

water
Reform
Northern Ireland

Reform of Water and
Sewerage Services in
Northern Ireland

Part 3

**Final Regulatory
Impact Assessment
of the Government's
Proposals for the
Reform of Water and
Sewerage Services**

December 2005

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Executive Summary

1. This Report presents the findings of the **final Regulatory Impact Assessment (RIA)** that has been undertaken in relation to the recently announced non-domestic charging regime for water and sewerage services which is to be implemented from 1st April 2007 onwards.
2. The partial RIA, issued as part of the IIA, detailed the main elements of the non-domestic charging proposals and provided an overview of our assessment of the impact of these in terms of the resulting costs and the benefits. It revealed that the paying consumer base of Water Service would be broadened to include all non-domestic properties that are connected either to the mains water supply and/or the public sewer. The domestic allowance is to be phased out, the trade effluent regime is to be brought into line with the practice in GB, and sewerage charges are to be introduced. The partial RIA concluded that the introduction of comprehensive charges could pose difficulties for marginal businesses, and identified water intensive industries as particularly vulnerable. It also revealed a concern, voiced during the pre-consultations, in relation to the impact on the profitability of small businesses that currently do not pay anything for water and sewerage services, and the impact on the farming community where incomes are typically lower.
3. The partial RIA also identified a broad range of benefits that will accrue as a consequence of Water Reform; namely:
 - Direct benefits;
 - Infrastructure improvements;
 - EU compliance;
 - Environmental improvements;
 - Indirect benefits;
 - Public health;
 - Increased public expenditure;
 - Benefits to the construction sector;

- Exogenous benefits;
 - Economic development;
 - Inward investment ; and
 - Tourism
4. The submissions received during the consultation largely reaffirmed the views expressed by those organisations that the Government pre-consulted with and the findings outlined in the partial RIA in terms of the impact on small businesses, water intensive industries and marginal businesses. The Minister has reviewed all the Reform Proposals in light of the main points raised in the overall IIA consultation, including the consultation on the final RIA, and has confirmed the policy decision on each proposal. A summary of confirmed policy decisions in relation to the non-domestic sector are as follows:

Reform Proposal - All non-domestic customers should pay water and sewerage charges, with the current domestic allowance for metered customers being phased out over a three-year period.

5. The Government has considered carefully the concerns expressed by respondents during the consultation period regarding the impact of new charges on business and other non-domestic sectors. However, there are pressing policy and financial reasons for making the provision of water and sewerage services self-financing. The fairest way of implementing this therefore is requiring that all customers pay for the services that they receive.

The Government has considered carefully the case put forward by respondents calling for a longer phasing in period. With the introduction of charging now scheduled for April 2007, as opposed to April 2006, the transition period has been effectively increased by one year. Further extensions could only be achieved at the expense of other key public services. The Government confirms that all non-domestic

customers should pay water and sewerage charges, and the adoption of a three-year phasing-in period for new non-domestic charges, commencing in April 2007.

Reform Proposal – The metering of non-domestic properties should be extended

6. Billing on the basis of a metered supply is the preferred method of charging non-domestic customers. Encouraging the sustainable use of water was a major theme in the responses to the RIA, and the metering of supplies in the non-domestic sector where usage is most discretionary is key to this. Consequently the proposal to extend the metering of non-domestic properties has been adopted.

Reform Proposal – Unmetered non-domestic properties should pay charges for water and sewerage services, consisting of a standing charge and variable element for each service determined by the rateable value of the property

7. The policy proposal for a hybrid charge represents the most practical approach to charging those properties which are currently unmetered. It must be seen in the context that Water Service is in the process of extending metering to those non-domestic properties with a higher level of consumption which have remained unmeasured. The Government recognises the concerns of small businesses and, in particular, their concern that they might face a bill which is not commensurate with their level of consumption. However, it must be borne in mind that the costs of water and sewerage have been split between unmeasured and metered customers on the basis of consumption so the overall costs of the unmeasured non-domestic sector are commensurate with their overall consumption. The charge cap for properties with a high rateable value (NAV) is a further attempt to ensure that their charges are not disproportionately high combined with the extension of metering. The Government has decided to adopt this proposal.

Reform Proposal – Charges for the treatment and disposal of trade effluent would be more widely applied

8. This is consistent with the 'polluter pays' principle and will bring the calculation and levying of trade effluent charges into line with the practice in GB. The Government confirms the adoption of this proposal in relation to trade effluent charges.

