



Northern Ireland
Assembly

Committee for Regional Development

OFFICIAL REPORT (Hansard)

Water and Sewerage Services (Amendment) Bill:
Consumer Council Briefing

16 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 Ross Hussey
Mr Ian McCrea
Mr David McNarry
Mr Cathal Ó hOisín

Witnesses:

Ms Kathy Graham	Consumer Council
Mr Aodhan O'Donnell	Consumer Council

The Chairperson: I welcome Aodhan O'Donnell, who is the director of policy with the Consumer Council, and Kathy Graham, who is the head of water. You have 10 minutes in which to make a presentation and then leave yourselves open for questions.

Mr Aodhan O'Donnell (Consumer Council): Thank you very much. I appreciate the Committee's invite to the Consumer Council to provide some comments on the Water and Sewerage Services (Amendment) Bill. Our comments on the Bill will be quite short. I am sure that we will not use up the allotted 10 minutes. It is set in the context of overall support and endorsement for the changes and amendments that are proposed.

The Bill will enable the Department for Regional Development to continue to make payments to Northern Ireland Water for the next three years up to 2016, that is, the subsidy that takes the place of any charge that will be levied on domestic customers. As we heard, that is quite welcome in the current climate. We are supportive of that move to change the legislation as it fulfils the Programme for Government commitment not to introduce additional charges over the current period.

Secondly, we are supportive of the amendment to the Land Registration Act because it will give consumers increased access to information. It will benefit consumers by ensuring that information is publicly available, especially if people are looking to purchase property. Having on public record the notification of where pipes and sewers are on private land would be helpful to consumers. In the broad context, we are supportive, in principle, of both of the changes being made. We want to have that recorded in responding to the Committee.

The Chairperson: OK, thank you. What concerns does the Consumer Council have about the governance of Northern Ireland Water? Is it the best and most efficient model to deliver services?

Ms Kathy Graham (Consumer Council): The Consumer Council is on record as saying that we have concerns around the current governance structure. All the stakeholders in water recognise the problems. The dual status of government-owned company and non-departmental public body no doubt levy a lot of restrictions on Northern Ireland Water. Northern Ireland Water is constantly saying that, and we have asked it to quantify that and put in financial terms how much the governance structure adds to its inefficiency.

The current governance structure is also difficult for consumers. It is difficult to understand and for people to get their head around. We would like to see an open debate on the governance model of Northern Ireland Water. There are many other options and models out there that could deliver benefits for consumers, but, until that happens, we need to quantify and get to the root of the problems that the current governance model causes.

The Chairperson: You say that there are many different options and models. Do you have a preferred option or model?

Mr O'Donnell: We have started some work looking at other models that have been applied to the water industry and other regulated sectors, as well as looking at the advantages and disadvantages of the current model that Northern Ireland Water operates under. That is something that we would be happy to share with the Department as our thinking develops further. That is work that we are undertaking in-house with our own teams and through policy work. I would not say that we are at the stage yet of saying which is the best model or which one we recommend, but we have a list of criteria that we see as benefiting consumers and other models that do not work for consumers. We would be happy to share that once we complete that analysis.

The Chairperson: When is that going to be completed?

Mr O'Donnell: We have undertaken some preliminary research. We will probably have something that we will be in a position to share within the next two to three months.

The Chairperson: Does the Consumer Council support subsidy or charging?

Ms Graham: We provided a submission during the consultation for the Programme for Government. Given the economic climate, we support the Executive's commitment in the Programme for Government to continue with the subsidy. The key part of the debate for us is the fact that, regardless of whether it is subsidy or direct charging, consumers are paying, whether through a direct bill or as a taxpayer. What is most important is that the amount that consumers are contributing is the right amount, regardless of the method by which that income revenue is generated from Northern Ireland Water.

The Chairperson: Is it the right amount at the minute?

Ms Graham: The regulator has demonstrated that there are inefficiencies in Northern Ireland Water. Northern Ireland Water openly admits to that. It knows that it can do better. It knows that it will do better, but it is about how long it will take for it to become more efficient and operate at the level we need it to. Within the regulator's final determination, there is a notional domestic water bill for around £400. It is important to consider that that does not take account of how much additional billing would cost the domestic consumer. So, that would be another charge on top of that £400.

The Chairperson: At the minute, domestic charges are about £169 and business charges are, in many cases, pretty high. Smaller businesses have reasonably high charges for sewerage services, etc. Do you think that it is fair at the moment from a consumer point of view?

