

REPORT FOR: CABINET

Date of Meeting:	15 February 2018
Subject:	Water Procurement Strategy
Key Decision:	Yes
Responsible Officer:	Paul Walker, Corporate Director of Community
Portfolio Holder:	Councillor Graham Henson, Portfolio Holder for Environment
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out the water procurement strategy for the period of 2018 – 2020 and seeks approval from the Cabinet to procure a new framework contract.

Recommendations:

The Cabinet is requested to note the contents of this report and:

1. Approve Harrow Council entering into a Framework Agreement with Crown Commercial Services (CCS) for Water, Wastewater and Ancillary Services, accessed by call-off from YPO¹, to appoint a single water retailer to meet Harrow's multi-site business requirements and water efficiency product and services, for a period of two years starting from May 2018 with the option to extend for a further two years.
2. Delegate authority to the Corporate Director of Community Directorate following consultation with Portfolio Holder for Finance and Commercialisation and the Portfolio Holder for Environment to enter into a Memorandum of Understanding with YPO to manage the mini-competition to procure a water retailer through the CCS Water, Wastewater and Ancillary Services Framework
3. Authorise the Corporate Director of Community to finalise any specific terms of the contract with the preferred bidder, award and enter into the call off contract under the framework agreement.
4. Endorse the use of the London Energy Project (LEP) Team to manage supplier performance and service development to deliver services in line with LEP authorities' collective business requirements post award to maximise benefits

Reason:

To procure water at competitive rates for the Council's corporate sites and the 56 participant Schools through an efficient and government approved process, meeting the water deregulation policy which came into effect from 1st ² April 2017.

1 : YPO is one of the UK's largest public sector buying organisation - (<https://www.ypo.co.uk>)

2 : <https://www.ofwat.gov.uk/regulated-companies/markets/business-retail-market>

Section 2 - Report

2.1 Introduction

The water market has been deregulated from 1st April 2017. As a result of water market deregulation non-domestic water consumers in England are no longer restricted to buying retail water services from their regional water company. Instead, they are now free to choose the water retailer who can offer the most competitive prices and high quality customer services.

2.1.2 Under the water deregulation, the Council as a non-domestic water consumer will have up to one year from the above date to enter into an agreement with a licenced water retailer. The market operates in a similar fashion to deregulated electricity and gas markets. Eligible' customers are non-household premises that pay business rates.

2.2 Background

In 2008, Scotland became the first country in the world with a deregulated water market³. Customers in Scotland have already received a better deal as a direct result of deregulation and more competition. Since then it has noted a number of significant improvements including in water delivery, in customer service and in generating efficiencies.

Since the water and sewerage sectors were privatised in 1989 until 1 April 2017, most people in England and Wales received their water services from one of 22 licensed regional monopoly suppliers and their sewerage services from one of 10 licensed regional monopoly suppliers. Only very large business customers were able to choose their supplier.

The disadvantages of this policy were that there were no opportunities for price competition and if water consumers were unhappy with the service they received, all they could do was complain.

2.2.1 Key benefits of the water industry competition

Introducing more competition into the marketplace will lead to more benefits for consumers who can choose their water supplier. The main benefits are:

- Lower prices - as retailers compete to win business
- Better quality - billing and data services
- Additional services - such as water efficiency

It also benefits the environment through:

- More efficient use of water
- Reduced carbon emissions from cuts in water use
- More innovation and better use of technology

3 : <https://www.scotlandontap.gov.uk/>

2.2.2 How the Council will benefit from the water de-regulation

- Harrow Council, which operates across multiple sites, can simply deal with a selected water supplier for all corporate sites and Schools across the borough instead of various water suppliers for individual sites. This will create an opportunity for us to develop an effective working system and water saving policy for better use of water in our buildings as part of the Council's centralized water management services.
- The Council's centralized water purchasing approach ensures that the costs of our clean and waste water become as low as possible.

2.3 Current situation

Unlike gas and electricity contracts, which are managed through the Council's centralised purchasing arrangement, water market operates differently. Under the existing water supply regime set up when the industry was privatised in 1989, the small and medium business, along with domestic consumers could only buy water from their area water supplier.

