household part of the water market (April 2017), the previous water supply monopoly has been split into wholesale and retail services. The Council must use United Utilities as its wholesaler; however, it now has a choice of retailer. As Sefton has not 'switched' we continue to use, Waterplus, which is a retailer formed from the retail services of United Utilities and Severn Trent.
- 1.3 The water market expects a retailer to supply the retail services, such as reading meters, issuing bills and customer service and this was generally understood to make up 5 - 7% of the full charges on bills paid. As the retail market has developed there is the option to engage an intermediary known as a managing agent which displaces the retail element with a supported self-supply model allowing a more direct relationship with the Wholesaler, in the Council's case United Utilities.
- 1.4 The remaining 93 – 95% of the bills paid are made up from the Wholesale charges (United Utilities). These charges are fixed and regulated by OFWAT. This is largely for the supply of water and the removal and treatment of wastewater such as effluent (sewerage) as well as rainwater (Surface Water & Highways Drainage).
- 1.5 Officers have carried out an assessment of all options to enter the water market to establish those most beneficial to Sefton Council and its utility partners.

- 1.6 This has been evaluated in terms of the potential to make savings, and also factors such as:
- Internal resource availability and our preparedness to switch from 'deemed contract'
 - Our requirements from a retailer/ intermediary
 - The retail/intermediary service 'offer'
 - Framework options such as provided by the Crown Commercial Service
 - The Liverpool City Region as a joint procurement and the experiences of Manchester's STAR Procurement group
- 1.7 A recent analysis of Sefton Council and its partners expenditure on total annual water services is over £2M, of which £130K is for retailer services. The average retail charges therefore make up 6.2% of the full water bill charges.
- 1.8 Wholesale charges (93.8% of full water charges) are fixed and totally unavoidable. Switching retailer arrangements therefore only applies to a maximum of the 6.2% for retailer services.
- 1.9 The water retail marketplace is still evolving, However, it should offer non-household customers
- Customer billing
 - Customer service
 - An interface between the customer and the wholesaler (including legal compliance gained from OFWAT)
 - Unit savings for water usage / rainwater drainage
 - An option to purchase 'ancillary services'
- 1.10 The report has taken all of the services in 1.9 into account when evaluating options.

2.0 Options analysis Summary

2.1 The table below provides a summary of the options evaluated:

Options	1 Do Nothing	2 Switch retailer	3 Framework	4 LCR Collabora- tion	5 Self-Supply
Contract type	Remain on "deemed contract"	2/3-year utility retailer contract	2/3 year contract	This is not currently available	2 year licence to self-supply with assistance of managing agent to replace retail element
Procurement	None required	OJEU	Award via Framework	N/A	RFQ
Legal compliance	No	Yes	Yes	N/A	Yes
Possible Savings £ (Corp./LA Schools)	Nil	0 – 25*K annually	0 - 25* K 0 – 45** K annually (less ancillary services costs)	N/A	20 K 1 st year 44 K annually onwards
Service Levels	Minimum standard (poor)	Improved	Improved with framework retail support	N/A	Improved with managing agent support. Direct relationship with Wholesaler
Added value	Nil from current standard	Improved account support Specialist software***	Improved account support Specialist software***		Improved account support Data cleanse Specialist Software

*anecdotal evidence

**Industry estimates

*** likely to be available

2.2 From the options evaluated it can be seen that

Do Nothing

Remaining on deemed contract is the least favourable option due to the deemed contract rates being the most expensive and without running any procurement exercise for water services Sefton Council would not meet the Public Contract Regulations.

Deemed contract service standards have presented challenges in maintaining accuracy in billing, regular meter readings, resolving issues and complaints and lead to late payments and the accrual of large debts. These challenges have also become an unsustainable burden within the Council and prohibit development of further saving activities and added value services have been difficult to explore and would come at additional cost which may also be at conflict with Public Contract Regulations.

Switch retailer

A switch in retailer and entering in to a full contractual arrangement will require an OJEU procurement to ensure compliance with Public Contract Regulations. Full OJEU procurement will take approx. 6-9 months to complete with associated officer time costs. Tariff and service charge rates are likely to improve on deemed contract rates, however savings based on anecdotal evidence are estimated to be lower than other options. Service standards are also likely to improve as well as become more transparent.

