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CBI response to NIAUR Draft Determination on Water and Sewerage Price Control 2013 – 2015

- 1 CBI Northern Ireland welcomes the opportunity to comment on this Draft Determination (DD).
- 2 CBI members have supported the progress achieved in recent years by NI Water, reflected in:
 - A more efficient productive organisation – significant efficiencies have been achieved
 - Better customer focus
 - Better use of technology
 - More transparency
 - Lower absenteeism
 - Increased investment
- 3 Within a challenging and competitive business environment business continues to need high quality, cost competitive water and sewerage services – this is necessary to support a modern economy, facility growth and ensure high living standards. This will require strong leadership and management, further improvements to efficiency, an increasingly responsive and customer focused organisation, and continued investment in capital assets, maintenance and people.
- 4 It remains critical that the current leadership under Board direction and a strong and competent management team are suitably incentivised to deliver the reform agenda. They must also be allowed to manage – and CBI members are concerned that there is a risk at present, under the current governance arrangements, that there is too much political interference, bureaucracy and complex governance relationships. Governance structures should provide clear management focus and accountability, and enable the organisation to attract and retain experienced and motivated staff.



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- 5 NI Water must also be given the capability to deliver investment to meet consumer needs and to ensure EU requirements are met – we continue to believe a major investment programme is required, and our concerned that this has been impacted by Northern Ireland Executive’s budget process (and constraints), together with the lack of end year flexibility. With high capital intensity the organisation needs to have access to capital at lowest possible cost and have predictability. We also believe that an asset management plan should be independently assessed while future demand, asset replacement and investment priorities must be subjected to strong commercial tension.
- 6 In terms of the Draft Determination we wish to make the following comments:
- **The current governance model for NI Water is unsatisfactory** – there is additional and unnecessary bureaucracy, various protocols/financial memoranda, complex relationships, and uncertain revenue streams. The current model is not compatible with independent regulation and is clearly adding to inefficiencies, and a drain on management resources – this is not sustainable. It may also lead to delays and inefficiency in capital expenditure due to departmental constraints
 - With regards to **Operating Expenditure** – we welcome an ongoing focus on securing further efficiency improvements. While it is clear that we are not in a position to identify what appropriate targets should be set we do believe the targets should be realistic and based on sound evidence. We have three points to make here:
 - o Benchmarking efficiency gains is important and while the Regulator has quoted Scottish Water in his introduction we understand the targets in the DD are at the top of the range of efficiency gains by the English and Welsh utilities
 - o Some of the evidence presented to us by NI Water raises serious question marks over whether some of the efficiency gains are achievable, especially around some one-off gains that have been achieved and which are unlikely to be repeatable
 - o With the existing governance model recognised by NIAUR as ‘sub-optimal’ the proposed efficiency savings appear increasingly unrealistic
 - **Incentives** – as we stated earlier it is essential that the management of the NI Water are given appropriate incentives to deliver the outcomes which customers require. There does not appear to be sufficiently addressed in the current DD – some greater flexibility and incentives could deliver more benefits to consumers, and lead to improved efficiencies, including through ‘invest to save’ measures and outperformance measures
 - With regards to **Capital Expenditure** – we recognise this is no longer within the control of NI Water/NIAUR due to existing governance structures. We are broadly content with the proposed level of capital expenditure – our members would wish to have reassurance that the level of capex planned is sufficient

to avoid any rapid increases in capex in future years which could in turn lead to more volatile tariffs

- 7 We welcome NIAUR's ongoing work to benchmark performance against similar utilities in GB. The final determination should deliver
 - A robust, yet fair, regulatory outcome delivering ambitious but realistic efficiency savings
 - A suitably incentivised management team with the capability of delivering improved customer service, predictable tariffs and clear outcomes both for current and future customers
 - The necessary investment to support a modern economy

- 8 Finally it is critical that governance issues are addressed if we are to create a world class water utility. Greater certainty is required regarding NI Water's capital funding – ideally with transparent, ring-fenced and predictable revenue streams, while a new model is needed to ensure the organisation can maximise the efficiency of its operations which will ultimately benefit customers in lower bills and better service standards.

CBI Northern Ireland
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