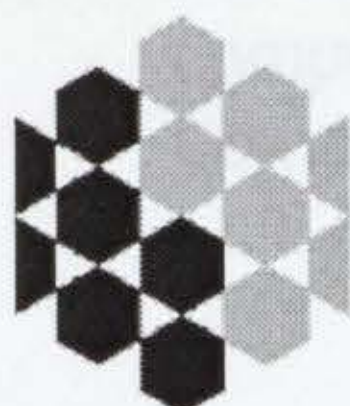




Department for
**Regional
Development**
www.drdni.gov.uk

Memo

From: Nigel McCormick
Director
Water Reform Unit

Tel: (5)42990

cc: (See copy distribution below)

Date: 25 March 2005

To: John Spellar MP

WESTMINSTER HALL DEBATE – RESPONSE TO POINTS RAISED

Issue: Publication of full intended speech and response to questions raised in the debate; issue of letters to MPs.

Timing: Urgent

FOI Implications: This submission is fully disclosable.

Presentational Issues: The publication of your full intended speech and responses to questions raised provides an opportunity to address some of the questions in more detail. In addition, a more balanced view of the proceedings can be presented.

Recommendation: That you:

- (a) note the content of the speech and the responses to the questions, and agree to their publication on the Department's website;
- (b) write to the Northern Ireland MPs;
- (c) note the intention to use the press release material to rebut arguments that water and sewerage services are paid for through rates; and

- (d) advise whether you wish to have the speech and composite response placed in the House of Commons Library.

Background

As you are aware, Peter Robinson, MP secured a Westminster Hall debate on Wednesday 16 March on the "Impact of Water Charging in Northern Ireland".

2. Time did not permit you to address some of the questions and issues raised in full. In particular some questions raised by David Burnside, Jeffrey Donaldson and David Liddington would benefit from more detailed responses.
3. It is therefore planned to publish the full text of your intended speech (Annex A) and the responses to questions and issues raised by the MPs (Annex B) on the Department's website.
4. Since the debate a number of articles have appeared in the press, some of which have been arguing that water and sewerage services are paid for through the rates (most notably comments made by Peter Robinson and reported in the Newsletter on 22 March). Following your discussion with David Sterling, a press release will not be issued. I would however recommend that should this argument arise again in the media, a strong rebuttal is issued drawing on the material in the press release.
5. It is also suggested that you write to all the Northern Ireland MPs providing them with copies of the speech and the composite response to issues raised. A draft letter for this purpose is attached at Annex C.
6. Lastly, you are asked to consider whether you would wish to have this material placed in the House of Commons Library.

Recommendation

Speech for Westminster Hall Debate - Wednesday 15 March 2005

7. That you: -

- (a) note the content of the speech and the responses to the questions, and agree to their publication on the Department's website;
- (b) write to the Northern Ireland MPs;
- (c) note the intention to use the press release material to rebut arguments that water and sewerage services are paid for through rates; and
- (d) advise whether you wish to have the speech and composite response placed in the House of Commons Library.


NIGEL McCORMICK

cc Stephen Quinn
 Andrew McCormick
 David Sterling
 Leo O'Reilly
 Michael Brennan
 Peter Barbour
 Margaret Langhammer
 Barbara Faloona
 Paddy Cullen
 Anne McGivern
 Linda Campbell

ANNEX A

Speech for Westminster Hall Debate – Wednesday 15 March 2005

"Impact of Water Charging in Northern Ireland"

Mr Deputy Speaker, I welcome this opportunity to respond and congratulate the Honourable Member for East Belfast for securing this Adjournment debate. It has been a useful debate and a number of important points have been made which I would like to deal with here. We have, of course just completed, on 4 March, a consultation on the draft Integrated Impact Assessment of the Water Reform Proposals. So far we have received over 60 submissions from organisations and political parties and more than 30 submissions from individuals. We have also received six petitions.

We will be looking very carefully at all these submissions and providing a considered response in due course. The points that have been made here today will be factored into that assessment and I can assure you that we will listen very carefully to all that has been said before coming to conclusions on policy.

