

Reform of the Water Sector in Ireland

Response to
Consultation on the establishment of a
Public Water Utility

Feb 2012

Comments on the Implementation Plan
Comments on Water Metering and Water Charges



1. Background

At the invitation of The Department of Environment, Community and Local Government (DECLG), The Irish Academy of Engineering and Engineers Ireland jointly submitted a detailed report in July 2011, “Delivering Ireland’s Water Services for the 21st Century”, as an input to the Department’s consultancy review into the reform of the water sector in Ireland



The Irish Academy of Engineering

22 Clyde Road, Ballsbridge,
Dublin 4
Tel: +353 1 665 1337
academy@engineersireland.ie
wwwiae.ie



Engineers Ireland

22 Clyde Road, Ballsbridge,
Dublin 4
Tel: +353 1 665 1300
www.engineersireland.ie

In preparing that report both bodies drew extensively on the considerable experience of their members, in both the public and private sectors, across water services, local government, utility and general management, and consultancy. We jointly met with the consultants PwC and the Department’s representative in July 2011 to elaborate in detail on the findings and recommendations of their report and to answer questions of clarification.

The Irish Academy of Engineering and Engineers Ireland welcome the publication of the PwC Report and the resulting Position Paper issued by DECLG seeking views in relation to the implementation plan for the public water utility and the proposed approach to water charges and water metering. We are pleased to note the seriousness with which our July 2011 report and presentation to the consultants were received and the many aspects of the PwC report and the DECLG Position Paper which concur with our own findings and recommendations.

We jointly submit this paper as a further considered input in response to the Position Paper and are available to elaborate on this should it be deemed helpful. We also include separately a copy of our July 2011 report “Delivering Ireland’s Water Services for the 21st Century” which contains a range of findings and recommendations which are not repeated in this high level submission, but which are nonetheless important and still valid.

1. Background

We welcome the following

In general we welcome the DECLG Position Paper and the PwC Report. In particular we welcome the following aspects which we believe are important and which should be included in the Implementation Plan to be approved by Government.

- Irish Water will “be created as a public utility” rather than as an agency. Quality water supply and waste water services are basic necessities for citizens in a modern society and are a fundamental requirement for economic growth. As such public ownership and focused accountability for service delivery are prerequisites which are best achieved via a public utility.
- Irish Water “would be allocated full responsibility by statute for all aspects of water services planning and delivery at national, regional and local level” and will be “a single point of contact for customers”. We agree that all water services assets and all associated liabilities should be transferred to Irish Water, who “would be responsible for collection of water charges”, and that the Board’s statutory powers will have all the characteristics of a commercial body.
- We note the main bodies and their relationships in the target operating model as shown in Figure 46 page 107 of the PwC report and generally concur with the broad roles and responsibilities of the main participants in the sector as summarised in the table following this figure. We recommend that further consideration be given to the proposed relationship between Irish Water and Group Schemes which may be better kept entirely separate. It is particularly important that the related roles and responsibilities identified in the PwC report between Irish Water, the DECLG and the Regulators are implemented from the earliest stages of the transition plan.
- We believe that comprehensive regulation of this essential service is required and concur with the proposal that separate economic and environmental regulators will be appointed at the earliest stage of the transition plan. We also agree with the PwC recommendation regarding the “establishment of a body with responsibility for the representation of the view of water and sewerage customers”.
- There will be a more robust funding model than at present which will facilitate long term planning of the delivery of services and ensure security and quality of supply at optimum cost. However we outline later in this submission our concerns in relation to financial aspects of the Position Paper and the PwC Report.
- We agree with the imposition of water charges for domestic customers and in particular with the proposal in the position paper that “the setting of the water charge, both domestic and non-domestic, will be a matter for the regulator”. Our concerns on the detailed implementation of metering and water charges are covered later in this submission.
- We welcome the commitment that “Irish Water will be able to present opportunities not otherwise available to staff who wish to pursue a career in water services” and that “considerable protection will be provided by law for staff transferring to Irish Water from local authorities”.

