

HOW WATER MARKET REFORM COULD HELP QUENCH ENGLAND'S PUBLIC SECTOR'S THIRST FOR SUSTAINABILITY

We live in a time of paradox – particularly for the public sector. While sustainability remains high on the agenda across government departments, local authorities and arm's length organisations, there is a decreasing amount of money from which to draw as budgets are placed under strain. How public sector organisations can square this seemingly immalleable circle has become the defining question of our time.

While sustainability has become a key consideration in procurement, it suffers, in the minds of some, from being associated with higher costs at a time of shrinking resources. That should not be the case. For a product or service to be truly sustainable, it has to be financially viable for the customer. Great leaps and bounds have been made in recent years to demonstrate that being green does not have to add further pressure to stretched finances.



Not long ago, research by the Centre for Economics and Business Research (CEBR) showed that during 2011/12 the Government Procurement Service delivered savings of £760 million for Britain's public purse. That's a significant help to the public sector in what is undoubtedly a tough time for budgets across government departments.

However, a piece of legislation going through Westminster at the moment could significantly enhance this. The Water Bill, announced in Parliament in June, will see England follow Scotland's example by opening up the non-domestic water market to competition. That means all public sector organisations, in addition to businesses and other non-residential properties, will be free to choose their water and waste water services provider.

Under current arrangements, only individual sites using more than five megalitres (five million litres) per year in England are entitled to switch provider. This roughly equates to sites billed around £15,000 per year for water and waste water services, or 26,000 sites in the entire country. Full competition would mean any site can switch its provider, regardless of how much water it uses.

These changes could be implemented as early as 2017, but in Scotland this has been in place since April 1 2008. That's given us about five years of competition in the water market and, from the experience north of the border, it has been a successful transformation.

In those five years a great deal has been achieved for customers. Overall, organisations across Scotland have saved more than £35 million on their water bills through consumption savings, as well as more than £30 million in additional discounts.

However, the savings have not just been financial. There has been a significant environmental benefit. Public sector organisations, businesses and charities have used approximately 16 billion litres of water less in just five years than in the equivalent period prior to competition.

That has been a significant bonus for one of the country's most precious natural resources. Another positive environmental impact has been the large carbon saving. Competition has helped reduce water-related carbon emissions by more than 28,000 tonnes since 2008.

While this is across the market, some of the numbers for the public sector in Scotland are just as encouraging. Business Stream recently extended its agreement with the Scottish public sector and, across the four year term of the contract, is now set to deliver more than £36 million in combined discount and efficiency savings.

But it is not just about the level of savings, on any measure, that this has been possible. Innovation is driven by competition; the need to offer customers a better service, with keener pricing and more tailored products, with the ultimate motivation of retaining customers. Perhaps the best explanation of this mechanism came from Professor Lionel Robbins, a leading economist at the London School of Economics, who said: "Every day thousands of people cast their votes for the hundreds of products and services on offer, and from the competition to win their votes better and better products and services arise."

Better products and services have driven improvements in the Scottish water industry across the board. This has seen Business Stream increase its number of services on offer from six to over 60 in five years, while customer satisfaction has increased by 26 per cent. Competition has undoubtedly been the primary motivating factor in this.

In the case of the Scottish public sector, this has included providing specialist account managers who understand the unique needs of the sector, which has resulted in the installation of several thousand automatic meter reading (AMRs) devices to help drive efficiencies. We've also hosted tailored events across the country, designed specifically with our public sector customers in mind.

Glasgow City Council is one example of how a public sector organisation has benefitted from the innovation driven by competition. The authority has a large water estate and sought to identify ways in which it could identify efficiencies and cut back on its overall consumption.

The council, however, did not have access to the capital requirements necessary to fund the project. To remedy this, Business Stream provided the up-front investment for water efficiency measures and infrastructure, including leak detection and repair as well as the installation of AMRs. Glasgow City Council and Business Stream share in the efficiency savings over the life of a four-year contract, which is expected to see the council save £1.3 million, equivalent to 1,105 tonnes of carbon.

The indications from Scotland are that water competition could lead to significant savings for the public sector in England, assuming customers are kept at the heart of reform. That's been one of the critical ingredients of the success of the market in Scotland, with customers and water retailers alike benefitting from the savings made.

Indeed, Scotland has been a good testing ground. At a fraction of the size of England, it has shown what might be achieved on a grander scale. The Water Industry Commission for Scotland (WICS) estimates that the costs of introducing competition in England will pay themselves off and have a net present value (NPV) of £2.5 billion in just seven years. This would present huge opportunities for the public sector to reduce the cost of its water consumption, reduce carbon emissions and realise cost savings.

What's happened in Scotland over the last few years has undoubtedly been good for customers, particularly the public sector. Competition has helped create a water market which is there for the benefit of customers, rather than something which is done to them, as is currently the case in England. The resulting services and efficiencies have delivered for the environment as well as the Scottish public purse.

When the Water Bill passes through Westminster and competition is introduced, in 2017 or beyond, the public sector will be in a position to choose which supplier provides its water and waste water services for the first time. At a time when the conflicting priorities of cost, value and sustainability are long-term agenda items, the opportunity for England's public sector is clear.