



Northern Ireland
Assembly

**COMMITTEE FOR
REGIONAL DEVELOPMENT**

**OFFICIAL REPORT
(Hansard)**

**Key Issues and Future Challenges:
Water and Sewerage Services**

23 February 2011

NORTHERN IRELAND ASSEMBLY

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REGIONAL DEVELOPMENT**

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Members present for all or part of the proceedings:

Miss Michelle McIlveen (Deputy Chairperson)

Mr Billy Armstrong

Mr Cathal Boylan

Mr Allan Bresland

Mr Fra McCann

Mr George Robinson

Witnesses:

Ms Kathy Graham) Consumer Council

Ms Jenny Robinson)

Mr Shane Lynch) Northern Ireland Authority for Utility Regulation

Mr John Corey) Northern Ireland Committee, Irish Congress of Trade Unions

Mr David McCann) Northern Ireland Environment Link

Mr George Butler) Northern Ireland Water

Mr Paddy Cullen)

Mr Bob Miller) Unite

The Acting Chairperson (Mr Boylan):

Thank you all for coming to Parliament Buildings to participate in this evidence gathering event.

Invitations were sent out at short notice, and I thank you for making the time in your schedules to

attend today.

As this mandate comes to a close, members of the Committee for Regional Development are, as you all are, keen to discuss the issues that have been dealt with during this mandate. Perhaps more importantly, the Committee also wishes to identify the issues that will face, and should be considered by, an incoming Committee following the elections in May.

Today's event has been structured to address three key work streams for the Committee and the Department, and this part of the event will address water and sewerage services. The aim of the event is to hear the views of key stakeholders on what major gains or significant developments have been achieved over recent years, what opportunities were lost in recent years, what key strategic challenges lie ahead, and what needs to be done to address those challenges.

You are all aware that the issues for discussion today are extremely important and that a lot of work is required on the part of the Department, the incoming Committee and you, the stakeholders, to take them forward in a way that will improve the quality of life for everyone throughout the North of Ireland. Achieving our objectives will, as you know, be made even more difficult as a result of the Budget in March.

The format of the event is simple. Each organisation will be called to briefly provide its views and concerns as they relate to four main questions, namely: what major gains or significant developments have been achieved over recent years; what opportunities were lost in recent years; what are the key strategic challenges that lie ahead; and what needs to be done to address these challenges? Members of the Committee will then provide their comments or ask questions. After all the organisations represented today have had the opportunity to speak, I will open the floor for a plenary-style discussion. That will provide you with an opportunity to share your views on the issues discussed or to add additional comment, having heard the concerns of others. It is anticipated that the event will last approximately one hour.

Throughout the event, members of staff will be available with roving microphones. The event will be covered by the Office of the Official Report, so it is extremely important that all your comments are recorded. The transcript of today's event will be incorporated into a report of this Committee that will be recommended to the incoming Committee, following the election. Hopefully, some of the current Committee members will also serve on the incoming Committee

and will be able to take up this mantle in the new mandate. The report will also be published on the Committee's pages of the Assembly website. To ensure that today's transcript accurately attributes comments to the correct individuals and organisations, it is vital that you state your name and the organisation that you represent each time you speak.

Again, welcome and thank you for coming here today. Who would like to start us off?

Mr George Butler (Northern Ireland Water):

I am the director of asset management for Northern Ireland Water. I thank the Chairperson and the Committee for putting this session together and for taking these views. Some of the views that I have put forward on behalf of the company have already been registered in the small handout that was passed out, so I will try not to reiterate them.

The first question was: in our opinion, what major gains and significant developments have been achieved over recent years? The period from about 2000 to 2010 has seen the delivery of major investment in water and then in waste water treatment plants, which has resulted in record levels of water quality and waste water compliance in Northern Ireland. It is sometimes forgotten that, around 2000, we had three very serious outbreaks of water-related illness — cryptosporidiosis. Since then, with all the investment that has been put into water infrastructure, the risk of that reoccurring has been very low. We were also being infringed by the European Union for non-compliance with the urban waste water treatment directive, but that threat has now gone. So, there have been very significant steps forward.

