



**Northern Ireland
Assembly**

**PUBLIC ACCOUNTS
COMMITTEE**

**OFFICIAL REPORT
(Hansard)**

**‘Measuring the Performance of NI
Water’**

24 June 2010

NORTHERN IRELAND ASSEMBLY

PUBLIC ACCOUNTS COMMITTEE

‘Measuring the Performance of NI Water’

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Members present for all or part of the proceedings:

Mr Paul Maskey (Chairperson)
Mr Roy Beggs (Deputy Chairperson)
Lord Browne
Mr John Dallat
Mr David Hilditch
Mr Trevor Lunn
Mr Patsy McGlone
Mr Mitchel McLaughlin
Ms Dawn Purvis
Mr Jim Shannon

Witnesses:

Mr George Butler)	Northern Ireland Water
Mr Laurence MacKenzie)		
Mr John Mills)	Department for Regional Development
Mr Paul Priestly)	
Mrs Jo Aston)	Northern Ireland Authority for Utility Regulation
Mr Iain Osborne)	

Also in attendance:

Mr Kieran Donnelly)	Comptroller and Auditor General
Ms Fiona Hamill)	Treasury Officer of Accounts

The Chairperson (Mr P Maskey):

We are joined today by Mr Paul Priestly, who is the accounting officer with the Department for Regional Development (DRD). He is here to respond to the Committee on the Audit Office report ‘Measuring the Performance of NI Water’. You are very welcome, Mr Priestly. Please introduce your colleagues.

Mr Paul Priestly (Department for Regional Development):

I am joined today by Mr Laurence MacKenzie, the chief executive of Northern Ireland Water (NIW), by Mr George Butler, who is the director of asset management at Northern Ireland Water, and by John Mills, who is the director of water policy in the Department for Regional Development.

The Chairperson:

You are all very welcome to today’s meeting of the Public Accounts Committee. Mr Priestly, you have been before us a number of times, so you know the procedure. I will start the questions, and we will then open the meeting to the other Committee members.

Paragraph 1.13 of the report shows that you support:

“the use of appropriate benchmarking”.

What benchmarking do you currently use, and what do the results show?

Mr Priestly:

Thank you for that question. I will begin by drawing the Committee’s attention to a recent statement that our Minister made in the Assembly on Northern Ireland Water’s performance. It is important that the Committee bears the context in mind. The Minister said:

“Northern Ireland Water (NIW) extracts, treats and distributes approximately 614 million litres of drinking water every day to more than 800,000 homes and businesses. It collects, treats and returns safely to the environment over 134 million cubic metres of waste water every year on our behalf.

... the company has met or exceeded many of its key performance indicators during the past three years. For example, the quality of water from the tap is now higher than ever, and we have the highest levels of waste water quality ever. While improving quality, the company has made operating efficiencies of £44 million from the 2003-04 base.

NIW has successfully implemented a capital programme of more than 300 projects in the past three years, including the £160 million Belfast sewers project ... Other investment has resulted in improvements to the infrastructure and services throughout the region and has enabled us to meet our EU obligations.” — *[Official Report, Vol 50, No 5, p247, col 2]*.

We accept that Northern Ireland Water has further to go in some areas; for example, improvements can be made to waste water leakage and to supply interruptions, and efficiency can be improved. However, just as the Minister has done, I think that it is important to put that quality of performance on the record.

As to Northern Ireland Water’s performance and benchmarking of the company, as we made clear in the NIAO report, we had some difficulties with the methodology that the regulator used and that the Audit Office carried over into this report. However, the key point for us is that Northern Ireland Water continues to improve on its own previous performance and that it meets the targets that the Executive and our Minister set for it.

However, we have looked at the 2002-03 customer service report of the Water Industry Commission for Scotland, which is the Scottish regulator. At that time, the Scottish water industry was a few years into regulation and was in the process of transforming, in the same way that Northern Ireland Water is. It had something like the regulatory and public expenditure regime that we have here with Northern Ireland Water, and it had a similar overall performance assessment (OPA) score. It was generally accepted that Scottish Water has managed the transformation. We think that, for Northern Ireland Water, Scottish Water would be a fairer and more balanced benchmark than English and Welsh companies, which have been regulated utilities that have been gathering income from charges for something like 20 years, in some cases.

The Chairperson:

As the accounting officer for the Department, can you tell us what benchmarking method you currently use? It is fair enough to talk about companies in Wales and Scotland, but what benchmarking do you use, and what have been the results up to now?

Mr Priestly:

We tend to use the benchmarking that is in the social and economic guidance that the Executive and the Minister set for the company. That guidance drives the company’s current performance against its previous performance, and it is based on the level of funding that the Executive can provide for Northern Ireland Water. Prior to the introduction of that social and economic

guidance and up to this year, the benchmarking and the targets for Northern Ireland Water were set out in the strategic business plan. When the company's performance is compared against the targets in the strategic business plan, it can be seen that the results are quite favourable. I think that it is the intention to issue a report later this year on the company's performance against the strategic business plan.

Mr McGlone:

I just seek some clarity on your comments. You described the benchmarking that the Department "tends" to use, but which is it: tends to use or actually uses?

Mr Priestly:

I am sorry if I gave a misleading reply. Until this year, Northern Ireland Water's required targets have been set out in the strategic business plan. From this point on, the targets will be set out in the ministerial guidance, which the Executive have approved.

The Chairperson:

That is your answer. However, I am not sure what the level of benchmarking is. Therefore, that issue will have to be addressed. Following on from that point, one of your reservations about benchmarking is the level of investment in the industry in Britain. As we can see from paragraphs 2.3 and 3.4, NI Water has spent about £1 billion on investment. Have you compared that amount with the amount that a company in England or Wales typically spends on such investment?

Mr John Mills (Department for Regional Development):

As Paul said, the level of investment that was made was necessary to meet the targets in the strategic business plan. The targets were to meet something called mean zonal compliance, which is the GB or UK standard for assessing the quality of drinking water. That investment was necessary to raise the compliance rate in the quality of the drinking water to around 99.7%. That is what that investment represents. We use the same mean zonal compliance process that is used in GB. The English average is slightly higher than ours, and the Scottish average is marginally higher.

If we are thinking about benchmarking, we could strive to achieve those GB levels. However, the Independent Water Review Panel, which the Executive announced on the restoration of

devolution and which reviewed water and sewerage services, cautioned against pursuing GB targets simply for the sake of it. It has been estimated that it would cost approximately £250 million to achieve the same mean zonal compliance as England. The Executive have accepted that, for the next period, we should maintain the very high standard of drinking water that we have here, rather than pursue the English standard. Therefore, for benchmarking purposes, we are aware of the English standard, but where investment is concerned, the Executive have decided that maintaining the current high quality of the drinking water is sufficient.

The Chairperson:

It is clear from paragraphs 2.3 and 3.4 that NI Water has spent £1 billion on investment. Is there any difference in the benchmarking that has been carried out in other places, such as England and Wales? Given that £1 billion has been spent, what measures has the Department taken to benchmark against that?

Mr Priestly:

There has been some historical benchmarking that was primarily directed at exposing whether there was an investment gap that needed to be filled. I cannot remember the absolute figure. However, I can find that out for the Committee to show it that, historically, there was a gap and that Northern Ireland is playing catch up. Those levels of investment are simply allowing Northern Ireland to catch up to the standards that exist in England and Wales.

The Chairperson:

You say “historical”. You are the Department’s accounting officer, so do you have figures on that with you today?

Mr Mills:

The independent review, which I referred to, looked at that historical gap and stated that it was difficult to assess how investment had been here compared with how it had been across the water. The review concluded that there had been an historical gap of about £500 million on the sewerage side. We have been playing catch up on the water side. There is not really a gap now, and that is reflected in the fact that our level of drinking water compliance is more or less the same as that in GB.

You referred to greater investment. Investment on sewerage has also caught up, but the

independent review still found a £100 million gap in the amount of investment here as opposed to that across the water. It is very hard to discuss the results conclusively, because there are other issues to consider, particularly that Northern Ireland has a much more dispersed network of mains and sewers than exist in England. You could argue that we would have to spend more money even to keep pace with England, simply because we have a much more dispersed population with twice the length of mains for each household. Therefore, it is very hard to come to a conclusion on that point.

The Chairperson:

Other members will delve into that subject later. I surmise that you would have suspected that this Committee would have asked questions about figures, such as the £100 million. However, you do not have the exact figures with you. If you have those details, I ask you to share them with us in writing as soon as possible.

Mr Priestly:

In fact, those were the correct figures, but we will send them to you separately.

The Chairperson:

Originally you did not have them, but when John spoke, it seemed that you had some of them. I would like clarification on the figures in writing so that we can include them in our report.

Paragraph 1.16 tells us that the level of service that NI Water provides is unacceptable, but once efficiency gains are made, large-scale improvement is possible. Again, as accounting officer, can you tell us how concerned you are that, according to the report, the performance is poor and costs are very high?

Mr Priestly:

Obviously, the Department and Northern Ireland Water want the company to be as efficient as possible. We have a shared interest in driving out those efficiencies. In my view, as accounting officer, good progress has been achieved. In my introductory comments, I quoted a figure of £40 million of efficiency savings against the 2002-03 cost base. Therefore, progress has been made. However, there is undoubtedly more to do. In the company's performance targets for this year, the Minister has set it the challenge of achieving the level of efficiencies that the regulator set in his final determination. Therefore, we are aware that more is to be done in driving out

efficiencies. We have set a challenge for the company to deliver much higher levels of efficiencies than exist elsewhere in the public sector. It is an organisation in transition, and we are working that through.

Mr Laurence MacKenzie (Northern Ireland Water):

From where I sit, I would say that there is a lot to do. The organisation is not as efficient as it ought to be. I was attracted to the job because I delivered efficiencies in another utility in Northern Ireland, and I really fancied the challenge of trying to do the same with the water utility. The regulator has an important role to play in effectively benchmarking us and setting us targets to get to where we ought to be as an organisation. That is what the price control process was about. As an organisation, we are absolutely committed to delivering those efficiencies. We are delivering an efficiency this year of 6.5% compared with roughly 3% in the rest of the public sector. Therefore, as an organisation, we are very committed to that process.

I want to say something about benchmarking, if that is OK. We benchmark ourselves. One point to note about water utilities is that they all do the same thing. The companies in England, Wales and Scotland are further on in the journey than we are. We regularly benchmark our processes, the way that we do things and the way that we operate against those companies across the water. We benchmark against Scottish Water, Northumbrian Water and Yorkshire Water, which is regarded as one of the most efficient water companies in England and Wales.

The slight difficulty that we have at times is that those companies have freedoms in how they operate that we do not have. They have access to funds that we do not have access to. We have to operate within the existing public spending envelope. That makes us slightly different. However, we are committed to the efficiency programme.

The Chairperson:

Therefore, your response is that there could be some cost savings and improvement in overall performance.

Mr MacKenzie:

We factored £12.6 million of efficiency savings into this year's budget, which lines up exactly with the targets that the regulator set for us, as well as the efficiencies that we have in our capital works programme.

The Chairperson:

Figure 23 states that you do not publish your response times for customers with service problems, such as water being cut off. Do you think that it is a good idea not to publish those response times?

Mr MacKenzie:

I am sorry; can I ask you to repeat the question?

The Chairperson:

The diagram — figure 23 — is in the report. I see from it that you do not publish your response times for customers with some service problems, such as water being cut off. Do you think that is a good idea that those times are not published?

Mr MacKenzie:

In publishing our annual report, we look at three measures: first, customers who are off supply for between nought and six hours; secondly, customers who are off supply for between six and 12 hours; and thirdly, customers who are off supply for more than 12 hours. We publish that information in our annual report.

The Chairperson:

It is covered in the annual report. Is that a recent addition?

Mr MacKenzie:

It was certainly included in last year's annual report as a key performance indicator (KPI), and it will be included in the report that we are about to publish. We can make a copy of that available to the Committee.

The Chairperson:

I appreciate that. Paragraph 5.4 states that low pressure performance cannot be properly measured because the information that you have is poor. That seems to be the case in many customer service areas. What are you doing to improve the quality of both that performance and the information?

Mr MacKenzie:

There is no doubt that the quality of our data is one of the fundamental problems that we have as an organisation. I do not want to say that that is an inherited problem, because it is a problem that we own and that we have to own. The former Water Service was never required to publish the level of detail that we are required to.

We are definitely on a journey to try to improve the quality of our data. We recognise that, the regulator recognises it and the gentleman who is appointed by the regulator to review our data — the reporter — recognises it. We are on a two-year programme to improve data quality. We absolutely recognise that it is an issue for us, and we are committed to trying to get those data to where they need to be. George may want to go into the specifics of that.

Mr George Butler (Northern Ireland Water):

Although we may have not published that detail in the past, we have made significant progress. The mains rehabilitation programme, which is about renewing mains around the Province, has reduced the number of properties that have suffered from inadequate pressure — what we term DG2. During the past year, which was 2009-2010, we have removed around 2,150 properties from the DG2 register. That number of properties was removed from a figure of around 5,770 at the start of the year, so the number has been reduced to around 3,626 properties. It is unacceptable for anyone to suffer as a result of low water pressure, but reducing that problem is a matter of continuing investment in the distribution system.