Mr Deputy Speaker, when devolution was suspended in October 2002 we made clear our determination to bring about an early return of devolved Government to Northern Ireland. We also pledged that for so long as suspension continued, we would govern in an open, active and fair way.

One of the most difficult issues we inherited from the Northern Ireland Executive was the need to find a better way of financing water and sewerage services – that is one thing on which I think we can all agree.

I also note a strong consensus this morning that water is a precious resource, vital to our health and our every day lives. Northern Ireland is fortunate to have no shortage of rainfall – but the provision of safe drinking water and the

sewerage treatment necessary to protect the environment and sustain development, is not free.

This year water and sewerage services in Northern Ireland are costing more than £380 million - more than £1 million every day.

Across Europe, ever higher standards are being introduced to improve the quality of the water we drink and reduce the level of pollution in our rivers, our beaches and the sea. At the same time, the demands being placed on these services in Northern Ireland are increasing. Our modern lifestyles require greater use of water. We must also cater for the extra 200,000 homes that are expected to be built in Northern Ireland over the next 20 years.

All of this is costly. In 2003 it was estimated that the water and sewerage infrastructure would need £3 billion of investment over the 20 years to 2023.

This investment is already taking place.

The spending proposals contained in the Budget published by the Secretary of State in December 2004, allocated £735 million for investment in the water and sewerage infrastructure between 2005-06 and 2007-08.

This will mean that around £1.1 billion will have been invested in the infrastructure in the five-year period up to 2007-08 and that over one third of the £3 billion investment need will have been provided for before domestic consumers are asked to pay the full water charge.

However, the real challenge is to sustain investment. Water and sewerage services need sustained and reliable investment over the long term. This has been difficult to do whilst Water Service is within central government and subject to three-year financial planning periods. It has been shown elsewhere in the UK further afield that the water industry needs long-term planning and reliable revenue streams if it is to be efficient and effective.

The problem in Northern Ireland has been that Water Service has had to compete for public funds with other public services such as health, education and transport, unlike the position in England, Scotland and Wales. This helps explain why there has been a legacy of under-investment in water and sewerage infrastructure as several honourable members have noted. However, let me address the suggestion that this legacy should be financed by the central exchequer.

Undoubtedly there was under-investment in infrastructure in the past, but this has been a feature which has affected all regions in the United Kingdom, and not just in the water industry.

When the English water companies were privatised in 1989/90 they received what was known as a "Green Dowry". This comprised the write-off of around £5.2 billion of debt together with net cash injections and capital allowances amounting to some £1.5 billion. This was offset in large part by the proceeds of the privatisation, some £6 billion, which provided a benefit to all UK taxpayers.

The Northern Ireland Water Service was not privatised, so the Green Dowry arrangements did not apply. But Northern Ireland's spending power was increased by some £50 million per year to compensate for the fact that privatisation meant that water and sewerage services would from that time on be outside the scope of the Barnett formula.

Those calling for the under-investment in Northern Ireland's water and sewerage infrastructure to be funded by the Exchequer should also recognise that:

- throughout the 1990s, and up to the present date, Northern Ireland's share of public expenditure has been higher per person than in England, Scotland and Wales;

- over the past 15 -20 years since privatisation, the English water companies have invested over £50 billion in improving their water and sewerage services. This has been financed by shareholder equity and borrowing, all paid for fully by direct water charges paid by consumers and not from council taxes or general taxation; and
- during the same period, Northern Ireland has continued to finance water and sewerage services from public expenditure, thereby depriving other public services of much needed resources.

So, Mr Deputy Speaker, it is hard to explain why the UK taxpayer should pay for Northern Ireland's under investment when the UK taxpayer did not pay for the legacy of under-investment in England and Wales and also in Scotland.

It is also wrong to say that Northern Ireland has been underfunded by the Government. On the contrary, Northern Ireland has had much higher public expenditure per person than any other part of the UK. Nor is that a result of high security costs – public spending on economic, social and environmental programmes is and has been much higher.