Non-households are usually charged for water and sewerage services on the basis of the amount of water they use. Harrow corporate buildings and state Schools are still using Affinity water under their new name of Affinity business for their clean water and Castel Water for the sewerages and waste water services.

2.3.1 Summary of Harrow's water consumption and cost

The annual water consumption over the last 5 years is summarised in the table below. The average consumption is 294,884 m³ per annum. The unit price of clean water based on 2017/18 prices was 107.76 pence/m³ and waste water 82.140 pence/m³. Therefore the average spend is £318k for clean water and £242k for waste water per annum respectively.

Date	Harrow's Annual Water Consumption (m3)					Harrow's Annual Water Cost (£)				
	2016/17	2015/16	2014/15	2013/14	2012/13	2016/17	2015/16	2014/15	2013/14	2012/13
Total Schools	164,164	163,426	169,088	134,852	138,546	£196,487	164,939	166,471	136,200	129,391
Total Corporate	94,409	128,711	134,826	161,212	185,185	£125,656	129,310	132,315	162,767	179,891
Total School + Corporate	258,573	292,137	303,914	296,064	323,731	£322,143	294,248	298,786	298,967	309,282

3.0 Procurement Option appraisals

To meet the new water legislation and selecting a water and waste water licenced retailer who can meet our water saving objectives, we have carefully considered all the available procurement options, which are discussed below.

3.1 The main objectives to consider are:

- To receive high quality and efficient customer service
- To obtain better value for money
- To decrease our total water bills and charges
- To gain tailored services for our sites

3.2 Water Market De-regulation-Procurement Options

The Water market is more stable and predictable compared to the wholesale energy market, so procurement of water is expected to be less complex than purchasing energy supplies. However we need to select the right water retailer who can meet the Council's water saving objectives and offer some added value services such as:

- Automatic meter reading (AMR) technology to avoid estimated bills
- Leak detection coupled with water efficiency measures
- Electronic and consolidating billing
- Harvesting rainwater for reuse

Taking the above priorities into account, this document presents four existing options, which have been considered for our future purchase of water and waste water services:

3.2.1 Option 1 – Do nothing

This option has not been considered for the following reason:

If the Council stays with our existing supplier Affinity for business, there is a maximum price (known as a default tariff) they can charge us for a standard level of service. In addition authorities are required to conduct a competitive process to select a retailer for water and waste water services.

2.2 Option 2- Become a retail licensee

Since 1 April 2017, the open water market authorises large organizations with multiple sites to become a self-supply licensee. Holders of new water supply and/or sewerage licences (WSSL) are authorised to use an appointed water company's supply system for supplying water and sewerage services to eligible non-household premises. Some licensees may be limited to providing water supplies or sewerage services to their own sites and those of persons associated with them (known as self-supply).

There are two types of licence, water supply licences and sewerage licences, each of which can have one or more different authorisations.

This option has not been considered for the following reasons:

- a. This is an underdeveloped sector with limited experience.
- b. The volume and value of water needs to be more than our total annual water consumption to make the option financially justifiable.

3.2.3 Option 3 - Tenders/Mini Competition

This Service is subject to OJEU procurement regulations and will therefore need to be competitively tendered. The Council can go out to tender either by advertising the opportunity in OJEU, to the water and wastewater market. Or an alternative would be to run a separate mini competition by utilising one of the available frameworks which can meet our water procurement objectives I .e. Crown Commercial, Laser, YPO

The option of conducting a Harrow own tender or mini-competition through a frame work is not recommended for following reasons:

- a. The risk associated with the complexity of the procurement in a new an under developed sector.
- b. Cost of tender due to a pre-market engagement process with bidders.
- c. Risk of receiving a less attractive price and quality service as an individual customer compared to a group of authorities by retailers which brings with it some economy of scale.

3.2.4 Option 4 – Group aggregated approach to water procurement

Considering the above analyses and disadvantages of running our own mini-tenders as an individual authority in such a new and undeveloped sector particularly potential contractual risks, lead us to the advantages of using “**Group aggregated approach**” with a group of authorities.