Mr MacKenzie:

It is worth saying that the target over the next three years is to reduce that number further by around 800 to 900 properties.

The Chairperson:

According to the report, £30 million per annum is being put into that process. Half the battle is making sure that the right information is shared among people, especially if their houses are in a low pressure zone. Can anything be done to improve that?

Mr MacKenzie:

The mains rehabilitation programme, which costs £30 million, is aimed not just at reducing low pressure but is targeted at replacing rusty pipes and at reducing bursts. It also has the benefit of

improving water pressure. Therefore, the issue is not just about the £30 million per annum on trying to improve water pressure; it is about trying to replace water mains that have been in the ground for 90 or 100 years.

The Chairperson:

I appreciate your answers. That completes my questions for now. They have set the scene. I open the questioning to the other members.

Mr Hilditch:

You are very welcome, gentlemen. I want to return to quality compliance and targets for drinking water. Paragraph 2.3 states that drinking water is recorded as being 99.7% compliant. However, the European Union sets standards, so should compliance not be set at 100%? Will going for 99.7% leave us open to infraction proceedings or fines?

Mr Mills:

That is an astute point. Our target has to be 100%. A lot of money has been spent in England, and is still being spent, on trying to get those last few percentage points on mean zonal compliance.

However, it is really a question of balancing priority. If we spend that money on water quality, which is very good, and we do not spend it on sewerage, which is further behind, that is perhaps not the correct investment decision. We are very close to the 100% target. Mean zonal compliance is a basket of 40-odd measures, and we have achieved 100% on many of those. However, there will always be variations, be those to do with changes in weather patterns or changes in the quality of the network that the water goes into. For example, we might have perfect water at the works, but if it goes into a rusty main, it will have suffered when it comes out of the customer's tap. At the same time, some of the standards change. There will always be variations, and it will be very hard to hit 100%. However, your point is correct; we are aiming for 100%.

Mr Priestly:

We have the best-ever quality of drinking water in Northern Ireland. In an era when resources are constrained, driving up marginal improvements in the quality of our drinking water will cost disproportionate amounts of money. Priorities have to be established and choices made, but at

the moment, other bits of the infrastructure are further behind. Priority should probably be given to investing in those areas.

Mr Hilditch:

Are we open to any proceedings or fines on drinking water compliance?

Mr Mills:

It would be very unlikely on the drinking water compliance level but not necessarily on other aspects. Infraction is much more likely on the waste water side. In England, there is an ongoing infraction case that could have implications for us. In 2006-07, there were two infraction cases on compliance that were quite advanced, and both were very much on the sewerage side.

The Chairperson:

Can I ask the witnesses to speak up please? We are trying to get the sound system sorted out. In the meantime, we would appreciate it if you could please raise your voices a little.

Mr Priestly:

I suggest that George has a chance to speak on this issue.

Mr G Butler:

Yes; the water quality in Northern Ireland is the highest that it has ever been. Our current compliance figure is around 99.88%. You quite rightly ask about the significance of that 0.12%. England and Wales have been sitting at 99.96% for a number of years, and the chances of infraction of the European standards by the United Kingdom as a whole and ourselves as a province are very low. The water quality is good.

The Chairperson:

David Hilditch mentioned that some areas might not be compliant with some standards. Do you have details of those areas?

Mr Mills:

There was an infraction case in the UK recently, but that was to do with the legal transposition of the drinking water directive. It was about drinking water, but it was not to do with the issue of compliance; rather, it was to do with legal issues.

Mr Hilditch:

I understand the priority issue. I was at a presentation this morning on the Islandmagee, Ballystrudder and Blackhead situation, so I have a degree of understanding. Paragraph 2.10 of the report states that the target recorded for 2013 is still 99.7%. However, you told us that compliance is already at that level and, indeed, above. That does not seem much of a target if you plan to spend £100 million on drinking water.

Mr G Butler:

That is a good question. The target is set through social and environmental guidance. With a target such as drinking water compliance, the target is set with an element of headroom, so we are slightly above the level at which the target has been set. However, that is what the Assembly asked us to achieve and funded us to do. We would continue to invest for a number of reasons; not only water quality, but issues such as low pressure. If a water main is nearing the end of its asset life and, if it is an iron main that is corroding inside, it needs to be replaced not only for water quality reasons, but other associated reasons. It may cause low pressure and perhaps burst, which would mean interruptions to supply.

We have a significant water main infrastructure. There is 26,000 km of water mains, so there needs to be continuing investment in maintenance to maintain the system.

Mr Hilditch:

It appears that the Utility Regulator thinks that we should be doing better. Do you accept that?

Mr G Butler:

Representatives of the Utility Regulator will be speaking later, so I would not like to speak for them. However, the target was set by the Assembly, so we will obviously work toward that. We expect to exceed the Assembly target. As I mentioned, we are currently at 99.88%, so that is good news. We do not want to get close to the level of the target; we would like to continue to exceed it. That needs to be done through continuing investment in the existing systems and through operational means: by maintaining our systems and by operating them properly.

Mr Hilditch:

Paragraph 2.9 states that there is a small difference in drinking water quality between Northern

Ireland and England and Wales: less than 1%. Can you explain what that means and what the problem areas are? Why would it cost £240 million to fix them?

Mr G Butler:

That is the law of diminishing returns. The water quality in Northern Ireland is high. It is at the highest it has ever been. The question is whether to continue to invest at a high level in order to achieve that last, very small amount. There is no benefit to the public health, and a very small risk associated with any health issues in that percentage difference. Therefore, through its social environmental guidance, the Assembly decided that the investment that Northern Ireland Water was being given was sufficient to maintain the system at 99.7%, and, as I have mentioned, we are continuing to achieve that. That allows investment to be targeted at other areas in which there is more benefit, and in which there is perhaps more risk of action against the United Kingdom and Northern Ireland.

Mr Hilditch:

Can you be more specific about what the problem areas are?

Mr G Butler:

My colleague alluded to the sewerage system as the Cinderella service.

Mr MacKenzie:

To treat water and get up to 99.7% requires much greater levels of power consumption. To achieve a 0.2% benefit in the overall drinking water quality, more electricity is required, which has a knock-on impact on operating costs, carbon footprint and the environment. It is about creating an environmental balance between the best possible quality of drinking water and the smallest possible carbon footprint.

Mr Lunn:

Thank you, gentlemen. My questions may cover similar ground. Both the Drinking Water Inspectorate and the Utility Regulator say that further improvements in water quality are needed, yet I see from paragraph 2.13 that your view is that further improvement would mean poor value for money for the taxpayer. Who is correct, because there seems to be a difference of opinion?

Mr Priestly:

As I said earlier, we all want to see further improvements in drinking water quality. However, there is only a limited amount of money available for investment, and there are other parts of the system, which George correctly described as the Cinderella. Better value for money for the taxpayer will be achieved by putting the available investment into those areas than by putting significant sums into driving marginal further improvements in water quality. Northern Ireland Water is doing well on water quality, but there are other areas on which it is not doing so well.

Mr Mills:

The Drinking Water Inspectorate is the expert in that area, but the NIAO report quotes its comments from 2008, and are, therefore, slightly historical. Investment has resulted in much higher levels of drinking water quality.

I spoke to the chief inspector of the inspectorate before this meeting to get a feel of what she would say about recent drinking water quality levels, and she does have concerns about whether we maintain the levels of trihalomethane compliance that were a significant problem a couple of years ago. She was also concerned about iron and lead levels, which, as George said, are partly because of the pipes used. The current standard will be tightened by 2015, and it will take continuing investment to attain those very high levels of compliance.

The inspectorate has told Northern Ireland Water that overall drinking water quality at the consumers' tap continues to improve, and that a high level of compliance has been achieved. There have been significant improvements, and water quality levels have moved from 99.49% in 2008 to 99.74% in 2009 following the completion of several large water treatment projects. Where standards are met, additional planned infrastructure projects and water treatment works in the distribution service are necessary to further improve compliance. That improvement work will address localised issues where the regulatory standards are not being met for trihalomethanes, iron, aluminium and lead. There will always be concerns, but the chief inspector has acknowledged that improvements have been made.

Mr Lunn:

I wanted to ask you about trihalomethanes — THMs — and the health risks associated with them. The level of compliance with those levels seems to be dragging everything else down. Paragraph 2.12 of the report states that Northern Ireland Water gets its health advice from the Health

Service, which is fair enough. However, what advice was sought and what answers were given, particularly in relation to the long-term risks of THMs?

Mr MacKenzie:

I agree that the THMs problem has largely been addressed. The report was written in 2008, and a number of water treatment works have come online since then. We now have only one authorised departure for THMs, and that will be addressed later in the year. Therefore, all the THMs zones will have been addressed.

On your health question, I will defer to my colleague, George.

Mr G Butler:

On the health side, the limit set in the drinking water standards is very low compared to the level at which there would begin to be health issues. Therefore, there is a huge safety factor in the drinking water standards.

The next point, which has been partially made, concerns the improvements that are associated with THMs. THMs are caused when natural organic matter reacts with the chlorine that is used to disinfect the water to ensure that it remains safe within the network. Those react together to generate trihalomethanes. In the past, that was a problem in Northern Ireland. However, by introducing new treatment processes, the organic material — or humic material — is taken out and, therefore, trihalomethanes do not form. Currently, for 2010, we are at 99.55% compliance for THMs. Even if there was a compliance failure in THMs, it would be nowhere near enough to become a health issue.

Mr Lunn:

You seem to have made dramatic progress since the report was produced. In 2008, the figure was 86% and you say that it is now 99.55%, which is pretty much in line with the other criteria. Is that because of the new water treatment plants?

Mr G Butler:

Essentially, there are two reasons. First, it is because of the investment in new water treatment plants by Northern Ireland Water. Secondly, it is because of a public-private partnership (PPP) called Project Alpha, which now provides 50% of the bulk water supply for Northern Ireland and

which has invested in new plants. The four major plants, which supply that 50%, have all been upgraded to provide the technology that removes the humic substances. That is why there has been a dramatic reduction in THMs.

Mr Lunn:

Other water companies in the UK, in which, presumably, the water comes from similar conditions and there are similar levels of peat, seem to have managed to solve the problem years ago and to reach 100% compliance.

Mr MacKenzie:

We are slightly different from some of those companies, because most of our water is produced from run-off. A lot of companies in England and Wales have ground sources of water that come through deep chalk aquifers that carry out a cleaning process on the water. The problem, as George said, is when the water comes into contact with the humic material that exists in run-off water from the land.

Mr G Butler:

In England and Wales, there are slightly different sources of water. However, even companies with similar structures tend to have had earlier investment. We have been investing in our bulk water supply and water treatment works from around 2000, while companies in England and Wales received investment during the 1990s. That is why they are ahead. However, I would not like to give you the impression that we are behind. We have caught up in a relatively short period of time. There is still work to do on the distribution system, because, to come back to the comments that were made earlier, we are putting very high quality water into a distribution system that needs some investment. However, the question is whether we in Northern Ireland want to invest a lot more to achieve that marginal percentage in compliance from which, essentially, there is no associated health benefit.

Mr Lunn:

I hear what you say about chalky areas and their ability to filter water naturally. However, I was thinking more of Scotland, which is pretty similar to here.

Mr Mills:

The audit report may, sometimes, convey the impression that 100% compliance means that

everything is hunky-dory in England. In the English equivalent to our PC10, the look-forward over the next five years means that £40 million will be spent on tackling THMs. Even in England, a 100% compliance rate does not mean that further investment is not required.

Mr Lunn:

THMs are suspected as a cause of cancer or of having the possibility of being a cause of cancer. How dangerous are they? What is the scale of the danger? I read somewhere that they are designated as a class-B carcinogenic substance. Does a class-A designation denote the highest risk or the next lowest?

Mr G Butler:

I can see that you have been doing your homework. I go back to the point that I made about the level. Nearly anything will kill you if you ingest enough of it. If you ingest soil, it is not very good for you. We are required to measure the proportion of the level of THMs. You are quite right: at a relatively high level, THMs are carcinogenic. However, at the level that is set by the drinking water regulations, there is no risk to human health.

Mr Lunn:

There has been a reduction in the number of supply zones with high levels of THMs. The report states that the aim was to reduce those numbers dramatically. At the time when the report was published, the compliance rate was still poor, at 86%. Does that mean that the people who lived in areas with high levels of THMs were subject to a particularly high risk? The compliance rate of 86% is an overall figure, but the level of risk in danger areas has been reduced dramatically.

Mr G Butler:

One cannot say that there was no risk. However, even though the level of compliance was not good and the investment was required, the levels set in the drinking water standards meant that there was a very low risk to human health. It is about the standards. We are talking about tens or perhaps a hundred times the limit in drinking water at which health issues are associated with THMs.

Mr Lunn:

I am nearly done, Chairperson. My last question is about the new treatment works. Hundreds of millions of pounds were spent on them, yet the number of drinking water quality incidents that

are within NI Water's control is higher than was previously thought. The reason given for that situation appears to be better reporting. What does that mean? Are people reporting things that they did not report before, or does it mean that the system is throwing up the possibility of a problem more efficiently?

