



Northern Ireland
Assembly

Committee for Regional Development

OFFICIAL REPORT (Hansard)

Water and Sewerage Services (Amendment)
Bill: Northern Ireland Water Briefing

9 January 2013

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Members present for all or part of the proceedings:

Mr Jimmy Spratt (Chairperson)
Mr Seán Lynch (Deputy Chairperson)
Mr John Dallat
Mr Stewart Dickson
Mr Alex Easton
Mrs Dolores Kelly
Mr Declan McAleer
Mr David McNarry

Witnesses:

Mr Trevor Haslett	Northern Ireland Water
Mr Michael Mulholland	Northern Ireland Water

The Chairperson: Gentlemen, you are very welcome to the Committee. We have Trevor Haslett, chief executive of Northern Ireland Water (NIW), and Michael Mulholland. Michael, remind me of your position.

Mr Michael Mulholland (Northern Ireland Water): I work in the finance and regulations section, so I do things like tariffs and revenue.

The Chairperson: OK. This is a very important subject for everybody at the minute. I welcome both of you to the Committee. I know that you are not making a presentation on the Bill. The Bill is Executive policy and allows for the payment of water charges from the Northern Ireland block grant.

Trevor, if you make a short opening statement and then leave yourself open for members' questions, that might be the best course.

Mr Trevor Haslett (Northern Ireland Water): Chairman and Committee members, thanks for inviting us along. The importance of the Bill to Northern Ireland Water obviously centres on the subsidy and the period of time over which the Bill operates.

When I last spoke to the Committee, on 21 November, I know that Department for Regional Development (DRD) officials were in just before us speaking about the order. We commented to DRD that we were content with its proposed amendments. The Land Registry issue — having to ensure that we have records of our pipes and their location — is a good step forward. I know that the Committee recently looked at the issue of unadopted streets. By and large, Northern Ireland Water is content with the amendments. We are here really because of the importance of the order to Northern Ireland Water and to answer any questions the Committee may have.

The Chairperson: OK, Trevor. Thanks for that. You say that you are content with the vast majority of the Bill. The Bill only covers up to 2016. If the subsidy was not extended beyond that period, how much notice would Northern Ireland Water need to be fully operational?

Mr Haslett: The subsidy is a surrogate for customer charges until 2016. Going back a number of years, Water Service, as it was at that time, said that it would require around a two-year lead-in if some form of charging were introduced. At that time, we had to set up a billing section and do a lot of work that is still largely in place, but we would need, I think, 12 to 18 months' notice if there was to be a change from a subsidy to some alternative.

The Chairperson: Have you any comments on the regulator's final determination?

Mr Haslett: We received the final determination just before Christmas. We have looked at the figures and compared them with those in the draft determination. There is a marginal improvement in the figures, particularly for the opex, but there remains a significant gap to make up in the pace of efficiency that the regulator is looking for. Our board discussed that at its December meeting, and it is on the board agenda for January as well. There remains a significant gap between the final determination and our business case. Also, there is the secondary issue of public expenditure (PE). That was reduced before the process was actually complete, which partly compounds the issue.

The Chairperson: You may or may not have heard the trade union officials, who have just left the meeting, comment on the governance model for Northern Ireland Water. They still insist that water should not be privatised. What do you believe is the best model for Northern Ireland Water? One of the things that came out of our discussion with the trade unions is that they are certainly not opposed to the public paying for water services through the regional rate. We are aware of a figure of £169, which seems to be the ballpark figure for the rate. However, I think that it is fair to say that the trade unions were talking about a figure substantially higher than that, and they did not seem to have a problem with that model of payment. Did you have comments to make about that?

Mr Haslett: Normally, we do not get drawn into things like that.

The Chairperson: I am doing my best —

Mr Haslett: I am quite happy to offer an opinion, using various models from around the globe and one that, in fact, is not too far from us, in the Republic, which is introducing water charges. The Republic was going to introduce water charges, based on metered water, in about 2014, but it was advised that it was unlikely to get all the meters installed in time, so I think that date has been pushed back to 2017. That model is the same as the one used in Australia and parts of America. I personally favour a metered water supply because of what happened two years ago during the freeze/thaw incident when people ran water to waste. That would not happen; at least they would be accountable or would have to take the decision to pay for it if they want to run it to waste. There are various models that give a domestic allowance on metered water so that anybody who is socially deprived gets 200, 300 or 400 cubic metres of water a year and pays a premium only on anything above that. So, there are a number of models.

