

WATER PROCUREMENT UPDATE

To: Commercial and Investment Committee

Meeting Date: 24 April 2020

From: Steve Cox, Executive Director, Place and Economy

Electoral division(s): All

Forward Plan ref: N/a **Key decision:** No

Purpose: To update the committee on progress towards procurement of a water supplier, and request approval to proceed.

Recommendation: To proceed with procurement of a water supplier through the Crown Commercial Services (CCS) aggregated Lot 1 competition in April-May 2020 (option 2 in Table 1, paragraph 2.10 below).

<i>Officer contact:</i>	<i>Member contacts:</i>
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1. BACKGROUND

- 1.1. The Council directly buys water and/or sewerage services for approximately 160 sites¹, and the Council's recorded spend on mains water and sewerage is around £200,000 per year.
- 1.2. In May 2017, Members (on the Assets and Investments Committee²) approved the use of the Crown Commercial Services (CCS)/ESPO framework contract to appoint a water provider. However, there were a number of factors that led us to delaying our participation, in particular the immaturity of the market at that time. ESPO also advised us against procuring a supplier early on, believing that greater benefits could be obtained by waiting until the market had matured.
- 1.3. In July 2019, Members of the Council's Commercial and Investment Committee³ approved a recommendation to proceed with a water services procurement in early 2020, utilising Lot 3 of the CCS framework contract. At that time, neither ESPO nor CCS were planning any further bulk aggregated competitions, and so the only option available was to undertake a secondary competition in-house (using the LGSS Procurement system) - the framework contract has no provision to make a direct award.
- 1.4. In January 2020, the Council launched an Invitation to Tender to all suppliers on the framework. Six suppliers expressed an interest, and some asked various clarification questions as part of the procurement process. However, when the tender closed on 10 February 2020, no bids had been received.
- 1.5. With no contract in place, Cambridgeshire County Council is currently still supplied via the 'default' service by the retailers that we were automatically allocated to when the market opened in April 2017. Currently, approximately two thirds of the Council's water and sewerage services are supplied by Wave (the trading name of Anglian Water Business National Limited), with the remaining third supplied by Cambridge Water Business (a trading name of Pannon Water Services).

2. MAIN ISSUES

- 2.1. *Compliance.* There is a compliance risk around 'business as usual' and continuing with our current providers, which would eventually be deemed as a 'direct award', and leave the Council open to challenge in terms of procurement process. Whilst this risk is very low, it is prudent that we take action in due course.
- 2.2. *Potential financial savings.* The level of savings that can be achieved in this market (whichever route to procurement is taken) is widely regarded as small, due to the narrow margins available to water retailers in this still heavily regulated industry. Around 90 to 95% of the billed charges consist of 'wholesale' charges which are fixed and passed through to

¹ Excludes schools

² Minutes available from

https://cambridgeshire.cmis.uk.com/ccs_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/474/Committee/31/Default.aspx (item 4)

³ Minutes available from

https://cambridgeshire.cmis.uk.com/ccs_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1118/Committee/31/Default.aspx (item 4)

the regional wholesalers, regardless of the retail supplier appointed. However, there are opportunities to make some savings. These include:

- Administrative savings from streamlining invoice processing;
- Direct bill savings from lower prices (economies of scale from appointing a single supplier);
- Allowing oversight of water data, enabling identification of high usage (e.g. potential water leaks) sooner, and thus reduce consumption.

2.3. *Other potential benefits.* There are a number of additional potential benefits from appointing a water and sewerage services supplier. These include the following:

- Better and more streamlined service through having one supplier for all sites;
- Since the Council's sites are currently all billed individually (many on paper), this is an opportunity to improve the billing and invoicing process to receive one, consolidated bill for all sites, and to be billed electronically (costs would be recharged to relevant budget codes in a similar way to that we already do for electricity bills);
- Better sight of water data. This presents a valuable opportunity to demand access to billing and consumption data online, and to collect electronic data on the Council's water usage and spend; and
- It is also expected that competitiveness in the market will lead to improved customer service.

2.4. *Feedback from potential bidders.* Following the tender exercise in February 2020, all of the potential bidders on the CCS framework were contacted for feedback regarding their decision not to bid. Only two suppliers provided feedback. The main feedback received was along these themes:

- The 'service credits' (penalties for poor performance) set out in the Terms and Conditions were perceived to be disproportionately high;
- The service levels specified were perceived to be too challenging to meet;
- Suppliers felt they could not offer a competitive price for our portfolio of sites.

2.5. *Aggregated competition opportunity.* In March 2020, CCS contacted the Council's Energy Investment Unit advising that they were going to run another aggregated competition in April-May 2020, and inviting CCC to join. (This is a new opportunity that was not available to us in July 2019 or January 2020.) An expression of interest has been made, and a site list and Memorandum of Understanding provided, so that Cambridgeshire County Council is now included in the process which is already underway, so as to keep the option open. However, this required no commitment from the Council at this stage, and we retain the option to opt out until the call off contract stage of the process in May. It is not known which other public bodies are taking part. The planned timetable for this opportunity is shown in **Appendix A**.

2.6. *COVID-19.* At the time of writing, it is not thought that the current COVID-19 crisis will have any impact on the timelines of this procurement or the number of bidders. However, the Council's Energy Investment Unit will continue to keep updated on this situation.

2.7. *Route to procurement.* There are now various options on how to proceed. Having already attempted and failed to procure a provider through a compliant procurement process, one option is to appoint a supplier directly. However, this option is not recommended because it

is unlikely to give us the best service or value for money. Doing nothing is also not recommended, for the same reasons.

