

<b>Subject:</b>	<b>Self-Supply Water Licence</b>		
<b>Date of Meeting:</b>	<b>10 October 2019</b>		
<b>Report of:</b>	<b>Executive Director, Economy, Environment &amp; Culture</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Angela Dymott Kelvin Newman</b>	<b>Tel: 01273 291450 01273 290599</b>
	<b>Email:</b>	<b>angela.dymott@brighton-hove.gov.uk kelvin.newman@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All Wards</b>		

## **FOR GENERAL RELEASE**

### **1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 Since deregulation of the business water market in April 2017, all non-domestic customers in England have been able to elect which company provides their water and wastewater retail services or, alternatively, to apply for a 'self-supply' licence.
- 1.2 Following a Notice of Motion presented to Policy, Resources & Growth Committee by the Green Party on 18 July 2019, this report was commissioned to explore options for the council to apply for a self-supply licence from the water regulator OFWAT in order to manage its own water supply.
- 1.3 The aim of the report is to explore the costs and benefits of a self-supply licence and the potential impact on residents' water bills and improved environmental outcomes.

### **2. RECOMMENDATIONS**

That Policy & Resources Committee:

- 2.1 Approve the decision not to apply for a self-supply licence at this time as there is no justifiable business case for doing so and the council has already entered into a contract for the provision of the water retail services covered by a self-supply licence with Castle Water until 31 January 2021 with a possibility to extend this to 31 January 2022.

### **3. CONTEXT / BACKGROUND INFORMATION**

- 3.1 Deregulation of the non-domestic water market took place in April 2017 under the provisions of the Water Act 2014. For business customers, deregulation split the Water Wholesaler (providing water supplier & wastewater services) and the Water Retail functions and opened up the latter to market competition including the ability for organisations to apply for a 'self-supply' licence.

The aim of deregulation was to create competition in the water retail market and allow customers to take advantage of lower retail management fees.

## **3.2 Current Water Arrangements at Brighton & Hove City Council**

3.2.1 The council has around 415 water supply points with an annual total spend of approximately £1.1m which includes supply and services to general fund, housing and school assets. This is currently made up of:

- £1,030,000 payable to Southern Water as our Water Wholesaler – this will not be affected by deregulation as the wholesaler is fixed.
- £60,000 for domestic supplies - this will not be affected as domestic supplies fall outside of the scope of deregulation.
- £17,000 (currently set at 1.65% of our wholesale water charges to Southern Water) for water retail services payable to Castle Water – this is the only bill element that is directly impacted by water deregulation.

3.2.2 The council has already benefited from water market deregulation. In 2018, the council jointly tendered the combined water retail services contract to benefit from economies of scale following approval of the Orbis Procurement Energy Strategy at Policy, Resources & Growth Committee on 30 November 2017. This resulted in a contract with Castle Water for a two year term to 31 January 2021 with an option to extend for a further year.

This resulted in an annual saving to Brighton & Hove City Council of approximately £45,000 by switching from Business Stream to Castle Water (a total of £135,000 over the potential 3 year life of the contract).

## **3.3 Definitions**

### Water Wholesaler

3.3.1 The Water Wholesaler for Brighton & Hove City Council is Southern Water. Wholesalers are fixed based on geographic location and cannot be changed.

3.3.2 The Water Wholesaler is responsible for:

- Supplying water & the removal of wastewater,
- Maintaining water network pipes, reservoirs & sewers,
- Installing and maintaining water meters and
- Managing network issues such as burst pipes & sewer blockages.

### Water Retailer

3.3.3 Following deregulation, business customers can choose their Water Retailer from a pool of eligible companies.

3.3.4 The Water Retailer is responsible for:

- Issuing consolidated billing & collecting payments for water and wastewater services provided by the Water Wholesaler,
- Obtaining meter readings and providing them to the wholesaler,
- Managing queries on behalf of the customer and
- Being fully conversant and compliant with all relevant market codes of practice and the legal regulatory framework applicable to water services.

## Self-Supply Licence

3.3.5 As an alternative to appointing a new Water Retailer, deregulation also allows eligible customers to apply for a 'Self-Supply' licence from the industry regulator, OFWAT. This allows the licensee to purchase water & wastewater services directly from the Water Wholesaler and to provide their own Water Retailer services.

### **3.4 Potential Advantages of a Self-Supply Licence**

3.4.1 A potential saving on the current retail margin of £17,000 payable across the council's portfolio. However, the council will incur significant additional costs set out in 3.5 below.

3.4.2 Acquiring certain rights within the water market including membership and voting rights in meetings with the Market Operator Services Ltd (MOSL), the market operator for the non-household water market. At the current time, it is not certain what advantages or level of influence this would create for the council.

### **3.5 Potential Disadvantages & Risks of a Self-Supply Licence**

3.5.1 Potential savings are therefore relatively small and capped at the current cost of our water retail contract (reduced to £17,000 per annum following the 2018 re-procurement exercise described in 3.2.2 above). Any potential saving will however be more than offset by the cost of the additional resources required to manage the self-supply contract as described below.