You asked me about 2016. If a change is brought in, it will obviously be an Executive and Assembly decision. Going back to your previous question, Northern Ireland Water would certainly need lead-in time if there were a change or a move to that. Even in the final determination, the regulator admitted that the governance model we have at the minute is suboptimal. When I was here last, I contrasted the efficiency of Northern Ireland Water with the mythical frontier company that the regulator uses, and we obviously are not as efficient. However, as a non-departmental public body (NDPB) and a public body, Northern Ireland Water is very efficient. We have proven that over price control 10 (PC10), and even over 2011-12, where we have outperformed all our targets and efficiency savings.

The governance model depends on what Northern Ireland Water is. If it is run as a fully fledged company, which is what it was set up as in 2007, and given the freedom and flexibilities of that company, that is a much more efficient way to run Northern Ireland Water. However, if it is run, as it is at the moment, as a bit of a hybrid between an NDPB and a government company, that is suboptimal. That even leads to different sets of accounts in annual reports, which members have probably seen, because of the different ways in which depreciation is treated.

The Chairperson: The Irish Congress of Trade Unions stated to us a short time ago that the final determination did not raise any urgent issues regarding governance arrangements in Northern Ireland Water. Do you agree with that statement?

Mr Haslett: No. I have spoken to the Utility Regulator, Shane Lynch. In the final determination, by asking Northern Ireland Water to deliver the efficiencies at that pace, the regulator has raised this question: is the current governance model the right way to be able to achieve that? We have had engagements with the regulator and said that Northern Ireland Water has no argument about becoming more efficient. In fact, in our price control 13 (PC13) business plan, we have baked in efficiency numbers that continue the downward trend from PC10. The issue that we have with the efficiencies is the size and pace. We intend to make efficiency savings, but there is still a gap between us and the regulator.

The Chairperson: Thanks for that, Trevor. We move to questions from members.

Mr Lynch: I have just a quick question, Trevor. Have you any comments on the regulator's final determination?

Mr Haslett: We have to reply officially by 14 February. There is still a lot of engagement to take place. I was with our deputy secretary — as he is now — yesterday to discuss two of the core items in PC13, namely the opex figures that we have been given for next year based on the financial determination and the issue of PE. We have had quite a lot of one-to-one engagement with the regulator over the past four or five months, as have Michael and his team. There is still some way to go to get agreement and close the gap on the efficiency savings. There are three bodies involved in that, including DRD.

Mr Dallat: I want to pay tribute to your men on the ground. The people who drive the white vans, attend to the crises and all that stuff are excellent. The public at large very much appreciate what they do.

Given the limited extent of the Bill, are you satisfied that you have sufficient finance to avoid infraction under European legislation in the foreseeable future? Can you give an assurance to people like me, whose constituencies form a very large part of the coastal area, where tourism is critical and blue flags are essential, that you will protect our blue-flag beaches? Can you also give an assurance that you will be able to avoid major issues in the future, particularly in the rural areas where small sewerage works are not compliant with European regulation?

Mr Haslett: Of the 13 locations around the UK that the European Union threatened with infraction seven or eight years ago, nine were in Northern Ireland. In fact, one is in your constituency. The member will know that the north coast works — there is also the north Down works in Bangor — was commissioned and has been up and running for four or five years. We have no infraction sites at the moment, apart from a new one in Ballycastle that appeared as at risk. We have had difficulties over a number of years in acquiring a site for the works there. There is an existing works there. However, because of the transient summer tourist population, it goes above the £10,000 PE threshold and into potential infraction country. So, we are looking at Ballycastle. The European Union usually sends a notification of infraction. We have not received anything like that yet. We are working with the Northern Ireland Environment Agency and others to try to get a move on that site.

I will address the point about the rural works — if you want to describe them as such. To put it in context, we have about 240 large works that serve 98% of the population. We have something like 860 small works that serve only 2% of the population. Even worse probably, about 650 of those serve fewer than 50 people. Some are actually only septic tanks.

We commenced the rural waste water improvement programme about five years ago. Next month, we will finish our 100th small works at a cost of about £30 million. As those works are all standardised, we have saved something like 35% on capital efficiency. The guys tell me that they are building three for the cost of two. A lot of the focus has been on the 240 works that serve 98% of the population. Over the past five or six years, we have fallen back to look at the rural works. A large number of the rural works are performing quite well, Mr Dallat. However, we have been focusing on those that provide some cause for concern in respect of discharging into river courses.

