

<b>Executive Director of Place Services</b>	<b>Ref No: OKD06 19-20</b>
<b>May 2019</b>	<b>Key Decision: Yes</b>
<b>Procurement of Water, Wastewater and Ancillary Service</b>	<b>Part I</b>
<b>Report by Director of Environment and Public Protection</b>	<b>Electoral Divisions: All</b>
<p><b>Summary</b></p> <p>A retail market for the provision of water and wastewater has opened and an opportunity exists for the County Council to procure a single water retail supplier.</p> <p>The expected key benefits include:</p> <ul style="list-style-type: none"> <li>• More accurate and timely invoicing</li> <li>• More efficient service provision</li> <li>• Opportunities to identify water efficiencies and other non-commodity savings</li> </ul> <p>A Framework Agreement offered by Crown Commercial Services (CCS) has been identified as the most appropriate and cost effective option for procuring the services. The report accordingly recommends proceeding with a competitive call off procurement process with a view to awarding a contract for 3+1 years.</p> <p>Currently, the County Council purchases approximately £1.59m of water and wastewater services per annum. 95% of spend relates to water consumption (which will continue to be allocated to the existing wholesale suppliers of water and wastewater services) and 5% relates to the retail element (overhead) of the supply.</p>	
<p><b>West Sussex Plan: Policy Impact and Context</b></p> <p>This procurement will ensure that the County Council receives the best price for the natural resources that it uses, and uses those resources in the most efficient way. This will help to support sustainability, carbon reduction, and potential cost savings where water consumption can be reduced.</p>	
<p><b>Financial Impact</b></p> <p>This procurement seeks to work with the market to utilise their knowledge and IT systems to help us interpret our spend on the supply of water and wastewater services with a view to finding ways of reducing consumption (through the use of water saving devices and other innovations) where possible.</p>	
<p><b>Recommendations</b></p> <ol style="list-style-type: none"> <li>(1) That the Executive Director of Place Services approves the commencement of a Competitive Call Off procurement process from the CCS Framework Agreement Ref. RM3790 to source a water retailer; and</li> <li>(2) That authority is delegated to the Director of Environment &amp; Public Protection to award a fixed term contract of 3 years with the option to extend the contract for an additional 1 year (3+1) to the successful bidder following a procurement process. The intended award date is Summer 2019.</li> </ol>	

## **Proposal**

### **1. Background and Context**

- 1.1. The Water Act 2014 allowed for the opening of a retail market for the provision of water, wastewater and ancillary services. This retail market for water opened in April 2017 with the following aims:
  - a. Delivering lower overall costs to consumers
  - b. Helping organisations to use less water
  - c. Improving service from retailers
  - d. Promoting the emergence of new offers and business models
- 1.2. The value of this retail market was calculated by the regulator as approximately 5% of the total cost for water and wastewater purchased. The remaining 95% of the total cost for water and wastewater will continue to be allocated to the existing wholesale suppliers of water and wastewater services.
- 1.3. The County Council purchases approximately £1.59m of water and wastewater services per annum, with 75% of this spend occurring within the schools and academies portfolio. The retail element in scope for this procurement is approximately £0.080m per annum.
- 1.4. Whilst the scope for savings on the retail element are modest, through dialogue with schools and academies, several limitations of the current delivery model for water and wastewater services have been identified:
  - Poor visibility of consumption (and resulting costs)
  - Infrequent invoices
  - Estimated invoices
  - Inefficient processes for meter reading, invoicing and query management
  - Insufficient support to identify, action and evidence water efficiencies
- 1.5. The key benefits sought from this procurement are therefore:
  - A single competitively priced retailer for water and wastewater services
  - A smart meter rollout programme for appropriate water supplies
  - More frequent invoicing
  - The use of actual meter readings for appropriate supplies and invoicing
  - Redeployment of administrative savings into school Service Level Agreement activities
  - Opportunities identified to create water efficiency savings
  - Opportunities identified to further reduce the cost of water supplies