3.5.2 Customers with self-supply licences are not provided with retail services and so, if the council chose this option, additional resources will need to be identified to carry out the following responsibilities:

- A programme of regular water meter readings for all supplies,
- Direct engagement with wholesaler queries,
- Management billing directly from the wholesaler and
- Creating emergency plans for water supply outages.

It has been estimated that an additional resource of about 3 FTE would need to be appointed to cover these additional responsibilities with an additional requirement for consultancy, finance and legal input to ensure regulatory compliance. The estimated cost of these posts including on-costs would be £100,740 per annum.

3.5.3 'Eligible' customers for a self-supply licence are defined as any business customer that meets certain defined criteria relating to managerial, financial and technical competencies. The council is 'eligible' as a business customer but is unlikely to meet the various technical competency criteria without appointing additional resources. This would include ensuring that the council is fully conversant in water retail market codes and the legal regulatory framework. Currently all except one of the existing self-supply licensees have appointed an external consultant to enable them to meet these criteria (see 3.7.2 below).

- 3.5.4 The council would no longer benefit from the customer services provided by our existing retail contract including emergency procedures for outages which would need to be provided in-house.
- 3.5.5 The council would be subject to the additional cost of the self-supply licence application which is currently £3,000. Further on-going costs would also be incurred including an annual fee to the Market Operator Services Ltd (MOSL) who manage the deregulated market, the costs involved in maintaining the appropriate security status to access the Central Market Operating System (CMOS) which is the mandatory market software system and the general administrative costs of operating in the market and ensuring compliance with the market codes. The full on-going costs of these cannot be assessed until the application process is started.
- 3.5.6 Customer self-supplying could be exposed to regulatory risks due to having to meet market performance standards. Failure to comply would leave the council liable for penalty charges.
- 3.5.7 A self-supply licence does not currently allow the council to supply water services to:
- Domestic property including council housing. A self-supply licence will therefore have no impact on the water bills of the city's residents.
  - Premises that are not owned or directly associated with it. This would effectively limit the scope of a self-supply licence to the council's own operational buildings.
- 3.5.8 A self-supply licence by itself will not reduce water consumption. Existing self-supply licensees who quote water consumption savings are invariably introducing other water efficiency measures which would be available to anyone without a licence.

The brewer Greene King, for example, is reducing its water consumption mainly through the identification and fixing of leaks within their existing pipe networks rather than through any benefits offered by their self-supply licence.

### **3.6 Water Reduction Initiatives at Brighton & Hove City Council**

- 3.6.1 The council has already carried out a number of water reduction measures across its portfolio including:
- The identification & early repair of leaks through the analysis of meter data,
  - Installation of efficient fittings.
  - Proactive removal of redundant supplies to eliminate the risk of future leaks.
  - An ongoing feasibility study into the implementation of grey water harvesting technology at Hove Town Hall.
  - Reducing water pressure where possible to reduce flow.
  - Installation of waterless urinals (although maintenance & servicing costs can exceed the cost of the water saved).
- 3.6.2 In addition for new-build projects water reduction measures are designed in as standard including dual flush toilet cisterns, flow restrictors and low water taps.

Where schemes require BREEAM certification (Building Research Establishment Environmental Assessment Method) rainwater harvesting may be required although maintenance issues have reduced the effectiveness of these.

### **3.7 Current State of the Deregulated Water Market**

3.7.1 A report published by the water regulator OFWAT in July 2019 stated that:

- Only 7% of eligible business customers have switched their retail supplier since deregulation,
- 40% of eligible business customers who considered switching decided not to as they felt that the savings were potentially minimal,
- Of those who have switched to date, one third saw no reduction on their bills.

Based on these results, the council's re-procurement exercise to appoint a new water retailer is considered to have achieved a good financial result.

3.7.2 The deregulated water market is still in its infancy and, to date, only nine organisations have successfully applied for a self-supply licence. Of these, seven are brewers, drink and commercial laundry companies who will consume a large volume of water in their processes and two are local authorities - Blackpool and Nottingham City.

All except Nottingham City have contracted with a water consultancy company, Waterscan, to provide retail services and all have introduced a programme of water efficiencies in order to reduce consumption.

3.7.3 Nottingham City Council have cited commercial sensitivity in their reluctance to share any specific data on their business case for seeking a licence but are quoting 10% savings derived both from taking on the water retail services in-house and a programme of works to reduce water consumption. Nottingham City has only recently been awarded their licence and so is in the early stages of trying to achieve these savings.

3.7.4 Blackpool City Council are also unwilling to share the details of their business case but are also planning some water efficiencies in order to achieve their targeted saving of £194,000 over three years.

3.7.5 Where available, case studies for the seven private sector self-supply licensees all suggest that they are benefitting from consolidated billing. These companies operate nationally and would normally be dealing with most if not all of the Water Wholesalers across England. Administration savings would result from a single consolidated bill across all of their sites but this would not be available to the council who only deal with one Water Wholesaler – Southern Water.