Mr Dallat: Do you know the number of people in rural areas who still do not have a mains water supply? Is that part of your programme?

Mr Haslett: It is an issue that has come up repeatedly in the past. There is a smaller number in the rural community, and, as you know, we can only provide a service within the unit-cost yardstick. If we receive an estimate above that, we ask the applicant or applicants to make up the difference. In fact, the issue was taken to the Assembly five or six years ago to see whether funding could be made available in rural areas to make up the difference between the unit-cost yardstick and what it would cost to provide a supply. There is certainly a smaller number of those people than there was.

Mrs D Kelly: I am aware that there was a joint initiative between the Department of Agriculture and Rural Development (DARD) and DRD. Can you give us any sense of where that is at regarding the number of applications? Has the rural scheme been given the go ahead yet to address the lack of access to public water in some rural areas?

Mr Haslett: I do not actually know. It is not an issue that has come across my desk in the past two years. I know that, previously, there was a lot of talk about some customers, particularly in the Dungannon area, who were looking for a water supply. I can look into it to see where it is at, even though you can probably tell from my answer that it is not topical.

Mr Mulholland: I know that the scheme is being administered by DARD and is up and running. As I understand it, the scheme was for customers whose only option previously was the requisition of a full water mains. The scheme allowed customers to look at having borewell as a cheaper option. Some subsidy or grant would be made available for that. The scheme is being administered by DARD with some assistance from the Department. Northern Ireland Water is not involved beyond that.

Mrs D Kelly: I notice in some of the press releases that, towards the end of last year, there were some differences in interpretation of the efficiency savings targets set by the regulator and Northern Ireland Water. Has that been resolved?

Mr Haslett: It was the regulator's comparator that drew us into that. The regulator compares Northern Ireland Water to a frontier company and said that, for every £1 spent in the UK, £1.62 is spent over here. In fact, we would say that, even on the basis of our own figures at the moment, if you compare us to an average company in England, it would be more like £1.38. That has improved, and the gap between Northern Ireland Water and the frontier company has reduced from 49% to 34%. We expect that when we publish our figures at the end of this financial year that gap will have closed again. So, we are making substantial progress, but the regulator unfortunately chooses to use the top-end figures for the comparison, whereas an average would be more — *[Inaudible.]*

Mrs D Kelly: I put the question to the regulator as well, and he was quite robust in defence of the mechanism used. I wait with interest for your end-of-year figures. How is NIW tackling efficiency, effectiveness and the issue of leakage? Are you confident that there has been a substantial reduction in leakage over the past few years? Do you have an estimation of leakage? It is certainly an issue from a constituency perspective, particularly in the farming community, when bills are being forwarded to them for payment. They would argue that there is still substantial leakage.

Mr Haslett: Northern Ireland Water — the Water Service, as it was at that time — first established the leakage policy in the mid-1980s. I was part of the team that set it up. Since then, we have made significant progress on leakage. In fact, if you look at our annual accounts, you will see that we bettered the target last year of 171 megalitres per day, and the current leakage is down to 161 megalitres a day. There is a figure called an economic level of leakage that is used throughout the industry whereby there is little point in investing in proactive leakage detection beyond that figure because you would be costing yourself money against the cost of water. That figure for Northern Ireland is, at the moment, around 152 megalitres, so we are not that far away from the economic level of leakage, but there is still some way to go.

I would like to better those leakage figures, but, again, it is a matter of more investment in water mains. We are rehabilitating and relaying water mains at a rate of about 300 km a year, which is quite a significant investment, but there is still an area of leakage on the customer side that we have to look at. Certainly over 50% — some people would say 60% — of the leakage that we have in the system is probably from the customer side. I am not blaming customers, but the supply pipes from the adopted roads to their premises may be leaking. Supply-side leakage is a common problem in the UK industry. We can do what we can on our side and our infrastructure, but we have to look at how we can improve the service that we offer. For example, as has been raised before at Committee, there

are some utility companies in the UK that offer free find, fix and repair on supply-side leakage — we are not funded for that, before you ask.

Mrs D Kelly: There is a leakage allowance. I reviewed a case recently for a constituent, and there was a certain leakage allowance in the payment of the bill. How long is it since that level of allowance and the criteria for the allowance have been reviewed?

