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Economic and Social Guidance for Water and Sewerage Services (2010-13): differences between the draft and final guidance

The Consultation

In March 2009 The Department for Regional Development (the Department) published a Draft Environmental and Social Guidance for Water and Sewerage Services for the period 2010 – 2013. The purpose of the document "...is to provide the Northern Ireland Authority for Utility Regulation (NIAUR) with guidance on the key environmental and social policies the Minister for Regional Development expects it to contribute to in carrying out its role in regulating the water industry."¹ **The consultation period lasted from 3 March 2009 to 8 May 2009.**²

Copies of the Draft Consultation were sent to 200 organisations, groups and individuals while over 300 letters were sent out to other groups advising them that the consultation was available. The consultation document did not ask any particular questions, but

¹ (DRD) Department for Regional Development (2009) "Draft Environmental and Social Guidance for Water and Sewerage Services" [online] accessed: 10/06/2010 available from: http://www.drdni.gov.uk/dr1_09_38567_consultation_document_-_draft_social_environmental_guidance_-_final_-_3_march_2009.pdf

² (DRD) Department for Regional Development (2009) "Consultation Report: Draft Environmental and Social Guidance for Water and Sewerage Services" [online] accessed: 10/06/2010 available from: http://www.drdni.gov.uk/final_consultation_report_se_guidance_-_23_april_2010-3.pdf

invited respondents to comment on any area they wished; **there were a total of 29 responses.**

The Guidance

The consultation report states that, based on respondent's recommendations, there were a number of formatting and language changes in the final document to make it easier to understand. Examples of these changes include the labelling of priorities, presumably for easier reference and a number of grammatical and structural changes.

Chapter 1 - Introduction

Chapter one provides a summary of the document and outlines the structure. The most significant change in terms of structure is the **addition of a chapter entitled 'Delivering Sustainable Services'**, the contents of which will be discussed in more detail later. Section one goes on to introduce the 'Legislative Background'; followed by the Price Control Process (PC10).

PC10

The changes from the consultation to the final document are based on the fact the Price Control Process could not be completed until the guidance was completed as The Northern Ireland Authority for Utility Regulation (NIAUR) must take account of the social and environmental guidance before setting price limits³ including:

- The social and environmental priorities in the guidance;
- The costs of efficiently delivering these priorities in a regional context; and
- The interests of water and sewerage customers⁴

Therefore, the guidance has been produced to set the strategic priorities for PC10 which proposes costs, plans, targets and prices for water and sewerage services over the period 2010/13.

Chapter 2 – Affordability & Funding

Funding Policy

Paragraph 2.4 reminds us that the guidance must be interpreted in light of the Executive's pending decisions on the Independent Water Review Panels (IWRP) recommendations and the future funding of water and sewerage services.

³ NIAUR (2010) "Water and Sewerage Service Price Control 2010-2013: Final Determination Summary Report February 2010"

⁴ Final Guidance (Page 2)

The consultation indicated that the Executive was ‘considering’ phasing arrangements for non-domestic payments based on the IWRP recommendation; **the final guidance states that the Executive has implemented this recommendation** (Paragraph 2.5).

Water Mains Provision for Unconnected Properties

This section was referred to as Water Connections in the consultation document. It stated the Department for Regional Development currently makes an allowance to help households meet the costs of mains water connection; which is of a higher level to that given elsewhere in GB. **The Final Guidance indicates that this was recently increased to a maximum of £10,000** (Paragraph 2.8).

The section goes on to explain that an investigation into options aimed at increasing the affordability of water mains provision to existing unconnected properties is underway but also indicates that NIW is not responsible for properties not served by NIW.

NIW provides a lower Reasonable Cost Allowance in respect of new properties built after 1st January 2000.

Executive Funding

Funding Assumptions were made in the consultation document, over each year of the PC10 period, ‘these were based on previous outline projections set out within the Strategic Business Plan for the 2007 to 2014 period and estimates of the additional efficiencies to be achieved following the Independent Water Review Panel’s report.’⁵

Year	2010/11	2011/12	2012/13
Revenue	£390m	£415m	£440m

In addition to this funding the Executive committed £350 million for NIW to borrow over the PC10 period:

Year	2010/11	2011/12	2012/13
Loans Available	£130m	£120m	£90m

In the final document ‘Funding Assumptions are replaced by ‘Executive Funding’ as it states: *“During 2010/13 it is assumed that the majority of funding for water and sewerage services will be provided by the Executive with non-domestic customers contributing the remainder”*.

Based on the figures identified in the Draft Guidance (above) NIW submitted a business plan to NIAUR which it considered before publishing its PC10 Final Determination in February 2010.

⁵ Draft Guidance (page 6)

PC10 Final Determination

The PC10 Final Determination signals an end to spiralling capital and operating costs which have risen year on year since 2004/5. This final determination, when compared to NI Water's Business Plan, will deliver:⁶

- **£72m worth of capital savings and efficiencies**

£38m of these savings will be redeployed to enable sustainable development and the reduction of pollution.