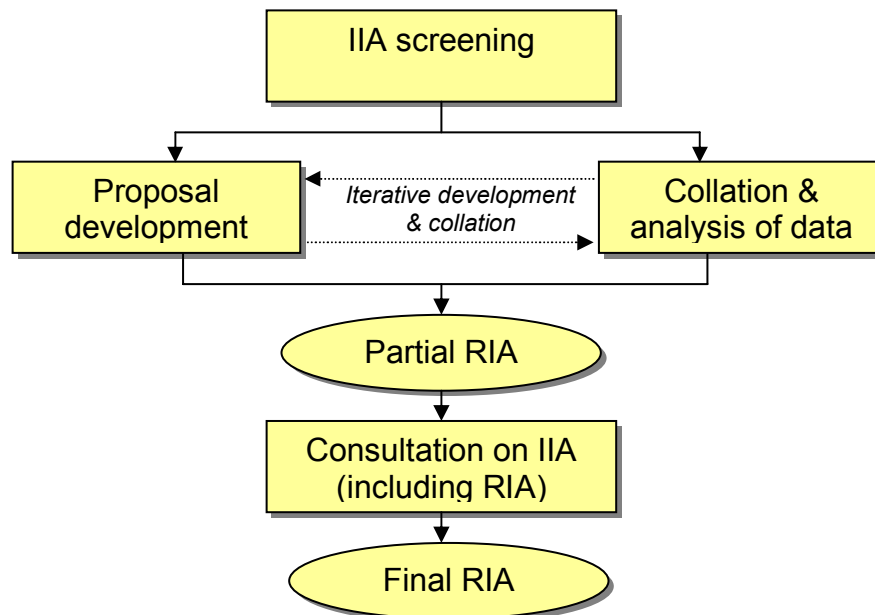
SECTION ONE: INTRODUCTION

- 1.1 The agenda of change associated with Water Reform is very wide-ranging. On a pilot basis DRD performed an Integrated Impact Assessment (IIA)¹ to consider the totality of impacts of the Water Reform proposals announced in August and September of 2004. A key element of the IIA is a Regulatory Impact Assessment (RIA) which focuses on the impacts of the non-domestic charging proposals on business, charities and the public and voluntary sectors.

Approach

- 1.2 An overview of the approach used in undertaking this RIA, which has been developed in line with published Cabinet Office guidance², is provided in Figure 1.1, and discussed in the subsequent paragraphs.

Figure 1.1: An overview of the approach adopted for the RIA



¹ An IIA is a good practice tool designed by the Office of the First Minister and Deputy First Minister (OFMDFM) to help assess and present the impacts of a policy with reference to the government's wider policy objectives and statutory objectives

² Cabinet Office (2003), 'Better policy making: A guide to regulatory impact assessment'.

- 1.3 The IIA guidance prepared by the Office of the First and Deputy First Minister (OFMDFM) sets out a series of screening questions to determine whether a full RIA is required. This screening revealed that it was highly probable that the non-domestic charging proposals would have a wide-ranging impact on businesses and on other non-domestic water users (e.g. voluntary organisations). Consequently, a full RIA was deemed appropriate to assess these impacts.
- 1.4 It is important to note that an RIA is not an exercise that is undertaken only after policy proposals have been decided upon. Rather an RIA is a tool that not only assesses the impact of policy proposals, but also informs the policy development itself. Therefore, the initial stages of the RIA were iterative in that the data and evidence collated and analysed was used to assess and inform the policy development. The resulting proposals are outlined in Section Two.
- 1.5 The ***collation and analysis of data*** included:
- **Interrogation of current customer database;** Water Service provided the Department for Regional Development's Water Reform Unit (WRU) with an anonymised snapshot of the ***current*** customer database which contained information in relation to the sectoral profile of customers, annual consumption levels, and the charges levied. This database was analysed and an understanding of the composition developed; and
 - **Key stakeholder interviews;** A range of representative organisations from the business and voluntary sectors were invited to have pre-consultation meetings with officials to canvass their views in relation to the impact of the proposals. The organisations that took up this invitation were: the Confederation of British Industry (CBI); the Federation of Small Business (FSB); the Institute of Directors (IoD); the Northern Ireland Agricultural

Producers Association (NIAPA); and the Ulster Farmers Union (UFU).

- 1.6 A report known as a ***partial RIA***, which set out the initial findings and conclusions from this analysis, was published on 29 November 2004 for public consultation and comment during the consultation period for the wider IIA ending on 4 March 2005. The submissions and responses received have now been collated and considered and have been used to refine the analysis documented in the partial RIA. This report, ***a final RIA***, presents the results of this refined analysis and details the non-domestic charging regime which the Government has now decided to implement.

Structure of Report

- 1.7 The remainder of this report is structured as follows:
- **Section Two – Strategic context:** this Section provides an overview of the current and previously announced non-domestic charging proposals. It also outlines the current cost environment within which businesses in Northern Ireland currently operate and into which the new charging regime will be introduced;
 - **Section Three – Key points made on the partial RIA during the consultation period:** this Section provides an overview of the main themes emerging from the consultation responses and the Government response to these; and
 - **Section Four – Final impact assessment:** this Section details our assessment of the potential costs and benefits of the new non-domestic charging regime.

SECTION TWO: STRATEGIC CONTEXT

Current Charging Arrangements

2.1 Currently, Water Service partially finances its operations by levying direct charges to certain categories of non-domestic customers, raising around £40 million of its total running costs of £190million in this way. The majority of this (around £33 million) is raised by metered water charges i.e. charging non-domestic water customers in relation to the amount of water they consume. Metered water customers pay a two-part metered water charge comprising:

- A multi-tiered standing charge based on the internal diameter of their supply pipe³; and
- A volumetric charge.

2.2 Non-domestic properties are treated slightly differently depending on whether or not they are rated. Under the current charging arrangements, non-domestic premises on which rates are paid are liable to be charged for that amount of water that they consume that exceeds 200 cubic meters (m³) per annum. This threshold is known as the 'domestic allowance'⁴. Unrated non-domestic properties do not benefit from a domestic allowance and are charged for all the water that they consume.

³ The standing charge is intended to cover the cost of installing, maintaining, and reading meters, and billing and collection. It includes a variable element to reflect the fact that the cost of making available a supply of water increases with the size of the pipe delivering the supply.