The Department of Finance and Personnel has approximated the size of the fiscal deficit in Northern Ireland for 2000-01, the latest year for which the information is held. This shows that General Government Expenditure in Northern Ireland amounted to over £13 billion with General Government Revenue just £7.6 billion. This leaves a General Government Net Balance (or fiscal deficit) of just under £5.5 billion, 26.5% of estimated GDP, or over £3200 for every Northern Ireland resident.

Mr Deputy Speaker, a number of statistics have been quoted by honourable members about comparative levels of income and the cost of living in Northern Ireland.

We do not dispute that there are higher levels of social and economic need in Northern Ireland, but it is clearly no longer the case that Northern Ireland is the poorest region in the UK. Indeed, on many dimensions, Northern Ireland out-performs other regions:

- the unemployment rate is higher in the North East, London and Scotland than it is in Northern Ireland
- average weekly disposable income is higher in Northern Ireland than in the North East, the East Midlands and Wales
- Gross Value Added (GVA) per capita (sometimes better known as GDP) is higher in Northern Ireland than in the North East and in Wales
- When relative consumer prices are compared, including housing and other costs, it can be shown that the cost of living is actually lower in Northern Ireland than in all other regions apart from Wales, the North East, Yorkshire and Humberside.

Mr Deputy Speaker, it has been widely suggested that the present regional rate includes an element to cover the provision of water and sewerage services. That was indeed the case for most of the 1990s but since 1999 the regional rate has been an un-hypothecated tax, which means that there is no direct link between it and any particular service.

The direct link between water costs and the regional rate was broken when, in preparation for devolution, the Government decided for the first time that all the revenue raised from the Regional Rates should be added to the total amount available to a devolved Executive (or to the Secretary of State while direct rule applies) to allocate to regional public services. This decision was

taken before devolution in the Comprehensive Spending Review in 1998 and took effect from 1999-2000 financial year – ie the first “unhypothecated” rates bills were from 1 April 1999.

Since then the revenue raised from the Regional Rate has been added to the total amount available to the devolved Executive (or to the Secretary of State while direct rule applies) to allocate to local public services.

The actual level of the Regional Rate is determined by Ministers in the annual Budget process, based on their assessment of what is needed to finance all public services and balanced by what is considered to be affordable to the ratepayer.

The real problem is that not enough is being raised in Northern Ireland to fund all of our public services properly by comparison with the position in Great Britain, even when allowance is made for lower average earnings and differences in the cost of living in Northern Ireland.

In 2004-05 the average household in England, Scotland and Wales is paying around £1200 in property taxes and direct water charges whereas the average household in Northern Ireland is only paying around £500 in rates.

The Water Service received £328 million of public expenditure in 2004-05. To put this in context, the total amount raised through the Regional Rate in 2004 -05 will be £417 million of which £184 million will come from the domestic sector with £233 million being raised in the non-domestic sector.

This means that even if the entire Regional Rate was devoted to water and sewerage services, it would mean that households here would be contributing virtually nothing to other public services compared to an average contribution per household of £967 in England and Wales and £886 in Scotland.

The Government is proposing to introduce a separate charge for water and sewerage because that is the fairest way to boost public services in Northern

Ireland. New charges, combined with reform and efficiency, will allow significant sums of public expenditure, currently consumed by the running costs of the Water Service, to be redirected to other priority areas including health, education and transport.

If water charges are not introduced, this money would have to be diverted away from those other services, and as a result, we could not expect them to be delivered to the same standard as in the rest of the UK. Also, if we continue to pay for water and sewerage services from public expenditure, for instance by further increases in the regional rate, we would have to cover certain costs (capital charges and depreciation) from the NI DEL. This would mean less money for other public services, some £50 million (and rising) from 2007-08 onwards.

The general funding dilemma was fully recognised by the Northern Ireland Executive before suspension in 2002. They had reached the conclusion that there was no realistic prospect of the Treasury providing additional expenditure on the scale necessary. Indeed it is worth quoting exactly what the Executive said in its Rating Policy Review document (published in May 2002) on this very point. It concluded that there was:

"...no realistic prospect that this funding requirement will be met from the Executive's routine public expenditure budget, because that would imply unacceptable constraints on the funding of other public services such as health, education and transport".