Mr MacKenzie:

The organisation has developed far better mechanisms for identifying a problem and reporting it. The table in the report shows that when water quality was much lower, we had far fewer incidents. Now that water quality is much higher, we have had more incidents. My take on that is that we are reporting more incidents because our processes are better.

Mr G Butler:

The drinking water inspectorate is more rigorous, on the water side and on the waste water side.

[Inaudible due to mobile phone interference.]

The Chairperson:

Please bear with us for a moment. Someone is guilty of having an electronic device switched on. Please switch it off.

Mr G Butler:

The move from the Water Service to Northern Ireland Water has signalled an increase in the level of scrutiny and the intensity of regulation of water and waste water. Although the number of incidents has increased, so has the seriousness of the way in which we deal with them.

Lord Browne:

I refer, first, to the waste water section of the report; particularly to the waste water compliance figures in paragraphs 3.7 and 3.8. It appears that the waste water quality is below EU standards. The report cites a compliance figure of 90%, which is below that of England and Wales. They are at virtually 100%; however, those works that operate to relaxed standards while they are being upgraded are reported as compliant. If that were taken into account, the actual compliance figure would be 84%. You are reporting the figure as 90% even though, in reality, it is 84% when taking into account the works that are being upgraded. Do you not think, in the interests of accountability and transparency for the public and elected representatives, that that would be

better reporting?

Mr Priestly:

I will lead off on that question before handing over to Laurence and George. We have acknowledged that there is more work to be done on that area throughout this hearing. There has been steady improvement through the investment that has been put in, but there is undoubtedly a lot more to be done. We see that as one of our priority areas. I will hand over to Laurence and George to speak about targets and levels of compliance.

Mr MacKenzie:

I go back to the point about comparing us with England and Wales. When you are benchmarking, you have to be sure that you are comparing apples with apples. The method of calculation used in England and Wales is different to that which we report under. If you took our figure for 2009, and used the same basis of calculation as in England and Wales, we would be at 97% or 98% compliance. Maybe George will explain the difference in the calculation method.

Mr G Butler:

I am afraid that it gets a little bit technical at this point, so stop me if I am not clear. The methodology used in England and Wales ignores what we call upper-tier limits. If there is a single gross failure in a waste-water treatment works, that breaches its upper-tier limit. In Northern Ireland, that is counted as a failure for the entire year — one strike and you are out. In England and Wales, they ignore upper-tier failures and measure failure on basic compliance. For example, reasonably sized treatment works would have to fail five times during the year to be considered a failure. Any of those five failures could be upper-tier limits.

As Laurence said, comparing like with like, we are far closer to the level of England and Wales. To make the wider point, that is why we think that it is important to use comparative benchmarking. It can give a misleading view in a number of areas if you either do not use the same criteria or do not take into account the different factors in Northern Ireland when making comparisons.

Lord Browne:

Is it standard practice to record upgraded works as compliant in England and Wales, as we do here?

Mr G Butler:

Yes; there is a similar approach. Again, to get a little bit technical, we have tended in the past to work with what are called registered discharge standards, which were based on what the actual works could achieve. With the environmental regulator, we are migrating to environmental needs standards that reflect what the environment can cope with as a result of the discharges.

When a works is upgraded, it tends to coincide with the time of changing from the registered discharge standard to the environmental needs standard. At that stage, the works may have been passing its registered discharge standard. It has the investment done, and then passes the environmental needs standard, so you do not actually see a compliance benefit. However, you will see a huge benefit on the ground because it is complying with the environmental needs standard.

Lord Browne:

Thank you. The total number of works undergoing upgrade here is 27. I think that that represents some 10% of the total number. What proportion of total waste processing do those 27 works carry out?

Mr G Butler:

I would have to come back with an exact figure, but I will give you a general outline. Along with the environmental regulator, the Northern Ireland Environment Agency (NIEA), we have tended to target the larger works and the works that are causing the most environmental damage. The remaining 27 are, generally, smaller and less non-compliant works. Therefore, although those 27 represent 10% of the overall total number of works with greater than 250 population equivalent, they probably represent only 2% or 3%. However, I will come back to the Committee, because I do not want to mislead members. The figure is certainly less than 5%.

Lord Browne:

What proportion of the works fail to meet the full European standards?

Mr G Butler:

We might have the figure for the urban waste water treatment directive.

Mr MacKenzie:

Of our 250 works, 27 currently operate under interim standards.

Lord Browne:

I will move on to small works. You have 800 small works, many of which are causing local pollution problems. The standard of performance on those is not even reported. Do you believe that provision of sewage services in those areas needs to be rationalised?

Mr MacKenzie:

They are very small works, and, in some cases, shared septic tanks deal with waste from two houses. We have been investing £5 million a year on those very small works that treat waste from a few homes. They serve less than 2% of the population, and, subject to all the constraints around public expenditure, we intend to invest a further £5 million in each of those three years of the PC10 period. That is £15 million across the piece.

Lord Browne:

What proportion of the total pollution incidents caused by Northern Ireland Water is represented by those 800 smaller treatment works?

Mr G Butler:

A very small amount. Those 800 represent less than 2% of the population equivalent, and, therefore, the number of pollution incidents associated with them is not significant.

Lord Browne:

More seriously, Northern Ireland Water is responsible for a third of all recorded pollution incidents. I accept that it is a large organisation with a large budget and a large workforce. Are you confident that Northern Ireland Water is capable of putting in place a strategy to deal with the lack of control over intermittent discharges? You have failed to do that for the past 10 years. Records show that you reported to this Committee — although there were different faces — over 10 years ago. It criticised Northern Ireland Water because it had no proper systems in place. However, paragraph 3.13 shows that you still have no proper system in place. Why has it taken you so long to get grips with that issue? Given that the Committee is asking the same questions 10 years later, what do you propose to do?

Mr MacKenzie:

Progress is being made. We have 15,000 km of sewerage network, which, if unwound, would stretch from here to Australia. Our records on that sewerage system, some of which was put in the ground 90 or 100 years ago, were not good. Therefore, we are carrying out a series of drainage area studies to enable us to completely understand discrete parts of the sewerage system, to discover where those combined sewer overflows are and to understand the ones that have unsatisfactory intermittent discharges (UIDs) associated with them. We have made progress. There are 109 drainage areas in Northern Ireland, and we have completed about 90 studies.

Lord Browne:

You will accept that Northern Ireland Water's record on pollution incidents is the worst in the UK. It caused 56 high and medium severity pollution incidents in 2008. Figure 2 shows that you had a target of, remarkably, 56 incidents for 2009-2010, which was increased from the original target of 11. You increased the target to a level that you are already achieving. Are you doing anything to improve performance? What are you going to do to improve it? Fifty six is a serious number of incidents to have occurred.

Mr G Butler:

I think that it is a fair challenge. I think that I mentioned earlier that the sewerage service is the Cinderella service. The combined sewer overflows are the discharges from the sewerage system, and that is the area in which we know that we need to make the investment. Work on the bog water treatment works is done, as it is on most of the water networks and most of the waste water treatment works. The waste water networks are the outstanding part that needs the investment. I am afraid that there is no magic wand for Cinderella, so there has to be investment.

We are doing some things to try to reduce the costs. We are installing what we call a hawk-eye device that shows whether a combined sewer overflow is discharging in dry weather. That is an indicator of pollution, and if that is the case, our operational people can deal with it. I am afraid that blockages are often caused by inappropriate material being put down the sewers. I accept that that sounds like an excuse, but investment is required in that particular area, which is the fourth area that we look after, and it needs investment over a period of time.

Mr MacKenzie:

To pick up on George's point about blockages, we get a lot of complaints about sewers backing

up. In well over 80% of cases, that happens because people have put inappropriate things down their toilets. We have found things such as large cuddly toys and carpets in a sewer. We have introduced a programme called Bag It and Bin It, and we are working with schoolchildren, elected representatives and others to try to educate people to know that, if they put inappropriate stuff down the sewerage system, it will cause problems.

Lord Browne:

One of the objectives in creating a Go-co was to remove Crown immunity from prosecution. Paragraph 3.20 shows that Northern Ireland Water has been fined just £13,000. That seems to be a very low sum. Is that a true reflection of what has been paid out to date?

Mr MacKenzie:

At that time, yes.

Lord Browne:

Does that include out-of-court settlements?

Mr MacKenzie:

We do not do out-of-court settlements.

Lord Browne:

You do not do out-of-court settlements. Therefore, is £13,000 a typical sum to pay out?

Mr MacKenzie:

Yes.

Lord Browne:

Finally, we are approaching the time when there will be good weather and some brave people will go bathing. I see that the quality of bathing water has fallen in recent years because of heavy rainfall and despite new treatment works. Is it not Northern Ireland Water's role to deal with heavy rainfall without causing pollution? Does that deterioration not reflect badly on the effectiveness of the new works?

Mr Priestly:

I will begin with an answer to that, and I will again hand over to those who know the technical details. It must be accepted that several factors are at play in the quality of bathing water. What Northern Ireland Water does is one factor, but run-off from land and agricultural and industrial discharges and those from other sources are also part of it. Northern Ireland Water can be only partly responsible for achieving compliance. I do not think that Northern Ireland Water, on its own, will ever achieve compliance.

Mr MacKenzie:

If I can just add to that, NIW is one of the factors, but what the accounting officer said is absolutely right.

Mr Beggs:

Returning to the mains water side of the industry, there has been discussion about the need to invest in the pipework to improve quality. The economic level of leakage (ELL) is a reliable figure that is needed to help calculate figures for investment and returns. That indicates how much water is escaping from the system and, therefore, how much the return and investment will be when renewing mains.

I see from paragraph 4.14 that you do not have what I think you refer to as a long-run economic leakage level but that you are working on it in your water resources management plan and hope to have it in 2011. How is that going? When will we have that figure?

Mr MacKenzie:

The area of leakages is really important, and the report acknowledges that we achieved a steady reduction in leakages. Again, one of the issues that we faced was getting robust data on leakages. The guys had concerns themselves and had very co-operative discussions with the regulator and the reporter to try to get a more accurate figure for leakage levels. We will never get a completely accurate figure, because it is based on a number of estimates that are now based on company-specific inputs. Progress in that area has been good, and I am confident that, having spoken to and worked with the guys, those target dates will be met so that we have a better understanding of ELL by the date that is stated in the report. That will feed into the process for the next price review.

Mr Beggs:

Is the report due in early 2011?

Mr MacKenzie:

The target for it is about July 2011.

Mr Beggs:

That is fine. Paragraph 5.1 states that the guaranteed customer service standards have not been implemented because of what has been explained as a deferral of domestic charges. I would have thought that some of the standards that have been mentioned are fairly basic, such as those on water pressure, interruptions to supply, sewer flooding and customer contact. Are those not basic standards that should be introduced, regardless of whether there is domestic charging?

Mr MacKenzie:

We are operating to and measuring our performance against those standards. If a company in England and Wales fails to meet a standard, the customer is entitled to a payment. The same applies to electricity companies. The view was taken, and I am sure that my colleagues from DRD could elaborate on this, that we should not introduce such a system as long as we do not have charging. Internally and in the reports that we publish, we absolutely measure ourselves against standards that mirror the performance in England and Wales and in Scotland.

Mr Beggs:

Do you not accept that the public are paying money at present towards water charges through regional rates?

Mr MacKenzie:

Absolutely.

Mr Beggs:

To a degree, therefore, money is changing hands. Given that, should there not be some reimbursement for a particularly bad service?

Mr Priestly:

That is a policy issue. It is an issue for Ministers, rather than one that we should comment on

here.

Mr Beggs:

OK. Civil servants and chief executives cannot take those decisions. Thank you.

Mr Priestly:

Those are decisions for Ministers.

Mr Beggs:

Paragraph 5.6 says that 609 houses were without water for more than 24 hours. That is quite a significant period and by far the worst performance in the United Kingdom. Paragraph 5.7 shows that you attribute that to longer pipes and to a more dispersed population. Do you not think that people in rural areas who have had no water supply for several days would be very unhappy with that huge disruption to their household?

Mr MacKenzie:

They may not have had mains supply, but when we are faced with a situation where supply is off for more 24 hours, we do not leave people without water. If people contact us to say that they will be without water, we will bowser water or send out bottled water. During the freeze-thaw in December or January, we delivered a huge amount of bottled water to homes. We would do that if a customer contacted us and we thought that we could not get them back their supply within a reasonable time. I know that that is not ideal and that it is not the same as having a mains water supply, but the fact is that the network requires more investment.

Mr Priestly:

I want to come back to Mr Beggs's wider point. Everyone on this side of the Table accepts that such a situation is hugely disruptive to families and businesses. We would much rather that it did not happen. However, if it does happen, Northern Ireland Water will take action to try to mitigate it. Indeed, the reasons why it happens are set out in the report.

Mr Beggs:

Paragraph 5.7 states that the burst rates for Northern Ireland Water for each unit length of water main are comparable with the rates in England and Wales. However, figure 22 states that the performance scores for Scottish and Welsh companies are better. There are dispersed

communities in those places as well, so how do your figures for burst pipes compare with rates in Scotland and Wales?