Mr Haslett: Normally, there is a process for the leakage allowance. If it is on a metered supply, the leakage has to be proven to be on a supply to a domestic property as opposed to a water trough or something else. It is a reasonable discount, and has probably not been reviewed since 2007, when we became a company and reviewed all our policies.

Mr McNarry: I have been sitting here for an hour, and I am absolutely freezing.

The Chairperson: I have asked for the heating to be put on, David.

Mr McNarry: Have we paid the bill or are we short?

The Chairperson: I am not exactly sure. I think it probably has been paid.

Mr Dallat: As long as we do not have frozen pipes.

The Chairperson: There are no frozen pipes.

Mr McNarry: Trevor, if the Bill represents contentment with the financial management of Northern Ireland Water, what percentage increases in subsidy will be required after 2016 to take us up to 2021?

Mr Haslett: We have done some financial modelling, but, as you know, we are currently trying to agree PC13. Beyond 2015, we are looking at price control 15 (PC15) as well, which will take us from 2015 to 2020. We have only just started looking at that financial modelling, so I do not have the answer for you. Michael has been involved in a lot of the PC15 area. We are just trying to get PC13 out of the way. Do you have any comment to make, Michael?

Mr Mulholland: No. We are focusing on the next two years and what is contained in the final determination. It is too early to talk about the period beyond that. The subsidy figure, which is based on our revenue and what we charge customers, relates not only to our operating cost — it is one component of it — but to the capital element. So, it depends on the amount of capital that we spend. We are also allowed the money that we repay in interest payments on our debt, etc. A number of components are involved, so it is quite difficult to predict, but, as Trevor says, we will work on PC15, as it is referred to, which is a six-year price control period, commencing in 2015.

Mr McNarry: I am glad to hear that you have at least started some work on that. If I can, I will press you on when you might have some projections to take us up to 2020. The reason is to inform the Committee, obviously, but also for Committee members to be able to anticipate how they might inform their constituents. I know you are not going to be able to answer this, and probably do not want to get involved, but I will throw it at you anyway. There is a feeling that, after 2016, we are possibly talking about renewed mandates and no one wanting to go to the polls without this Bill being in the bag but that the economics of Northern Ireland, in costs and the subsidy, might take us down a different route. I am not talking about the regional rate contribution; I am talking about the subsidy. There has to be a degree of honesty with a company like yours to that particular questioning. I wonder whether you are going to present needs in terms of figures after 2016 and then leave it up to those in power who control the purse strings to say what we can do. I see shortfalls in our economy.

Mr Haslett: PC15 will be agreed and will be effective from 1 April 2015, presumably a full year ahead of the expiry of this Bill. It will be a regulated process, and we will be involved in exactly the same process as we are now with the regulator on PC13. In fact the regulator has asked us to put forward our capital works programme for PC15 in June this year, so we are already working on the capital works we will be putting in place and their cost. By the time PC15 comes around, or probably a year before it, we will have a good financial model, because that is what Michael specialises in, which will have the capital and the actual costs projected over PC15. It will be quite transparent as to what our cost base will be.

(The Deputy Chairperson [Mr Lynch] in the Chair)

Mr McNarry: I understand that. I see that Jimmy is away now, so I might get away with a — *[Interruption.]* That is no disrespect, Sean.

The question is basically around what your projected increases are likely to be for that period, and how they will then impact on the actual subsidy that will be required to cover those increases. That is what I am looking at. You must have an idea, just from natural accounting, of what the increases will be. It is not going to be static for the next five to 10 years.

Mr Haslett: No. Our target will, in fact, be to hold it to the rise in inflation. Michael and I were talking about this outside. As a result of the financial determination, whether or not it is agreed, this year we still have to use the figures in that determination, which means that water charges will be reduced this year. Over the past three years in PC10, we have held water charges. The water charge element has been at or below inflation, and the sewerage element has been increased slightly above inflation. However, most people, particularly those in the agricultural sector, did not have sewerage charges, and the water charges went more to them.

Our model — and I am not trying to evade the subject — is quite complex from the point of view that we have to predict our energy costs, rates and controllable staff costs. We will look at continuing our efficiency training over PC15. I know that there will probably be a step change, with some structural change in Northern Ireland Water to try to drive that efficiency. At the moment, I cannot give you an indication of whether that will be x% above or below the current subsidy if we were comparing it to a subsidy or a surrogate water charge.

Mr McNarry: I accept that, gentlemen. That is fine.

The Deputy Chairperson: I do not think that anybody else is looking in. Thank you both for coming in and giving your presentation today.