⁴ For a number of years in the 1990s, a proportion of the revenue collected through the Regional Rate was allocated to fund the Water Service. While this doesn't mean that the Regional Rate included a specific water charge, the domestic allowance reflects the fact that ratepayers contributed through general taxation to the funding of the Water Service. This arrangement ceased in 1999 when HM Treasury in the Comprehensive Spending Review gave Northern Ireland full discretion to use whatever was raised from the Regional Rate as additional resources for the budget of the Northern Ireland departments. Despite the continued provision of a domestic allowance, there is no longer a direct link between the Regional Rate and the funding of Water Service.

- 2.3 Historically, rated non-domestic properties were metered if they were deemed to be revenue bearing (i.e. their consumption was assessed to exceed the domestic allowance of 200 m³ per annum), while all unrated non-domestic properties were metered. In practice, it was not possible to fully implement this policy because of financial and resource constraints in terms of assessing water consumption and extending metering, and in other instances because of technical constraints where a meter could not be fitted. This is further complicated in cases where the use of a property has changed which can result in a change in the level of water usage. Currently, the policy is that all new water supplies to non-domestic premises are metered.
- 2.4 Those rated non-domestic premises that are metered and consume less than the domestic allowance do not currently pay either a standing or volumetric charge. Only those premises that consume over 200 m³ per annum are liable to pay a charge.
- 2.5 In addition to water charges, a small number of de-rated industrial customers (approximately 500) pay trade effluent charges. These charges seek to recover the additional costs of treating the larger volumes and greater strengths of 'process' discharges made by certain trade premises.

Proposed Charging Arrangements

- 2.6 An overview of the charging proposals announced on the 13th September 2004 was provided in the Policy Proposals Paper issued along with the IIA published on 29th November 2004. The main elements of those proposals in relation to the non-domestic charging were as follows:
- The preferred method of charging non-domestic properties for water will continue to be via a metered supply, with customers paying a two-part charge comprising a standing charge

(depending on diameter of the supply pipe) and a volumetric charge;

- The domestic allowance for metered non-domestic properties will be phased out;
- The programme for extending metering to those un-metered non-domestic properties will be accelerated;
- Where it is not possible to install a meter for technical reasons, an assessed charge may be applied;
- Charges for those properties that remain unmetered will be calculated on the basis of a standing charge and a variable element based on discrete property values. A charge cap for properties with a high rateable value (NAV) will also be applied;
- Under the current regime, no charges are levied in respect of sewerage services (although approximately 500 de-rated industrial customers pay trade effluent charges). Under the new regime non-domestic properties connected to the public sewer will be charged for sewerage services. The charge will consist of a standing charge and a volumetric charge applied to a percentage of metered water delivered;
- The calculation of trade effluent charges will be brought into line with GB practice in this area. Under the current arrangements trade effluent charges in NI are restricted to customers that do not pay rates. This means that the vast majority of properties that discharge effluent strength process waste water are charged⁵. However, a significant number of this cohort produces effluent which is only of standard strength. Under the new regime all non-

⁵ In fact it is estimated that 80% of trade effluent revenue derives from the top 10% of dischargers, around 50 customers.

domestic properties that discharge effluent strength process waste water will be charged appropriately whether or not rates are payable on the property. A review of the way in which trade effluent charges are calculated is underway and this might result in an increase of up to 35% in charges. All trade effluent customers will pay sewerage charges on the 'non trade effluent' element of their discharges;

- Currently agricultural properties that are not connected to the public sewer are entitled to one emptying of a septic tank free of charge. Once comprehensive charges are introduced, charges will be applied for all tank emptyings; and
- New charges are to be phased in. Assuming the new arrangements commence on 1 April 2007 this would mean that one-third of these costs would fall in 2007/08, two-thirds in 2008/09, and full cost in 2009/10. The domestic allowance is also to be phased out in a similar fashion over the same period.

Cost of Operating Business in Northern Ireland

2.7 Data presented in PricewaterhouseCoopers (PwC) report, *The cost of operating business in Northern Ireland: a review of existing information*⁶ suggested that on average, water costs account for less than 1 per cent of turnover in the case of most businesses in Northern Ireland. Therefore in these cases it could be argued that changes in the cost of water (and sewerage) are unlikely to have a major impact on the overall cost base of businesses given that these costs represent such a small proportion of this total base.

⁶ Full report available from the Economic Policy Unit, OFMDFM.

- 2.8 However, in considering the impact of the Water Reform proposals, it is important to consider the wider cost environment in which businesses in Northern Ireland are operating, and into which comprehensive charges are being introduced. It has been argued strongly by the business community that a number of key operating costs of business for Northern Ireland firms are already higher than elsewhere (e.g. energy, transport and insurance costs) although some costs, notably property, are lower. Consequently it is argued that local businesses are placed at competitive disadvantage which can impact on export performance and their ability to compete in local markets.
- 2.9 Therefore in making any assessment it is important to be mindful that any increase in water costs will not occur in isolation, but rather might well be one of a number of cost pressures impacting on businesses. While the individual impact of such increases might be small, the aggregate could be more significant.
- 2.10 In addition, it is not always the case that water costs represent only a small proportion of the overall cost base for businesses, particularly in the case of water intensive manufacturing sub-sectors. Any increase in costs is likely to impact on these businesses even more so.