2. Comments on the Implementation Plan

2.1 Finance

We have serious concerns about the financial viability of Irish Water in the absence of a robust and transparent financial model. The financial underpinning for the change from the status quo needs to be clearly and transparently enunciated. Unfortunately the PwC report was redacted by removal of text which would have allowed costs and revenues to be computed. The public will not accept policies which do not have a sound financial basis and we would be seriously concerned if the end result was an unfair or unacceptable rise in charges for water customers or in the cost of remaining local authority services.

A transparent funding model needs to be developed and publicised which demonstrates how both Irish Water and local authorities will be financially sustainable into the future after the full establishment of Irish Water. This funding model needs to be based on sound principles, robust cost estimates, a realistic definition of the level of water charges to be levied and all other sources of income including interim funding from the central exchequer. We are aware of the substantial liabilities on the books of local authorities in respect of part funding of current and historical capital projects, whose financing is not currently provided for.

We recommend in Section 3 below that the regulator plays a central role in deciding on the scope and timing of full roll out of the water metering programme and in the nature and level of water charges. Decisions in this area will have profound implications for the financial model and for the ongoing financial sustainability of Irish Water.

The funding model for Irish Water should adequately address all of Ireland's obligations under the EU Water Framework Directive and the demands of strategic regional development. It should encompass an adequately funded national programme to effect the necessary reductions in water losses in the networks and also cover the cost of a meter installation programme. It should also recognise the ongoing operations, maintenance and replacement costs associated with a significant portfolio of water meters.

2. Comments on the Implementation Plan

Financial burdens should not be placed on Irish Water which could effectively kill it from birth. The financial model should recognise the legacy costs of rectifying decades of under investment in water services infrastructure in bringing it up to a standard capable of delivering a water service acceptable to the regulators and customers. To achieve this, significant funding from the central exchequer will be required over a number of years during the transition phase prior to Irish Water becoming self sustaining. The enabling legislation should set out clearly the requirements on Irish Water to provide for new connections to water and sewerage networks, and for the taking over of connections, including for single houses, housing estates and group water schemes. The cost of such connections and the cost of any future Public Service Obligations (PSOs) should be built into the financial model.

All change management and staff costs for Irish Water and local authorities, both once off and ongoing, associated with reform of the water sector should also be incorporated into the financial model.

Water services accounts for 15-20% of local authority activities and budgets. Removing this 20% and covering the cost of shared services (HR, IT etc) over the remaining cost base has cost implications for local authorities which must be resolved in parallel with the establishment of Irish Water. The funding of stormwater management, environmental monitoring and emergency response activities of local authorities must be catered for.

We note that no reference is made in the Position Paper or in the PwC report to Bonds as a potential source of funding for Irish Water. This source of funding is standard practice internationally and should be included as a potential funding option. Other innovative sources of funding for infrastructure finance should also be investigated.

2.2 Transfer of Assets

There are many potential hidden costs for both Irish Water and local authorities, and the possibility of significant delays to implementation, associated with the transfer of assets from local authorities to Irish Water. The transfer of assets has the potential for significant legal and political difficulties which will demand careful handling. The potential for a legal cost bonanza, interminable delays and deflection of management attention from core activities must be minimised in the drafting of legislation. Maximum power should be afforded the Minister for Environment, Community and Local Government to vest local authority assets with their associated liabilities, in Irish Water, following adequate review and discussions between both parties. This process would be aided by having a robust review and examination of the division of responsibilities between local authorities and Irish Water at an early stage.

2. Comments on the Implementation Plan

2.3 Transition Strategy: Irish Water – State Company Incubation Option

We do not agree with PwC's dismissal of the option of locating Irish Water in an existing State company. The arguments advanced are qualitative and subjective and largely overlook key strategic advantages. We believe that the concerns expressed in Section 7 of their report can be satisfactorily addressed and that serious consideration should be given to the use of a State company to incubate Irish Water. This could be achieved in a ring-fenced manner with the proviso that the Government would retain the right to remove it from the company and for it to become a stand-alone utility if and when appropriate. This approach could be the best solution, particularly if the selected company is a successful customer facing Irish public utility with regulatory experience, a commercial ethos and a proven track record. In our view, the optimum approach is for an Irish utility company working with a management team drawn from the Irish water industry, with regionally based co-ordination teams under a local regional manager. This option is most likely to be successful in addressing the challenges of integrating across the Local Authorities, combining good corporate management with the essential knowledge and experience of the Irish water industry.