On the second question — what opportunities were lost? — I am afraid that major investment is still required, particularly around below-ground infrastructure assets, namely water mains and the sewerage system, including the sewers and the sewage pumping stations. To ensure that we do not have issues in the future, work on those assets will have to continue. In addition, given that they are long-term assets, water and sewerage services really benefit from a long-term approach to investment and a clear investment strategy.

On the third question — what key strategic challenges lie ahead? — the most pressing strategic challenge for Northern Ireland Water is the company's status and how it is organised. Linked to that is the political decision on domestic charging and the relationship with our many stakeholders.

Finally, on question four — in our opinion, what needs to be done to address these challenges? — the most beneficial thing for Northern Ireland Water would be to have a long-term strategic framework for delivering water and waste water services in Northern Ireland and for the company to be allowed the freedom to deliver against that framework. We very much understand the need for governance and a control mechanism to ensure that the service is delivered effectively and efficiently. Thank you very much for the opportunity to address the Committee.

The Committee Clerk:

We have people here from the Utility Regulator, the Consumer Council, the Coalition against Water Charges and the union Unite. We also have somebody from Northern Ireland Environment Link, and we are expecting Dr Claire Cockerill, from the World Wildlife Fund. Apparently, she has not arrived yet. Who would like to go next?

Mr Shane Lynch (Northern Ireland Authority for Utility Regulation):

Thank you very much for the opportunity. I shall take the questions one by one.

What major gains and significant developments have been achieved over recent years? As the new chief executive of the Utility Regulator, looking at things afresh, I think that a lot of positive things have been achieved in Northern Ireland Water. Sometimes, when you are a bit close to and embroiled in things, you have to step back before you can properly recognise that fact. Compared with where we were a number of years ago, the company is now in compliance: it no longer has EU-level infraction notices. So, from a quality perspective, it is in compliance.

With the regulatory framework, we now have a lot more transparency on how Northern Ireland Water spends its money and how it performs. With that transparency, there is a lot more accountability, which was not there before. The company was much closer to being a black box with people not really seeing what was going on in the box. When such a regime is put in place, a number of things get revealed and come to the surface. There have been issues around billing and procurement, and it is not a bad thing that those get revealed because it means that we can address them. We do not know, but it is possible that there are similar issues in other public sector companies. We should not beat ourselves up too much about things that we have spotted in the past number of years, because at least the regime has brought those to the surface, and we are addressing them.

What opportunities were lost in recent years? Again, I do not view that as a negative. I would have liked the Hillyard report to have been debated a lot more. That was a fine piece of work that contained a lot of good findings, conclusions and recommendations. The opportunity is not lost. The report is still there, and we can pick up on it again as a contribution to the debate. I am not saying that everything in the report is the right answer, but it is a good contribution to the debate that will probably need to take place after the election.

What are the key strategic challenges that lie ahead? At the top of my list is for the company to develop its customer focus. That is a big strategic challenge. It has 1.7 million customers, and it needs to up its game on delivering for those customers. Secondly is what I describe as targeted investment. The nature of the beast is that the company needs a lot of investment, but, given the constrained economy, it is important not to simply chuck money at the company. Investment must be done in a targeted and professionally thought-out way so that we get maximum value for money. We also need to take a hard look at the capital structure / ownership of the company. We need to consider what gets us the best answer for consumers in Northern Ireland. That is the big debate that still needs to take place.

What needs to be done to address these challenges? For me, the answer is to talk about it and to have a whole stakeholder engagement consultation. Let us have that debate, because, from where I am standing, we have not done consumers in Northern Ireland enough justice yet because we have not debated the issue properly.

