

DECISION-MAKER:	CABINET
SUBJECT:	WATER PROCUREMENT CONTRACT
DATE OF DECISION:	7 TH FEBRUARY 2023
REPORT OF:	COUNCILLOR BOGLE CABINET MEMBER FOR ECONOMIC DEVELOPMENT

<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>The water supply and wastewater services for commercial customers were de-regulated in April 2017, which means that Southampton City Council (the Council) can now select its water supplier in a similar way to the energy market. Since 2017 the Council has been in contract with Business Stream (a water retailer) to supply its water services to its commercial (non-domestic buildings and operations).</p>	
<p>The existing contract with Business Stream ends 31st March 2023 and an assessment of the procurement options to secure a new contract has taken place.</p>	
<p>A suitable procurement route using a Framework Agreement offered by NEPO311 Water Framework has been identified as the most appropriate and cost effective option for procuring the services.</p>	
<p>This report accordingly recommends proceeding with a direct award to Wave Utilities using the NEPO311 Water Framework.</p>	
RECOMMENDATIONS:	
	<p>(i) That Cabinet approves Wave Utilities are awarded the contract to provide Southampton City Council's water supply and waste water retail services using the NEPO311 Water Framework, with a view to award a contract commencing 1st April 2023 for 3+2 years.</p>
	<p>(ii) Delegate authority to the Head of Corporate Estates and Assets following consultation with the Divisional Head of Supplier Management, to finalise any specific terms of the contract with Wave Utilities, then award and enter into the call off contract under the NEPO framework agreement, and carryout all necessary actions to facilitate the execution, implementation and operation of the contract.</p>

REASONS FOR REPORT RECOMMENDATIONS	
1.	The Council's existing water procurement contract is coming to an end 31 st March 2023 and therefore a new contract is required.
2.	The recommended option outlined within this report provides a compliant route to procurement, along with the full range of services, cost effectiveness and quality sought by the council.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	95% of the total annual water services costs for non-domestic properties relates to wholesale charges, which will continue to be allocated to the existing OFWAT regulated wholesale supplier, Southern Water, who is the regional supplier of water and wastewater services within Southampton. The total costs for the annual water services are £0.37M in 2022.
4.	Option 1 – Open Tender It is considered there is no added benefit going to open market for procuring the Council's water services as using a framework provides broadly the same result to set up a new compliant contract before expiry of the current contract.
5.	Option 2 – Self Supply Under License An assessment has been undertaken to understand whether there are cost benefits for the Council securing a Water Self-Supply Licence via the water regular OFWAT. This would have enabled the Council to become a water retailer and supply water directly to itself via the water wholesaler – Southern Water. The result of the assessment showed that there was not a business case to take this option forward. This was due to the Council not meeting the minimum water consumption amount to make self-supply financially viable.
6.	Option 3 - Crown Commercial Services (CCS) RM6178 procurement Framework Two compliant procurement frameworks were identified that closely match the Council's requirements. Crown Commercial Services (CCS) RM6178 and NEPO311. Suppliers from both frameworks were engaged to understand the current market offer as the water market is still not as advanced as other utility sectors.
7.	The NEPO procurement framework has only one supplier nominated for the framework.
8.	The CCS framework has the option to go for e-auction or further competition. However, e-auction would not guarantee a contract tailored to the Council's needs as the CCS framework undertakes an auction on behalf of all interested parties.
9.	Further competition is not considered to be the right way to market, considering retail services amount to only 5% (or £18,500) of whole contract value and the same result will be achieved using NEPO framework direct award.
DETAIL (Including consultation carried out)	
10.	A new water supply and wastewater contract is required to comply with the Council's Contract Procedure Rules.

