

WATER PROCUREMENT

To: **Commercial and Investment Committee**

Meeting Date: **12 July 2019**

From: **Steve Cox; Executive Director, Place and Economy**

Electoral division(s): **All**

Forward Plan ref: **2019/052** *Key decision:* **Yes**

Purpose: **To update Members on a procurement of water and sewerage services, and seek approval to proceed**

Recommendation: **To proceed with a water services procurement in early 2020 (Option B from this report) using 'Lot 3' of the CCS framework contract with a 3-year term including the option of a further 1-year extension.**

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

- 1.1. The water retail market for non-households was de-regulated in England on 1st April 2017; meaning that businesses, charities and public sector organisations are now able to shop around and switch retail service provider – similar to the electricity and gas markets. The 24 licensed retailers are a mixture of water company subsidiaries and new entrant independent companies. These ‘retailers’ now provide all meter reading, billing, account management and customer service functions to all non-household premises. ‘Wholesale’ regional water companies still maintain the supply, treatment and networks infrastructure and continue to provide retail services to household customers.
- 1.2. In response to the deregulation of the water market, Crown Commercial Services (CCS), in conjunction with ESPO and other purchasing organisations, established a framework contract - with 8 potential providers awarded it. In May 2017, Members of the Assets and Investments Committee approved the use of the CCS/ESPO framework contract to appoint a water provider. In order for us to utilise the contract, we would need to undertake a secondary form of competition as there is no provision to make a direct award. The framework agreement expires in March 2021. Customer call-off contracts can take place any time during the framework period and be let for up to 4 years from the date of signing the call-off contract.
- 1.3. Whilst the approval was granted, and the procurement route was made easily available to us, there are a number of factors that has led us to delaying our participation, in particular that in the early months following market opening, a number of suppliers simply weren’t ready to meet customer requirements (such as online, multi-site billing), and there was initially very little take-up of the opportunity to switch. In addition, with margins in this market very narrow, the opportunity to make savings was low. ESPO also advised us against procuring a supplier early on, believing that greater benefits could be obtained by waiting until the market had matured.
- 1.4. Cambridgeshire County Council is currently still supplied the ‘default’ service by the retailers that we were automatically allocated to at market opening (subsidiaries of the regional monopoly water companies, based on geographical location). Currently, approximately two thirds of our sites are supplied by Wave (the new trading name of Anglian Water Business National Limited), with the remaining third supplied by Cambridge Water Business (a trading name of Pennon 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. *Route to procurement.* ESPO had previously suggested that they had plans to run a secondary procurement exercise in the form of a bulk aggregated further competition. We were minded to wait for that to take advantage of potential greater savings (achieved through economies of scale) and to save the resource associated with running the procurement exercise ourselves. However, this option is no longer currently available to us,

with ESPO having abandoned their original plans to run such an exercise in spring 2019 and not currently planning any further such competition. CCS has also run aggregated secondary competitions in the past, but are not currently planning any further ones.

- 2.3. The other procurement option would be to run the further competition ourselves, underneath the CCS Framework, via an 'Official Journal of the European Union' (OJEU) compliant procurement process. This now looks like the only procurement option currently available to us. The CCS Framework documents include a great deal of information, guidance and templates to assist us in this process.
- 2.4. *Potential financial savings.* The level of savings that can be achieved in this market 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 charges we pay consist of 'wholesale' charges which are fixed and passed through to the regional wholesalers, no matter which retail supplier we appoint.
- 2.5. However, there are opportunities to make some savings. The Council directly buys water and/or sewerage services for approximately 160 sites, and the Council's recorded spend on mains water and sewerage is around £200,000 per year. Potential savings include:
- Administrative savings from streamlining invoice processing;
 - Direct bill savings from lower prices (economies of scale from appointing a single supplier);
 - Better sight of water data allowing us to identify high usage (e.g. potential water leaks) sooner, and thus reduce consumption; and
 - Potential additional optional services from suppliers to help reduce water consumption, which is where the biggest savings can be made.
- 2.6. *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 our 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 our sites, and to be billed electronically (costs could be recharged to relevant budget codes in a similar way to that we already do for electricity bills);
 - We currently don't have sight of much of our water data. This presents a valuable opportunity to demand access to billing and consumption data online, and to collect electronic data on our water usage and spend; and
 - It is also expected that competitiveness in the market will lead to improved customer service.
- 2.7. *Ofwat Price Review.* The water industry regulator Ofwat is currently in the middle of its five-yearly Price Review ("PR19"), which will set wholesale prices for 2020 to 2025. There is some speculation that retail margins might increase, leading to greater scope for savings. The 'draft determination' for the wholesalers in our area will be published in July 2019, with the final determinations in December 2019. This sets wholesale price limits which account for the largest share of the bill. The 'Retail Exit Code' which protects non-household customers with maximum 'default' tariffs, will also be reviewed before it expires in March 2020. This means that there may be some advantage in waiting until autumn/winter 2019