Mr John Corey (Northern Ireland Committee, Irish Congress of Trade Unions):

I am representing the Irish Congress of Trade Unions' Coalition against Water Charges. I will take the four questions in order.

On the major gains, there is a degree of agreement between the coalition and NI Water and the Utility Regulator that the continuing capital investment in infrastructure is a gain. We also regard the stopping of the introduction of separate household water charges and the stopping of the privatisation of NI Water as gains in the past four years. We will come back to those points.

A number of things can be described as developments, depending on how the word development is interpreted. The independent review panel reports of October 2007 and January

2008, referred to by the Utility Regulator, were important developments. We, as a trade union organisation, have been critical of the Minister and the Department for their failure to action the January 2008 report on the governance structures of NI Water. That was an opportunity missed. The sacking last year of the chairman and directors was a significant development with regard to the health and morale of NI Water. The winter freeze/thaw crisis was also a significant development in the consumers' perception of NI Water. All of those have to be considered as developments that are relevant to where we are today.

With regard to opportunities lost, there is agreement among the parties, and certainly by this trade union coalition, that the delay in addressing governance issues was an opportunity lost. The delay in resolving the funding issue was also an opportunity lost. The future funding of NI Water should have been resolved in the lifetime of this Assembly, and the opportunity was there to do that.

We believe that the endless debate about water charges needs to be ended once and for all, and it can be ended. The fact that is often overlooked is that household consumers in Northern Ireland contribute to the cost of water through the regional rate. There is no ambiguity about that. It is confirmed by the Department of Finance and Personnel's rates bills and the information issued with them. That issue should have been addressed and put to bed. The constant threat from many people that we will have to introduce water charges is wrong and should have been answered and dealt with long before now.

The other opportunity lost was to make NI Water a fully accountable public service and body. It was established under the current structure with the objective of privatising it. That is why it was done that way. That is no longer the policy, so there is no purpose in maintaining that legislative model and structure. It is now important to move to end that arrangement and to introduce legislation that makes NI Water an accountable public body. Scottish Water's website states upfront that Scottish Water is a public body answerable to the Scottish Parliament and the Scottish people. I do not think that anyone in Northern Ireland has the perception that NI Water is answerable to the NI Assembly, and that is being examined.

Establishing future funding and returning NI Water to being an accountable public body remain challenges that have to be dealt with. An additional challenge is the need to renegotiate PFI and PPP contracts, which are a significant burden on NI Water. Many of those contracts

were negotiated in a financial world that was wholly different from the one that now operates. We certainly propose that NI Water should examine the scope to renegotiate PPP and PFI contracts, even with a view to buying out those contracts in the long-term interests of NI Water.

As a challenge, we also have to review all of the structures associated with NI Water, including the roles of the Utility Regulator and the Consumer Council and where they may be required in a new structure that has, at its core, NI Water as a public body that is accountable to the Assembly.

What needs to be done to address those challenges? A priority for the incoming Executive and Assembly is a new Bill on NI Water to address all of the issues left over from the current Assembly. That must be given priority in the Assembly's post-election legislative programme, so that we can deal with this once and for all.

Mr Bob Miller (Unite):

I second John Corey's submission and will add a few comments on behalf of Unite.

What major gains and significant developments have been achieved over recent years? In Unite's opinion, the catastrophic events of late 2010 and early 2011 showed clearly that the stripping away of experienced staff and outsourcing of work to privatise the body failed miserably.

In our opinion, what opportunities were lost in recent years? The clear agenda to set up Northern Ireland Water for privatisation with a senior management team consisting, in the main, of inexperienced and bought-in corporate consultants demonstrated a lack of awareness that Northern Ireland Water's purpose is to serve the public.

Our answer to the Committee's third question about key strategic challenges is that we need a complete overhaul of corporate groupthink and of a disastrous communications and HR policy, which completely failed the public in their hour of need and Northern Ireland Water staff, who feel highly aggrieved at the continuous aggressive and bullying tactics that the so-called restructuring, privatisation policy has brought to their daily working lives.