SECTION THREE: KEY POINTS MADE ON THE PARTIAL RIA DURING THE CONSULTATION PERIOD

3.1 The partial RIA was circulated widely for consultation as part of the IIA on 29th November 2004, with a closing date for comment of 4th March 2005. Full details of the consultation process are provided in Part 1, Section 2 of the IIA Consultation Report. A list of the organisations and individuals who responded to the Consultation Exercise is provided in Annex A of the report. This Section of the RIA provides an overview of the main themes emerging from the consultation responses in relation to the RIA and the Government response to them. Annex A of this report provides a more detailed summary of the main points which are outlined below. The implications of these for the charging proposals are then discussed and the final Government policy decisions confirmed.

Assets

3.2 The *IIA: Policy Proposals Paper* highlighted the results of the Water Service Asset Management Plan (NIAMP2), which had then been recently completed. The Plan identified the need for investment of up to £3 billion over the 20 year period from 2003. The following were cited among the reasons for investment of this scale:

- To replace the ageing water and sewerage infrastructure (which is over 100 years old in parts), and hence reduce the level of leakage and the risks from weaknesses in the infrastructure; and
- To comply fully with the existing requirements of European Directives on water quality and waste water treatment.

Consultation Response

3.3 Eleven organisations commented on Water Service's investment need. Particular attention focused on the responsibility for funding the

investment backlog. Over half of these organisations argued that Government, not customers should pay for past underinvestment. It was suggested that the investment backlog should be dealt with first and the infrastructure modernised before comprehensive charges are introduced.

- 3.4 The value of Water Service's assets was referred to by five organisations who called for either a full or greater level of write-down of the assets before the introduction of comprehensive charges. The concern being that customers were being asked to pay for the same assets twice if a full write-down wasn't achieved.
- 3.5 A number of respondents also stressed the need for effective management and efficient use of Water Service's assets.

Government Response

- 3.6 Turning firstly to the question of responsibility for payment for past under investment. The difficulty in Northern Ireland has been that the Water Service has been financed from public expenditure over the last 15 years. Consequently, it has had to compete for funds with other public services such as health, education, and transport. Despite this competition for resources, there have been unprecedented levels of investment in recent years in water and sewerage services locally. It is also relevant to note that historic under-investment in water and sewerage services in Great Britain was paid for by customer charges and not the taxpayer. In the fifteen years since privatisation of the English and Welsh companies, over £50 billion has been invested in the water and sewerage infrastructure funded through water charges.
- 3.7 A case has been argued for full write-off of Water Service assets. Full write-off is unrealistic given the high levels of recent investment and the fact that Government investment is funded by borrowing. A major adjustment will be agreed, consistent with the need to ensure that the

company has a robust financial structure and also to ensure that tariffs are kept as low as possible.

- 3.8 In relation to the need for effective management of Water Service assets, NIAMP2 is currently the best available estimate of future funding needs over a twenty year horizon. It received certification from an independent and experienced Technical Auditor who concluded that the combined infrastructure and non-infrastructure base was of the right order. It is Water Service's intention to commence work on a third asset management plan during 2007. The Economic Regulator will have responsibility for regulating all future asset management plans and ensuring that they represent an efficient and effective use of resources.

Charging Assumptions and Costs

- 3.9 The *IIA: Policy Proposals Paper* devoted a number of chapters to the present arrangements for financing water and sewerage services, the Water Service investment need, the calculation of the costs which must be recovered, and the allocation of costs between domestic and non-domestic customer groups, all of which set the context to the calculation of the proposed water and sewerage charges.

Consultation Response

- 3.10 These issues received the most attention in the responses to the RIA during the consultation period. In particular, the apportionment of costs between domestic and non-domestic sectors, the question of cross-subsidisation and the level of charges in Northern Ireland were identified as major issues of concern. A number of respondents also queried who would pay for the low income relief and bad debt.
- 3.11 There was also a general concern about how costs and tariffs would be contained in the absence of competing water and sewerage providers

especially in future years. Many of those who responded to the RIA called for bills to be kept as low as possible by maximising efficiencies, eliminating leakage and excluding roads drainage.

Government Response

- 3.12 One of the key principles underpinning the charging regime is that charges for each service should not be unduly preferential or discriminatory between customer classes. Costs have been apportioned fairly between domestic and non-domestic customer groups on the basis of consumption. This results in a 60:40 domestic/non-domestic split for water and a 65:35 split for sewerage. Appropriate apportionment means that there should be no cross-subsidy between domestic and non-domestic customers. Nor will non-domestic customers be required to contribute to the low income protection for domestic customers. In response to the points made in the consultation, the cost of the scheme will be met from public expenditure subsidy, known as the Northern Ireland Departmental Expenditure Limit (DEL) and not from other customers. Full details of these arrangements are set out in the IIA Consultation Report. On the issue of bad debt, the GoCo will be fully self-financing with debts being pursued through the normal channels including the courts.
- 3.13 An element of the Water Reform Programme involves the establishment of an independent Economic Regulator. The Regulator will be responsible for determining the level of water charges in Northern Ireland and ensuring that customers in Northern Ireland receive value for money. We are determined also to ensure that customers' bills are kept to as low a level as possible by seeking to ensure that efficiencies are maximised. A Water Service Efficiency Programme is underway and is expected to deliver savings of at least £43 million by 2009/2010. Independent benchmarking has played a major role in identifying efficiencies and in future will be a useful tool for the Economic Regulator to ensure that income levels reflect the scope

for efficiencies. Water leakage levels have been too high in the past. However, a 25% reduction has been secured over the last three years and investment will be sustained to meet a target economic level of leakage by 2008. This level will be kept under review.