The Executive went on to say that it was:

"...not realistic to expect the Treasury to provide additional expenditure on this scale, as that would in effect mean that this large bill would be falling on UK taxpayers in a context where households [in Northern Ireland] are contributing

much less than those in similar circumstances in England, Scotland and Wales."

As an incentive to introduce self-financing arrangements the Treasury had offered to treat the non-cash costs of Water Service as fully additional to Northern Ireland's normal allocation of money for public services, thereby removing responsibility for funding these costs from the NI Departmental Expenditure Limited managed by the Executive.

The Executive had been considering this before suspension and it is worth noting that the Draft Budget for 2003-04 to 2005-06 presented by the Executive to the Assembly in September 2002, did not make provision for these non-cash costs, which would have been necessary if the Executive had rejected the Treasury's offer.

So, Mr Deputy Speaker, although the Executive had not made a firm commitment to introduce water charges, this was one of a number of signals, which indicated very clearly to us the general direction in which it was heading.

Since then we have given very careful consideration to how we might best develop and maintain the water and sewerage services that Northern Ireland needs for the 21st century. Having examined the limited alternatives we are satisfied that the Executive was on the right course and that water and sewerage services should become self-financing.

Without this, the investment needed in Northern Ireland's water industry cannot be sustained without detriment to other key public services such as schools, roads, transport and the Health Service.

We must also not forget that as the new charges are introduced, the resources no longer needed for water and sewerage will be available for

allocation to other services – perhaps some £300 million per year once charges are fully introduced from 2008-09.

Also, it is clear that access to borrowing under the Reinvestment and Reform Initiative is conditional on the introduction of water reform, including domestic charging. This means that if we do not proceed with water reform, by 2009-10 there could be £500 million a year less for public services in Northern Ireland than would be the case if the reforms are completed. This is far too significant a sum to ignore in a total budget of around £8 billion.

Mr Deputy Speaker, what we have not heard is any realistic alternative to the current proposals and I would again challenge those opposing these reforms to outline how they would finance investment, and the running costs of the service without taking money from other priority programmes.

Mr Deputy Speaker, we acknowledge the strength of feeling raised by the Water Reform Programme and understand the concern of households who will be asked to pay a new household bill. The introduction of domestic water charges was never going to be a popular policy.

We are however committed to ensuring that the amount people are asked to pay through water charges is fair and no more - or no less - than what is required to deliver an effective and efficient service.

We have listened to what has been said in previous consultations and will listen carefully to all that has been said in the consultation which has just ended. We have ruled out privatisation of the industry for the foreseeable future; we are phasing in charges and providing a range of measures to mitigate the impact of charges on those on low incomes, and we have also decided to incorporate metering within the domestic charging regime. These are all examples of how we have responded to genuine concerns.

We will now look carefully at what is being said to see what can be done to address the concerns which have been expressed, particularly about the

impact the new charges will have on those on low incomes.

But the reality is that we have not yet heard a credible alternative to the introduction of self-financing arrangements, especially in view of the risk that Northern Ireland would have over £500 million less for public services from 2008-09 if we do not proceed.

We remain hopeful that there will be an early return of devolved government so that locally elected ministers may take forward this challenging, but necessary, reform programme.

However, until then, it is vital we make progress. The Government is committed to providing the people of Northern Ireland with access to efficient water and sewerage services that meet the exacting standards and demands of the 21st century, and to delivering those services at a fair and affordable price.

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WESTMINISTER HALL DEBATE – 16 MARCH 2005

MINISTERIAL RESPONSES TO POINTS RAISED IN DEBATE

Negative impact of property-based charge on Protestants, Unionists, married couples, the elderly and their carers (Col 77WH)

In designing the charging proposals no customer group has been “targeted” for higher charges. However, the draft Equality Impact Assessment (EQIA) on the proposals for Water Reform, noted that the proposed regime would have a differential impact on Protestants and Unionists and a marginal differential impact on married couples, the elderly and their carers. These impacts arise due to the greater representation of these groups in areas with higher value domestic properties.