- 2.8. The two main options available are therefore: firstly, to repeat a procurement exercise independently (amending some of the Terms to make the tender more attractive to potential bidders), or secondly, to join the CCS aggregated competition with other public sector bodies in April-May 2020.
- 2.9. *Ancillary services.* The CCS framework consists of 3 lots; lot 1 is the core water and sewerage services (including meter reading, billing, account management etc.) and lot 2 consists of ancillary services such as benchmarking, tariff optimisation, water efficiency audits, on-site leakage detection, Automatic Meter Reading, bill validation, and contingency planning. Lot 3 combines both lots 1 and 2. The CCS aggregated competition is for Lot 1 only. The ancillary services have potential to help us save water and money in the long term, but appointing a retail supplier is more important. The need for, and benefits of, ancillary services, could be reviewed at a later date if option 2 is chosen, and procured separately if still required. There is unlikely to be any cost difference in procuring these services separately; in fact there may even be a saving by separating them, due to greater competition, since there are more suppliers offering ancillary services than those offering a combined 'lot 3' service.
- 2.10. *Options analysis.* An analysis of the pros and cons of the two options is shown below in Table 1.

Table 1

SWOT Analysis	Option 1: Repeat a Lot 3 competition ourselves with amended T&Cs	Option 2: Take part in CCS aggregated Lot 1 competition
Strengths	<ul style="list-style-type: none"> • We can write our own specification to suit us, and can include ancillary services. • We will be in control of the whole procurement process, and can decide on the timing of the procurement and implementation. 	<ul style="list-style-type: none"> • Cheaper and easier, as procurement process is done for us by CCS; • Greater potential for savings through economies of scale, as bidders may lower prices for a larger potential customer base; • Utilise CCS expertise and experience with this framework – CCS have successfully done this before.
Weaknesses	<ul style="list-style-type: none"> • Cost / resource required to run another procurement. • Risk that tender may not be attractive to potential bidders and may not attract much interest. 	<ul style="list-style-type: none"> • Would be for Lot 1 only, so unable to include ancillary services;

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Opportunities	<ul style="list-style-type: none"> Documents already mostly written from the January 2020 tender (though need updating), and could launch whenever convenient. 	<ul style="list-style-type: none"> CCS to launch stage 1 of the competition on 27th March, with a reverse e-auction to be held on 29th April. Contract award period from 12th May onwards. We retain the option to opt out until after the winning bidder is known. Our final decision would be required mid-May. We can still amend the call-off contract to suit us. We could procure ancillary services separately at a later date if still desired – and there are a greater number of potential suppliers for ancillary services only, than there are for the combined Lot 3.
Threats	<ul style="list-style-type: none"> Risk of no bids if tender documents not sufficiently changed from last time – and having to start again. It is uncertain whether we would get much interest. 	

2.11. *Recommendation.* It is recommended that option 2 is taken up, because this option appears to have the greatest advantages. In particular, the saving on cost and resource to run the procurement exercise and the ability to utilise CCS's experience on this, are worth having. Option 2 is also the one most likely to deliver greater savings through economies of scale.

3. ALIGNMENT WITH CORPORATE PRIORITIES

3.1 A good quality of life for everyone

There are no significant implications for this priority.

3.2 Thriving places for people to live

There are no significant implications for this priority.

3.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

3.4 Net zero carbon emissions for Cambridgeshire by 2050

There are no significant implications for this priority.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource Implications

The following bullet points set out details of significant implications identified by officers:

- Current revenue costs of approximately £200,000 per annum may be slightly reduced – see paragraph 2.2.
- Service delivery staff would no longer be responsible for managing the utility contract and dealing with queries – this would be centrally managed by staff with expertise in the utility sector.

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

The report above sets out details of significant implications in paragraphs 1.2 to 1.5, 2.1, 2.4, 2.5, and 2.7 to 2.11.

4.3 Statutory, Legal and Risk Implications

There are no significant implications within this category.

4.4 Equality and Diversity Implications

There are no significant implications within this category.

4.5 Engagement and Communications Implications

There are no significant implications within this category.

4.6 Localism and Local Member Involvement

There are no significant implications within this category.

4.7 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Ellie Tod
Have the procurement/contractual/Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Yes Name of Officer: Gus de Silva
Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law?	Yes Name of Legal Officer: Fiona McMillan
Have the equality and diversity implications been cleared by your Service Contact?	Yes Name of Officer: Elsa Evans

Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Eleanor Bell
Have any localism and Local Member involvement issues been cleared by your Service Contact?	Yes Name of Officer: Emma Fitch
Have any Public Health implications been cleared by Public Health	Yes Name of Officer: Iain Green

Source Documents	Location
<i>Crown Commercial Service Water, Wastewater and Ancillary Services framework contract information and documents</i>	https://www.crowncommercial.gov.uk/agreements/RM3790

Appendix A – Timetable for Procurement

Date	Activity
10-20 March 2020	CCS review site information from all participating bodies and aggregate into one master Statement of Requirements (SOR)
27 March 2020	Commencement of stage 1 bid process. Potential bidders can submit clarification questions.
15 April 2020	Stage 1 bid close and evaluation. CCS identify successful suppliers to proceed to stage 2.
29 April 2020	Stage 2 bid commences: e-auction process.
11 May 2020	CCS issue award recommendation report and draft contract to customers.
12 May 2020 onwards	Participating authorities (including Cambridgeshire County Council) who wish to sign up, carry out call off contract award process.
June-July 2020	Contract implementation and appointment of new supplier.

The above timetable is subject to change and is dependent upon key gateway points being met by the participating Authorities and internal CCS Teams in terms of the timely provision of information and obtaining the necessary approvals.