11.	After reviewing the two frameworks under consideration with stakeholders , undertaking supplier engagement and performance assessments and considering Service Level Agreements and account management aspects, Wave Utilities using the NEPO framework is the recommended route to establish a new contract.
12.	NEPO framework has reliable Service Level Agreement (SLA), water and ancillary services, billing flexibility, easy query management system, which will greatly reduce the Councils account managers involvement in query management for individual sites, along with active water management services provided at no additional cost. In addition, carbon footprint and additional reports for better monitoring are provided annually. The Framework also has social value criterion set to 15% of evaluation weightings and this aligns well to the Council’s Social Value and Green City Procurement Policy. The social value contribution and performance would be monitored as part of the approach to managing the contract.
13.	<p>The key benefits that the Council will secure from this procurement are:</p> <ul style="list-style-type: none"> • A competitively priced retailer for water and wastewater services. • The use of actual meter readings for appropriate supplies and invoicing. • Electronic billing via an agreed format. • Ease of query management via online portal access to sites. • Clear separation of individual accounts for billing and calculation of debt overhead. • To create water efficiency savings. • Identify opportunities to further reduce the cost of water supplies. • Smart metering for appropriate water supplies.
14.	A framework agreement available through the NEPO311 Water Framework is deemed to be the most suitable and cost effective option to deliver the Council’s requirements. The assessment of several alternative water retail suppliers and frameworks has confirmed the procurement of Wave Utilities via the NEPO framework best suits Southampton City Council needs.
15.	The contract awarded through the NEPO Framework Agreement would be for a fixed term of 3 years, with the option to extend the contract at the Council's sole discretion for an additional 2 years (3+2). The extension option will provide greater opportunity for water efficiency projects to be delivered as part of the contract.
16.	Social Value compliance and weighted evaluation criteria were set as part of NEPO framework award criteria, which meets and adds value to the Council’s social value requirements i.e. the contractor delivers a number of ongoing social based volunteer projects that support schools, local communities and improve local environments.
17.	The Council’s Energy Team have recently set up an electronic billing process, similar to that delivered for the payment of the gas and electricity invoices. This means that most water invoices are received and paid electronically with little or no manual intervention. However, due to the constraints of the water industry invoicing process this has not been as seamless as the gas and electricity billing process; therefore, the assessment of a water retailer has also been influenced by the electronic billing and query management

	capability of the water retailer. Wave meets the Council's requirements for electronic billing.
18.	The existing Business Stream contract ends 31st March 2023 and it is proposed the new contract will be drawn up and ready to sign in February 2023. A new contract will be in place early March 2023, with a commencement date of 1st April 2023. This will enable sufficient time to enable the work required to switch the water supplies to Wave.
RESOURCE IMPLICATIONS	
<u>Revenue</u>	
19.	Currently, the Council purchases approximately £0.37M of water and wastewater services per annum for its 205 commercial/non domestic water supplies, which equates to £1.85M over the maximum 5 year contract term.
20.	The revenue budget for the Councils non domestic water is currently held within each site/service area budget. The bills are received on behalf of the Council by the Energy Team centrally and then allocated to all individual sites via the accounting system. The current budget should cover the procurement.
21.	The Council is not able to change the wholesale supplier as this is regulated under OFWAT (the water regulator) rules. The remaining estimated 5% or £18,500 annual spend relates to the retail element (overhead) of the supply, which Wave will be responsible for. As circa 95% of the water account spend is dictated by the water regulator OFWAT the prospects to save costs on the procurement choice are minimal.
<u>Property/Other</u>	
22.	There are 205 individual water supply points (water and wastewater supplies) across the Council which are located in buildings, car parks, allotments and gardens.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
23.	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.
<u>Other Legal Implications:</u>	
24.	N/A
RISK MANAGEMENT IMPLICATIONS	
25.	Risks around the identification and delivery of water efficiency works have been assessed as part of the procurement process. This is because the average water efficiency measures often take in excess of 4 years to payback. This could exceed the contract term. Within the Wave contract there is the option to deliver efficiency reports to identify water saving opportunities and fully fund efficiency measures either paid back via invoices or upfront payment, depending on the assessed payback period. This will enable suitable efficiency works to be funded by the most practical option.
26.	There is a risk that the popularity of the Framework Agreement causes a drop in service quality. The Council will include the portfolio of sites and water

	supplies as a part of the contract process. A portfolio specific management plan for the service will be secured through the contract 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 water supplier will also be closely managed in the short term by the Council's Energy Team, with any major issues being escalated to NEPO. This risk will also be mitigated by strong and effective management of the contract.
27.	Additional precautions have been taken to ensure that the supplies (and accompanying information) will transfer correctly to the new retailer and vice versa. This will be closely managed as part of any transfer of supplies to the new contract by the Energy Team and through periodic performance meetings, and more frequently during the early stages of the contract (first 3-6 months).
POLICY FRAMEWORK IMPLICATIONS	
28.	The proposals support the Council's Vision, covered in the Corporate Plan 2022/30, to be a successful, sustainable organisation. This will be supported by securing a water contract that enables improvements to the electronic invoice process, further reducing administration need, and enabling the identification and investment for reducing water usage across our operations.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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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.	None