Pan LEP Contracting Options

London Energy Project (LEP)⁴ who represents a group of 36 authorities (primarily in London) in consultation with its members has set up a pan-London approach to water procurement to manage a collaborative procurement exercise on behalf of all London (LEP) authorities

Benefits of collaboration within the LEP group in the water market:

⁴ : LEP is a group of 36 authorities (primarily in London) that together spends approx. £0.5 b p.a. on energy and water. The group’s principle purpose is to use authorities’ combined spending power to minimise risk; reduce procurement cost and achieve better commercial outcomes. More info: [/www.londoncouncils.gov.uk/who-we-are/committees-and-networks/london-councils-capital-ambition-programme/london-energy-project](http://www.londoncouncils.gov.uk/who-we-are/committees-and-networks/london-councils-capital-ambition-programme/london-energy-project)

- Reduced procurement costs by approaching the market with a common set of requirements and a single engagement on behalf of LEP members at no additional cost
- The Pan-LEP aggregated customer base is both extremely attractive and prestigious, this means retailers are more likely to respond with high quality, well priced bids with services that meet LEP business requirements
- Develop a common way of accessing and implementing water efficiency measures and other demand reduction services
- Larger stake/influence. The LEP London authorities will be in a better position to shape the supply market as a customer group.

The LEP Team has already managed a pre-market engagement with 3 Central purchasing bodies (CPBs) (public sector buying organisations) and 5 water retailers to establish what products, services and innovation are available within the retail market and whether these will meet local authority multi-site business requirements. It has also assessed which products best attract market interest and obtain competitive pricing and whether a pan-LEP water retailer contract will provide authorities with better value and the opportunity to develop and shape this market.

3.2.5 Recommendations

Following the evaluation of the available framework options, the option to join the LEP collaborative procurement through which the LEP Team will manage (at no additional cost) a Pan-LEP mini competition for all LEP members including Harrow to access a single retailer through a single CPB framework, is the recommended option.

In selecting this option it is also proposed that the contract term is two years with the option to extend for a further period of up to two years. A contract of less than two years will not represent value for money, as the retailer set-up costs and migration process will be priced into one year, rather than an up to four-year deal. However, given that the water industry price review will take effect in 2020 and its impact will need to be considered as part of any contract extension, i.e. if the retailer margin is increased, the Council would need to ensure additional service or a relative reduction in margin can be negotiated as part of any contract extension.

5. Risk Management Implications

The risk associated with such a new unprepared water market and new policy changes can be managed in more effective ways by joining to the LEP's Pan-London contracting option mini competition.

6. Legal Implications

The Council will be procuring a new single water supplier to meet the needs of Harrow's multi-sites by way of a Framework Agreement run by the Crown Commercial Services (CCS) for Water, Wastewater and Ancillary Services. The Public Contract Regulations 2015 permit the calling off of frameworks and sets out

the rules and controls for their use. This negates the need for the Council to undertake a separately advertised procurement process.

The tendering process including any mini-competition undertaken, is being carried out in accordance with the requirements of the Public Contract Regulations 2015 and the Council's Contract Procedure Rules.

7. Financial Implication

The current budget for all corporate sites (excluding HRA properties) is approximately £250k which covers both clean water and waste water charges. More competitive rates are anticipated by procuring water through the framework agreement. Any financial savings secured from this procurement exercise will contribute to the contracts re-procurement saving target in the 18/19 MTFS (£200k profiled in 19/20 which is expected to be generated from various procurements). Schools spend around £300-350k per annum on water charges. The costs are met from their own budgets.

8. Corporate Priorities

Making a difference for communities - Harrow's central water purchasing policy allows Harrow state schools to benefit from lower water prices and additional water efficiency services.

Section 3 - Statutory Officer Clearance

Name: Jessie Man	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 8 January 2018		
Name: Sarah Inverary	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 8 January 2018		

Ward Councillors notified:	NO, as it impacts on all Wards.
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EqIA carried out:

YES

EqIA cleared by:

David Corby, DETG Chair for
Community Directorate

Section 4 –Contact Details and Background papers

Contact: Saeed Atlas (Corporate Energy Manager)

Telephone: 020 8424 1030 (Ext: 2030)

Email: saeed.atlas@harrow.gov.uk

Background Papers: None

**Call-In Waived by the
Chairman of Overview
and Scrutiny Committee**

NOT APPLICABLE

[Call-in applies]