Added value services such as water saving activities would be optional and at additional cost. Officers have raised the requirement for appropriate targeting of retailer support including specific surface water investment. To date, retailers have shown little interest in supporting the types of support required.

Framework (to switch retailer)

Entering a framework agreement will bring a similar level of savings and support benefits as switching retailer. However, although utilising a framework would eliminate the need for OJEU procurement, it would still require us to align with the framework providers purchasing arrangements. It would also bring an additional level of customer support from the framework provider.

However, within the framework arrangement, Sefton Council would still ultimately be reliant on the same retailers on offer as it would if switching retailer. Additional services and funding mechanisms that the Council seeks are not developed and would come at additional cost.

Research by the Consumer Council for Water indicates that switching retailer is likely to yield around 3-4% savings (estimated at £45k for Sefton Council and LA schools). However, it is felt that retailers are offering this discounting, based on the requirement for customers to purchase ancillary services, thus reducing the savings available.

LCR Collaboration

The LCR meets on an ad hoc basis to discuss potential joint procurement collaboration, however there are no firm plans to jointly procure water services and Sefton is unaware of any LCR authority moving away from deemed contract. The proposed approach and experience of Sefton will be useful to assist the wider LCR group when water procurement is reviewed.

Self-Supply

The 'self-supply' option involves entering the water market without the services of a water retailer and creates a more direct relationship with the water wholesaler. This would only be possible with the appropriate expertise of a 'managing agent' and would initially involve applying to OFWAT for a licence agreement.

On successful granting of a licence, Sefton Council would be required to make arrangement for market entry, cleanse its billing status ahead of a switch away from the current retailer and setup new billing and consumption monitoring arrangements. The costs involved of setting up the Self-supply and paying the managing agent will make a small saving in comparison with all other options over the short term.

It will provide a method for recovering costs, and the initial & continuing fees via the billing system.

The managing agent would need to be procured in line with Sefton guidelines. Although our current understanding is that there is only one credible managing agent operating in the market at this time, to ensure transparency, officers will run an advanced request for quotation exercise, that will be published in the Governments Contracts Finder and on the chest portal, for a contract duration of 2 years. This would allow the Council to test the current market and by reviewing the contract 6 months prior to contract termination, enable a review in this evolving market.

The benefits of this particular approach for Sefton are,

- Flexibility to utilise & maximise savings in house
- Relatively short procurement route
- Flexibility of a two-year contract in an evolving market
- Ancillary services not required (charged for) – a reflection of in house expertise

3.0 Proposal and Timescales

- 3.1 Based on the options analysis in section 2.0, the recommended course of action is to undertake a 2 year self supply pilot. This would enable the Energy & Environmental management team to carry out a period of financial monitoring to fully establish any potential savings available to the Council.
- 3.2 The target delivery date is anticipated to be 6 months from Cabinet approval and therefore expected April 2020. However, the processes and timescales will be exposed to the application process.
- 3.3 Alongside the self-supply arrangement, the Energy & Environmental management team are preparing support activities to enhance savings based on anticipated funding, improved data such as meter readings and refined billing processes. For instance, mobile water meter data loggers are currently being purchased to identified water wastage and leaks more efficiently. Such activities are further expected to compliment the corporate landlord model and overall facilitate a more seamless intervention in driving down costs related to the Council's water spend.

4.0 Summary of costs for entire portfolio (utility contracts)

- 4.1 The table in 2.1 shows the potential savings to corporate sites and Sefton controlled schools only. For a summary of anticipated costs for the entire Sefton portfolio currently managed on our utility contracts, which includes academies and New Directions' sites, please see the table below. Please note, that these are estimates which assume no change to current consumption, building occupation and wholesale costs / other market developments.

Table 4.1 Estimated yearly costs for the full Council portfolio

	Current	Year 1	Year 2
Total water Costs	£2,229,433	£2,093,026	£2,068,026
Wholesale	£2,019,026	£2,019,026	£2,019,026
Retail	£210,407		
Managing agent		£65,000 (+£9,000 fees)	£40,000 (+ £6-9,000 fees)