Mc MacKenzie:

Scotland has a number of large urban conurbations. We perhaps do not have conurbations of the same size. For example, Glasgow has a population of two million, and Edinburgh's population is not far short of that. Dundee, Aberdeen and Inverness are all reasonably large conurbations. Their distribution networks will supply far more homes than our rural network will. We have roughly twice the number of properties for each kilometre of water main than the comparable companies across the water.

Mr Beggs:

I have a question to ask about your customer service. I recently received a letter from a business in my constituency that had contacted you over a year ago requesting that a water meter be installed. That business is not a big water user, yet it is paying large water bills that are based on the rateable value of its property. It was told that the meter could be installed in around a year's time, yet recently, it has been told that nothing is on the horizon. How would you ensure businesses that are not heavy water users are going to survive and are not going to get disproportionate water rates? When will they get water meters so that they will be charged for the water that they use?

Mr MacKenzie:

We have an ongoing programme of water meter installation. If any Member has a constituent who is concerned that we are being slow, they can come to me, and I will make sure that the matter is pushed forward.

Mr Beggs:

I appreciate the offer to resolve individual cases, but if a commercial business requests a meter, how long should it have to wait to have one installed?

Mr MacKenzie:

I would say that it should not have to wait for more than three months.

Mr Beggs:

OK; thank you very much.

Mr MacKenzie:

That is the target that I want to work towards.

The Chairperson:

I am dealing with a couple of customers in my constituency, one at the Kennedy Centre and one in Kennedy Way. On one occasion, their water bills doubled or trebled, and they have had difficulty in even getting through to someone to try to resolve the situation. It is a major issue if a customer has to go to an elected representative. It is OK to say that we should go to you, Mr MacKenzie, but customers must be dealt with efficiently and professionally if they go to NIW as a first point of contact. If that is not happening, it is wrong.

Mr MacKenzie:

I agree. Having come in to the organisation relatively recently, one of the things that keeps me awake at night is the impetus that we need to give to customer service. I believe that we have far too many handoffs and handovers for customers. We have an outsourced call centre that tries to hand the customer's problems into the organisation, and we need to look very carefully at our processes. We have recently appointed a very experienced person in this area who I think will bring a lot to the organisation.

Mr Shannon:

Thank you. I apologise for not being present for the first part of the session. However, I suppose that I did not need to be here, because I knew what I wanted to ask you.

As an introductory comment, I should say that I met some officials from Northern Ireland Water who said that you had the record for having the most queries, questions and complaints. I was overtaken on that for at least two weeks by Barry McElduff around the beginning of this year when there were problems with the water supply in his area. I understand that a lot of issues and complaints come through all the time, but there needs to be an improvement in the method by which problems are sorted out. As elected representatives, whether we are MLAs, MPs or councillors, we think that there has to be an improvement in that situation. I think that you realise that there needs to be improvement, and the Chairperson said that clearly. I want to be on record

as saying the same thing.

The Public Accounts Committee has carried out previous inquiries on Northern Ireland Water. One report in 2002 specifically targeted the issue of leakage, which, at that time, was massive. I realise that there has been some improvement. However, for any business, which in this case is a government body, measuring leakage should be a bread-and-butter issue. Therefore, why has it taken so long to sort out the basic measurement and recording issues?

Mr Priestly:

The reason is that it is not simple.

Mr Shannon:

You sidestepped that.

Mr MacKenzie:

When I was coming into the industry, I thought that leakage must be a very easy thing to measure. However, I now realise — as will the Committee, having received a presentation from our guys — how complicated it is. A lot of inputs are involved. It is not as though we are in a very simple world where every customer is metered and we know what we are putting into the distribution system and where we can measure what customers use and know accurately what the leakage is. We do not have that. Leakage is based on a number of estimates. There is a top-down method and a bottom-up method, the details of which I will not bore you with. However, it really is quite a complicated area. If you ask the same question of the representatives from the Utility Regulator when they are giving evidence, I am sure that they would probably agree that measuring leakage is not straightforward.

Companies in England and Wales also struggled with trying to get a good, reliable method of calculating leakage. Effectively, our plan was to deliver the ELL within two years, and we are pretty much there, subject to the reporter's validation. Therefore, we have made good progress on calculating leakage. George Butler may wish to comment on that.

Mr G Butler:

I have nothing to add to that.

Mr Shannon:

I accept that it is not simple. However, if there were a water leakage in a field on my farm, at the end of the year, you would come and tell me that I had used much more water than I thought. I know that you have sometimes been very accommodating to farmers from my neck of the woods. However, on many occasions, you are anxious to hand out a bill that is perhaps two or three times the size of the previous bill. I would be happy to see some improvement in that area. However, I accept the issues that you put forward, and I understand why work on this matter has taken so long.

You reported in 2007-08 that you reduced leakage to 157 million litres a day. My goodness, if we had 157 million pennies, we would all be rich. However, I see from paragraph 4.3 that, when the Utility Regulator challenged the figures, the reported leakage went up to 181 million litres a day. There was a decrease in the leakage, and a conscious effort was made to secure that. However, there has been a dramatic increase in the past year, despite all the work that you are doing. What can you do to convince the Committee and the ratepayers that you are doing your best to address leakages, given that you tried hard but the figure is up again?

Mr Priestly:

If you look at the figures, you will see that, in fact, there has not been an increase in leakage; there has just been a more accurate calculation of what is being leaked. The level of leakage has probably always been that high, it is just that we did not have an accurate estimate. We now have a more accurate estimate. Does that make sense?

Mr Shannon:

It is all ultimately about the choice of words, Paul.

Mr Priestly:

I would like to try to get across to you that our pipes have not suddenly started spouting more water.

Mr McLaughlin:

They were doing it all along.

Mr Shannon:

If the figures are accurate, they show that, in eight years, you have been able to reduce leakage by only 70 million litres. That concerns me. Are you satisfied that you are doing your best to reduce leakage?

Mr Priestly:

No, we are not satisfied. There is more work to be done on leakage. To some extent, the issue was covered in the earlier part of the session, when we gave details of the work that is in hand to deal with water main replacement and other means of tackling leakage in the system.

Mr MacKenzie:

We have been set a target for the PC10 period to reduce leakage from 184 million litres to 166 million litres, and we have plans in place to address that. It is basic stuff; it is about finding leaks and replacing pipes in the ground. An internal team and our contractors are working on that very focused programme.

Mr Shannon:

People can understand the situation much better in this context. Paragraph 4.2 states that you estimated the cost of leakage to be £5 million in 2009. Wearing my other hat, I sat through the Budget debate at Westminster yesterday and heard about all the changes that will come and the clear reductions that every Department will face. Do you not feel that that £5 million worth of leakage in 2009 was unacceptable? That perhaps seems like a low figure, given that it is calculated to be over a quarter of all treated water. What is your current estimate, based on the revised leakage figure? How is that new figure costed? In other words, is it possible that the figure is more than £5 million?

Mr G Butler:

I will go back to the point about the economic level of leakage. We have to get to a point where it would cost us more money to reduce the level of leakage than it would to maintain the current level. That is when you reach the economic level of leakage. I am sorry; I will try that again. You get to the point where you spend more to reduce the level of leakage than you save from the water that is leaking out. That is the economic level of leakage. Therefore, we have said that, by next year, we will have defined that. In the short term, we are working with the targets that are set down in the PC10 arrangement. Those will reduce the level of leakage to about 166

megalitres by the end of the PC10 period in 2012-13. The actual long-term economic level of leakage may be below that, and, therefore, it will make sense to invest even more in the network to reduce the level of leakage. The other point to consider is the level of leakage on the supply side or the customer side. That perhaps needs to be addressed in the future.

Mr Shannon:

You say that that issue will need to be addressed in the future. Can you give me some idea of what that means?

Mr G Butler:

It is really a policy decision. The supply pipe from the edge of the property belongs to the customer, and, if it is leaking from that side, there is no cost to a domestic customer and, therefore, no strong incentive for them to repair that pipe. There might be an argument to, in the future, take a view on whether there should be a supply pipe replacement programme, because it makes economic sense to do the customer's side while we are doing our side.

Mr Dallat:

I am tempted to ask a question that is influenced by every response that we have heard today. Before Northern Ireland Water came along, was the former Water Service all that bad?

Mr Mills:

It is probably fair to say that Northern Ireland Water has achieved a higher level of performance and efficiency than the former Water Service. Had there not been change, a couple of issues in Water Service would have had a big impact on the Executive's funding position. The UK would have been infracted because Water Service was part of government and, therefore, could not be prosecuted. As has been mentioned, the former Water Service had Crown immunity. If that had continued, the Government would have been infracted. Infraction costs are absolutely enormous and run into millions of pounds. Moreover, the costs of financing capital investment would have been significantly higher if Water Service had continued. As the independent review panel commented, the change to Northern Ireland Water was saving the Executive £100 million a year, and that sum was rising. Those are the two examples that I would use to support the difference between the former Water Service and Northern Ireland Water.

In addition, the regulatory regime and requirements that apply to Northern Ireland Water are a

lot more stringent than those that would have applied to Water Service. That has meant that some stones with uncomfortable messages have been overturned, but that has resulted in improving data and performance.

Mr Dallat:

The point that I am trying to make is that it becomes a bit tedious after a while to hear every single response prefaced with comments on the unsatisfactory mess of the past. Even today, you do not want to be benchmarked against English companies. When are we going to accept a benchmark, move on and discuss the matter seriously, rather than rehearse a history that, quite frankly, must have been awful?

Mr Mills:

If the Executive wanted to decide to put in the investment to match English performance targets simply for the sake of matching them, it is open to the Executive to make that decision.

Mr Dallat:

There is a tendency to live in the past, but it can be overdone. It is perhaps time that we moved on. I see that you did not keep any records about sewage spillage until 2007. Such records came into being only after the regulator appeared on the scene. When will you be able to measure spillage performance, given that sewage spillage is about one of the worst things that can happen to any of your customers? I can think of nothing worse.

Mr Priestly:

In a sense, your question is reinforcing the case for a system of economic and environmental regulation, which kicked in in 2007 when Northern Ireland Water was set up. However, on the specific issue of spillage —

Mr MacKenzie:

I absolutely agree with you, Mr Dallat. Sewage spillage is a terrible thing, and we have been making investments to try to avoid it. The 50 new sewerage systems in Belfast and the 10 km Belfast tunnel underneath the city will take away significantly from out-of-sewer flooding in Belfast. East Belfast is the next area that we need to move on to, and we have started a drainage area study there. We know that we have significant investment to make in that area as well. My commitment to members is that when a sewage spillage occurs, we do our very best to get on the

ground and help customers to deal with it.

Mr Dallat:

A number of rivers where I live have been polluted from time to time. It is always the same problem — a pump malfunctions. It seems to me that whenever you do the preparation, you can influence, or at least reduce, the number of disasters. When will you be in a position to control that sort of thing in such a way that means that we do not have the absolute horrors of sludge flowing in people's back doors and out their front doors or of fish being killed in the rivers?

Mr MacKenzie:

I take your point about pumps. Again, I agree with you that, in many cases, an incident is caused by a blocked pump, which may have been blocked by something inappropriate. Those pumps are designed to do a particular job. They are not designed to cope with a large cuddly toy, for example.

Mr Dallat:

Or a carpet.

Mr MacKenzie:

Or a carpet.

Mr Dallat:

That probably suggests that it should not be possible to put a carpet or cuddly toy in the sewer in the first place.

Mr MacKenzie:

People lift manhole covers and put those things down.

Mr Dallat:

That is disgusting.

The Chairperson:

If sewage is coming on to customers' property, they can contact either me or any other member in this room. That way, they can use the elected representatives line, which is a very good service.

First, is it raw sewage or is it just water? How can I or a customer know? That is one of the first questions that you are asked. Secondly, if there was an emergency, there used to be a six-hour turnaround and, if I am correct, that has changed to 24 hours. Raw sewage is a health and safety issue.

Mr MacKenzie:

I do not think that those timescales are correct.

The Chairperson:

That is what customers have been told, and that is what constituents are telling me. Is there an issue around why it used to be six hours and it is now 24 hours? I have been given that information over the telephone.

Mr MacKenzie:

I can guarantee you that if we think there is raw sewage in the street, we will not wait 24 hours.

The Chairperson:

I can assure you of that fact, and I can give you the cases after the meeting. It used to be six hours, but I have been told on the telephone that it is now 24 hours. I have casework on that. If you check the records of when I have reported incidents in my constituency, you will find that I have been told that it is 24 hours. On some occasions, it has been longer. However, if you check with the hotline or the elected representative, that information will be available.

Mr Dallat:

That leads on very conveniently to the issue of customer care. We all have our stories. In the past, there was an incident with a manhole cover in Ballykelly. It has been resolved now, thank God. However, when people phoned in, the operator wanted to know the postcode of the manhole. Manholes do not have postcodes, and that was a silly question.

You do not have a wild lot of customers compared to English companies. Is there a determination to ensure that you become more customer friendly?

Mr MacKenzie:

We have 800,000 customers, and if I look at the three or four big items on my agenda, customer service and making improvements in it is right at the top.

Mr Dallat:

I would love to accept that assurance. However, during the cold spell that we had a few months ago, an area outside Limavady was without water for more than a week. The most difficult issue was getting information as to when the water might be back on again. Is there an acceptance that there is room for improvement?