However, these impacts are mitigated by a number of measures which are outlined in the draft EQIA. These include the use of a standing charge, the introduction of a cap which places an upper limit on overall charges and the proposed discounts for low income households.

No allowance has been made for the most vulnerable in our society (Col 77WH).

The charging regime includes proposals for the protection of low-income households that compares very favourably with that available in the rest of the UK. When charges are introduced all households who are in receipt of Housing Benefit, Rate Rebate or the proposed new Rate Relief will be eligible for a 25% discount on the annual water and sewerage charges. This will provide assistance to about 175,000 households – about 1/4 of all households and including many pension households. It is estimated that the cost of providing this level of assistance would be in the region of £10million per annum when charges are fully phased in.

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The proposals were developed after considering responses to the consultation in 2003. It was decided to identify appropriate passport benefits, and Housing Benefit, Rate Rebate and the proposed new Special Rate Relief were considered the most appropriate. This means that the Water Company can rely on the eligibility assessments undertaken by the Social Security Agency (SSA), the Northern Ireland Housing Executive (NIHE) and the Rate Collection Agency (RCA). However, benefit take-up is not as high as we would like – especially in pensioner households and so we therefore plan to work closely with the SSA to increase awareness of entitlement to the passport benefits of Housing Benefit, Rate Rebate and Rate Relief.

The Government recognises that the introduction of water and sewerage charges will impose a significant additional burden on low-income households and vulnerable groups. In considering policy on assistance for such households we have taken into account a range of factors including the existing provision within the benefit system and the current arrangements available in England and Wales and Scotland to assist low income and vulnerable households. Current social security benefit levels which apply in all parts of the UK are intended to meet general household bills, including water, there is no regional variation in benefits. Those in receipt of benefit in the other regions are already required to pay for water and sewerage services.

It is also important to note that one of the charging principles is that all properties connected to the water or sewerage network should pay something for the service as is the case elsewhere.

The new rate relief scheme, which is unique to Northern Ireland, will provide assistance to those on low incomes who are just above the housing benefit threshold. It will take account of individual circumstances and needs, and more effectively assist those least able to pay than blanket reliefs that take no

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account of ability to pay. The scheme will be separate from, and additional to, the existing housing benefit scheme.

By including this new rate relief with the other passport benefits for the vulnerable groups discount scheme for water and sewerage charges this will provide assistance to those who are above the housing benefit level.

What is the Government's current estimate of the administrative cost of recovering bad debt through the courts? (Col 78WH)

It is not possible at this stage to provide a reliable estimate of the cost of recovering bad debt through the courts.

Appeals of valuations. (Col 78WH)

Appeals on capital values will be handled by the Valuation and Lands Agency.

Why is the government "rushing" these proposals through by 2006? (Col 78WH)

Under Treasury rules which apply throughout the United Kingdom, if we continue to finance our water and sewerage services through taxes (such as the regional rate) we would have to cover certain costs, such as capital charges and depreciation, from the resources available for public services. This would mean less money for those other services – some £50 million in 2006-07 and rising.

If we introduce a self-financing regime there will be two very important changes:

- a) there would be a change in the basis of valuation of the Water Service's assets, which would mean that the cost of capital charge

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would be very much lower than in the present regime (from around £175 million a year to perhaps £10 million a year). This happens because Government bodies have to value their assets at a level equivalent to the cost of replacing them, whereas, under UK GAAP, a self-financing public corporation values assets at a level consistent with the income that can be secured from their use;

- b) the new, much lower level of cost of capital charges, plus depreciation, will be charged to consumers, and hence no longer count as Government expenditure. This is how these costs are financed in all other parts of the UK, whether in the private sector (as in England and Wales), or the public sector (as in Scotland).

For the period of the transition, a very valuable dispensation was granted by the Treasury whereby these non-cash costs have been treated as fully additional to our normal allocation of money for public services. This concession will be lost in 2006-07 if we do not proceed with the introduction of self-financing arrangements.

