



Northern Ireland  
Assembly

Committee for Regional Development

# OFFICIAL REPORT (Hansard)

Water and Sewerage Services (Amendment)  
Bill: CBI Briefing

23 January 2013

# NORTHERN IRELAND ASSEMBLY

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Water and Sewerage Services (Amendment) Bill: CBI Briefing

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**Members present for all or part of the proceedings:**

Mr Jimmy Spratt (Chairperson)  
Mr Seán Lynch (Deputy Chairperson)  
Mr Stewart Dickson  
Mr Alex Easton  
Mr Declan McAleer  
Mr David McNarry  
Mr Cathal Ó hOisín

**Witnesses:**

Mr David Fry	Confederation of British Industry
Mr Nigel Smyth	Confederation of British Industry

**The Chairperson:** We have two representatives from the Confederation of British Industry (CBI); Nigel Smyth and David Fry. You are both very welcome to the Committee, gentlemen. You have 10 minutes in which to make a presentation, after which you should leave yourself open for questions. I will not be terribly restrictive; I will give you an extra couple of minutes if you need them.

**Mr Nigel Smyth (Confederation of British Industry):** First, we welcome the opportunity to be in front of the Committee. I am Nigel Smyth, director of the CBI. My colleague David Fry is our senior policy adviser. We do not intend to make an initial submission because we put in a brief submission that you will have had a chance to digest. We are very much here to answer questions on that. However, I would just like to make a comment.

It is fair to say that we have been supportive of Northern Ireland Water as a government-owned company (Go-co). When I looked at our submissions to the Committee over the years, I saw that it has been some years since the CBI has debated that issue. It is fair to say that the issue of water and sewerage does not come up as a high priority when I am out and about with companies on a daily basis. There are lots of other policies that are to the fore.

We welcome the progress that the company has achieved in recent years to become more efficient and productive. We have seen and, indeed, our members have reflected the fact, that there is better customer focus. We have seen better use of technology and, through the regulatory process, more transparency as regards efficiencies and, indeed, investment. We have also seen the organisation significantly cut its absenteeism levels and, on the back of that, increase investment over a number of years.

In our submission, we pointed out that we do not see any alternatives to the Bill. If domestic charging were introduced, we think that that would be 18 to 24 months away, given the planning needed. Also

in our submission, we highlighted the fact that we feel that it was a missed opportunity at this stage not to undertake a regulatory impact assessment in order to say that there is an ongoing subsidy of £280 million a year. Politically, we understand that nobody wants to introduce charges, but we believe that such an assessment would have been a great opportunity to understand that if that level of money were being invested in other services across Northern Ireland, there would be significant advantages, such as creating jobs and improving services. At the same time, we are very sensitive to the fact that there are people who could not afford to pay, such as the vulnerable, and that efforts would need to be put in to address that. We see this very much as a missed opportunity.

The other comment highlighted in our report and reflected in our recent response to the draft determination on the regulation of Northern Ireland Water and the next price round is that our members have a lot of concern about the current governance model. It has been clearly said by the regulator that the model is suboptimal. Again, it would be nice to have a more informed debate on that. We agree totally that Northern Ireland Water is on a journey and it has secured a lot of efficiencies, but there are clearly more efficiencies to be made. We believe that targets need to be realistic and based on sound evidence.

The final issue relates to incentives. The regulator puts a lot of stress on what he calls the "forefront", or one of the other organisations, Scottish Water. However, when you look at Scottish Water, you see that it has significant incentives in place in respect of management and salary levels, and it has what we call invest-to-save measures. We also accept that it does not have the governance issues and complexities that there are in Northern Ireland. Therefore, the benchmarks need to be correct.

Going forward, we still see the need for an extensive capital investment programme for the organisation in order to ensure that we avoid EU infraction proceedings and see the improvements needed across the network.

That is all we want to say at this stage. We are delighted to be here. We will do our best to respond to questions.

**The Chairperson:** Thank you for that, Nigel. I will start. What does the CBI see as the options, benefits and opportunities for increasing investment in infrastructure? I just want to get that on the record. I should have said at the start that everything is being recorded for the Committee's report by Hansard.

You state that the current governance model is adding to inefficiencies, while the Utility Regulator states that the efficiency gap is reducing. Which of those two statements is correct?

**Mr Smyth:** I will respond to both, and I will make sure that I understand the second one.

As there is an ongoing subsidy, £280 million comes out of the Northern Ireland block each year. Assuming that £80 million were set aside to address vulnerable issues — and that is a guesstimate of the figure — and that we had £200 million to invest each year; then, over a five-year period, that would be £1 billion that we could invest in other services, whether it is in health, education, telecoms, skills or technology. There are alternatives and options that would have a short-term impact of creating jobs and a stimulus, and would improve the competitiveness of Northern Ireland and improve services to customers and the public across Northern Ireland. It would be a significant investment. It would increase current investment levels by approximately 20% per annum. So, we believe that significant benefits would accrue from that. The precise benefits would depend on how that money was spent and in which Departments.