Mr MacKenzie:

To answer your question in a word: yes. There is room for improvement. To take your point about the recent freezing weather, we experienced the coldest winter in Northern Ireland in 50 years.

Mr Dallat:

I accept that.

Mr MacKenzie:

I was really encouraged by the response from the guys on the ground — the people who came out — over the Christmas and new year period. We were dealing with a fairly major incident. I kept close to events, and we made sure that a senior person was manning the incident centre throughout that time. Particular incidents could have been handled better but, in the round, I thought that we handled the situation reasonably well.

Mr Dallat:

Is there reliable data to inform you of the positions of the mains that have been there so long that they are rusting? During the bad weather, as soon as those men who had worked outside 24 hours a day repaired a pipe in one area, it bust down the road again. Have you reliable data, and do you know what investment is needed to give us a network that will not experience those embarrassments?

Mr G Butler:

We have a geographical information system that maps all our underground assets, namely sewers and water mains. It is pretty reliable and it will tell us where the mains are and what material is used, and it sometimes gives us information about age and condition. However, we would always like more information. We tend to work on the principle that when there is a serviceability failure — either a burst or discoloration of the water — the asset needs to be improved, and that goes

into our asset management plan. We would have liked to have had more mains replacement in the current period had the funding been available.

Mr Dallat:

We had the recent announcement about Blue Flag status on the beaches, and I represent an area that covers a fair bit of the coastline. Do you accept that the loss of Blue Flags is absolutely devastating from a tourism point of view? Do you pay particular attention to that situation in your determination to ensure that sewage does not run into the sea and onto the beaches?

Mr MacKenzie:

Yes, we prioritise on that basis.

Mr Dallat:

Presumably, that influences your capital expenditure for the future.

Mr MacKenzie:

Yes, it does.

Mr McGlone:

I will start with some themes that have been touched on by you and by Mr Shannon. Although these could be determined to be individual constituency cases, they are not. I have 16 cases in front of me, and a pattern is emerging. Test meters seem to have been attached to individual properties, usually smallholdings of perhaps a few acres of land, in 2007. A retrospective bill was applied to those properties this year, and I will read some of them. A bill for £710 had to be amended to domestic status because a domestic allowance of 200 cubic metres per annum had not been applied to it and was therefore not deducted from overall consumption. That bill was reduced to zero. Another bill was for £1,200 — it was amended to a domestic bill and reduced to zero. A third was for £583 and was reduced to zero. A fourth was for £655 and was reduced to zero. A fifth was for £1,324 and was reduced to £665. Finally, there was a bill for £1,200 for a property where there was no meter. All of those people have approached me, and quite a significant pattern and problem is arising.

In one case, a pensioner who is receiving pension credit obtained £700 from a credit union to help defray a £1,200 bill and she was at her wits' end as to how she was going to pay the rest of

it. On investigation, it was discovered that she did not have to pay anything because she had been billed wrongly. At this point, I must compliment Mr McClean of your customer services department for his prompt response. Given that there is a very significant pattern emerging in the 16 cases that have come my way, how many people have been subjected to test meters and have wrongly received a hefty bill? In these times, I would rate any bill above £600 as hefty. The 200 cubic metres per annum allowance equates to £560 upwards, plus standing charges. Do you agree that decent people may have received such bills and paid them?

I am concerned, bearing in mind that I have received details of 16 cases, that there may be hundreds or thousands of others, where there have been applicable test meters, in which people automatically paid their bills.

Mr MacKenzie:

I entirely agree that what you have described is not acceptable. The basic problem is data. We believe that a particular meter links to a customer who should be paying, and there are occasions when that person turns out to be a domestic customer. That is not right.

We have billed around 2,000 test meter customers, so the number is not in the hundreds or thousands. I can confirm the exact number. People have been contacting us, because if someone suddenly gets a bill that is backdated to 2007, they will wonder why they have received such a bill. We took a policy decision to maximise our revenue from customers to offset the need for public funding, and in the instances that you mentioned, Mr McGlone, we got it wrong.

Mr McGlone:

I know some of the people concerned quite well, and the meter was very close to their house. It did not take rocket science to know which property was being tested. I have been told of 16 cases; but what about the other approximately 1,900? How many of those are, in fact, people who should have had the domestic allowance applied to them? I would wager money that a number of them are in the same boat as the cases that I have mentioned. That is a big concern for me. You said that 2,000 is an approximate figure, and you will probably want to get a precise figure. I seek assurances from you about what you will do about those more than 1,900 people, who, by and large, are people with smallholdings. What will you do to ensure that there is not a parallel performance in other areas in which meters have been installed?

Mr MacKenzie:

The Consumer Council is working with us on the issue.

Mr McGlone:

That is because I passed the issue to the Consumer Council.

Mr MacKenzie:

I will come back to you individually, or to the Committee, if the Chairman wishes, to explain what we are doing with the Consumer Council to address the issue.

Mr McGlone:

It would be appropriate for that to come through the Committee, because I am sure that other Committee members will have constituents who are affected by the issue.

The Chairperson:

I would appreciate if that information came through the Committee because I am also dealing with some similar cases.

Mr McGlone:

Thank you for that. Paragraph 6.3 of the report brings me back to the point that Mr Mills touched upon. It states that the efficiency of NI Water should not be compared with companies in England and Wales because it is mostly publicly funded and is constrained by public expenditure controls. I want to ask about the consequential theme from that. Is it your conclusion or determination that, because Northern Ireland Water is publicly funded, the efficiencies that were achieved in GB are not possible here?

Mr Priestly:

That is not quite what we are saying. We are saying that, for as long as Northern Ireland Water exists in a public expenditure regime, it does not have the freedoms to bring in money to use to invest. It is subject to the money that the Executive can provide. It does not have the managerial and financial freedoms that it would have if it were a private sector company.

Mr McGlone:

Are you totally and absolutely constrained to the point that you cannot move any further?

Mr Priestly:

No; we have a shared interest with the Utility Regulator and with the company in driving forward efficiencies. As we said at the outset, we have accepted the Utility Regulator's recommendation for 2010-11 on what those efficiencies should be. They are well ahead of the rest of the public sector.

Mr McGlone:

You mentioned the Utility Regulator. Can you describe the relationship between the Department and the Utility Regulator? Forgive my naivety, but I am trying to explore that issue.

Mr Priestly:

I shall certainly try, and I shall hand over to John to provide more detail. The legislation sets up a regime of economic and environmental regulation for Northern Ireland Water. When that legislation was being passed, it was predicated on the assumption that there would be charges. If Northern Ireland Water were generating its income and revenue by charging customers, a pure system of economic regulation could be used, through which the regulator would set efficiency, service and performance targets that Northern Ireland Water had to achieve based on the level of revenue that was generated. That system does not exist; water is still being funded by public subsidy.

Mr McGlone:

That is fine, but I am trying to determine the nature of the relationship between Northern Ireland Water and the Utility Regulator. Is it complementary? Do you see it as productive, useful or positive?

Mr Priestly:

The Department supports economic and environmental regulation of the water industry, so we have to work co-operatively and sensibly together. Inevitably, there will be rubbing points. We have set up a water stakeholders' steering group through which we try to work co-operatively and pragmatically through the current arrangements.

Mr McGlone:

So the relationship is co-operative. Picking up on the penultimate point, paragraph 6.5 outlines

the Utility Regulator's assessment that Northern Ireland Water needs to halve its operating costs to match the efficiencies of those GB companies. Figure 26 shows that that would deliver savings of hundreds of millions of pounds a year. Paragraph 6.5 states that stakeholders agree that there is a significant gap between the operating efficiency of Northern Ireland Water and companies in England and Wales. Do you agree with that?

Mr Priestly:

Of course. We have a shared interest with the Utility Regulator in driving forward operational efficiencies in Northern Ireland Water. For the Department, it is simply a matter of the timescale over which that is likely to be deliverable.

Mr McGlone:

I am not asking whether you agree with the concept; I am asking whether you agree with the figure.

Mr Mills:

Sorry; what figure is that?

Mr McGlone:

The figure of £100 million.

The Chairperson:

It is at figure 26 in the report on page 63.

Mr McGlone:

I pointed it out when I was speaking.

Mr Mills:

Are you asking whether we agree with that graph? We agree with the figures in the graph; yes.

Mr McGlone:

An answer will do, please.

Mr Mills:

We have agreed with the Utility Regulator's recommendation on the efficiency targets that should be applied to Northern Ireland Water for 2010-11. For the two years following that, the Executive have not yet agreed a Budget, and DRD does not know its budget. Therefore, it cannot tell Northern Ireland Water what funding will be available, and we are unable to agree any specific figures. Some 75% of funding comes from public expenditure.

Mr McGlone:

That is because you do not have those figures yet?

Mr Mills:

Yes.

Mr McGlone:

That answers my next question. Paragraph 1.10 of the report states that you have taken account of the Utility Regulator's price determination in setting funding requirements of £1.2 billion. Have you reflected the Utility Regulator's efficiency recommendations in full, or have you included additional funding in that figure?

Mr Mills:

We have accepted the Utility Regulator's recommendation for efficiency in 2010-11.

Mr McGlone:

Have you factored in the second part of my question?

Mr Mills:

Sorry; what was the second part of your question?

Mr McGlone:

Have you reflected the Regulator's efficiency recommendations in full, or have you included additional funding in that figure?

Mr Mills:

We have reflected the Regulator's efficiency recommendations.

Mr McGlone:

In full?

Mr Mills:

Yes; we have reflected them in full for 2010-11. The determination covers three years, so it does not cover 2011-12 and 2012-13, but we have agreed them for 2010-11.

The Chairperson:

Thank you very much. We will now ask you to vacate the table because we are bringing forward representatives of the Utility Regulator. There is a possibility that we may ask you back to the table.

Mr Osborne and Mrs Aston, you are very welcome to the meeting. I am going to go straight to members' questions.

Mr McLaughlin:

You are very welcome. I wanted to follow in the direction of the previous questions. From your perspective as the Utility Regulator, the Comptroller and Auditor General's report reflects, in paragraphs 1.6, 1.10, 1.16 and 6.4, that the Department has queried the status of economic regulation. We have just heard some comment on that in the absence of domestic charging. Can you explain how you see your role in the current situation whereby the majority of funding comes through the public expenditure system?

Mr Iain Osborne (Northern Ireland Authority for Utility Regulation):

Certainly. Before I begin, would it be possible to have some tap water? I notice that there is only bottled water, and I would rather have some tap water.

The Chairperson:

Yes; we can get that for you.

Mr Osborne:

We are dealing with a major industry in Northern Ireland that has many problems that developed over a long time. One has to ask what it was about the pre-2007 arrangements that enabled those

problems to develop.

Part of the reason is underfunding. If the capital funding was not put in, the network cannot do what it should. However, to have got to a point where the operating costs are double what they need to be, customer service is not what it should be, and the company does not have the basic data that it needs to know what to do next, is not about underfunding — that is about a lack of accountability. It is common sense that if you want a fair measurement done, you do not have it done by a party has an interest in a particular outcome.

The key thing that changed in 2007 was the creation of arm's-length independent regulation. What does regulation mean? First of all, it means transparency. We measure a lot of things. However, we do not just measure them and keep them to ourselves; we publish a great deal, and we consult about what we are going to do before we do it. Secondly, regulation means accountability. We do not have a vested interest in whether the company looks good or bad. We exist for customers. Therefore, if the outcome is good, we will congratulate the company, but if it is bad, we will say that it needs to improve.

Those things are of value, whatever the corporate structure and whoever is paying the bill. We have seen in Northern Ireland and other sectors, and in the water sector across the rest of the UK, that, when those conditions are in place, you set up a virtuous circle of improvement. We are only three years in, and the point that one cannot complain that a body has not achieved in three years what others have achieved in 20 is perfectly reasonable. It is like criticising a three-year-old for not being able to what a 20-year-old can do. However, we need to do the measurement, because you want the three-year-old to grow to the stature of the 20-year-old, and as quickly as possible.

Independent regulation, by being transparent, broadens the terms of the debate. We make it easier to say not what we, as a small number of people huddled around a table in Northern Ireland, think we should do next but that we should look around. What have other people done in other places, and how quickly can we move forward?

The companies that went into regulation in England in the early 1990s had to invent a lot of wheels. They were at the forefront at that time. We do not have to invent the wheels here; all we have to do is steal other people's ideas. We saw in Scotland that, because a lot of the basics of

how water companies should be run are well understood, Scottish Water went up the curve tremendously quickly: much quicker than the English and Welsh companies.

That is the sort of step change that is possible now, and the advent of the independence, transparency and accountability that we have had since 2007 has enabled that. It is very much as Mr Priestly said: we would not expect to agree on everything with the Department, which is, of course, the shareholder as well as the policy team. However, that is the kick-about on the pitch. That does not mean that we disagree about where the boundaries are.

Mr McLaughlin:

The report, maybe more than we would normally experience, reflects the predictable tension with regard to your regulatory function. In this case, the water company appears to indicate that there are unresolved issues. Are you confident that, until the status quo changes, the same level of creative tension that we see in other areas of regulation can, in fact, be brought to that?