Unite's answer to question four about what needs to be done is that, if senior managers are

found to be guilty of incompetence in their roles during the crisis of late 2010 and early 2011, they should be immediately removed from office without compensation; in other words, sacked. No bonuses should be paid to senior management for their failure during that time. The days of incentives for failure must end.

Ms Kathy Graham (Consumer Council):

I thank the Committee for the opportunity for the Consumer Council to present its thoughts. Like many of the other organisations here today, the Consumer Council believes that one of the most significant developments achieved has been the continuing programme of investment in and improvement of water quality and waste water treatment. The Belfast sewers project, in particular, has delivered demonstrable benefits for consumers. It has reduced the risk of flooding and enhanced the water quality of the River Lagan.

We regard price control 2010 (PC10) as a significant achievement. It introduced a transparent and open economic regulatory process, which involved consumer and stakeholder engagement to define the costs and outputs of Northern Ireland Water. It also provided a framework for Northern Ireland Water to evidence a disciplined approach to planning and costing. Consumer consultation and engagement in that process showed that consumers willingly gave of their time to share their priorities for investment. Those consumers did so responsibly and weighed up their decisions. The price control allows for greater scrutiny and monitoring of Northern Ireland Water's delivery on targets, and it helps to ensure best value for money.

The Consumer Council's view is that the Hillyard report was one of the biggest opportunities lost in recent years. A lot of momentum was gained there. It addressed many issues, such as paying twice. It provided guidance and outlines for future funding arrangements and the structure of water and sewerage services. However, the report was never publicly consulted on by the Executive.

With regard to other opportunities lost, there were many occasions when Northern Ireland Water could have proved itself a consumer-focused organisation. We believe that proactive communication with its consumers should be built upon. The Consumer Council has commented publicly that it believes that there was a breach in the water stakeholders partnership agreement. The breach in the partnership agreement resulted in the loss of public trust and confidence.

Regarding the key strategic challenges that lie ahead, the core aim of the Consumer Council's work in water reform has been to get a water service that is fair, affordable and sustainable. "Fair" means high-quality public services, but they need to be paid for; water and sewerage services are no different. Consumers, either as taxpayers or through any form of direct charging, must not pay twice, nor should they pay unfair or unnecessary charges.

Water and sewerage services must be affordable to the individual consumer and to Northern Ireland society. The cost of providing services must be continually challenged to ensure value for money. There must also be a balance between the social, environmental and economic benefits of delivering water and sewerage services.

The Consumer Council believes that consumer confidence in the delivery of water and sewerage services and its governance has been shattered, and that needs to be addressed immediately. The future funding and structure of Northern Ireland Water must be determined in a consultative manner. Regulation led by and focused on consumers must become a priority so that regulation becomes an iterative process.

To address those challenges, consumers must be placed at the heart of all decisions made about our water and sewerage services. The Northern Ireland Executive should begin to discuss publicly the future of our water and sewerage services, as an informed debate should help to ensure that we have a service that is socially, environmentally, politically and financially sustainable.

The benefits that the reform of water and sewerage services has delivered must not be lost; they must be improved upon. The Executive must ensure that the long-term financing of water and sewerage services is protected in order to allow the necessary investment plans to continue.

Mr David McCann (Northern Ireland Environment Link):

Northern Ireland Environment Link (NIEL) strongly advocates the introduction of water charges; they are the only way to change behaviour when using water. Recent events underline the long-term underinvestment in water infrastructure. However, they also present an opportunity to increase awareness of the cost of bringing water to people, including its purification and distribution. The natural environment can do much of the purification of water for us. Therefore, if we maintain the natural environment, we can reduce the costs of water treatment. The separate

collection of rainwater and sewage would also reduce costs. Water charges should be separate from the rates, as, at present, water charges are invisible; people do not realise the cost involved. Ultimately, that would involve universal metering; however, that is an expensive process, especially in the current climate. It is essential that that be carried out in newbuilds; retrofits can come afterwards.