- 3.14 The Economic Regulator will wish to ensure that all customer costs are appropriately apportioned. New arrangements will be required for the recovery of costs of connection to the existing water and sewerage infrastructure. In addition, proposals will be developed to address the recovery of costs where the existing water and sewerage infrastructure is being extended or enhanced; for example to facilitate new housing or other building developments.
- 3.15 The identification of costs attributable to the use of sewers to provide drainage for roads presents considerable practical difficulties. Accordingly, it is recognised that it will not be possible to introduce highway drainage charges until robust and accurate information on such costs can be developed. However, the legislation will be drafted with an enabling power to do so.

Sustainability and the Environment

- 3.16 The *IIA: Policy Proposals Paper* described a range of European Directives which impact on Water Service activities. These range from those Directives in relation to water quality and environmental protection to the Water Framework Directive (WFD) which is the most substantial piece of European water legislation to date. The *IIA: Policy Proposals Paper* went on to describe how failure to comply with any of the European Directives could result in costly infraction fines against the United Kingdom Government which in turn could result in a drain on the Northern Ireland DEL.

Consultation Response

- 3.17 One organisation commented that it was disappointed with the apparently narrow discussion of environmental issues which it suggested focused only on the financial impact of potential infraction proceedings.
- 3.18 The single biggest issue however for respondents who commented on sustainability and the environment was in relation to encouraging and providing incentives for efficient water use. They argued that the use of grey water and water efficient technologies should be promoted with the aim of reducing the volume of drinking quality water used for purposes other than human consumption.

Government Response

- 3.19 As indicated previously, the *IIA: Policy Proposals Paper* set out the European legislative framework for water and sewerage services highlighting the risk of infraction fines in the event of non-compliance with certain Directives. One respondent expressed the concern that this discussion did not reflect the wider environmental implications of compliance or non-compliance. However, the RIA did in fact highlight these broader impacts under the Section on the benefits of Water Reform. It was stated that compliance would mean a cleaner environment, cleaner rivers, and cleaner beaches. The RIA elaborated by adding that these improvements would positively impact on Northern Ireland's leisure industry and the ability to sell its tourism product in both the domestic and foreign markets. While it was commented that the overall impact of these benefits was difficult to quantify, it was added that their value to the Northern Ireland people and economy should not be underestimated.
- 3.20 The information provided in the RIA on non-domestic customers revealed that a significant proportion are currently charged on the basis

of a metered supply. Charging on the basis of consumption in the non-domestic sector, where discretionary water use is arguably higher than in the domestic sector, provides the greatest incentive for efficient water use. Metering will remain the preferred method of charging non-domestic users and will be extended in the sector.

- 3.21 In developing the legislation to implement Water Reform, consideration will be given to placing the Department and the Economic Regulator under a statutory duty to exercise their oversight of the Northern Ireland water industry in accordance with sustainable development principles. GoCo will be specifically tasked to promote the efficient use of water by customers to ensure that in undertaking its activities it takes into account effects on the natural and built environment; and on public access to places of interest and natural beauty.

Impacts

- 3.22 The RIA provided estimates of the change in the scale of charges that non-domestic customers would experience as a consequence of the introduction of the new charging regime. It outlined the results of an analysis of the costs and benefits of Water Reform and the possible impact on the business sector in Northern Ireland. In particular, this analysis considered the impact in terms of vulnerable sectors, small businesses, and agriculture. This assessment was informed by a series of pre-consultations with representatives of the business and farming communities.

Consultation Response

- 3.23 Respondents to the RIA largely echoed the views expressed by the representatives of the business and farming communities that were pre-consulted with. They again highlighted the difficulties that additional costs would pose for marginal businesses, and identified water intensive industries as particularly vulnerable. They voiced concerns

about the impact on small businesses that currently do not pay anything for water and sewerage services, and the impact on the farming community where incomes are typically lower.

- 3.24 A number of organisations called for a longer phasing-in period than that contained in the policy proposals to allow greater time for businesses to adjust to the increased costs.
- 3.25 Other issues raised included the impact Water Service job cuts would have on the economy and concern over the decline in consumer disposable income and the subsequent effect on business sales.

Government Response

- 3.26 The RIA acknowledged that the introduction of comprehensive charges for water and sewerage services could be difficult for some marginal businesses and vulnerable sectors to absorb. While the Government appreciates these difficulties and the desire of the business community for a longer phasing-in period, it must strike a balance between the duration of phasing-in and the financial implications of delaying the full introduction of comprehensive charges for other public services. It has been decided that the new charges should not be introduced until April 2007, rather than April 2006 and they will still be phased in over a three-year period. The Department also engaged in a range of activities at the end of 2002 to raise the awareness of Water Reform when the decision was taken to move Water Service to a self-financing basis.
- 3.27 The Government notes the concerns of respondents in relation to the potentially negative impacts of increased charging on the Northern Ireland economy. However, it is believed that these are offset by the benefits that will accrue from Water Reform which were set out in the partial RIA.