Mr Osborne:

Yes, I am. Regulation is not a single thing. I talked about the principles; however, my office regulates gas and electricity, and we do different things in those sectors to reflect the circumstances. In water, there is some quite creative work going on around how to regulate a company that is publicly funded. Some aspects of that are novel, but obvious. In light of the Budget, we clearly need a system that is capable of flexing if there were, for example, major cuts in capital. We have experienced underfunding in the past and I hope that we will not see that again. However, we clearly need to be able to deal with those issues.

The non-departmental public body status of Northern Ireland Water means that it does not have financial flexibility from one year to the next. In the context of a privately owned company, such as NIE, if there are bumps in the road in a particular year, very frequently, the shareholder is expected to soak it up and, in exchange, is allowed to make a profit in the good years. That cannot be done with a publicly owned company. Therefore, the framework needs to operate a bit differently. Having a framework that runs over a number of years is fundamental for an asset-intensive business. Such a business cannot, for example, conduct an efficient asset strategy unless it can commit to the outsourcing partners that it expects to do the civil engineering work that will be needed the next year and the year after that. In signing a contract with civil engineers, such companies are expecting them to go out and hire people and make financial

commitments on their part. Therefore, if we want them to come to us with an attractive offer, we have to be able to offer them some certainty.

The multi-year aspect is clearly important and, on planning, other aspects of the business are equally important. Working co-operatively with the Department — “co-operatively” is an important word this afternoon — we are trying to figure out how to maintain a clear trajectory of efficiencies. We have made it absolutely clear that the company operating costs in particular are much too high, but that there is also substantial scope for capital efficiency. We expect the company to go down that efficiency trajectory. The Department, in the budget and targets that it has given the company this year, signed up to that trajectory, which was very welcome.

This year is easy, because we know that the unknown nasties have not happened. However, those might happen next year and, therefore, we have accepted, as a regulator, that there is a need to annually review the unknown nasties, such as major risks popping out of the woodwork or cuts to the capital budget. If that happens, we will have to adjust the financial envelope to deliver year 2 of the trajectory, plus or minus the risks that have or have not emerged.

That is innovative. It is not the way in which we regulate other sectors and it is not the way in which other UK regulators operate. Personally, I think that it is an interesting and important piece of work, because it perhaps casts light on how we could work with other parts of the public sector to drive an efficiency agenda. However, we will try to work it out for water first.

Mr McLaughlin:

Have the objections and disagreements around the parameters of your role had an inhibitive effect?

Mr Osborne:

It has meant that things have taken longer. However, trying to do something innovative does take longer.

Mr McLaughlin:

We have had some discussion on the price control regime. Can you give us the Utility Regulator’s perspective on that process?

Mr Osborne:

A lot of what I said is relevant to the philosophy behind the price control determination that we made. Whenever people carry out a price control exercise, there is always a great deal of discussion about whether what they are doing is reasonable. I am happy to talk about that if you are interested. The key point is that, when we got to the end of the process, the company did not feel that it was able to accept the control. That happened not because it felt that the targets were unachievable or that not enough funding had been provided but because of the framework issues that are associated with being a regulated, public expenditure-funded company. However, the company is not entirely funded from public expenditure; we must not forget that 28% of its revenue comes from businesses. However, that has meant that we have not yet had the control accepted.

Through our co-operative work with the Department and the company, it is clear that we will somehow have to recast the determination to allow that annual process. I also expect the regulator's role in laying out the efficiency trajectories and service trajectories — plus or minus the bumps in the road that I described — to be recognised as the way that we will work for the period when the company will operate as a non-departmental public body (NDPB).

Mr McLaughlin:

What can we do about the impact that that will have on the budget-setting process and departmental allocations? It seems to have protracted the process.

Mr Osborne:

In the first instance, that is between DRD and the Department of Finance and Personnel (DFP).

Mr McLaughlin:

Is there a regulator view on what we can do about that? I understand that you cannot say too much.

Mr Osborne:

We are outside the Executive, are accountable to the Assembly and are a resource for Northern Ireland society as a whole. We do not work in secret. We make our views known, and the published determination contains a wealth of information about what the company is capable of delivering. That is a resource for all the people who are involved in the discussions.

Our role relates to the people who pay bills. As we discussed earlier, those people are members' constituents. We have a role to play in ensuring that they pay only according to what we have been laid out in the determination as being necessary. If next year is a bit different because the capital budget has been scaled back, for example, we will have a role to play in making sure that the scaling back benefits everybody equally and that, if the public purse is paying for fewer capital works, businesses are not unfairly expected to carry that. Our role is locked in by our approval of the company's scheme of charges. We give that in advance of each funding year. If we go into next year on a hybrid basis, we must do that by the end of March next year to ensure that next year's business bills are properly cost orientated.

Mr McLaughlin:

The subsidy is agreed at Executive level, and businesses contribute and ordinary ratepayers make a contribution through the rates system. Does the regulator take that into account?

Mr Osborne:

That is very much on the Executive side of the bargain, and we do not have any particular expertise on that. I know that the Hillyard panel analysed the proportion of the rates that should be attached to water. However, that is very much for the Department and the Executive.

Mr McLaughlin:

Given that an element of your remit relates to the consumer interest, there may be a general perception that, at a domestic level, people are not contributors and, therefore, do not have consumer stakeholder interest. I think that they do. Has the regulator considered that, or should it consider that?

Mr Osborne:

Our statutory duty is to consumers as consumers of the service. That is a very wide remit. We have talked about the quality and the customer service issues, and people have an interest, regardless of whether they pay a bill. Although an organisation can have a statutory duty, it is a bit of a moot point if it does not have any financial functions. Our financial functions are about approving the scheme of charges and determining the trajectory of business bills.

Mrs Jo Aston (Northern Ireland Authority for Utility Regulation):

Where price control is concerned, we seek the views of and work with the Consumer Council and, indeed, the company, to ensure that there is consultation and that the views of the general consumer are considered and taken on board. That feeds into the Minister's and Department's social and environmental guidance, which the Executive have also signed off on. Having the consumer voice heard in the process and in investment decisions is very much part of our process and its openness.

Mr McLaughlin:

Thank you. I will just move on to the recurring issue of benchmarking and comparisons with investment in other parts of Britain. It is common sense; the investment profile in Britain over a longer period of time has had beneficial impacts on service delivery in those regions. How do levels of investment in NI Water compare? Do you consider that we get value for money from that investment?

Mr Osborne:

I echo a lot of what the previous witnesses said. You have to caveat anything that you say by explaining that, if the population is more dispersed, you have to expect to spend more capital to deliver water to them. That is permanently true — it will be true for ever. There was a backlog for each household, and that has been caught up.

We have a lower quality of service. That is driven by the population distribution to some extent, but we also think that the efficiency of capital spend could be significantly better. In the determination that we published in February, we set targets to improve that efficiency quite quickly.

Mr McLaughlin:

If the issue of benchmarking was not a conflict, it must have come very close to being one. Has that been resolved, or how will it be resolved?

Mr Osborne:

You need to understand why you are benchmarking. If people want to use a comparison methodology that they can beat Northern Ireland Water over the head with and say that the company should be better, there are all sorts of ways that that can be done. That is not why we

benchmark; that reason does not interest me much. We benchmark to try to find out how much better overall an activity or the company could be, and then, bit by bit, we try to ascertain what “better” would look like.

Benchmarking is partly a question of relatively high-level comparisons of data, but it is also enormously powerful. If the gap in a particular aspect of running the company is x, benchmarking tells you who the best companies are so that you can look at what they are doing. You then figure out how you can adopt that company’s procedures. Therefore, benchmarking is a methodology that will enable NIW to fundamentally bootstrap itself. However, I am getting beyond a discussion of the regulatory role. The point is to consider how regulation meshes into the improvement process in the company.

We view benchmarking in two main ways. The first is the way that we have compared operating costs (opex) by very much using Ofwat data, and the second relates to the way that we have compared service quality. There has been debate, particularly on the latter, which is the so-called overall performance assessment. Our view on OPA is that it does, helpfully, reveal and boil down the scale of the gap to something that is relatively simple and manageable.

We spent some time thinking about whether we should develop a Northern Ireland-specific way of measuring where we stand. We ended up feeling that that was not worthwhile, chiefly because there is a danger that, if someone develops a specific methodology, people start spending a lot of time arguing about how to take the measurement, rather than focusing on what is being measured and trying to improve it. There is also the suspicion that you have arranged the methodology to produce a particular result. Using a widely accepted methodology means that there is a great deal less argument about it.

We expect the company to make very substantial improvements during the three years that are covered in last February’s determination. That is one of the themes we have heard about this afternoon. Things are far from perfect in the garden, but we now have a framework that is delivering steady improvement, and there is an opportunity for substantial improvement to be made in service standards in the next three years. However, we will still not be where we need to be on either OPA or operating costs. It will take at least another five years before we get the company towards the frontier of performance. However, we will get there, as long as we stick to the trajectory that has been mapped out in the February determination.

Mr McLaughlin:

I want to establish whether benchmarking against the most cost-efficient delivery in comparable regions, within reason, is the measure that is being used, despite the disagreements that have emerged.

Mr Osborne:

I will tell you more about the work that we are doing in co-operation with the Department on how the annual review process will work. That work is not about what benchmarking methodology we would use or about unpicking the determination to see whether we could benchmark differently. Frankly, that is not a conversation that we would be willing to have. We are working with the Department to determine the risks that are likely to come up from one year to the next, for example, and to ascertain how we would deal with a cut in the PE envelope or with acts of God, such as a big flood or a major public health issue. We are looking at things that might come along and knock the company's economics for six. Indeed, such things happen in the best-run companies. We then look at additional pressures, such as a new law or something.

We are in a discussion that is consistent with the overall schematic that the trajectory has laid out. We then have an annual review to identify a delta that has resulted from that. We have not, as yet, agreed it all. Therefore, I cannot tell you that it is settled. However, it is a good conversation to be having, and it is what you should expect us and the Department to be doing. We are doing something innovative, in that we are trying to regulate in a PE context. People are working collaboratively to make it work.

Mr McLaughlin:

I will leave it at that, but I will come back to Mr Priestly later, if I have the opportunity to do so.

The Chairperson:

Are there any other questions?

Mr Dallat:

I have listened to what Iain said. However, we have had this new and baby water company for three years, so surely it should, at least, be walking and toilet trained.

Mr Osborne:

That is a good metaphor.

Mr Dallat:

I was just continuing with your analogy.

Mr Osborne:

Absolutely. One sometimes hears loose talk about a Third World water system. We have a water system that is delivering high-quality, safe water for everybody. It is also, on the whole, clearing up the mess from a whole society. It is not as good as it should be, but it is operating reasonably well. We came in in 2007 in a context where the company had not been expected to run its operations very effectively. I can give you dozens of examples. If one does not know the location of the houses that get sewage coming through their front doors, one does not know what engineering work is needed. Therefore, it takes a chunk of time to go through thousands and thousands of records to work out the patterns and translate that into a pattern of engineering. The same applies to combined sewer overflows, water pressure and a whole range of other matters. That all has to be done in the context of the company's having to deliver a very large capital programme. Would we want it to be better today? Yes, of course; who would not want it to be better? Are we on the right trajectory? Yes, we are.

Mr Dallat:

Therefore, in five years, you could really get down to business and have proper benchmarking and the public would know that they were getting value for money and we would not need to have the history talk all the time.

Mr Osborne:

We can benchmark with quite simple data. For example, we have the data to benchmark robustly on the operating costs. The key data gaps are those that require knowledge of what exact interventions are needed in the network, such as what has to be built and fixed to produce changes in customer service. That will improve progressively. The next two-and-a-half years is a key period, because we have set the company a major task that is to be achieved by the time of the next big price control review.

Ms Purvis:

Next week, the Committee will consider governance issues in Northern Ireland Water, and I have some questions to ask about that subject. According to the consolidated licence, the regulator has to receive a copy of Northern Ireland Water's procurement plan. Did you receive and sign off on a copy of that procurement plan?

Mr Osborne:

We did indeed.

Ms Purvis:

Have you received revised and updated procurement plans?

Mr Osborne:

I will hand over to Jo in a minute to explain some of the detail about what we are doing in response to some of the company's procurement difficulties. However, I will make one introductory remark about our role. We do not check that the company is complying with all its legal obligations. We do not carry out health and safety checks; that is done by the Health and Safety Executive. We do not deal with issues to do with environmental law; the Northern Ireland Environment Agency (NIEA) does that. Similarly, we do not enforce issues that are to do with the Companies Act 2006, because those are essentially for the shareholder.

If we were to get involved in governance, it would be specifically because we thought that a failure in governance was likely to lead directly to a failure in performance. For example, almost two years ago, when we identified that the company's information on governance was particularly poor, we went in quite hard and used formal enforcement powers. Jo can talk about the wider procurement issues.

Ms Purvis:

I do not want to discuss the wider issues; I want to ask you about the terms of the licence. You have a copy of the procurement plan. Have you received revised and updated procurement plans since you got the initial procurement plan?

Mrs Aston:

Yes, Northern Ireland Water has fulfilled its regulatory obligations.

Ms Purvis:

Have you received written reports on procurement activities?