I would like to make two quick final points. There needs to be an abstraction strategy. At present, projects are viewed individually, and the majority are passed. The cumulative impacts on rivers need to be taken into consideration, so perhaps the Committee and the Department should consider a strategy.

I have been reliably informed that there are major issues with septic tanks; however, that is not an area with which I am very familiar, so I do not want to delve into that too much.

The Acting Chairperson:

Would anyone else like to make any further comments?

The Committee Clerk:

Before we go on, I want to let everyone know that we are keeping an eye on the plenary debate, and that is where the other Committee members are. A debate on the Justice Bill is happening at the same time as this event, and we anticipate that the Division Bells will ring fairly shortly. You will not need to leave the Building. However, Committee members will need to go immediately to vote, and there may be a number of votes. I ask you to bear with us, and we will resume the event as soon as those votes have finished.

The Acting Chairperson:

I want to go through some of the comments that participants made, and then I will open the session up to the floor and to Committee members.

George Butler touched on the achievements, and there have been some of those. I have been a member of the Committee for four years and have seen what has happened. It is very easy to react to events, but there have been major achievements in relation to sewerage, waste water treatment and compliance. I want us to think about where we go next in respect of where the investment should lie. *[Inaudible.]* the Chairperson of the Committee about water mains

construction. I know that we have spent a lot on sewerage and waste water treatment.

Shane Lynch also highlighted achievements. If we look at comparisons with other utilities, we see that those achievements have been good. He mentioned customer focus, and, from what we have seen, that is a major area. Perhaps he would also like to talk about the water mains issue and where the investment should go. Should we continue to invest or do we need to review the strategy? Are we going in the right direction?

John Corey touched on a lot of things. He referred to the governance arrangements in NIW, the independent review, the consumer paying, and the fact that the model needs to be changed. The Minister came before the Committee last week to propose a Bill, which will address some of those issues.

To be honest, considering all that has gone on, I think that we need a change of model. From day one, this Committee has continually asked whether there were any more surprises. We have talked about the billing and everything else. John talked about the executive directors of NIW being released. Let us be honest: the Committee has tried to find answers and to hold people to account on the issues of value for money and spending public money. Those issues have raised their head, and I will not delve into all of that. I have asked, on behalf of the Committee and my party, whether or not there was value for money when public money was spent. However, we are where we are. A review is ongoing into the Christmas issue, and I do not want to get into that. John, I would like us to go back over what you said about the model and the way in which you think we should go forward.

Kathy Graham talked about the achievements of PC10. The Consumer Council has done a good job up to now working with the regulator, but there has been something of a parting of the ways between you. What is the communication and correspondence like now between the council and the regulator? Will you give us an insight into that? I know that that is an issue.

Finally, David McCann mentioned septic tanks. We will not get into those, although, coming from a rural constituency, I could do. You talked about the separate collection of rainwater and sewage, and that is quite reasonable. Can you comment on the models used to do that and whether it is done elsewhere?

Mr D McCann:

To be honest, water and sewerage is not my area of expertise. I was only drafted in today and given a quick update on the situation, so, unfortunately, I am unable to give you any examples at this stage.

The Acting Chairperson:

As I said, it will be noted in the report, and perhaps we can follow up on it.

Mr G Butler:

Chairperson, you want me to talk predominantly about the water mains side. In considering the freeze/thaw event around Christmas and the New Year, people will obviously look towards our water mains. One of the things that has come out is the fact that we have about 26,500 kms of mains. To put that in context: that would take us all the way to Australia and back as far as Egypt. It is a huge length of water mains. Northern Ireland has about twice the length of water mains per head of population compared with England and Wales. That is due to Northern Ireland's relatively dispersed population.