Ms Graham: From a consumer point of view, I suppose we need to look at the additional subsidy that is going into Northern Ireland Water and whether that is being diverted from other public services. On the business side, many, many business customers out there do not actually realise the allowances they could get on their bill. So, many business customers are paying more than they need to or should be. We in the Consumer Council try to work with businesses. We produce quite a lot of information for businesses to try to inform them and make sure that they are applying for and getting their domestic allowance. If they have not been doing that, we can work with them and help them to claim it back so that they will get some money retrospectively. We have embarked on a campaign

with businesses and the agricultural sector looking at trying to drive down metered water bills through water efficiency. Even if businesses are being charged on their net annual valuation, by saving water, they can save energy. We are very mindful of the economic climate in which we are all operating. We are trying to help businesses reduce those core costs.

Mr Lynch: Thank you for the presentation. Does the governance provide value for money?

Ms Graham: The fact is that we all recognise that Northern Ireland Water is inefficient and has some way to go. The regulator has told you today about the 38% efficiency gap. I do not think that that is a good deal for consumers at this time. I do not think it is value for money for consumers, taxpayers or businesses.

Mr O'Donnell: I think that we have recognised the difficulties that the current model provides. We have heard about the year-end flexibility around capital projects and the impact that has on the planning and prioritisation of work. That is notwithstanding that the efficiencies have narrowed over the past number of years, but they still exist. Whatever figure you look at, or if you compare what Northern Ireland Water put forward with what the Utility Regulator put forward, you will see that there is still an efficiency gap between it and comparable companies elsewhere. That still needs to be driven out, despite the progress that has been made.

The Chairperson: Can you clarify that? You made a statement, which I am sure Northern Ireland Water very much disagree with. You said that "we all" agree that Northern Ireland Water is inefficient. That is a pretty strong and dire statement. I would suggest that that is not entirely what the situation actually is. Northern Ireland Water has become a lot more efficient over the past number of years. I think it is wrong for the Consumer Council to make a bland statement, which could be picked up on, that "we all" agree. I certainly do not agree with you that Northern Ireland Water is totally inefficient.

Ms Graham: I am sorry, Chair. I will clarify that. I do not think that it is totally inefficient. What I said was not to minimise or be detrimental to Northern Ireland Water or the progress it has made, but we do work very closely with Northern Ireland Water. In those dealings and workings, there is recognition that there is more to do. It has its business improvement plans in place, it knows where it wants to go and how it wants to get there, but it is about the journey — how long will it take and the exact details of how it will get there? From my personal working with the company and the conversations that we have had, I can say that it knows that it has additional work to do.

The Chairperson: Has that something to do with the governance of Northern Ireland Water, which we have already hit on, or has it to do with the model?

Ms Graham: Quite a few factors contribute. Some of it has to do with governance and some of it has to do with the model, and Northern Ireland Water continues to work through legacy issues. It suffered from years of underinvestment, but a lot of money has been invested in Northern Ireland Water in recent years, so that is helping it to become better.

Aodhan spoke about the governance. The governance and the model prevents Northern Ireland Water from being able to smooth its capital spend. The fact is that it has to spend its capital within one year. We have to take into account the current economic climate, and we have all seen the impact that the recession has had on local construction companies. This is a really favourable time to be going out there and negotiating contracts with the construction industry. Several years ago, that might not have been the case, plus there may not have been the capacity in the construction industry to be able to deliver on a lot of large-scale capital projects. In the current climate, those negotiations could be taking place except that Northern Ireland Water has that real restriction, which means that it cannot go and chase after those.

The Chairperson: The Deputy Chair and I have had discussions about end-of-year spend and not being able to carry money over, etc, etc. If additional money becomes available through monitoring rounds or whatever, you need to have shovel-ready schemes up and running. With regard to the pipe infrastructure, I think that you would accept and agree that Northern Ireland Water has made major moves forward to replace and renew many of our main waterlines. All of that is helpful to the construction industry and everything else at this minute in time. I think that all of us on the Committee would encourage those sorts of contracts to go ahead, as the Executive have been doing and, in fact, as the Department has clearly demonstrated with the amount of money that it has poured in over the

past number of years for capital investment for infrastructure in Northern Ireland Water. I suppose that we are not too far away from what you said earlier.

Mr Ó hOisín: Continuing on from your point where you questioned whether the governance or the model was the question and issue, I think that the word "suboptimality" was used earlier, which is, perhaps, another word for inefficiency. However, I am not sure to what degree that is dependent on the comparative qualitative assessment that is done within the benchmarking, which, on the face of it, looks as if it is comparing apples with oranges to a certain extent in terms of real companies and addressing that as a notional company. What is the margin of error within that, and are we not on a level playing field from the start? Is it down to the comparison when we are looking at the degrees of suboptimality or, indeed, inefficiency, as you said earlier?