- 1.6. A framework agreement developed by Crown Commercial Services (CCS) (in collaboration with numerous other buying consortia) was deemed to be the most suitable and cost effective option to deliver the County Council's requirements (please see sections 3 and 7).
- 1.7. The scope of services available through the Framework Agreement's Lot 3 ('One Stop Shop') meet the County Council's requirements. The range of pre-approved suppliers on this framework was considered sufficient to represent the market.
- 1.8. Any contract awarded through this Framework Agreement would be for a fixed term of 3 years (as set down within the framework by CCS), with the option to extend the contract for an additional 1 year (3+1).
- 1.9. The award criteria would be based primarily on the cost to deliver but also reflect the specific benefits that the County Council aims to achieve. This is set under the CCS Framework Terms and Conditions as: 70% Commercial vs. 30% Technical Criteria.

## **2. Proposal Details**

- 2.1. To procure a single retailer of water, wastewater and ancillary services using the CCS Framework (Lot 3) to deliver competitively-priced tariffs to the schools, academies and corporate buildings of the County Council.
- 2.2. To use this supplier to undertake a smart metering programme of all applicable water meters (subject to an economic appraisal of cost effectiveness) and a survey of all applicable buildings to identify water efficiency measures.
- 2.3. To develop, with the supplier, a schedule of water efficiency interventions and identify potential sources of funding for these measures.
- 2.4. To track, on an ongoing basis, the overall cost for water and wastewater with the aim of reducing cost through efficiency and tariff savings.

## **Factors taken into account**

### **3. Consultation**

- 3.1. The list of potential benefits associated with this procurement was identified through discussion with schools buying into the Energy Management Team's Service Level Agreement (Buildings and Energy Information SLA).
- 3.2. Consultation regarding the projected benefits (and their importance), the overall procurement approach and the options for using Framework

Agreements was undertaken with schools through the Resources and Schools Organisation, Capital and Admissions (SOCA) sub-group meeting (11 January 2018) and the West Sussex Schools Forum (23 January 2018).

- 3.3. Specialist officer support from Legal, Financial and Procurement Services was obtained regarding:
- Provenance of the retail market for water
  - Provenance of the retail market for wastewater
  - The County Council’s experience using the Aquafund shared savings scheme
  - The various procurement options (including the preferred option)
  - The subsequent appraisal of options to deliver cost savings through the identification and delivery of water efficiencies.
- 3.4. This proposal was approved by the County Council’s Procurement Board in January 2019.
- 3.5. It should be noted that a previous decision (Ref FR20) was made by the Cabinet Member for Finance & Resources during 2017/18, however this procurement exercise was not taken forward due to a lack of resource.
- 3.6. The Cabinet Member for Corporate Relations has also been consulted on the recommended approach.

**4. Financial (revenue and capital) and Resource Implications**

Revenue consequences of proposal

- 4.1 The proposal assumes that the estimated 95% of the £1.59m spent on water services will continue to be allocated to the existing wholesale suppliers of water and wastewater services, with the 5% retail element (£0.080m) being the flexible element to procure the single water retailer.
- 4.2 Although, there is no saving anticipated from this procurement, it is vital that we work with the market to understand future opportunities. The first stage is to understand our estate and the usage of water. We will then be able to ascertain if there are any opportunities for water usage savings going forward.

	Current Year 2019/20	Year 2 2020/21	Year 3 2021/22	Year 4 2022/23
	£m	£m	£m	£m

Revenue budget	1.59	1.59	1.59	1.59
Estimated Cost of Proposal	1.59	1.59	1.59	1.59
Difference (Savings or Shortfall)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### 4.3 Capital consequences

There will be no capital consequences from this procurement.

#### 4.4 The effect of the proposal

(See 4.1)

#### 4.5 Future transformation, savings/efficiencies being delivered

Savings may be achieved through efficiency improvements. Following a site survey, there may be opportunities to reduce consumption and therefore costs. This is dependent on a number of factors, and will vary by site, and by site function/type. The savings generated through these measures will be limited as a rollout of water efficiency devices has been previously completed across a number of County Council buildings.

