Report of the Director
of Policy and Resources

Decision taken after:
13 December 2016

NORTH LINCOLNSHIRE COUNCIL

GOVERNANCE AND TRANSFORMATION CABINET MEMBER

WATER MARKET COMPETITION AND PROCUREMENT

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 This report informs the cabinet member of the opportunities arising from the opening of the non-residential water supply market in April 2017 and the associated procurement strategy implications for the council.

1.2 The key points in this report are:

- The non-residential water supply market will open to competition in April 2017
- The market will reshape into wholesale and retail sectors
- Improved price competition is anticipated but scope for savings is expected to be limited
- The council will be required to have a compliant procurement arrangement in place by April 2017
- Contract Procedure Rules require that the relevant cabinet member is advised of the procurement plans for contracts over £1m.

2. BACKGROUND INFORMATION

2.1 The water market presently operates as a series of regional privatised monopolies with certain limited exceptions. This market has historically provided minimal choice for consumers. Whilst satisfaction with water suppliers is generally higher than other utilities, noted issues exist such as lack of price competition, billing (over-reliance on estimated billing) and limited roll-out of smart metering and associated technology.

2.2 The Water Act 2016 introduced significant changes. Notably from 1 April 2017 the water market will open to competition for all non-residential customers.

2.3 Significantly the market will separate into two sectors: “wholesalers” and “retailers”. Wholesalers will remain regional entities. Retailers can operate from anywhere in England and work with any wholesaler.

2.4 The market has already started to change shape:

- United Utilities/Severn Trent: *Water Plus*
- Thames Water not entering as a retailer
- Kelda/Yorkshire Water: *ThreeSixty*
- Anglian Water reported as “likely to rebrand” their retail arm

2.5 From 1 April 2017 it will become possible for non-residential water supply, waste water and ancillary services to be purchased from a single retailer or separate retailers. Customers will have a relationship with retailers only. Retailers will be licensed by a regulatory body – OFWAT and will be required to have access agreements in place with wholesalers in order to supply customers. As of 12 September 2016, 14 retailer applications had been approved.

2.6 It is estimated that wholesale costs will account for around 93% of cost with retailers influencing 7% in respect of price competition. As a consequence the initial scope for cost saving on water as a result of competition is expected to be limited.

2.7 The primary scope for cost reduction will continue to be reduced consumption. However OFWAT will conduct a market review in 2019 which may increase competitiveness alongside opportunities presented by a maturing market.

2.8 The council has adopted a category strategy for the management of its utilities procurement through the Yorkshire Purchasing Organisation (YPO). YPO is working with Crown Commercial Services and other central buying organisations to establish a pan-government framework offering a range of supply and service choices.

2.9 In readiness for accessing opportunities under the open market, it is intended at this stage that the council will access the framework in order to compliantly seek the most competitive supply option.

2.10 In preparation customers are encouraged to review and cleanse their site usage data and resolve current billing and consumption disputes. This process is underway via the energy management team.

3. OPTIONS FOR CONSIDERATION

3.1 The council will be required under Public Contracts Regulations to demonstrate a compliant supply arrangement from 1 April 2017. A further report will be submitted once the opportunities presented under the pan-government water supply framework are known.

4. ANALYSIS OF OPTIONS

4.1 As above.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 The council's expenditure on water related utility services is approximately £0.5m a year.

5.2 As detailed in the main body of the report, initially the opportunity to reduce costs through price competition is likely to be limited. A continued focus on water efficiency will be important alongside asset rationalisation and commercial pricing improvements offered through competition.

5.3 Up to date, accurate and compliant site/usage data is an essential prerequisite for accessing relevant market opportunities.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 Not applicable.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 Developments are being monitored by the procurement team and energy manager in conjunction with YPO.

8. RECOMMENDATIONS

8.1 That the opportunities associated with the opening of the non-residential water supply market in 2017 are noted;

8.2 That the proposal to participate in the pan-government water supply procurement is approved; and

8.3 That a further report is submitted detailing the outcome of the pan-government procurement and associated options for the council's water supply from 1 April 2017

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