So, there are alternative options for how the money could be spent. There would be significant benefits to stimulate the economy and improve services, but it would mean that customers, particularly well-off customers, would end up paying more for water services.

**The Chairperson:** Given the figure of £280 million and the notional figure of £169 that every ratepayer pays — it has been well established, certainly in evidence to the Committee over the past number of weeks, that every ratepayer pays £169. That money comes into government. Do you agree that part of the £280 million that goes to Northern Ireland Water comprises existing domestic water charges?

**Mr Smyth:** Again, to clarify; if we assume that the figure of £169 is part of our rating system, our understanding is that domestic rates in Northern Ireland would be significantly less than those in the

rest of the UK. If we take it that the figure is £169, that would mean clearly that the domestic household bill would go up by a few hundred pounds in order to pay for the £200 million.

Arguably, we would want to keep the billing cost low, so the money could be collected through the rating system. We have called for a better benchmarking study of what householders in Northern Ireland pay, looking at the rating bill in total and looking at the contribution for water.

It would mean that people would have to pay more. We have not done a calculation of exactly what it would mean. However, if the water element is taken to be £169, which we do not disagree with, that would mean that our bills in Northern Ireland would be extremely low compared to those in the rest of the UK. If we are expecting our public services to be at the same level, it is hard to see how we are going to get that if householders do not pay similar contributions.

**The Chairperson:** The Utility Regulator came up with the figure of £377 as the amount that would need to be paid currently. I have also heard the figure of over £400 mentioned. It has been well established that £169 is the figure that we all pay for water through domestic rates. That is £169 towards — *[Interruption.]* I think that that whistling noise is an iPad, in case somebody thinks that they are being whistled at. The member is not here at the minute. The £169 is brought in by the Department of Finance and Personnel (DFP) through the rating system. I would have thought that it is paid out again as part and parcel of the £280 million subsidy. It is a question that we probably need to ask Northern Ireland Water and DFP, and we probably should ask those questions. Some of the £280 million is being paid by the ratepayers and taxpayers of Northern Ireland at the moment.

**Mr Smyth:** I understand that, but we would look at this issue in the round. If we take £169 from typical ratepayers and assume that that is the water charge, that is fine. We are then left with the fact that the contribution that householders are paying is probably half of what householders in the rest of the UK are paying. That is great for householders, but it is hard to see how we can get public services at the same level, unless we are delivering them much more efficiently. In our view, based on the evidence, that is not the case. In the case of Northern Ireland Water, we have seen the benefit of moving the function away from the public sector in the creation of a much more public service ethos. Giving it a more commercial focus is leading to costs being taken out at a rate. It is part of a journey and a very major transformation. The problem is that the rates we pay are substantially lower than those elsewhere in the UK.

**The Chairperson:** Can we move to the second question, which is on inefficiencies?

**Mr Smyth:** I am not sure that I fully understood that. We believe that there have been significant efficiency gains. There is a current debate about —

**The Chairperson:** You stated that the current governance model is adding to inefficiencies.

**Mr Smyth:** Yes.

**The Chairperson:** You are saying that, while the Utility Regulator, in its reports, is saying that the efficiency gap is reducing.

**Mr Smyth:** Yes.

**The Chairperson:** Those are two contrary statements, if you like. Which one is correct?

**Mr Smyth:** I do not think that they are contrary. The current debate is about the rate of improvement in efficiency. In the draft determination, the regulator has done a lot of benchmarking with Scottish Water, as the leading organisation. It has improved its efficiencies significantly. We believe that there is room for more efficiencies here, but because of the current governance model, there are additional costs, additional bureaucracy, and it is a lot slower to get decisions made. The regulator agrees with that. He says that it is suboptimal. Northern Ireland Water is frustrated, and it takes a lot more time. We are trying to create a more dynamic organisation. We certainly want organisations that are delivering services to our members to be as efficient as possible and to be more agile and responsive.

I think that we are consistent, and I think that Northern Ireland Water would say that. From reading the draft determination, my understanding is that the regulator accepts that there are additional costs involved and regulatory issues in which Northern Ireland Water is caught up with the Department that

are potentially delaying that. In our response to the final determination, we felt that the regulator was setting a very aggressive efficiency level but that, perhaps, he had not taken that into account because he was benchmarking against Scotland. Scottish Water, which has now all come together, does not have those issues. It has quite strong incentives through the invest-to-save initiative, and it has quite strong financial incentives, albeit modest, to incentivise and motivate staff. Northern Ireland Water does not have any of those things in place, so it is very hard to say whether that is the correct benchmark or whether we need to take that into account when we set, quite rightly, challenging targets for Northern Ireland Water.