- 3.28 With regard to re-structuring within Water Service, it will be necessary to reduce the number of jobs and improve efficiency. Comparative studies have shown that costs will need to be reduced in line with best practice elsewhere to ensure costs to customers are kept to a minimum. It will be a considered and measured process where reductions in personnel are achieved through natural wastage as much as possible. Water Service's transformation into the new GoCo will directly generate jobs in other areas such as IT, billing and the construction industry. As the GoCo becomes self-financing, the public expenditure which it currently receives will be available for re-allocation to other public services, up to some £300 million per year by the end of the decade.

Budgetary Issues

- 3.29 The IIA Policy Proposals Paper explained the present and future financing arrangements for water and sewerage services and highlighted the advantages of a GoCo.

Consultation Response

- 3.30 Two organisations queried whether the projected savings of £300 million pounds each year would stay in Northern Ireland and whether the reform will release additional monies to key priorities such as health and education.

Government Response

- 3.31 The Water Reform programme will be good for other public services in Northern Ireland. Resources no longer needed to pay for water and sewerage services (up to £300 million per year when water charging is fully implemented) will be allocated to other public services in Northern Ireland. The Reform Programme will also allow continued access to the borrowing power within the Reinvestment and Reform Initiative

(RRI) – this is currently providing some £200 million of investment in Northern Ireland’s infrastructure (schools, hospitals and roads) each year.

- 3.32 The new GoCo will be classed as a Public Corporation (PC) for public expenditure purposes. For most Public Corporations the Treasury has set budgeting rules which require Departments to obtain a dividend from the Public Corporation to match the cost of capital charge on the Department’s Departmental Expenditure Limit (DEL). In the case of the GoCo, it will be a charge on the NI DEL (which will be reflected in the DRD DEL). Further information on the management of Government shareholdings can be found on the Shareholder Executive’s website: www.shareholderexecutive.gov.uk

Voluntary and Public sectors

- 3.33 The likely impact of the new charging regime on the bills faced by non-domestic properties in the voluntary and public sectors were provided in the RIA. Both the RIA and the *IIA: Policy Proposals Paper* also set out the implications of Water Reform for the level of public expenditure available for other public services.

Consultation Response

- 3.34 A number of respondents indicated a concern that the introduction of comprehensive charges would increase the funding pressure on schools and hospitals. A call was made by one organisation for schools and hospitals to be made exempt from charges. Two organisations sought confirmation that the public expenditure savings resulting from Water Reform would actually benefit public services in Northern Ireland.

- 3.35 In addition, special consideration in terms of exemption / reduced charges was also requested for charities and not for profit organisations.

Government Response

- 3.36 Any new or increased costs facing hospitals and schools will be taken into account when setting the education and health budgets in future public expenditure plans. Overall, the Water Reform programme will be good for other public services in Northern Ireland. It will allow resources no longer needed for water and sewerage services to be available for other public services.
- 3.37 The request in relation to charities and other voluntary organisations has been noted. However as indicated previously, one of the key charging principles is that all customers should pay a charge for the services that they receive. Exceptions would therefore contradict this principle. There are no plans to provide any reductions in charges for such non-domestic properties.

Policy Decisions

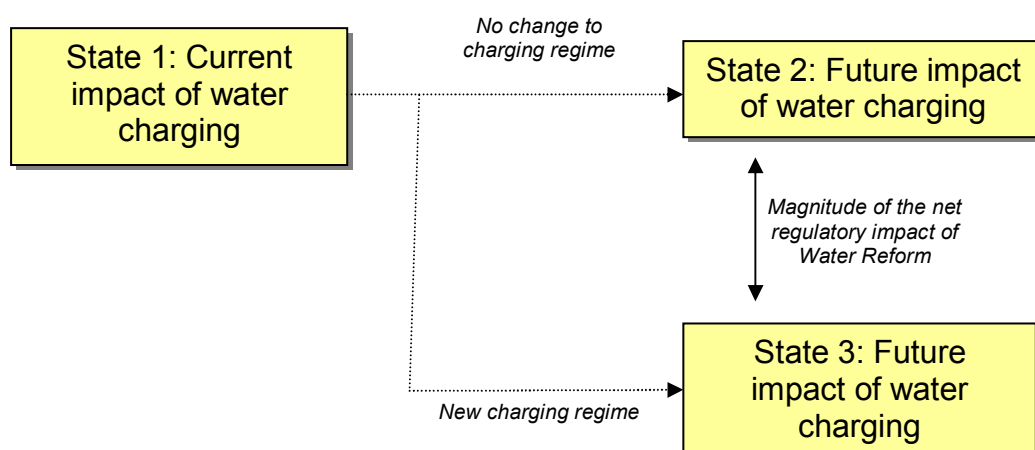
- 3.38 The submissions received largely reaffirmed the views expressed by those organisations pre-consulted and findings outlined in the partial RIA in terms of the impact on small businesses, water intensive industries and marginal businesses. The Minister has reviewed all the Reform Proposals in light of the main points raised in the overall IIA consultation, including the consultation on the RIA, and has confirmed the policy decision on each proposal as set out in Executive Summary. The Government has decided to broadly implement the non-domestic proposals outlined. However, it has been decided that new charges will not be introduced until 1st April 2007. This will provide additional time for businesses and other non-domestic organisations to adjust to the changing cost environment.