Ms Graham: I thought that Jo's point in the earlier presentation was very interesting. She said that the Utility Regulator's analysis shows 38%, and when Northern Ireland Water applied those same principles, it was 34%. I think that that shows that everybody is reading off the same page, or that there is certainly a lot of common ground there. That is a very good question. Are the right things being compared? The Consumer Council has asked the question as well, because Northern Ireland Water came out with the figure of £1.16 — that press statement was the first time we saw that figure. We have been given some high-level information in and around that, and we have asked to meet Northern Ireland Water to discuss that in more detail so that we get a better understanding of that figure.

Mr O'Donnell: The whole area of efficiency becomes more important because the previous assessment had a gap closer to almost 50%. I think that it was around the 49% mark, and that has dropped or narrowed to around 38%, based on the Utility Regulator's analysis. When a company chases after efficiencies, are those first 10% of efficiencies the ones that are easy to reach? How do you maintain that progress when further efficiencies are harder to find? That stresses the importance of having an accurate and agreed assessment of what the efficiency figure is. If, over the next five or 10 years, as you go down that line of seeking further efficiencies, they will be harder to find, so the right measurement needs to be in place first.

Ms Graham: It is also important to note that while these inefficiencies are being driven out of the business, Northern Ireland Water's performance and what it delivers to consumers is improving. So, it is a double-edged sword. Its score on the operational performance assessment is getting much better. While it is delivering more value for money, it is delivering better services for consumers.

Mr Ó hOisín: Although it is evident that performance improvement is present, that, for the most part, may be on infrastructural or operational matters. The other aspect of it is less quantifiable, and that is where the major discussion has to take place.

Mr Dickson: I will get back to the core issue. We are here to discuss the Water and Sewerage Services (Amendment) Bill, the main effect of which is to extend non-direct charging for domestic consumers to the end of 2016. Has the Bill, therefore, not failed in that it does not at least challenge, or ask or require, that we should have a debate around what happens post-2016? I can understand what you as a consumer organisation are saying in respect of the benefit to consumers in that they are not paying, but, in reality, they are paying. Therefore, because they are paying, there is no transparency about what they are paying. Consumers cannot see the amount of money that they are paying, and, surely, no matter what your view may be on whether you "charge" or "do not charge", the reality is that the people on whose behalf your organisation advocates need transparency and a clear understanding of what it is that they are actually paying for.

Mr O'Donnell: Yes, the Bill extends the period for which the subsidy is provided, and that time should be taken as the opportunity to have that debate. We will welcome that opportunity to contribute to that and to be involved. It is required that that time be provided for. The stakeholders whom we mentioned who form part of the stakeholder group — the regulator, Northern Ireland Water, the Consumer Council and other quality inspectorates — will make a contribution to that debate as well. It needs to be led and started, and, as you said, time is of the essence with something such as this.

Mr Dallat: I think it was Cathal who reminded me that we are here to discuss the Water and Sewerage Services (Amendment) Bill, which provides for the money that Northern Ireland Water does not collect from the public. There is an acknowledgement that Northern Ireland Water has improved in many respects. When the Public Accounts Committee investigated it, one of the major criticisms was its

inefficiencies in how it bills people. I am sure that the Consumer Council is well aware that those inefficiencies are still there, and I have examples of people who are now in their 80s and, for the first time, are getting bills for a water trough that was installed maybe 30 years ago.

The Chairperson: John, I have to remind you that we are here to discuss the Bill, not issues around billing.

Mr Dallat: Well —

The Chairperson: We are going off the Bill.

Mr Dallat: I was coming back to the Bill.

The Chairperson: Maybe we could get back there quickly. I will decide in a minute.

Mr Dallat: The thing was about the billing aspect. Are you convinced that Northern Ireland Water has put its house in order in respect of the data available and that the data going out to customers are correct, true and accurate?

Ms Graham: There have been a number of billing issues. In our response to price control 10 (PC10), which was before price control (PC13), we sought assurance for grade A data by the end of that three-year price control period. We are still not there. We still do not have the assurance that it is grade A data. What we are assured of is that Northern Ireland Water is working hard to try to get that level, but there is recognition that billing errors still happen.

We are also working with Northern Ireland Water on a billing project, looking at the format of its bills. One objective of that is, we hope, to produce new and improved bills that will be easier for business customers to understand. If those customers have a greater understanding of their bill when it arrives, that should empower them, because it will provide them with the information to pick up any errors or mistakes, and they can then contact the company immediately. I recognise that, first and foremost, the company should make sure that mistakes do not happen. I think that Northern Ireland Water is working to try to bottom out its data quality issues.