or spring 2020 when there will be greater certainty over future pricing and better deals might become available.

2.8. *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, leakage detection, AMR, bill validation, and contingency planning. (It is possible to select which of these we wish to include in our specification). Lot 3 is a one stop shop covering both lots 1 and 2. Given the narrow available margins in this market, finding a supplier capable of helping us to use less water, through ancillary services, is likely to provide greater financial savings in the long run.

2.9. *Procurement options considered.* There are three main options, summarised below:

Option	A. Run a secondary competition ourselves, as soon as we are ready to.	B. Run a secondary competition ourselves, but wait until early 2020 after 'PR19' is concluded.	C. Wait for CCS or ESPO to run an aggregated bulk secondary competition.
Advantages	<ul style="list-style-type: none"> We can write our own specification to suit us; We will be in control of the whole process; We can decide on the timing of the procurement and implementation; and Start gaining benefits sooner. 	<ul style="list-style-type: none"> We can write our own specification to suit us; We will be in control of the whole process; We can decide on the timing of the procurement and implementation; and Potential for better deals depending on outcome of PR19. 	<ul style="list-style-type: none"> Cheaper as procurement process is done for us by CCS or ESPO.
Disadvantages	<ul style="list-style-type: none"> Cost / resource required to run procurement. Uncertainty of prices due to PR19 process. 	<ul style="list-style-type: none"> Cost / resource required to run procurement. 	<ul style="list-style-type: none"> None currently planned so unknown when (or even if) this option will be available; and Would be for lot 1 only, so unable to include ancillary services or amend the specification to suit us.

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.

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 2.5.
- Services to reduce water consumption will have a beneficial impact on the environment.

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

The report above sets out details of significant implications in paragraphs 1.2, 2.1, 2.2 and 2.3.

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: Sarah Heywood
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 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: Joanna Shilton
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: Stuart Keeble

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

Appendix 1: Indicative timescales

To run the competition and appoint a supplier will involve the following steps:

Step	Duration	Potential start/finish
a. Complete the Customer Access Agreement and return to CCS. CCS will then send us, in commercial confidence, the maximum supplier rates agreed under the framework.	2 weeks Could do this at any time.	September 2019
b. Collect all our water supply point and meter data from existing water suppliers. (Work is already underway to secure this data.)	1 month Can start any time. Already around 80% complete.	October 2019
c. Prepare all documentation, including the switching template (with our water meter data), invitation to tender, statement of requirements, scoring/evaluation criteria, and draft call-off contract terms.	1-2 months Can start any time, but cannot complete until steps a and b complete (could do a, b and c all concurrently).	November – December 2019
d. Run the competition, with procurement team. Invite all suppliers on the framework to tender. After the closing date, evaluate all bids received and award contract. Place order, sign contract and notify CCS of the outcome.	3 months. Start after steps a, b and c complete.	January – March 2020
e. Implementation of transfer of water and sewerage supply to winning supplier.	1 month. Start after step d complete.	April 2020