SECTION FOUR: FINAL IMPACT ASSESSMENT

Overview

- 4.1 In order to assess the potential regulatory impact of Water Reform, it is necessary to look at the effect of water charges under the current charging regime (a policy neutral scenario), and under the new charging regime. A conceptual framework for assessing the impact is given in Figure 4.1.

Figure 4.1: Conceptual framework for assessing the impact of Water Reform



- 4.2 In order to carry out this assessment, it is important to quantify each of the three 'states' illustrated in Figure 4.1. The key issues to be considered in making this assessment are:

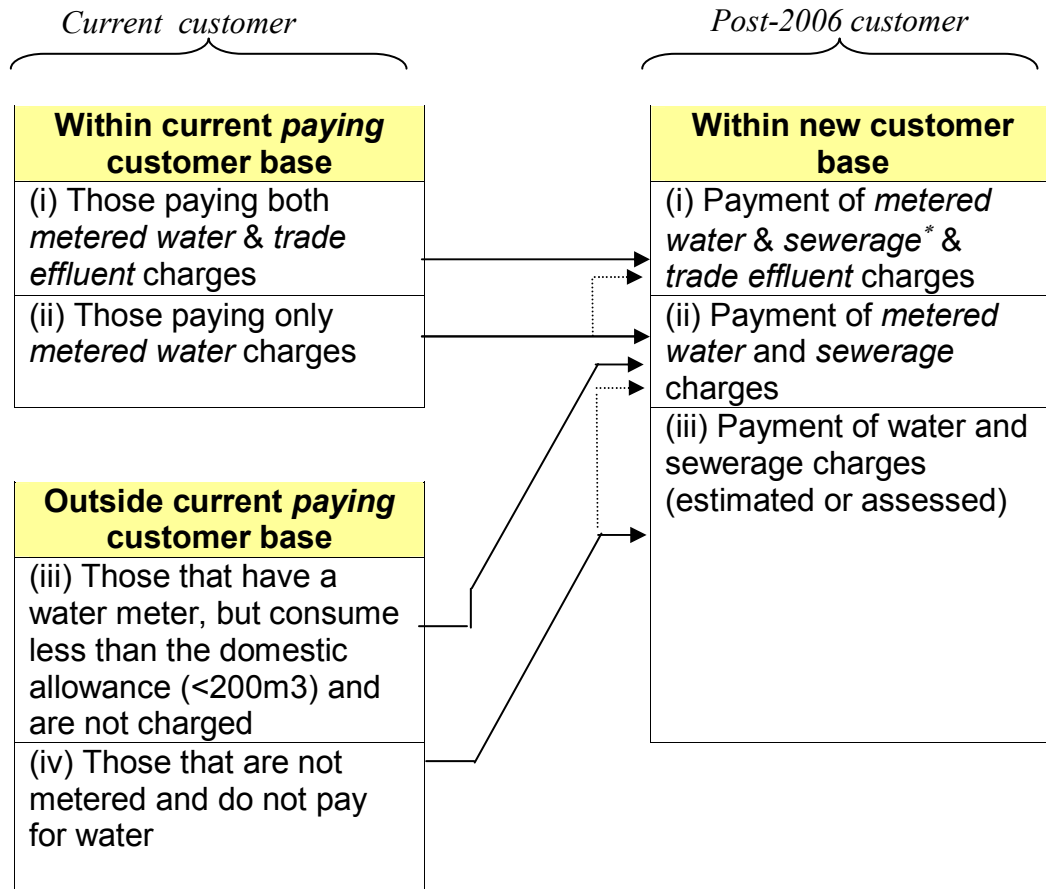
- **Scoping the customer base:** Who pays, and what do they pay for?
- **Costs:** How much do they pay?
- **Benefits:** What are the benefits of Water Reform?

For the purpose of this analysis, it is assumed that the impact of water charging in the future, where there is no change to the charging regime (State 2), is the same as the current impact of water charging (State 1). In the subsequent paragraphs, each of the issues detailed above are considered under the current charging, and the new charging regime consequent to Water Reform. This will allow an assessment to be made of the magnitude of the *net* regulatory impact of Water Reform.

Scoping the Customer Base

- 4.3 As outlined previously in Section Two of this RIA, one of the main changes under Water Reform is the removal of the domestic allowance. Consequently, all non-domestic users will have to pay for the water they consume. This will result in a 'widening of the net' and increase the 'paying' customer base of Water Service. Figure 4.2 illustrates this 'widening of the net', the implications of which are discussed below. The solid lines in the Figure indicate where the majority of customers will sit in the new post-reform customer base. The dotted lines reflect the changed charging status (e.g. unmeasured to metered) of a small number of customers.

Figure 4.2: Widening of the net



4.4 The main changes to the customer base are as follows:

- All those customers currently paying metered water charges and trade effluent charges will continue to pay these post 2007. However, they will also be required to pay sewerage charges in relation to their non-trade effluent discharges to the public sewer;
- In the case of those metered water customers that currently pay water charges only, they will continue to pay these, plus sewerage charges which will be introduced once comprehensive charges are introduced in 2007. In the case of the 500 or so rated water

* Note: Sewerage charges will only be levied where the customer is connected to the mains sewer network.

customers that currently also have trade effluent discharge consents (but who don't currently pay trade effluent charges), they will have to pay the appropriate trade effluent charges in addition to their water and sewerage bills;

- Those properties that currently are metered, but are not charged because they consume less than the domestic allowance, will have to pay for the water they use once the domestic allowance is phased out as well as sewerage charges where they are connected to the public sewer; and
- Currently a significant proportion of properties are unmeasured and consequently do not pay any charges. Once comprehensive charges are introduced, these properties will pay a charge for water and sewerage services based on the value of their property. Prior to the introduction of comprehensive charges, the Water Service metering exercise will be accelerated and meters will be installed in a significant number of these unmeasured properties. These newly metered properties will be charged for water and sewerage on the basis of their metered consumption.