Incubation in an existing public utility would mean that Irish Water could hit the ground running and make full use of all of the utility expertise and systems available as well as the best experience and expertise in the Irish water industry, both public and private. This would be the least costly and most effective and efficient way to transition to the ultimate goal of a modern national water utility. How effectively implementation is driven will determine the success or otherwise of the establishment of the new utility.

A key success factor in the establishment of Irish Water will be how the change management challenge is addressed. The change management process must bring on board the expertise and goodwill of local authority water services staff and achieve widespread public support, otherwise this could be a long drawn out and expensive exercise leading to a sub-optimal outcome.

In addition, there would be no requirement to enter into an EU procurement process to locate Irish Water within an existing State company whereas the selection of a Management Partner may well add up to a year to the delivery programme due to the requirement to engage in the EU procurement process. Such an option presents the risk of a poor fit and indeed in a difficult and potentially fraught process the risk of further delay and disruption.

We recommend therefore that the option of using an Irish utility to incubate Irish Water receive serious examination and be compared fully with the other options under consideration.

2. Comments on the Implementation Plan

2.4 Strategic Planning, Roles and Responsibilities

The Position Paper correctly states that “water policy is inextricably linked to agriculture, industry, transport and other policies” and notes that “work is ongoing on examining these wider governance aspects for delivery of the Water Framework Directive in Ireland”. In completing this work and in deciding on future roles and responsibilities we believe it important that an integrated approach is taken to ensure clarity in relation to the future roles and responsibilities of Irish Water, local authorities and other related bodies. In particular there is a need to outline a clear vision of the role and responsibilities of local authorities after the full transfer of assets and responsibilities to Irish Water. It is also essential to provide adequate resources to enable satisfactory delivery of local authority services including legacy water-related services.

It is particularly important to ensure that long term strategic planning, land use planning and service provision, including water services, are properly integrated and responsibilities in this area clearly allocated. Such joined-up policy formulation and planning has been grossly inadequate at times resulting in very costly decision making. The separation of strategic planning of water services from strategic land use planning has the potential for confusion and sub-optimal planning. Both Irish Water and local authorities have key roles to play in such integrated planning which should be clarified in the legislation reforming the water sector.

In establishing Irish Water clear direction is required on the responsibility for integrated water resource management encompassing the EU Water Framework Directive and the EU Floods Directive. The ongoing review of these responsibilities should not be undertaken independently of the planning for the establishment of Irish Water.

We note in particular the need to clarify how the prioritisation of water allocation between agriculture, industry and other uses across the country will be carried out and who will carry ultimate responsibility for making decisions in this area. Another area requiring clarification is emergency planning for major fires, drought situations, major flooding, severe freeze ups, etc, to ensure lines of responsibility are certain and known by all, and that no gaps exist.

The strategic planning provisions in the Water Services Act, if fully implemented, can provide the basis for robust strategic plans with Strategic Environmental Assessment developed at regional and overall national level to provide a blueprint for operations, asset management and capital upgrading plans over 5-10 years and beyond.

2. Comments on the Implementation Plan

2.5 Regulatory Impact Assessment and Risk Analysis

We have seen over the past number of years the significant loss of taxpayers' money and sub-optimal delivery of services caused by the absence of timely and robust regulatory impact assessment and independent risk analysis. Examples include the establishment of the HSE, the Decentralisation project, the PPARS system, the E Voting project and the privatisation of Eircom, to mention but a few.

A repeat of these very costly mistakes must be avoided at all costs; otherwise complete failure of the venture may be the end result. The accepted practice to protect against such unwanted eventualities is to instigate comprehensive, independent risk analysis from the very commencement of the planning and decision making process.