#### 4.6 Human Resources, IT and Assets Impact

There will be no capital consequences from this procurement

### 5. Legal Implications

Minimal – legal officer resource required during the procurement and contract process.

### 6. Risk Assessment Implications and Mitigations

6.1. The short contract length of 3 years with the option to extend the contract for an additional 1 year (3+1) does not incentivise significant investment in water efficiency measures.

6.1.1. **Description:** Standard water efficiency measures often take in excess of 4 years to payback. The difficulty in identifying a significant number of efficiency measures with a payback period of less than 4 years may prevent the widespread deployment of measures.

6.1.2 **Mitigating action:** The supplier's commitment to deliver a range of well specified financial offers, including the full or part funding of measures up front, will be sought through the procurement process. Monitoring by the responsible Officer: Energy Manager for West Sussex County Council.

6.2. The popularity of the Framework Agreement causes a drop in service quality.

6.2.1. **Description:** The CCS Framework Agreement has been developed with Yorkshire Purchasing Organisation (YPO), The Energy Consortium, Eastern Shires Purchasing Organisation (ESPO), North East Procurement Organisation (NEPO), West Mercia Energy, and the Ministry of Defence. Because there are understood to be a large number of public sector organisations seeking to take advantage of the CCS Framework Agreement, the service providers might not have the resources to provide consistently high quality services to all new customers, potentially impacting on delivery of the County Council's procurement objectives.

6.2.2. **Mitigating action:** The County Council will include the portfolio of sites and water supplies as a part of the procurement process. A portfolio-specific management plan for the service will be secured through the procurement process and linked to Key Performance Indicators within the contract. Service quality/levels are specified within the call off contract, and the relationship with the new retailer will also be closely managed by the County Council's incumbent back office service provider. Additional precautions have been taken to ensure that supplies (and accompanying information) will transfer correctly to the new retailer, and this will be closely managed by the back office service and through periodic performance meetings, and more frequently during the early stages of the contract (first 3-6 months). Monitored by officer: Energy Manager for West Sussex County Council.

## 7. Other Options Considered

7.1. Besides the recommended approach, the County Council could choose to engage with the opening of the retail market for water in a number of other ways:

- 7.1.1. Procure a single supplier using an OJEU compliant process
- 7.1.2. Use an alternative Framework Agreement to identify a single supplier
- 7.1.3. Set up the County Council to self-supply
- 7.1.4. Do nothing

### 7.2. Procure a single supplier using an OJEU compliant process

7.2.1. **Description:** The County Council could approach the market to secure the required benefits in a bespoke package.

- 7.2.2. **Advantages:** The County Council could create a package of interventions that was highly specific to the County Council's ambition and set the term of the contract to suit its own purposes. Some of the County Council's economic development ambitions (such as the development of a local supply chain) could be included in the tender.
- 7.2.3. **Disadvantages:** The County Council's priorities in this procurement are similar to those of any large public sector organisation with many sites spread across a significant geographic area. These priorities can all be met within the available Framework Agreement options. Between 1 FTE and 1.5 FTE would be required for 1 year in order to reassess the requirements of schools, develop a highly specific specification and achieve this bespoke set of benefits through an OJEU compliant procurement process.
- 7.2.4. **Risks:** The cost efficiencies available to County Councils using Framework agreements may not be available to the County Council should it decide to procure a bespoke package. If not, the County Council may be in a position where it must cancel the procurement and adopt a Framework agreement at a later point and have lost the opportunity to act more quickly.
- 7.2.5. **Conclusion:** It is unlikely that the level of County Council resources required to manage an OJEU compliant procurement exercise would be proportionate to the specific benefits of undertaking a bespoke procurement exercise. This approach is therefore not recommended.

