

DECISION-MAKER:	CABINET		
SUBJECT:	APPROVAL TO PROCURE WATER CONTRACT FOR COUNCIL COMMERCIAL BUILDINGS AND SERVICES		
DATE OF DECISION:	20 MARCH 2018		
REPORT OF:	CABINET MEMBER FOR SUSTAINABLE LIVING		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY	
Not applicable.	
BRIEF SUMMARY	
The water market in England was deregulated in April 2017.	
Southern Water, Southampton City Council's (SCC) regional water supplier, has exited from the retail water market and SCC are now required to comply with Public Contracts Regulations 2015 by contracting with a retail supplier.	
It is proposed that SCC take part in a joint procurement with 36 other local authorities within our existing London Energy Project (LEP) membership, and award the contract to the preferred bidder for water, following a compliant procurement process, to enable SCC to comply with regulation and benefit from improved contract terms.	
RECOMMENDATIONS:	
(i)	To approve the joint procurement of water through the Crown Commercial Services (CCS) Framework for Water, Wastewater and Ancillary Services, the mini tender to be managed by Yorkshire Purchasing Organisation (YPO), to appoint a single water retailer to meet LEP member authorities' business requirements. YPO is a Central Procurement Body (CPB), publicly owned by 13 local authorities.
(ii)	To delegate authority to the Associate Director, Capital Assets, 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.
(iii)	To endorse the awarding of a new water retail contract by YPO on the most economically advantageous terms Assessed on the basis of quality (55%) and price (45%) for a period of two years with the option to extend for a further two years and that any extension should enable the impact of water price review to be taken into account.
(iv)	To authorise the Associate Director, Capital Assets on Consultation

		with the Service Director, Legal & Governance, to finalise any specific terms of the contract with the preferred bidder, award and enter into the call off contract under the framework agreement, and do all things necessary to facilitate the execution, implementation and operation of the contract, including any extension agreement to comply with the Authority's agreed procurement and management strategy.
	(v)	To endorse the use of the London Energy Project Team to manage supplier performance and service development to deliver services in line with London Energy Project authorities' collective business requirements post award to maximise benefits.

REASONS FOR REPORT RECOMMENDATIONS

1.	The water market in England was deregulated in April 2017. Southern Water, the regional water supplier prior to April 2017, exited from the retail water market to focus on wholesale supply only. This meant that they will no longer directly supply water to SCC commercial sites and the council will therefore need to procure a new water supply.
2.	Compliance with Public Contract Regulations (PCR) 2015 is required; Cabinet Office guidance suggests that a competitive process should have been followed by April 2018. The newly deregulated market offers minimal savings opportunities and the most economically advantageous approach is to collaborate with other authorities.
3.	The intention is to appoint a single water and waste water retailer to meet business requirements for back-office and water efficiency products and services, with each London Energy Project authority having a separate contract.
4.	On behalf of local and other public sector authorities, the London Energy Project, of which Southampton City Council is a member, will co-ordinate a mini-competition to access a call-off contract(s) through the Crown Commercial Services (CCS) Framework for Water, Wastewater and Ancillary Services.
5.	The opportunity for water supply cost savings in the first three years of deregulation to 2020 are minimal as market costs are defined until 2020. Therefore, we have assessed the above as the cheapest, least resource intensive route to compliant procurement.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

6.	Do Nothing - The option of doing nothing has not been considered, since PCR 2015 dictates that authorities will be required to conduct a competitive process to select a retailer for water and waste water services.
7.	Individual Authority Tender and/or CPB Framework Mini-Competition. A CPB is a contracting authority which acquires goods or services intended for one or more contracting authorities. The option of SCC conducting its own tender or mini-competition is not recommended because the risks and costs of tender, including use of staff resources to write the service specification and conduct the tender are not commensurate with potential benefits of retailer service