We note and agree with the proposal in Chapter 9 of the PwC report that the Regulator should be appointed as one of the first decisions to be made in the reform of the water sector. It is very important that independent regulatory impact assessment is carried out on the legislation proposed for the establishment of Irish Water, prior to its approval, to ascertain the impact on all stakeholders particularly water services customers.

One of the first tasks for the new Board of Irish Water will be to prepare a Business Plan for consideration by the Regulator. A process of independent risk analysis in relation to proposals tabled during the establishment of Irish Water should be carried out on an ongoing basis by the Regulator prior to major decisions being made. This is to ensure a self sustaining business and financial model is chosen and major mistakes avoided. A key input to risk assessment must be full understanding of the risk factors and their consequences, requiring that the process be fully informed by knowledge of the sector and its key issues.

3. Comments on Water Metering and Water Charges

3.1 Water Metering

We agree with the principle of water metering for domestic customers but believe the scale, nature and timing of a universal metering programme needs to be carefully considered in detail before a full roll out plan and timetable is finally decided. The plan to install over 1 million water meters by 2014 is highly ambitious, the total cost may be underestimated and we very much doubt if it can be completed in this timescale.

We have grave concerns in regard to some recent proposals on how the metering programme might be carried out, particularly in relation to how surveys would be completed and the appointment of a multitude of small contractors to carry out the installation. Quality assuring the installation and controlling the cost of meter boxes and meters, and of reinstatement works by numerous small contractors across the country poses a significant challenge. The advice of experienced professional practitioners in the water services sector should be taken before finally deciding on the approach to be adopted. The criteria to be used in making a decision should be the implementation of an approach which has a strong probability of success and the achievement of value for money for customers and the exchequer.

The initial phase of the water metering programme should be coordinated with other major water conservation and network management projects, and targeted at areas of the water network experiencing major leakage to ensure maximum early return on investment. The initial phase should also include a number of pilot programmes across the country to enable the potential overall cost and timescale to be more accurately estimated. The decision to proceed with full roll out of water metering for all domestic customers should be referred to the Regulator for regulatory impact assessment and risk analysis, and to confirm what scope and timing is in the best interest of the customer.

In making decisions in regard to the metering programme it should be recognised that as well as the initial capital costs involved, there are also very significant ongoing operations, maintenance and replacement costs which must be accounted for. Water meters have a limited lifetime and the recurring cost of their replacement must be included.

3. Comments on Water Metering and Water Charges

3.2 Water Charges

If we can't reasonably expect to have 1million water meters installed in time for billing in 2014, then we must accept that we will have to develop a fair system of fixed assessment charges in the interim. Irish Water will require certainty as regards the scale and sources of its income from its inception, to enable it to plan and operate its business in a viable manner. It is vitally important that adequate operating and capital budgets are available, irrespective of whether universal metering is completed or not.

The Position Paper recognises the challenges of a free allowance and we believe this matter should be referred to the Regulator for decision. Our view is that if water charging based on metered usage is to be introduced for domestic customers there should not be a universal "free allowance". It would be too costly and impractical to implement fairly, would lead to anomalies in charges, and create the risk of making the charging system unworkable with knock on consequences for the financial viability of Irish Water. Instead disadvantaged customers should be catered for by having a payment made to Irish Water by the Department of Social Protection, which in any event has the most appropriate data base to allow the disadvantaged consumers to be identified.

All delivered water costs money and the cost of all water will have to be fully recovered by Irish Water from customers, the Exchequer or a combination of both, if the utility is to be financially sustainable. The bulk of the costs of providing a water service are fixed availability costs. In some cases the availability costs can be up to 85% of the overall costs of water, yet pricing structures have to try to reflect these costs to some extent in a variable consumption charge.

In general current water charges to commercial and industrial customers are competitive with European norms and Ireland cannot allow these charges to rise outside these norms. Domestic customers should be treated likewise. Any gap in income to cover legacy liabilities should be made up by the exchequer. If costs are pushed upwards as a result of expensive policies, then the exchequer should fill the gap in the funding model, rather than put the burden on the consumer.