**The Chairperson:** That is very helpful. That has clarified the issue, and I was looking for clarification. It is on the record now as well.

**Mr Lynch:** Nigel, you spoke about a missed opportunity. Can you elaborate on that? Was it a missed opportunity for the Executive to introduce charging, or what did you mean?

**Mr Smyth:** Obviously, in the current Budget settlement, capital investment has fallen by around 40%. For a few years, 2009-2010 and 2010-11, the Executive, across Departments, were spending in the order of £1.6 billion to £1.7 billion. With the austerity and a cut of approximately 40%, that was offset slightly, and capital spending has dropped to being in the order of around £1.1 billion. That has had a big impact on the construction sector. Other issues to do with the housing market have impacted on the construction sector, and because of the reduction in capital spend, many local construction companies have had to find work outside.

Clearly, the options are here, in that ongoing subsidy. The Executive are deciding to subsidise Northern Ireland Water. In this paper, we argue that we should have a wider debate on that. The Executive could decide to spend that £200 million in other Departments. We could have more schools. Yesterday, the Minister of Education made an announcement on schools, which we have welcomed. He says that he has no money at the moment, but we think that it is very important that we have shovel-ready projects, because, with capital spending, you never know whether there will be a delay in planning or whether an issue will come up. We are saying that we should have a lot of projects across Departments that are ready to go. The issue is that some of that £200 million could go into schools. We could bring projects forward and bring benefits to education. Some of it could go into telecom.

Across the spectrum of Departments, there are lots of other opportunities to spend capital, and there could be wide benefits. Up to now in Northern Ireland, we have not had any debate on that. As we say in our paper, we accept that, politically, this is difficult. No one wants to pay more charges, but we believe that it would be helpful if we were to have a broader debate to try to understand what the benefits would be to householders, consumers, businesses and, indeed, what stimulus it would provide to the construction sector. Hopefully, that clarifies that point.

**The Chairperson:** I agree with you about shovel-ready projects. I think that all Departments need to look very closely at that. Do you agree that Northern Ireland Water should always have a number of shovel-ready projects; for instance, on new mains? You would have thought that a number of those could be ready to go, which would help the construction industry.

**Mr Smyth:** Absolutely. It is fair to say — recollecting what members have said to me — that Northern Ireland Water has a pretty good track record of actually spending money, but every Department and organisation with capital spend should be in a position to be able to spend more and have projects ready. With Northern Ireland Water, the planning issues — because most of the work is below ground — are less sensitive regarding mains network improvement, etc, but, clearly, some of the other Departments will need planning permission in some of the more sensitive areas. We know about the problems that we have had in the road network on the back of that. However, the answer is yes. Every Department and agency with a potential capital programme should have projects that are ready to run so that, when the budgets become free and available, they can proceed. That is what the economy needs at the moment.

For every pound spent, you get something like £2.70 in economic value. We are arguing nationally, and here in Northern Ireland, that construction is a major stimulus to the local economy. Some projects are more labour intensive than others, but in trying to come out of the recession, we see construction spend as a very high priority.

**Mr Dickson:** Thank you for your presentation. Does the CBI have a view on the model of the government-owned company that we have at the moment? Do you have a preferred option as to how water should be delivered and what type of company should deliver it in Northern Ireland? It has been suggested that the Scottish model is potentially the preferred one for Northern Ireland. Would the CBI prefer to see Northern Ireland Water owned by a fully privatised, profit-making organisation?

**Mr Smyth:** It is fair to say that we have not debated that in our organisation in recent years. As I said at the outset, we were very supportive of the Go-co model. Going back nearly 10 years, when we did have significant debates about the consultation, we ruled out privatisation then because we did not think that the organisation was in such a shape that you could do anything with it. We ruled out the mutualisation model at that stage because of the risks involved. We have seen that even with the Moyle interconnector. With a mutualised model, the risks lie with the customers, and if something goes wrong, they are going to pick up the tab. At that stage, we thought that the risks and liabilities were so significant that that would not be right.

I am conscious that we have not had that debate recently. We were very supportive of the Go-co model and we would have liked to have seen that. Our understanding is that that was done away with because of the financing issue, but we believed that it was a model that would work, and we were very supportive. It is fair to say that we have an open mind on the mutualised-type model. We have a much better understanding now, there is a lot more transparency, we have an independent regulator and we know the direction of travel in which we are going. There might be some argument about going a little bit harder in terms of efficiencies or whatever, but we have a much greater understanding of the organisations, risks, liabilities and overall direction of travel, so we are very open to that. We have not been calling out for privatisation, but, clearly, representing the private sector, we would welcome that and have no problem with it. Some of our members would argue very strongly, but there are other options there that we would probably be equally happy with.