### **3.8 Contractual Timescales**

3.8.1 As noted in 3.2.2 above, the council is currently contracted with Castle Water until at least 31 January 2021 for Water Retailer services and we are therefore precluded from applying for a self-supply licence until that time. The current contract has a one year extension option which would take expiry to January 2022 if exercised.

3.8.2 As the deregulated market matures it is possible that the advantages of a self-supply licence will increase or become more apparent. The council's energy & water team will continue to monitor the market and report back to Policy & Resources Committee before the current retail contract expires with a further recommendation based on information available at that time.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

Three options were available to the council to appoint a water retailer when deregulation of the water market took effect in April 2017.

##### **4.1 Option 1 – Remain with our default retailer**

The company providing our water retail services prior to deregulation was Southern Water based on our geographic location. Southern water did not apply for a licence to provide retail services to businesses and arranged for this to be taken on by a licenced company 'Business Stream' by default from April 2017.

Procurement advice was that the water retail contract would need to be tendered following deregulation and therefore Option 1 – to remain with our default retailer - was not available.

##### **4.2 Option 2 – Re-procure the water retail services contract**

No suitable service framework was available for the council to use in April 2017 at the point of deregulation and it was not until January 2019 that the council entered into a new contract with Castle Water for the provision of water retail services following a joint procurement exercise with our Orbis partners. A waiver of Council Standing Orders was authorised by the Executive Director, Economy, Environment & Culture to continue with Business Stream in the intervening period while a suitable framework was established. The waiver was granted on the condition that it would allow the council to explore collaborative procurement with Orbis partners, once the market had stabilised.

##### **4.3 Option 3 – Apply for a self-supply licence**

At the point of deregulation little information was available on the benefits, risks and costs associated with a self-supply licence and, like most organisations, the council chose to wait and see how the market developed before making a decision. In the meantime a new water retail contract was procured (Option 2 above) as part of the Orbis Energy Strategy with an earliest expiry date of January 2020.

#### **5. COMMUNITY ENGAGEMENT & CONSULTATION**

5.1 Consultation has taken place with the two local authorities who have already secured a self-supply licence – Blackpool Council and Nottingham City Council – although both have been unwilling to share any details on the basis of commercial sensitivity.

- 5.2 The council has also consulted with our energy & water Orbis partners, neither of which is considering applying for a self-supply licence at the present time.

## **6. CONCLUSION**

- 6.1 The council is already committed to a contract with Castle Water to provide retail water services until 31 January 2021 (with an option to extend for a further year). This will preclude us from applying for a self-supply licence until at least late 2020.
- 6.2 Of the nine organisations who have been awarded a self-supply licence to date, 89% are employing an external organisation – in all cases ‘Waterscan’ – to provide their water retail services, the cost of which will reduce the net savings available. The council has already benefitted from the savings available by re-procuring our Water Retailer generating savings of approximately £45,000 per annum.
- 6.3 Case studies from the nine self-supply licensees suggest that all are combining their self-supply licence with a programme to reduce water consumption across their operations, an option which the council is also pursuing.
- 6.4 The council’s energy & water team will continue to:
- Monitor the deregulated water market in collaboration with our Orbis partners to assess whether a self-supply licence would offer value for money and sufficient environmental benefits at the expiry of our current contract.
  - Identify cost effective water consumption reduction methods across the operational portfolio and seek funding for their implementation where a business case can be made.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 There are no direct financial implications to this report as the recommendations are for noting only. The council’s water supply and waste water services has an annual budget of approximately £1.1m, which includes supply and retail services to general fund, housing and school assets.

The report identifies the current financial position with regards to the existing contract for water retail services which runs until 31 January 2021 with a possibility to extend this to 31 January 2022. The annual value of this contract is a fixed 1.65% of the wholesale water bill payable to Southern Water across the council’s portfolio (currently equivalent to approximately £17,000 per annum).

The likely financial implications of a self-supply model are covered within the main body of the report. It is anticipated that any potential contract cost reductions from applying a self-supply model would be more than offset by additional cost of resourcing additional responsibilities required to ensure regulatory compliance. The council’s energy & water team will look at water self-supply options towards the end of the current contract and report back to Policy & Resources Committee with updated financial implications applying at that time.

*Finance Officer Consulted: Steven Bedford*

*Date: 20 August 2019*

Legal Implications:

- 7.2 There are no direct legal implications at this stage. A contract for the provision of retail water services is in place until 31 January 2021, with an optional 1 year extension.

*Lawyer Consulted: Wendy McRae-Smith*

*Date: 23 August 2019*

Equalities Implications:

- 7.3 There are no equalities implications.

Sustainability Implications:

- 7.4 Sustainability implications are included in the body of the report.

Any Other Significant Implications:

- 7.5 No other significant implications have been identified relating to this report.

**SUPPORTING DOCUMENTATION**

**Documents in Members' Room:** None

**Background Documents:** None