### **7.3. Use an alternative Framework Agreement to identify a single supplier**

- 7.3.1. **Description:** The County Council's chosen Third Party Intermediary (TPI) for the procurement of electricity and gas supplies (LASER Energy Buying Group) offers a similar Water Procurement Framework Agreement. LASER could perform a brokering function for water and wastewater supplies whereby the accounts (including billing and query management) are fully managed on the County Council's behalf.
- 7.3.2. **Advantages:** The County Council already has a good and close working relationship with LASER Energy Buying Group. Existing management approaches (weekly calls for queries and account management) could be redesigned to incorporate water supplies, thereby improving back office efficiencies. Schools are already familiar with the electronic invoices received from LASER Energy Buying Group for electricity and gas supplies.

- 7.3.3. **Disadvantages:** The retail market for water is structured very differently to the electricity and gas markets where LASER's procurement approach (day ahead, month ahead, season ahead and year ahead) and commodity hedging delivers additional benefit to the County Council. LASER's specialism in these markets does not directly translate to the retail market for water. LASER would apply an additional management fee (on top of the water retailer's charge) to manage the supplies which could detract from potential savings. The LASER Framework Agreement would engage with a smaller group of water retail suppliers than the CCS Framework Agreement.
- 7.3.4. **Risks:** No added value for procuring these services through our incumbent Energy TPI.
- 7.3.5. **Conclusion:** There is little additional value in adopting LASER's Fully Managed solution on top of the monthly electronic billing using actual reads outlined in the required benefits above. This approach is therefore not recommended.

#### **7.4. Set up the County Council to self-supply**

- 7.4.1. **Description:** The County Council could choose not to interact with the retail market for water but instead register to 'self-supply' water to its own sites. The County Council would interface directly with the water wholesalers and produce an invoice for each site and school for which it is responsible.
- 7.4.2. **Advantages:** Any of the potential price reductions available from the opening of the retail market for water would be fully passed on to the County Council.
- 7.4.3. **Disadvantages:** The County Council would assume responsibility for a significant batch of new non-statutory supplier responsibilities surrounding metering, invoicing and query resolution. The County Council could not work with academies to help them achieve savings from the opening of the retail market for water. Nor could the County Council take on the management of third party supplies (even public sector) in order to supplement its own management costs. Significant costs to invest in the systems necessary to firstly operate in this way and secondly invest in water efficiency measures would have to be found which could drive up the cost of water and wastewater to corporate sites and schools.
- 7.4.4. **Risks:** The County Council could face significant cash flow pressure in purchasing water from the wholesale provider which must then be charged to individual budget holders. There is reputational risk in

ensuring that all sites managed by the County Council benefit from their water supplies.

7.4.5. **Conclusion:** It is not recommended that this approach is pursued.

## **7.5. Do Nothing**

7.5.1. **Description:** The County Council could adopt a 'do nothing' approach and allow all supplies to be invoiced on 'out of contract' prices.

7.5.2. **Advantages:** The County Council would be able to decide upon a course of action at a later point in time should nature of the retail market for water change materially.

7.5.3. **Disadvantages:** The County Council would pay more than is required for water and wastewater management. Potential efficiency improvements would not be realised in a timely or cost-efficient manner.

7.5.4. **Risks:** There would be a financial risk to the County Council in opting for 'out of contract' prices for water and wastewater over a prolonged period. There would be a reputational risk to the County Council in not taking advantage of an opportunity to better manage the costs of this commodity in a financially pressured environment. There would be a loss of opportunity for the County Council to show leadership on the issue of efficient use of water as a resource.

7.5.5. **Conclusion:** It is not recommended that this approach is pursued.

## **8. Equality and Human Rights Assessment**

8.1. An assessment has not been undertaken as the proposal concerns an internal procedural matter only and there are no apparent equality and human rights implications from the procurement of this contract.

## **9. Social Value and Sustainability Assessment**

9.1. The reduction in the County Council's use of a natural resource has been identified using the County Council's Sustainability Appraisal as the key positive implication of this procurement and no negative implications have been identified.

## **10. Crime and Disorder Reduction Assessment**

10.1. There are no identifiable Crime and Disorder Act implications from the procurement of this contract.

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**Appendices**

None

**Background papers**

N/A