It is more important to have an organisation that is commercially focused, customer focused and that is not getting tied up in bureaucracy. We want an organisation that is agile, can understand its financing and have the freedom and flexibilities around that. The name and structure are probably less important than what it actually does in ensuring that investment is there, appropriate incentives are in place, and that management can manage the organisation and continue to deliver a better service for customers.

**Mr Dickson:** Given the current financial model and the arrangements that we are being forced into because the Executive insist on subsidising domestic water, you cannot actually deliver what you have described as an ideal company, because European and other regulation prevents us doing that. Do you agree that the Bill fails by running to 2016, and that it would be better if it extended to only 2015 to allow for that debate to take place and for the Executive to bring forward plans for a future model of financing that will allow them to move away from this year-on-year style of financing?

**Mr Smyth:** It is fair to say that we have not reflected a view on that point. We need to have a debate — hopefully, a high-quality one — on that. We understand that even if a decision were arrived at next year, we are probably some way away from getting that, so 2016 is probably reasonably sensible.

Clearly, the Go-co model is ruled out now due to the financing. I am not sure whether that would rule out the mutualisation-type model and various things. There may be a commitment to mutualisation and an ongoing subsidy, but I do not have a good enough understanding of the governance to be able to do that. Clearly, it rules out privatisation. Our understanding is that there would be very little political interest in that.

As I said earlier, this is more about how the company organises itself, delivers services and has the freedom and flexibility to do that because, ultimately, we are after quality of service and lower bills for our members. I am sure that that would be reflected if and when that applies to the domestic sector as well.

**Mr Ó hOisín:** Thanks, Nigel. Your paper refers to the current governance arrangements being subject to:

*"political interference, bureaucracy and complex governance relationships"*

and how that is not squared with the envisaged "economic, social and environmental benefits". How does that square with the delivery on affordability issues and the protection of the most vulnerable

when it comes to charging? That is notwithstanding the other mitigating factors that you outlined earlier.

**Mr Smyth:** We accept that a lot of people in Northern Ireland are in a very vulnerable situation and that you would not want to give them an additional water charge. At the same time, hundreds of thousands of households in Northern Ireland are in a well-off position and could afford to pay water charges. In addition, lots of investment would go into other areas in Northern Ireland. That comes back to the position of having a good and high-quality debate around that. We would need to design some form of charging system and look at how we identify the vulnerable. The Executive are going to take a political decision to subsidise those who are most vulnerable. That is doable. Our argument is that many people in Northern Ireland, although not wanting it, could afford to pay a water and sewerage charge. We would then have the benefit of additional investment in Northern Ireland in other areas and other public services.

**Mr Ó hOisín:** So, you see a multi-tier system, as such. Surely there would be governance issues in that as well.

**Mr Smyth:** There would be. I think that we said in our response that if we are getting into the debate about a charging system, we need to design one that is very efficient. We then need to say that there are a lot of vulnerable customers out there, whether they are pensioners or people on benefits. So, we then need to design a system for them. We have argued that that should be integrated and should look at all the other aspects of their vulnerability, and we should try to address that in an efficient manner at the same time.

We should not design a system to try to address the vulnerable. We should design a sensible charging system and then think about how we will protect and look after the most vulnerable on the back of that. We accept that we will not raise the total amount of money. We will need to put substantial amounts of money into helping and protecting those people.

We are also very conscious of the current difficult economic times. We always said that if charging were to come in, it would be phased in over four or five years, particularly because of the difficult economic circumstances. The business community in Northern Ireland is concerned that we are not really having a debate about this. You will get a very negative reaction if all you say is that you are thinking of charging domestic consumers for water. We would like to say that we are about to invest an extra £1 billion in services in Northern Ireland. That would be a major economic stimulus. Those are the benefits that we would achieve in various areas, but if we do that, I am afraid that there will be a charge. However, we will have a system in place to protect the most vulnerable.

**The Chairperson:** OK. I do not think that anyone else has a question. Nigel, do you want to say anything in conclusion?

**Mr Smyth:** No, only to confirm that we are delighted to be here, and, hopefully, we clarified those points.

**The Chairperson:** From my perspective, your written report and evidence have been very helpful, and the issues will be included in the report. Thank you very much indeed. I am sure that we will talk again soon.

**Mr Smyth:** I am sure that we will. Thank you very much indeed.