We must also not forget that when charges are fully phased in, this will release around £300 million per year for other public services. The introduction of self-financing arrangements is also necessary to secure the borrowing power within the Reinvestment and Reform Initiative which is currently delivering around £200 million of capital investment every year in Northern Ireland.

Why has a Health Impact Assessment not been conducted? (Col 78WH)

The draft Integrated Impact Assessment has addressed the potential health impacts of the proposals for Water Reform and concluded that a full Health Impact Assessment was not required.

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In arriving at this conclusion it was noted that the proposals for Water Reform will provide very considerable public health benefits to all the people of Northern Ireland as a result of further improvements in the standards of public drinking water supply and waste water treatment. These standards will be overseen rigorously by the proposed new arrangements for economic and consumer regulation.

It also noted the structuring of the domestic charging regime to take due account of the ability to pay and the use of low income discounts as a means of mitigating disproportionate impacts of new domestic charges on individuals. The decision not to permit disconnection of domestic supply for non-payment will also act as a public health safeguard.

What consideration has the Government given to metering? (Col 79W)

While metering is clearly the most accurate means of measuring water usage, Government cannot yet conclude that it is the fairest way of spreading the overall costs of water and sewerage services, nearly 80% of which are fixed and unrelated to levels of water consumption.

It is also important to remember that a universal metering policy could require capital costs in estimated to be around £120m. These costs would also have to be funded from the Northern Ireland DEL (through reducing allocations to other public services) while water and sewerage services are funded from the Northern Ireland Budget.

Also, while NIO Ministers have been very happy for metering to be part of the debate and consultation process on the way ahead, there is no consensus that metering is universally accepted as the fairest system of paying water bills. This was not the view of the Executive which actually ruled metering out

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when it looked at the issue in 2002 on the grounds that it would be unfair to those on low incomes. Likewise, trade unions and others have expressed opposition to metering.

However, there has been a lot of public interest in metering and it is only as a consequence of the approach taken subsequently under direct rule that the issue of metering has been re-opened for consideration.

No system is perfect, because it is impossible to address all possible combinations of circumstances but we wish to develop a system which is as fair and reasonable as possible.

We cannot ignore the fact that property values (whether rental or capital values) are used in the rest of the UK as a main element of charging even though a domestic metering option is available throughout Great Britain.

In England and Wales about one quarter of households take a metered supply and receive bills that are, on average, £30-35 (or around 15%) lower than the average unmetered bills. The extent of metering in England and Wales is slowly increasing as customers opt for metering and also because meters are installed in all new properties.

Until recently in Scotland, fewer than 1000 domestic customers have opted for metered supplies primarily because of the different tariff structure set by the Scottish Water Industry Commissioner. This has included a very large standing charge reflecting the substantial portion of costs which are fixed rather than variable.

Nevertheless the Government recognises that property values are only a proxy for costs, and can see the arguments for metering as a means of encouraging efficient consumption.

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It is for precisely these reasons that metering has been brought back onto the agenda, however, it would of course need to be introduced in a way which would not unfairly burden any group of consumers.

Clearly, this is a very complex issue. Government has no preconceived view on how best domestic metering might be incorporated into the domestic charging regimes. This is why we are keeping our options open while further analysis is undertaken.

Will there be a compensatory offset against the regional rate? (Col 80WH)

The Government's view is that there is no justification for any offsetting reduction in the Regional Rate when domestic water charges are introduced, because the level of rates at present is so low by comparison with all other parts of the UK. The level of rates is a legitimate and reasonable concern at UK level because Northern Ireland receives such a substantial subvention of public expenditure – several £billion above the amounts of taxation raised in the region. It is very unfair to taxpayers in the rest of the UK for Northern Ireland to receive such a large subvention while paying markedly less in local taxation and charges. Those opposed to water charges also cite Northern Ireland as having greater poverty and deprivation than other regions but this is not the case. There are other regions in the UK that display similar social characteristics – or in some cases higher levels of deprivation - and yet they are already paying water charges.