- **£65m worth of operating savings and efficiencies.**

NIW is expected to match the efficiency targets (in 2010/11) set out in the Final Determination, which in total allows for

- **£564m of capital expenditure; and**
- **£569m of operational expenditure**

Table 1 shows these sums are seen as insufficient by the Department, and the figures outlined are what will be required *"to contribute to the ongoing provision of water and sewerage services, the maintenance of our infrastructure and to invest to meet mandatory EU obligations"*.⁷ The Executive funding section goes on to explain that the funding totals for 2011/12 and 12/13 are provisional

"It is not possible to confirm figures for 2011/12 and 2012/13 at this stage. This will be done when the executive agrees its budgets for the years in question. Figures provided for these years are, therefore, provisional".⁸

Table 1: Proposed Water and Sewerage Funding (£ million)⁹

Financial Year	Resource	Capital
2010/11	194	206
2011/12	204	205
2012/13	198	200
PC10 Total (Nominal)	598	611¹⁰

⁶ NIAUR (2010) "Water and Sewerage Service Price Control 2010-2013: Final Determination Summary Report February 2010"

⁷ Final Guidance (Page 7)

⁸ Ibid

⁹ Final Guidance (Page 7)

¹⁰ Figures Rounded

Chapter 3 - Environmental Obligations

Paragraph 3.5 of the Final Guidance replaces 4.5 in the Draft Guidance; it is on the subject of the **Water Framework Directive** which encourages the sustainable use of water. There is additional information (**in Bold**) provided within this paragraph:

3.5 The WFD also promotes the sustainable use of water resources through the introduction of water pricing. Under Article 9, water and sewerage pricing measures must be in place by 2010. **A decision not to introduce pricing policies can only be taken where the purpose and achievement of objectives of the WFD are not compromised.** Through pricing, an adequate contribution must be recovered from customers towards the costs of providing these services taking account of the polluter pays principle. **The bulk of non essential or discriminatory water use occurs in the non-domestic sector, where the rolling out of metering helps incentivise efficient use of water resources. Ministers have not yet agreed proposals for the funding of household water and sewerage services.**

The Final Guidance provides information on the completion of the Draft River Basin Management Plans (RBMPs) consultation which was referred to in the Draft Guidance. (see paragraph 3.8).

The Final Guidance includes information on the requirement, under the **Urban Waste Water Treatment Directive** to designate sensitive water bodies (see paragraph 3.11 and 3.12).

The consultation referred to a recent consultation on proposals to amend the Water Supply (Water Quality) Regulations (Northern Ireland) 2007 which transposes the requirements of EU's **Drinking Water Directive** (the Directive) into national legislation. This has recently been amended¹¹ and is discussed in paragraph 3.26

There is an additional European Directive included in the Final Guidance, to which no reference was made in the consultation: **The Floods Directive**¹² aims to reduce the risk that floods pose to human health, the environment, cultural heritage, and economic activity. It is discussed in paragraphs 3.27 to 3.31.

¹¹ SR 2010 No. 157 "The Water Supply (Domestic Distribution Systems) Regulations (Northern Ireland) 2010"

¹² Council Directive 2007.60.EC

Chapter 4 – Service Improvements

This chapter opens with a new statement:

“Existing water and sewerage service levels will continue to be improved through EU quality driven projects associated water and water in the environment”

The remainder of the chapter remains unchanged from the consultation.

Section 5 – Delivering Sustainable Services

The chapter, which did not feature in the consultation document outlines the contribution the Department expects NIAUR and NIW to make to improve the sustainability of water and sewerage assets and operations over the PC10 period. It suggests that the future regulation, planning and delivery of water and sewerage services have a major role to play in sustainable development through

- Improved resource efficiency;
- Protecting and enhancing the fresh water and marine environment; and
- Reduce greenhouse gas emissions through energy efficiency and the use of renewable energy.

The key themes within this chapter that would allow the water industry to contribute to sustainable development include:

- Sustainable surface drainage;
- Water efficiency and Conservation;
- Metering (to incentivise efficient use of water in non-domestic sector);
- Water leakage;
- Promoting water efficiency;
- New water fittings regulations (2009);
- Water Resource Management;
- Resilience and protection of infrastructure; and
- Development of septic tank policy.

Section 6 – Key Investment Priorities 2010-13

There are four strategic investment priorities in the final document which were included in the introduction of the Draft Guidance:

- **Affordability** – provide affordable cost effective services for customers;
- **EU compliance** – meet our European legal obligations in relation to drinking water quality, waste water discharges into the environment, and contribute to flood risk management with other Agencies;
- **Service delivery and improvement** – maintain current service levels and work towards improvements that provide customer benefits in areas such as sewer flooding and interruptions to water supply; and
- **Sustainability** - improve our infrastructure to reduce leakage, cut unsatisfactory sewerage discharges, lower energy consumption and allow for future growth.

All of the investment priorities are founded within these and were developed in conjunction key stakeholders, the six priorities are:

- EU Environmental Quality Obligations;
- Improving Service Levels;
- Water Leakage and Pressure;
- Surface Flooding;
- Longer term EU requirements; and
- Sustainability and Climate change.

Each of the priority areas highlights a number of actions which must be taken to achieve each of the priorities; to a large extent these have remained unchanged between the draft and final documents, however, table two provides a brief overview of any additional Actions identified in the final document.

PRIORITY	NUMBER OF ACTIONS IN FINAL GUIDANCE	CHANGE FROM DRAFT GUIDANCE	RELEVANT ACTION
1. EU Environmental Quality Obligations	7	+1	1G
2. Improving Service Levels	15	+1	2O
3. Water Leakage and Pressure	3	0	0
4. Surface Flooding	5	+2	4A and 4E
5. Longer term EU requirements	5	+1	5E
6. Sustainability and Climate change	11	+3	6I, 6J and 6K