Mrs Aston:

Yes, we have received everything from the company that we are required to on the procurement plan. However, the procurement plan in the licence fulfils a different purpose to the procurement review and the governance issues, which the PAC will discuss next week. The procurement plan has a much more forward looking view at procurement issues.

Ms Purvis:

I am trying to clarify that you received the initial procurement plan and an updated procurement plan.

Mrs Aston:

Another procurement plan is due in September 2010.

Ms Purvis:

Have the revised and updated procurement plans that you received had a full schedule of the number and content of the contracts that have been let or the activities that have been brought in-house?

Mrs Aston:

If that is a stated requirement, yes. I need to check the full detail of the report, but, yes, the full regulatory requirements of the licence have been fulfilled in those reports.

Ms Purvis:

Have you come across any case in Great Britain where the head of a regulated utility body has been part of a team that has conducted a review of an area in another regulated utility?

Mr Osborne:

The nature of the review that DRD commissioned recently is quite unusual, because DRD's status is quite unusual. I shall broaden the focus of my answer and say that, in general, it is usual for a shareholder to call in some help from serving or, frequently, recently retired, senior utility figures

to improve the company. You need someone who knows what a well-run company looks like. That does not seem to me to be unusual.

Ms Purvis:

That was not what I asked.

Mr Osborne:

To answer your question literally, I would have to say that the recent review was sui generis; it was unique. Therefore, there is no comparison to be made.

Ms Purvis:

Have you never come across such a case?

Mr Osborne:

As I said, this is the only one of its kind, so a comparison cannot be made. Northern Ireland Water's status is unique.

Mr McGlone:

I found that to be quite a diplomatic answer, but the Committee will come to those issues in more detail next week.

Mr Osborne, you discussed aspects of benchmarking, and I know that you have extensive knowledge of it. Given your unique experiences and that you now have taken NI Water under your wing, can you say that the company could have undertaken benchmarking exercises that are similar to those that have been done in other utilities in other areas, yet they remain to be done?

Mr Osborne:

Undoubtedly.

Mr McGlone:

Will you provide the Committee with some examples?

Mr Osborne:

I described how powerful benchmarking is as a methodology. Very few comparisons were done

with other places until some time in the past few years, because the former Water Service was quite an inward-looking organisation. It may be unfair of me to say that, as I was not really involved then. To some extent, the company has management plans on how it will deliver efficiencies, but those are clear only over the first two years. Perhaps that question should be put to Mr MacKenzie.

To get the company to where it needs to be, which is up with the best in the country, much more needs to be done so that it can be shown that certain activities cost too much, do not produce a good enough service, or both. A lot also needs to be done to find out and examine how the best people operate. Indeed, that will be an increasingly important part of how the company figures out the increasingly challenging efficiencies that we expect it to find over not just the one or two years but a number of years.

Mr McGlone:

Coming back to my question, can you provide specific examples of areas of benchmarking that you know are being carried out in other places and that could be done by Northern Ireland Water?

Mr Osborne:

The outputs of a particular activity, such as water treatment in different parts of a company could be compared, and it could be established whether that costs more in one area than in another. Indeed, the company has the advantage of including a public-private partnership operation, which means that it can establish how another company has performed in a Northern Ireland context and whether it costs more to perform activities in different areas.

If the company feels that it has exhausted that area of benchmarking, it can then look externally at an organisation such as Yorkshire Water, which appears to be at the frontier of providing clean water.

Mr Osborne:

The company can then establish what Yorkshire Water is doing that it is not.

Mr McGlone:

That is my point.

Mr Osborne:

I would certainly expect that. However, anyone who runs a substantial activity understands that it takes time to make those changes. Those changes sometimes mean building big stuff, but they also involve persuading, training or recruiting people. It also can mean moving people around so that they behave differently, sometimes substantially differently, over time. If you were to talk to those working in the water or gas sector in GB and ask them how things have changed since they were apprentices, they will tell you that their jobs have changed massively. It takes time to bring human beings along, as well as to make the physical changes that are needed to achieve that.

Mr McGlone:

I need to get complete clarity in my own mind. You gave an example of benchmarking, but, to the best of your knowledge, is that not being done in NI Water?

Mr Osborne:

To the best of my knowledge, no.

Mrs Aston:

I used to work for Northern Ireland Water, and I am absolutely sure that it is looking at and learning from how other companies benchmark. I am sure that if you asked Laurence about that, he would say the same. Another big factor that will assist Northern Ireland Water greatly over the next period of time is the building up of its information systems and data, through which it will have information to interpret and will be able to, perhaps, target expenditure and deploy its workforce much more effectively to get the return of an efficient service and value for money from its investment. That is one of our great challenges to the company for the next period of time.

Therefore, it is not all about benchmarking. Our point of view is that benchmarking acts like the absence of competition. It gears companies, shows them how other companies work to a reasonable standard and level of efficiency and tells them that they had better be as efficient. The company must then start to look internally and work out how to get to that point. The building up of systems and information is critical.

George said earlier that he would have liked more money for mains rehabilitation. We did not support an increased spend on mains rehabilitation because no robust business plan was put in

front of us that linked asset failures to improvements and to where the money needs to be spent. We need to identify the failures and problems in the assets and link cost to where they need to put the investment. That is the sort of shift that we are looking for before the next price control process, and I have no doubt that the company is focused on that and is making progress in many areas.

The Chairperson:

Iain and Jo, thank you very much. I invite the departmental officials back to the Table.

Ms Purvis:

There seems to be an anomaly in the legislative framework in that DRD and the Minister do not have statutory powers to set targets for Northern Ireland Water. However, since it was reclassified as a non-departmental public body, the Minister and the Department can now set targets for Northern Ireland Water. Is that correct?

Mr Priestly:

Under the legislation, the Minister has the function of agreeing social and economic guidance and getting the Executive and the Assembly to approve it. It sets the targets, the high-level framework and the direction in which we want Northern Ireland Water to go.

Mr Mills:

The legislation that governs NIW is for a regulated utility. Therefore, for a non-departmental public body such as, for example, the Police Service, the Minister would normally have had to set and monitor specific objectives and targets. That does not happen with the Department. You are right; the Department does not have the normal legislative set-up for an NDBP. As Paul said, the Minister can issue guidance that gives a strong direction. However, the regulator should set the detailed targets.

Mr Priestly:

We are trying to operate a system that was designed for a specific environment. However, that environment no longer exists. Economic and environmental regulation was designed for a utility that gathers its income from charges. That is absolutely right; let us not make any bones about it. The legislative regime that is in place is designed for that.

The fact that we do not have that regime means that we have to be pragmatic and continue to work our

way through it, with all its complications.

Ms Purvis:

I understand that, but I wonder how you view the Utility Regulator's role. Is it a case of picking out parts of the Utility Regulator's role that we like, and leaving the rest? It seems to me that there is a clear role for an independent regulator that can set targeted efficiencies, but there appears to be uncertainty around the rest of the role. Can you clarify where you see the role of the Utility Regulator, particularly with regard to securing efficiencies and setting price controls?

Mr Priestly:

I will go back over the points that I made earlier. Our policy is to support economic and environmental regulation of the water industry. That means that we support the role of the Utility Regulator. We have a shared interest in making Northern Ireland Water as efficient as it can be in the interests of the consumers of water in Northern Ireland. We support the idea of a regulator that sets stretching efficiency and performance targets for Northern Ireland Water. We rub up against each other at the point where we do not know what our budget will be beyond the three-year period that ends this year. We cannot sign up to a determination that lasts three years. The Minister cannot tell Laurence to sign up to that determination, because there is no guarantee that we will be able to give Laurence the funding that he needs to deliver the performance standards and the efficiency challenge that Iain has set. We are trying to be pragmatic and to work through that in a co-operative way. That does not mean that we do not support the role of economic regulation.

Ms Purvis:

I see a very difficult working environment for a company that was set up to do a job, but is now being dragged back and prevented from doing it. The work of the Utility Regulator, which was set up to regulate what should have been a Government-owned company, is now being hampered because of the reclassification. I am not making a judgment about the reclassification, because my views on the privatisation of water are widely known.

You said earlier that you disagreed, or were not content with, the Comptroller and Auditor General's report on benchmarking. You have conflicted with the Utility Regulator on the issue of benchmarking, and you said that Scottish Water would be a fair benchmark for Northern Ireland. The Water Industry Commission for Scotland (WICS), which is the regulator in Scotland, uses

overall performance assessment (OPA) targets. However, you have not signed up to those either.

The Assembly has a scrutiny role that allows the public to see how Northern Ireland Water is performing, set against how it performed previously. In comparison with other companies that have been set up, surely it is in the interests of openness, transparency and accountability to have benchmarking. However, as Laurence or George said earlier, if the same data or benchmarking is not used, it presents a misleading view of performance. Why not step up to the mark straight away and use the same model — Scottish Water is a fair benchmark — to enable those performance indicators to be in place so that people can compare like with like?

Mr Priestly:

I welcome the opportunity to come back on that. There is not a million miles between us. In Iain's evidence to the hearing, he said that the Utility Regulator does not use benchmarking to clobber Northern Ireland Water. That is not the intention. It uses benchmarking to identify the gap between where Northern Ireland Water is and where it needs to get to. Laurence also set out a number of companies in Great Britain against which Northern Ireland Water benchmarks itself exactly for the purpose of evaluating why we are so far off the mark if those companies deliver the service for that price and to that standard. No one could have any difficulty with that.

The difficulty that we have with the OPA as it was used in the NIAO report is that it does not compare like with like. It does not take account of where Northern Ireland Water is. Taking a specific example — I will hand over to John for the detail — there have been very significant improvements in drinking water quality in Northern Ireland. The Utility Regulator and we have said that, and I think that the Northern Ireland Audit Office acknowledged it. I cannot remember the detailed scores in the OPA.

Mr Mills:

Using the OPA methodology, which attaches an overall score of about 300, and the maximum score for water quality is 50, English companies, on average, score 46 out of 50 and Northern Ireland water scores five out of 50. The differences between Northern Ireland Water and the average English company's performance are really quite marginal. The OPA exaggerates those immensely to give Northern Ireland Water a completely damning assessment.

If we followed that methodology and based investment decisions on it, we should say to

ourselves that we should pour money into drinking water quality. However, that is not reality: we know that the sewerage needs more catch-up than the drinking water. The drinking water is nearly there. The methodology was designed to measure marginal differences among various similar English companies, so Northern Ireland Water ends up with a perversely low score. It gives Northern Ireland Water a better score in areas like unplanned interruptions to supply. One would think that not as much investment were needed in that area, but we know that, in reality, Northern Ireland Water is not as good on unplanned interruptions as it is on drinking water quality. We are all for benchmarking and rigorous methodologies, but not when they produce results that are contrary to common sense.

Ms Purvis:

In the report, the Utility Regulator explained very clearly why there was a low score for water quality, and I agree with the statement:

“A major advantage of the OPA score is that it provides a single easily understood measure of how NI Water is performing against a wide range of targets”.

You said that you benchmark against other companies, and Laurence has listed them, but is it selective benchmarking? Is it looking at a company that is similar to you in one particular area, such as Yorkshire Water, taking that benchmark and comparing it to you, and then taking another from a different company and comparing it to another area? Why not have an OPA range that people can compare? I acknowledge and accept absolutely that Northern Ireland Water’s performance has improved in very difficult circumstances. However, as regards the Assembly’s scrutiny and the ability of the public to see, and others to measure, how Northern Ireland Water’s performance improves over time, why is there an issue around the difference in benchmarking?

Mr Priestly:

We just do not think that you are comparing like with like. Those companies have had 20 years of economic regulation. They operate in a different context: they bring in revenue through charges and can go to the market and borrow money to invest to improve things. Northern Ireland Water is not like that. It would be helpful if Laurence said something about the companies against which he benchmarks and disproves the idea that he chooses —

The Chairperson:

Has there been any comparison, for example, of when Scottish Water was three years old to what it is like now?

Mr Mills:

Yes, in around 2002 or 2003, we looked at the performance of Scottish Water when it was in a similar position to Northern Ireland Water. Under the methodology that is used in OPA, it had a similar score to the score that Northern Ireland Water has now. The position of Scottish Water five years ago is a much more reasonable comparison with Northern Ireland Water now. A comparison between Scottish Water then and Northern Ireland Water now would show that Northern Ireland Water is doing well by comparison on water quality. Northern Ireland Water is worse now on interruptions to supply that Scottish Water was about five or six years ago, so that indicates that we need to look at that, whereas we do not need to put much investment into water quality because we are already way ahead of where Scottish Water was.

Scottish Water seems a more realistic benchmark than Yorkshire Water or the average English company, which receive much more investment and continue to make investment. There is a catch-up issue: the English settlement for 2010-15 has just allocated £25 billion of investment. English companies are not standing still, so it is difficult for us to use them as a benchmark. The position of Scottish Water five years ago appears to be a much more realistic and informative way of benchmarking. A common methodology is used everywhere. For example, water quality everywhere is measured by mean zonal compliance, so, in effect, benchmarking takes place in that area.

The Chairperson:

It would be useful to the Committee if the comparisons could be sent to us.