	<p>efficiencies and savings; authorities have very few bespoke or unique business/service requirements; and retailers are unlikely to offer as attractive a price, service or enhancements for individuals as they would for the group.</p>
<p>DETAIL (Including consultation carried out)</p>	
8.	<p>Water deregulation, which only affects non domestic services, aims to introduce competition into the market place to encourage improvement and innovation of products and services and better value for money for the customer. Water suppliers (wholesalers) will sell water and waste water supplies/services to licensed retailers. These elements can be contracted separately or through a single retailer who will package these services to include billing, payment and customer services, along with other products such as water efficiency advice, leak detection, advanced metering etc. The value of the retail service is on average 7% of the overall water and waste water contract value.</p>
9.	<p>London Energy Project is a group of 36 authorities (primarily in London) that together spends approx. £0.5billion annually on energy and water. The group's principal purpose is to use the authorities' combined spending power to minimise risk; reduce procurement, contract operation and back-office costs and achieve better commercial outcomes.</p>
10.	<p>LEP's work programme is coordinated and managed by a shared intelligent client team hosted by Haringey Council, which operates on a cost-recovery only basis under collective authority-led governance. LEP is able to maintain its independent, market-neutral position through direct member authority contributions.</p>
11.	<p>The LEP Team managed a pre-market engagement programme with over 60 authority stakeholders, 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, whether these will meet local authority multi-site business requirements, how to 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.</p>
12.	<p>Pan London Energy Project Contracting Options - The recommended option is for the LEP Team to manage (at no additional cost) a pan-LEP mini competition for all LEP members to access a single retailer through a single CPB framework. This is because a CPB framework for water provides a reasonable route to market at an affordable price for service and that LEP staff resources are more effectively used to support fit for purpose service specification and retailer evaluation, i.e. deploying LEP resources to conduct a full tender exercise adds costs and delivers little additional benefits. The key reasons for this are:</p> <ul style="list-style-type: none"> • 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 and provide us greater influence and leverage in the retail business to design efficient delivery models and added value services;

	<ul style="list-style-type: none"> • the resource any CPB can afford to dedicate to a large aggregated tender is greater than to individual authority requirements; • a single retailer for water would not restrict market competition and will deliver greater benefits than multiple retailers, for example a dedicated customer service management function, technology deployment trials, flood and drought protection support services and subsequently improved strategic supplier and contract management, by the LEP Team for LEP authorities • most of our collective requirements can be met, however, retailers have vastly differing capabilities in core business functions, such as consolidated billing and online portfolio, account and query management platforms, these aspects must therefore be tested as part of the mini-competition process and the quality/price ratio must be appropriate for the competitive price differential vs potential for savings through efficiency gains; and, • the LEP team will manage the service specification and mini-competition evaluation process, releasing individual authority resources and post contract award, oversee pre-contract set-up and manage the strategic retailer relationship.
13.	<p>The conclusions are that a single water and waste water retail service provider for all LEP member authorities will deliver better outcomes for everyone.</p> <p>This will enable:</p> <ul style="list-style-type: none"> • an authority focussed service specification with clear service level agreements and key performance indicators; • improved terms and conditions and the potential for enhancements, such as a dedicated LEP customer services and account management provided by the retailer at no additional cost; • enhanced services, such as technology deployment trials; and • the CPB being able to offer greater resource to the procurement and contract because of the single LEP approach and value.
RESOURCE IMPLICATIONS	
<u>Revenue</u>	
14.	Estimated contract value is £1.9 million, which is based on a 4 year term with an estimated annual spend of £490k.
15.	It is estimated that only 7% of the total water cost is made up of the existing de-regulated retail element portion of the bill. The remaining 93% of the costs are covered by the deemed regulated service delivered by Southern Water. Therefore, only a small proportion of 7% of the existing water cost can be looked at to make any savings. Market research suggest that estimated savings are expected to be in the region of 1% of this water retail margin. This means that SCC would likely see savings of £340 per annum – which equates to £1,360 over the 4 year period; however, due to the fledgling nature of the market, these savings are likely to increase post 2020. Other than a small amount of officer time there is no cost to SCC to run this procurement route as it is covered by our existing membership of the London Energy Project.

16.	The above contract value covers all SCC sites water costs and is paid directly by each site budget and cost centres, which includes retained schools where required.
<u>Property/Other</u>	
17.	Water supply and disposal of wastewater is an essential requirement of all occupied property.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
18.	Section 1 of the Localism Act 2011. There is a requirement in both the Public Contracts Regulations (PCR) and the Council's Contract Procedure Rules (CPR) for the Council to comply with EU procurement regimes when procuring water and waste water.
19.	Compliance is achieved via the YPO (the Central Purchasing Body) Water and Wastewater Procurement and Supply framework.
20.	All the regulatory requirements on the Council to tender for the energy supply have been complied with.
<u>Other Legal Implications:</u>	
21.	None
RISK MANAGEMENT IMPLICATIONS	
22.	The recommendations present minimal risk to service delivery and will ensure compliance with procurement regulations.
23.	Risks associated to service delivery, post contract award, will be managed in partnership with the London Energy Project (LEP) under a supplier relationship management process.
POLICY FRAMEWORK IMPLICATIONS	
24.	The proposals support the Council's policy framework.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and	No

Safety Impact Assessment (ESIA) to be carried out.		
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.		
2.		