Water Leakage (Col 81WH)

It is accepted that water leakage levels in Northern Ireland have been too high. However, Water Service has secured a 25% reduction in leakage levels over the past three years bringing leakage levels down to around 32%. Over £30 million has been spent in the past five years and a further £20 million will

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be invested in the next three years. Water Service is on track to achieve a leakage target of 172 mega litres per day by 2008 which is the current assessment of the economic level of leakage.

Privatisation (Col 86WH)

Privatisation has been explicitly ruled out for the foreseeable future. The proposal is to set up a Government Owned Company (GoCo), under companies legislation, where all of the ordinary share capital will be owned by the Government.

A number of factors rule out privatisation for the foreseeable future. These include the absence of a secure and reliable revenue stream, the current quality of the assets and the need to drive through a significant efficiency programme. We have also taken full account of the widespread opposition to privatisation in Northern Ireland.

There is, however, a considerable body of evidence which suggests that private sector involvement can offer considerable potential to deliver high quality services at affordable costs. For that reason we are currently examining ways in which the private sector might be involved in the future delivery of water and sewerage services. This is not being done for any dogmatic reasons – we are doing this because of our obligation to find the best way of delivering the highest quality service at the lowest cost to customers.

Why was using rates ruled out if HMT rules are flexible? (Col 88WH)

Under National Accounts conventions (set by the Office of National Statistics (ONS) within an EU framework of rules), there is a clear distinction between taxation and charging. Only the introduction of comprehensive charging will secure self-financing of water and sewerage services and hence take it

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outside the scope of the rules for Resource Accounting which apply to all public bodies throughout the UK.

Could more significant savings from Water Service be built into the Government's plans? (Col 88WH)

Government is committed to ensuring that charges levied on customers are fair and affordable. Reducing the costs of delivering services, without compromising on quality, will be one of the main ways in which this is achieved.

It is planned to reduce operating costs by around £43 million by the end of the decade, representing a reduction of around 20% of current costs. Cumulative efficiency savings of £7.5 million (2003/04) and £12 million (2004/05) have already been achieved, with £18 million planned for 2005/06.

This is only a start and greater levels of efficiency may be needed to ensure the Northern Ireland water and sewerage industry is as efficient as best practice providers elsewhere. The GoCo will be given the necessary freedoms, incentives and flexibility to deliver improved efficiency.

Is a Developer's Charge being contemplated for Northern Ireland?

A review of DRD Policy on Developer's contributions has been conducted. Proposals are being considered which advocate a range of charges in relation to properties being connected to the Water and Sewerage network for the first time. The issues which have been considered include:

1. Connection charges – to cover the cost of connecting a property to the water main and public sewer;

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2. Requisitioning charges – to cover the cost of bringing water mains and sewers to the new development; and
3. Infrastructure charges – a contribution towards the cost of augmenting the water and sewerage system to support new housing development.

These proposals would entail removing the Reasonable Cost Allowance (£2900 for water and £2300 for sewerage) which is offset against the requisitioning cost.

Final advice will be put to the Minister on this issue in the near future with a view to introducing the new developer's charges alongside domestic charges during 2006/07, following Equality and Regulatory Impact Assessments.

For infrastructure charges, it is no longer proposed to use enhanced planning agreements to raise significant increases to contributions from developers. This is in line with developments in England and Wales. Instead, procedures are now being developed to ensure that the maximum use is made of existing arrangements, rather than rely on the prospect of enhanced planning agreements contributing significant increases in developers' contributions.

Impact on Hospitals (Col 88WH)

Any new costs for hospitals will be taken into account when the health budget is determined in future public expenditure plans. There is no question whatsoever that the new system will be detrimental to hospital services. In detail, in relation to the impact on hospitals, a quantified estimate was provided in the Partial Regulatory Impact Assessment (RIA), which was published for consultation in November 2004. Table 1.3 of the RIA (see link) <http://www.waterreformni.gov.uk/contman/uploads/Part%20III%20-%20RIA.pdf> revealed that hospitals in Northern Ireland currently pay charges in relation to 100 connections to the mains water supply. The average charge per connection is

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£16,000 per annum, amounting to approximately £1.6m per annum across all hospitals. Table 1.3 also shows that the average charge in relation to these connections is estimated to increase to £32,400 once comprehensive charges (including sewerage charges) are fully introduced. This would result in a total water and sewerage bill for the hospital sector in Northern Ireland of around £3.2m per annum, an increase of £1.6m.