There is a cohort of water mains of the old cast-iron and spun-iron type, which were put in in the 1920s, 1930s and 1940s. They are very old and relatively brittle. They tend to be the ones that cause rust problems, because they rust on the inside. That cohort performed remarkably badly. A very high proportion of the bursts were associated with those mains. Even though they make up only about 4,500 kms of the total 26,500 kms, they were the highest proportion of the mains to cause difficulties. So, we can target the problem.

Although that cohort of mains performed badly, the main losses were on the customer side. You will know from the legislation that our water mains and service pipes go to the edge of a property. Beyond the property, it is the customer's service pipe and internal plumbing. In his presentation to the Committee, our CEO, Trevor Haslett, said that about 70% of the bursts were on the customer side. The work that has been done since then indicates that, by volume, well over 70% of the loss was on the customer side.

We need to deal with a particular cohort of water mains, namely the old cast-iron, spun-iron type. If such an event happened again, we would pump water into a colander, because a lot of the losses are on the private side. That is the big issue that needs to be addressed.

The Acting Chairperson:

Shane, I forgot to mention that you talked about infractions and compliance. Will you touch on that a wee bit and on what may be ahead of us in respect of that?

Mr Lynch:

George is closer to that than I am. However, my understanding is that we are in a reasonably good place in respect of quality standards and compliance at EU level. That is because, over the last 10 years or so, we have invested quite a bit of money in quality control and quality standards.

Your first question to me concerned whether there is flexibility in our investment programme. Under our controls — budgetary controls under public expenditure and regulatory controls under PC10 — the answer to that question is that there is. It is important that we keep flexibility and are smart about how we spend the money, because we do not have that much of it to begin with. The freeze/thaw incident will inform us because things were revealed in the investigation. I am not going to say any more about that for the time being because we will report on it very shortly. However, the flexibility is there to keep adjusting where we should invest, and that is a good thing, particularly when we have hard choices to make because there is not enough money to go around.

Your second question was about customer focus. Two things matter to customers: price and service. Even if people are not paying for something, service still matters to them big time. That is the case regardless of the commodity, but it is particularly true of essential commodities such as water and electricity. If they lose supply, people get extremely angry, and rightly so, particularly if that happens during holiday periods etc.

One of the strategic challenges for Northern Ireland Water is customer focus. That is a challenge for every company. Lessons will have been learned from recent events. Customer focus — putting customers first in everything that it does — goes right to the culture of the organisation. That is something that will not happen overnight, but it is largely driven by the leadership of the organisation. That is what we need to see.

The Acting Chairperson:

We will hear from John next. Bob, I did not ask you to make any specific comments, but you

may respond if you wish to do so.

Mr Corey:

You asked about the model for the future. You raised the point about whether Northern Ireland Water is value for money and whether there are more surprises coming out of NI Water. I do not know the answer to the last question, as I do not work in NI Water per se.

The Acting Chairperson:

No, what I said was that in my time we have asked those questions and we have seen surprises.

Mr Corey:

I will say this about the model. We are all familiar with the current, statutory structure for NI Water under the water legislation. There is NI Water, the Utility Regulator, the Consumer Council, the Drinking Water Inspectorate, the Department, the Department's shareholder unit, the Minister and whatever role he or she has. That whole structure is in place.

The fundamental point is that that structure was designed for a privatised water service, for a private company to deliver water. God help us, it was even designed for several water companies to compete for business; I shudder at the thought of it. That is the fundamental problem. Shane and others refer to consumers and customers. We take the view that the supply of clean drinking water to people's homes is not a consumer or customer issue; it is a fundamental human right. The Government of the country should ensure that people have clean drinking water delivered to their homes. Therefore, the Government should be responsible for funding that. That is the principle.

The Committee Clerk:

I am very sorry to interrupt you, but the Division Rings are ringing.

Committee suspended for a Division in the House.