Ms Purvis:

I know that comparing Northern Ireland Water with companies in England and Wales is comparing apples with oranges. Those companies have had more time to develop their performance and so on. In the NIAO report, the Utility Regulator states:

“OPA targets set for the regulatory price control take account of historical performance and reflect the level of investment available to NI Water over the price control period. Adopting this approach, which is consistent with both WICS and OFWAT, facilitates the setting of appropriate targets for NI Water as well as robust comparisons. It challenges the company to outperform its targets in striving to reach higher industry performance standards.”

If the company does not take that approach already, it should strive to introduce and implement it. I accept where you are coming from, but the governance issues and how Northern Ireland Water does the job that it was set up to do could be looked at.

Mr Priestly:

Perhaps I can resolve that point. The Utility Regulator is independent, and I have little doubt that it will continue to use the OPA. We continue to say that the context should be taken into account.

Ms Purvis:

As Jo explained in the previous session, the difficulty is that, if you are not collecting data to measure a particular target or indicator, at the time of the next business plan, the Utility Regulator will not have been presented with a business case because no data or information had been collected. That will not work because the Utility Regulator will say that there is no business plan because you have not collected the proper data and, therefore, it is not directing resources at that.

Mr MacKenzie:

We need to watch the word “benchmarking” and consider what it means. This year, I am faced with having to reduce operating costs effectively by £12.6 million. That is at a granular level. I am sitting with that target and wondering how to hit that reduction in costs. We are doing basic things such as moving out of city centre offices in Belfast and relocating to an office that we own in north Belfast. By doing that, we will save over £1 million in rent. Efficiency is, first, about innovation; it is about the management of the organisation asking how it can do things better. It is about reducing the number of mobile phones and vehicles that we have. It inevitably means having fewer people in the organisation. That is a benchmark with yourself, if you like.

If there is any level at which there is a particular problem, such as a billing or a complaints issue, one could look at the best company that can be found, and ask how come Yorkshire Water’s level of complaints is so low and what is it doing in its customer contact centre that is different from ours? We can look at that company’s processes and try to learn from what it is doing. I call it “stealing with pride”; we take that back and try to apply it to our organisation.

There is a different kind of benchmarking, which is the benchmarking that the Utility Regulator does. The Utility Regulator does not lift the lid on the company, look at our processes and say that we should do this process or that process better. The Utility Regulator knows that that is our job; that is what we are paid to do. The Utility Regulator benchmarks us at a very high level on our overall operating and capital costs against other companies. That is how economic regulation works.

There is a fourth kind of benchmarking, which is like a slightly contrived OPA, in which we are set particular targets through the environmental and social guidelines. We try to hit those targets, and because we hit the targets, which are not the same as those in England and Wales, we end up with a relatively low score. I was interested to hear Mr Osborne, because he has chosen to use the England and Wales OPA. Scottish Water is regulated by WICS, which decided to use a different OPA that is felt was more appropriate for the situation in Scotland. That is how I think benchmarking works. There is high-level stuff; there is benchmarking that looks at processes used by other companies; and there is what I call benchmarking with ourselves, which involves asking ourselves what it is that we can do better.

The Chairperson:

Anything further, Dawn?

Ms Purvis:

We are going nowhere.

Mr McLaughlin:

I want to return to this topic. At this stage, you probably have a very clear idea of the Committee's thinking on this issue. For me, the issue that the Executive and the Department have to address is the question of subsidy. That requires specific calculations. How do we know how much the Executive should set aside to continue their present policy, if, in fact, they cannot set that against the benchmark of the most cost-effective utility in another region, which is setting a benchmark that we should at least aim at? That allows you, not so much to temporise, but to take account of the consequences of the historical underinvestment and the time required to repair or to upgrade systems.

I acknowledge that there have been improved consequences as a result of the investment and the efforts that have been made over the past number of years. However, we are all, including Executive Ministers, dealing with the danger that, if we use the type of benchmark that you suggest, we will get, at best, a distorted and possibly a misleading figure for the sum that has to be allocated. Should we not be measuring that against —

Mr Priestly:

Could we try to separate the two matters? The term “benchmarking” is getting us into difficulties.

Mr McLaughlin:

Well, give us another word.

Mr Priestly:

I would put it as the targets that are set for the company. Over the past decade, the targets have probably been predicated on keeping us out of trouble with Europe and avoiding EU infraction. That is the reason why such a huge investment has had to go into water. If we end up being infringed by the European court, it will cost us even more. That is separate from benchmarking. We have no difficulty with benchmarking if it is to measure how well Northern Ireland Water is doing. However, that has to be done in a reasonable, balanced and fair way that asks how a company, at a stage of transition, would be expected to be doing, rather than benchmarking against companies that are at the forefront.

Mr McLaughlin:

With respect, I am not sure that I accept that. The reason why other utilities are not in danger of infraction is that they have achieved certain levels of performance, efficiency and quality. It is absolutely appropriate that you prioritise where you must supply your limited resources to avoid further cost, and avoiding infraction is a legitimate goal to set. However, there is an overall picture in which, because of different circumstances, resource issues and the timelines involved, certain utilities are outperforming this utility. You can set out rational explanations for that. However, I am trying to get to whether we should have a rigorously clear-headed view that, if someone can produce and treat water at a quality and for a certain unit cost, that provides an absolutely perfect comparator for us. We can explain why the gaps exist and take responsibility for those gaps without taking the blame. That is what this circular argument is about. Let us aim to do at least as well as the best performer that we can find.

Mr Priestly:

We have tried to give you assurances that that is being done.

Mr McLaughlin:

You are not assuring me.

Mr MacKenzie:

That is what the price control intends to do. The Utility Regulator has set efficiency targets based on benchmarking against companies in England and Wales.

Mr McLaughlin:

However, you are in dispute about that.

Mr Priestly:

No; we have accepted it for year 1.

Mr McLaughlin:

You have a most novel way of saying that you have accepted something, because it does not sound as though you have.

Mr Priestly:

Northern Ireland Water also goes out and looks at those companies at the forefront that are doing the very best. It then compares its performance, at a detailed level, against those companies to see what they do that we can learn from. Then, as Laurence said, he, without embarrassment, steals those ideas.

Mr McLaughlin:

Would it not help in your engagement, through your Minister, with other Executive Ministers such as the Finance Minister, to be able to cite those exemplary examples to show what you have to achieve? That cannot be done through one year's investment and it cannot be done over a three-year price control period. It will take longer than that. However, those are goals that can be set that take account of the economic and resource realities and of where we are starting from. However, you have to be very clear about where you are going.

Mr Priestly:

I honestly do not think that there is much between us. That is, in practice, what we are doing with Iain. As we cannot give Laurence a guarantee of his budget, we are trying to work through it

annually. That is what we are doing.

The Chairperson:

There is an issue about whether you are answering correctly or not. However, we could be here all night. I want to get to the truth of the matter. Therefore, I ask Mr Osborne to come back in with any thoughts that he may have at this stage.

Mr Osborne:

We are entitled not to agree with each other. Whose job is it to do what? It is our job to say how much money we think the company needs to be able to deliver the standards that the social and environmental guidance sets out. We do that in a very detailed way. The discussion about OPAs is slightly surreal, because we do not use OPAs to build targets. We build targets in a very detailed way around the engineering interventions that will be required to get particular outcomes. OPA is not the icing on the cake; it is the cherry on the icing on the cake. OPA is a very simple way of flagging how things are going. In Northern Ireland, no money is attached to that. Incidentally, Welsh Water pays its management team on the basis of whether it hits OPA targets, but that is another matter.

I wanted to intervene in order to encourage the Committee not to obsess about the OPA. The point is that we must work out whose job it is to set the service standard that should be delivered according to the social and environmental guidance. It is then up to the Utility Regulator to set out the amount of money that is required to meet that standard and the efficiencies that must be hit in order to deliver the targets with the money that is available, as well as to determine whether we are measuring effectively in comparison with other places.

We are using and will continue to use the OPA. The Department is entitled not to agree with us, but it is not its job to decide whether or not we use it. Nevertheless, it is entitled to its view about how that should be interpreted. The Committee needs to have confidence that the OPA works as a process. Ms Purvis asked this key question: is there a risk of certain data not being collected, because the Department takes a different view from us, and, consequently, will no data be available the next time round to set the targets? The answer is no. We will make sure that the data are collected on the things that we will need in order to set the targets.

Even during the first price control process, which was a relatively truncated one, we gave the

company a requirement statement early that fed into a data submission. That was a slightly scrambled process, because we were doing it in a shorter time frame. However, there will be plenty of time this time around to ensure that the company has got and is collecting the data that will be needed the next time. I think that that will work.

Mr McLaughlin:

I wish to move on to something else altogether.

The Chairperson:

John, do you wish to ask a supplementary question on that issue?

Mr Dallat:

I have to admit that I am suitably confused at this time. It seems that the water company wants to be in the premier division, but it is actually playing in the fourth division. We are leaving this meeting without any clear idea of how we are supposed to measure performance in the future and what we are supposed to compare that with.

Mr McLaughlin:

I have a separate question that may be slightly left of field. However, it is not intended to make anyone uncomfortable; rather, it is simply to satisfy my curiosity. Recently, I was briefed on a proposition to roll out fibre-optic broadband technology using the sewerage network. That process would reduce costs, because it would avoid the excavation and filling in of ditches, and trenches; rent would be paid so there would be revenue; and the sewers would be cleaned as part of the installation. Have you already considered that or are you prepared to consider it?

Mr G Butler:

Yes. A company approached us about using the sewers. We are aware that that has been done in Scotland, where it took about six years to go through. First, in considering whether or not to put fibre-optic cables in the sewers, we must take into account any potential damage or blockages that that might cause. We have been discussing those technical aspects along the way. However, we are now reasonably content that we can overcome any of them.

Secondly, we must consider the whole commercial aspect. We are a public company with public assets so, if we were to rent them, we would have to get the best value for money for them.

We, therefore, cannot give that work to a single company, and there will have to be some type of procurement process in order to guarantee that we get value for money.

Thirdly, we will inevitably have to go through a commercial process. Given that all the agreements are quite complicated and technical, we will need to use a framework agreement that addresses which sewers are chosen and the issues of ownership and access. I am sure that members can imagine the whole range of issues that need to be addressed. We are in that process, and we are positive about it for many of the reasons that Mr McLaughlin mentioned, such as the opportunity for revenue. I do not want to mention that because it is non-regulated revenue, so the Utility Regulator will have a view on how that revenue was actually used. That aside, we are taking a positive approach to it. There is — how can I say this delicately? — a drive on behalf of the contractor to do that very quickly, but there is drive on our part to do it properly.

Mr McLaughlin:

There will be wider strategic interest, if we can deliver the technology that enhances the competitiveness of the local economy. I want to know whether you are aware of it, whether you are looking at it and if you are, generally, positive towards it.

Mr G Butler:

We are generally positive towards it. A detailed paper, which deals with the technical, financial and procurement issues, will be going to our executive committee on Monday. We will also need to talk to the Utility Regulator about non-regulated income.

Mr McLaughlin:

I have written to you, Laurence, so you know what it is about, and I have written to your Minister and to DETI.

Mr Beggs:

I have a question that goes back to the current status of Northern Ireland Water as a non-departmental public body. There are possible implications with regard to the availability of future capital funding to enable improvements to be made. I understand that its status and expenditure is also affected by Treasury accountancy rules and, in particular, the depreciation in the cost of assets going back to the Treasury. My question to the permanent secretary, Mr

Priestly, is: how much will Northern Ireland Water's remaining in such a status cost the Northern Ireland block grant? I dare say that Mr Priestly will require guidance from the Treasury Officer of Accounts on that question.

Mr Priestly:

Some of the consequences that you have alluded to carry risks. As part of the process of agreeing the Department's annual accounts, we go through a process with the Northern Ireland Audit Office to look at those risks and whether they will materialise. So far, they have not materialised, so they are hypothetical at the moment. John will know more accurately than me the figures attached to the risks. I want to emphasise, however, that those risks have not materialised.

Mr Mills:

It depends on what assumptions are made, but our best estimate is that an adverse change in the asset valuation will mean a cost of about £200 million over the next three years.

Mr Beggs:

What determines whether that risk kicks in? I put that to the Treasury Officer of Accounts: what determines whether Northern Ireland gets an additional £200 million bill? We need to know that; we need transparency.

Ms Fiona Hamill (Treasury Officer of Accounts):

That is continually under consideration, but I will have to come back to you on the detail; it is pretty complicated.

Mr Priestly:

A series of technical accountancy considerations will determine whether the risk materialises. It would be better to come back to you.

Ms Purvis:

I would like to finish off on the benchmarking issue. Could Laurence tell us which business areas are benchmarked against which? I do not want that information now, but could you forward it to us?

Mr MacKenzie:

We can give you a list of the companies with which we benchmark specific areas.

The Chairperson:

We will benchmark this week's meeting after our next meeting. *[Laughter.]* There are many complexities, and we have heard about some of them today. We are discussing a very important issue, which affects every household and business across the North. It is important, therefore, that the work is done and that we spend a considerable amount of time on it.

Thank you all for attending this afternoon's meeting. We expect to receive some written correspondence from you, and we will reply to you. Thanks also to the Hansard staff for reporting the session.