The RIA identified that one of the benefits of Water Reform is that the introduction of comprehensive charges will release a significant amount of public expenditure, ultimately in the region of £300m per annum, which may be used to meet the increasing needs of key public services including health. Furthermore, clean water supplies are fundamental to public health. Improvements in water quality and sewerage treatment that result from the increased infrastructure possible under Water Reform will have a positive impact on public health and the demand for health services.

Impact on large industrial users of water, such as the textile industry and food processors in terms of competitiveness. (Col 88WH)

The competition assessment contained within page 32 of the RIA document is a specific test required by Cabinet Office guidance, which considers whether the Water Reform proposals will prevent markets from functioning competitively. Competition between firms and suppliers of publicly consumed goods and services is an essential part of a healthy economy, helping to provide low prices and choice for consumers. Consequently it is important to assess whether or not the proposals will have an adverse impact on the level of competition in Northern Ireland. This is different from assessing the impact of water charges on the competitiveness of businesses in Northern Ireland. The impact on competitiveness was considered in other sections of the RIA where for instance the views of representatives bodies of business and

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agriculture pre-consulted were expressed, vulnerable sectors were identified, and the impact on small businesses highlighted.

It is important to note also that this is a partial RIA published for consultation. The consultation questions included in the document were designed to elicit the views of members of the business community in Northern Ireland in relation to the impact they felt the introduction of comprehensive charges would have on them. The views expressed during the consultation period will be used to better inform the final RIA, which will be undertaken soon.

How will charges be enforced against non-payers? (Col 88WH)

Parliament will set out the legal framework within which debts can be recovered. The Government Owned Water Company would reserve the right to protect the interests of its charge paying customers and taxpayers in Northern Ireland by enforcing the arrangements set out in law against those who choose not to pay.

Why is the Minister not using either Ofwat or the Scottish regulator in his consideration of the regulation of Northern Ireland's water system? (Col 88WH)

A range of factors was taken into account when considering the options for economic and consumer regulation of the water and sewerage industry in Northern Ireland.

One of the guiding principles adopted in considering what would be the most appropriate arrangements for regulation of the NI water industry was that the regulator should operate on an independent basis, similar to the OFWAT approach. This was not the case at the time in Scotland, as the Water Industry Commissioner was appointed to act in an advisory capacity and Scottish Ministers could choose to accept or vary his recommendations.

ANNEX B

Ministers concluded that this would not be the most appropriate approach for Northern Ireland.

In coming to the decision that the role of the NI Authority for Energy Regulation should be extended to include the regulation of the water and sewerage industry Ministers concluded that this is likely to be the most practical and cost effective option. The choice of NIAER provides a Northern Ireland context to the regulatory process. NIAER has an established profile as an independent regulator in the field of energy regulation. In developing its expertise in this new area the Authority will be able to draw on substantial support from OFWAT especially in terms of comparative information, expertise and possible staff secondments to assist in the regulation of the water industry.

ANNEX C

Draft letter from Minister with
responsibility for Regional Development
to Northern Ireland MPs

Your Ref: *Please insert any reference*
Our Ref: DRD/COR/XXX/2003
Date: March 2005

**IMPACT OF WATER CHARGING IN NORTHERN IRELAND:
WESTMINSTER HALL DEBATE ON 16 MARCH**

At the Adjournment Debate in Westminster Hall on 16 March, I undertook to write to Members in response to questions or points which I was unable to address during the debate. As I was unable, in the time available, to deliver my full speech, I am today placing a copy of this, together with the responses to issues raised, on the DRD website. [I am also placing copies of this text in the House of Commons library.]

I enclose a copy of this material for your information.

RT HON JOHN SPELLAR MP
Minister of State for Northern Ireland