Mr Dallat: Chairman, I apologise for going off the track, but I think that the answer —

The Chairperson: I think that we are well off the track.

Mr Dallat: — Kathy gave us was a valuable contribution to —

The Chairperson: I do have to say, John, that we are still well off the track. You took Kathy down that path, and I did not interrupt her, but —

Mr Dallat: She gave me a very good answer.

The Chairperson: We will move to David McNarry.

Mr McNarry: Here goes. We are gathering a collection of expert opinions that seems to be saying that we are paying more for water than necessary due to inefficiencies here and now. The Bill in itself is not doing anything to challenge that. On the one hand, the experts have said what I just quoted them as saying, and on the other hand, you say in your submissions that you support the legislation. I find myself at odds with how experts can then conclude from their evidence — not just yours — that they can support the Bill.

As a consumer, I am angry to hear the expert opinion. I am angry to hear that, right now, I should not be paying as much I am for water. I heard you saying that you are doing some work, and hopefully that might be done in time for the Committee to include. What price do you think domestic users should be paying for water now? What level of subsidy do you think there should be right now?

Ms Graham: That is not a piece of analysis that we have done. I suppose —

Mr McNarry: With all due respect, you cannot really say that there are inefficiencies and that we are paying too much for water and then not be able to back that up by telling me by how much. I would like to know how much I am being done out of here.

Ms Graham: OK. In the past, especially when we were preparing for and expecting consumers to receive a water bill, we looked at average water bills in England and Wales. That is how we did our analysis. We looked at the gap between what a consumer was billed by an English or Welsh water company and what a consumer in Northern Ireland paid. That is where we would have seen the unfairness and how people were paying too much.

The way in which we get to the right amount that a consumer should be paying is through the Utility Regulator's price control.

Mr McNarry: I am sorry; I did not pick you up there.

Ms Graham: It is through the Utility Regulator's price control, which is known as PC13. The final determination has been done and we are waiting for Northern Ireland Water's response about whether it can deliver that.

The price control for 2013 is for only two years. All the stakeholders have begun to work on and prepare for price control 15 (PC15), which will be a six-year price control. Part of that will look at and deliver part of the Department's long-term water strategy, which is a 24-year strategy.

I hope that, within the strategy and our work on PC15, we will get to the root of the issue of how much water consumers in Northern Ireland should pay.

Mr McNarry: Do you understand the impatience of the consumer and the disadvantage that elected representatives have in explaining to them, much as we like to be able to explain to them how things happen, when we hear quite clearly that people should not be paying today what they are paying for water? We are not hearing what they should be paying. Is there any way, do you think, that your organisation could present that information to the public to say that, instead of paying £169, which was the figure quoted by the Chairperson, consumers should be paying a lower amount? Then, the consumers and the elected representatives could see the challenge. At the moment, there is no challenge to drive that price down, but we are being told consistently that it is too much.

Ms Graham: The Utility Regulator's figure in the final determination would be a notional bill of in and around £400. It is saying that the efficiency gap is 38%, so the bill is 38% too much. I cannot do mental arithmetic, but I suppose that that is how we need to look at it.

Mr McNarry: So, you are depending on the Utility Regulator. You have no ideas of your own. You do not want to throw out a figure. You are just saying that it is up to the Utility Regulator and that is good enough for us. Really, you are bankrupt. You do not have any ideas. You are not representing the consumer.

Ms Graham: We do represent the consumer. For PC15, we are taking a significant lead on part of the consumer engagement piece. We will talk to a representative sample of domestic and business consumers to make sure that their needs and priorities are addressed in PC15.

Something has perhaps been missing from Northern Ireland Water's business plan. We did a huge piece of consumer research for PC10 to inform the business plan. There were no tangible links, so consumers told us that out-of-sewer flooding was really important, but we could not see how that married across to what Northern Ireland Water was telling us it was going to deliver.

We have that commitment for PC15 that what consumers tell us will be linked to the business plan in a tangible way. Not only that, but whenever we —

Mr McNarry: I do not want to go on about it, but could you make a call, as the champion of the consumers, as a result of the conversation that you are going to have with them? Will you say to them that you think they should be paying x amount? Could you champion that? Could you make that call for the consumers? Somebody needs to do it. We are hearing that they are paying too much. How much should it be?

Ms Graham: We can certainly include that in the research. We did an element of that for our PC10 research, so it is possible to do that. We are at the early planning stage now, so we can certainly get that in.

The Chairperson: Thank you very much, both of you, for your presentation. I am sure that we will talk about this in future.