

Chief Officer Key Decision Report

Date: 19 September 2018

Wards: All

Subject: Award of Contract for Water Supply and Sewerage Services

Lead officer: Mark Humphries - Assistant Director, Infrastructure and Technology

Lead member: Councillor Mark Allison

Contact officer: Richard Neal – Energy and Sustainability Manager

Exempt report

Appendix 1 of this report is exempt from disclosure by virtue of Part 4B, Paragraph 10.4 and Category 3 as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

Recommendations:

- A. That the Council place an order via the Crown Commercial Services (CCS) Framework Agreement RM3790, using the further competition run by the London Energy Project, constituting a 2-year contract with an option to extend for a further 2 years. Based on an annual cost of between £150,000 - £200,000 the potential overall value of the contract over 4 years would be £600,000 - £800,000. Details of the successful bidder and the evaluation are set out in exempt **Appendix 1**.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To seek approval to place an order for Water Supply, Sewerage and Ancillary Services via a further competition run by the London Energy Project on Crown Commercial Services (CCS) Framework Agreement RM3790.
- 1.2. By placing this order, the Council will be entering into a 2-year contract with the successful bidder, with an option to extend for a further 2 years.

2 DETAILS

- 2.1. The council's water and wastewater services are currently provided by Castle Water Ltd or SES Business Water Ltd according to geographic location within the borough. Prior to 1st April 2017 the Council had no option to switch supplier.
- 2.2. Since 1st April 2017 deregulation of the commercial water market has enabled commercial customers to select their own supplier, and there is now an

expectation that public sector bodies should expose these services to competition.

- 2.3. The Council does not currently have a centralised contract for water, with individual site accounts being administered by building/site managers. This combined with poor levels of meter reading and regular estimated billing by incumbent suppliers makes estimating existing spend of these services difficult. However, it is believed the annual cost of water and wastewater to the Council is between £150,000 and £200,000 across 96 supply points (meters).
- 2.4. After considering the potential for achieving savings through an in-house procurement, it was identified that due to the small retail margins on these services (approximately 10% of invoiced cost) any financial benefit to the council was likely to be limited.
- 2.5. The London Energy Project (LEP) (a group of public sector, local and NHS authorities primarily located in London) engaged YPO to conduct a further competition for Water, Wastewater & Ancillary Services issued under Lot 3 of the Crown Commercial Services (CCS) Framework Agreement RM3790 on behalf of its member Authorities. The successful bidder, together with details of the evaluation, can be found within the exempt **Appendix 1**.
- 2.6. It is considered that LEP, by aggregating a number of portfolios and conducting this further competition was able to obtain the best value from the market. LB Merton was also able to influence requirements through engaging with an extensive Stakeholder consultation process.

3 ALTERNATIVE OPTIONS

- 3.1. An in-house procurement was considered, and this approach would enable a completely bespoke set of requirements to be issued which were tailored to the council's needs. However, as noted in Section 2 the financial benefits of any procurement are likely to be limited. Also given the relative infancy of the market, combined with LB Merton's relatively small portfolio it was also considered that the potential to extract service and contractual improvements from suppliers would also be limited.
- 3.2. Other framework agreements are available to Local Authorities. Direct call-offs are possible, but these would not have included the bespoke service elements LB Merton officers were looking to secure. Running a further competition in-house on an existing framework was also considered, but again this approach was considered unlikely to deliver significant benefit due to the Council's relatively small portfolio. The resource cost of any in-house procurement should also be considered against the limited financial benefits.
- 3.3. Taking no action and continuing with current arrangements is not considered to be an option as it is unlikely it would be considered compliant with public sector procurement regulations.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. The procurement strategy was developed by LEP following extensive consultation with member authorities and a market engagement process in 2017.
- 4.2. Agreement in principle to procure via the LEP further completion on framework RM3790 was approved at the Corporate Service Operational Procurement Group meeting of 26th October 2017.

5 TIMETABLE

5.1.

<ul style="list-style-type: none"> • LEP Team conducts extensive market engagement to establish the most appropriate route to market. 	Spring 2017
<ul style="list-style-type: none"> • LEP conducts stakeholder consultation among the approximately 30 authorities expressing an interest to develop the service specification. 	Summer 2017
<ul style="list-style-type: none"> • LEP Conducts further competition on framework RM3790, with a panel of staff from 15 authorities collaboratively scoring quality sections. 	Winter 2017 – Spring 2018
<ul style="list-style-type: none"> • Contract start date (see 5.4) 	May 2018

- 5.2. Upon placement of an order on framework RM3790 it is anticipated that onboarding of the portfolio with the new supplier will take between 1 and 2 months.
- 5.3. By placing an order via the LEP further competition on framework RM3790 the Council will be entering into a 2-year contract with the successful bidder, with an option to extend by up to a further 2 years.
- 5.4. It should be noted that the contract the council will be entering into was awarded 01/05/2018 and which will expire on 30/04/2022. It is anticipated that the order would be placed 01/10/2018, meaning that the maximum duration (including extensions) would in effect be 3 years 7 months.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The minimum contract term for orders placed by LEP Authorities via the further competition is 2 years with an option to extend by a further 2 years. This would give rise to an estimated total contract value between £600,000 and £800,000 when optional extensions are included.

- 6.2. Under the proposed contract terms, and using the estimates of spend given above, it is anticipated that the annual financial saving to the council against current arrangements would be £5,460 - £7,280, or 3.64%.
- 6.3. The proposed contract includes the option of consolidated billing across all or part of the portfolio. It is the intention of officers to implement this approach, and it is anticipated that this will provide significant resource savings in terms of officer time across all departments.
- 6.4. The financial implications of this report have been approved by the Financial Review Group. The annual savings outlined in the report will be captured as part of the medium-term budgeting process

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Placing an order via the proposed framework in accordance with the procedures set out in the framework, would ensure compliance with public sector procurement regulations. The successful bidder is a major UK water retailer, and as such hold all relevant supply licences.
- 7.2. The ability of the Council to access the framework has been reviewed by an officer from legal services and approved for use.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. Considered - None identified.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. Considered - None identified.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. Considered - None identified.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- 11.1. [EXEMPT] Appendix 1 - LEP Further Competition Analysis Report

12 BACKGROUND PAPERS

- 12.1. None