4.5 In the paragraphs that follow, information is provided in relation to the size and composition of the current customer base, along with estimates of the potential new customer base post 2007.

Current Customer Base

- 4.6 Water Service currently has approximately 63,000 metered non-domestic customers in Northern Ireland (excluding test meters). However, not all of these metered customers are actually charged and pay for water. Those customers that consume no water, or less than the domestic allowance, 200m³ per annum, are not currently charged. Therefore, the paying customer base is significantly smaller as detailed in Table 4.1.

Table 4.1: Quantifying the current customer base

Current paying customer base	
(i) Those paying both metered water & trade effluent charges	500
(ii) Those paying only metered water charges	41,000
Total (current paying customer base)	41,500
Outside current paying customer base	
(iii) Those that have a water meter, but consume less than the domestic allowance (<200m ³) and are not charged	21,000
(iv) Those that are not metered and do not pay for water	47,000
Total (outside current paying customer base)	68,500
GRAND TOTAL (all non-domestic customers)	110,000

Note: Figures may not sum due to rounding

- 4.7 Table 4.1 reveals that the number of metered customers that actually pay, including those that pay either both water and trade effluent charges, or water charges only, currently stands at 41,500⁷. There are 21,000 metered customers who don't currently pay any charges as they consume less than their domestic allowance. There are also an additional 47,000 unmetered non-domestic properties that currently do not pay charges either. Consequently, Water Service currently charges only approximately 38 per cent of its non-domestic customer base.

⁷ It is important to note that for Water Services purposes a customer relates to a single connection to the water supply. It is possible that a non-domestic property (e.g. a business) may have more than one connection and in this case would receive a number of separate water bills.

New Customer Base

- 4.8 Once comprehensive charges are introduced in 2007, all customers will have to pay for the services they receive. Table 4.2 provides an overview of the impact that this will have on the 'paying' customer base of Water Service.

Table 4.2: Quantifying the post-2007 customer base

Post-2007 paying customer base	
(i) Those paying both metered water & sewerage & trade effluent charges	1,000
(ii) Those paying metered water & sewerage* charges	67,000
(iii) Those that are unmeasured and pay for water and sewerage* based on the value of the property	42,000
Total	110,000
Outside post-2007 paying customer base	
Total (outside current paying customer base)	0
GRAND TOTAL (all non-domestic customers)	110,000

Note: Figures may not sum due to rounding. (*) Sewerage charges will only be levied where the customer is connected to the mains sewer network

- 4.9 The number of customers paying water, sewerage, and trade effluent charges could increase to approximately 1,000 as up to 500 rated properties with discharge consents are brought under the trade effluent regime. The number of properties paying metered water and sewerage charges (where connected to the mains sewer network) will increase to 67,000 as the domestic allowance is removed. Furthermore it is estimated that meters will be installed in a further 5,000 currently unmeasured properties. The remaining 42,000 unmeasured non-domestic properties will be charged on the basis of property value as outlined previously. All of this will increase Water Services 'paying' customer base (non-domestic only) from its current level of 41,500 to approximately 110,000 once comprehensive charges are introduced.

Costs

4.10 In addition to the increase in the number of non-domestic customers facing charges, there would also be a change in the scale of the charges themselves. In the paragraphs that follow, a comparison of current charges and the charges that will be applied from April 2007 is provided. These comparisons are made in relation to the different customer categories, namely:

- Metered customers
- Unmeasured customers; and
- Trade effluent customers.

4.11 It is important to note that these comparisons compare the **full** charges to be recovered from non-domestic customers and do not reflect the three year phasing-in arrangements. However, a number of individual case studies are also provided which illustrate the impact of phasing in charges on a range of businesses.

Metered Customers

4.12 As indicated previously, Water Service currently has approximately 63,000 non-domestic customers that are metered, of which 41,000 currently pay a charge for metered water (not including those 500 or so that also pay trade effluent charges – the impact on these customers shall be considered separately). Table 4.3 details the change in the average charges facing these customers by broad industrial sector. The new average combined charge refers to the total charge (for both water and sewerage) that customers in that sector would face on average once comprehensive charges are introduced. It is important to stress again that these comparisons refer to full charges and do not reflect any phasing in period⁸.

⁸ See John Spellar's announcement dated 13th September 2004: full details on www.waterreformni.gov.uk

Table 4.3: Impact on charges (unphased) – current *paying* metered water customers

Sector	No. of water customers	Current Average Water Charge	New Average Water Charge	New Average Sewerage Charge*	New Average Combined Charge
Agriculture	30,500	£340	£460	£0	£460
Mining & Quarrying	60	£1,390	£1,520	£1,480	£3,000
Manufacturing – Food	110	£7,340	£7,770	£7,560	£15,330
Manufacturing - Textiles	50	£130	£300	£300	£600
Manufacturing - Wood Products	130	£850	£990	£960	£1,950
Manufacturing - Chemicals	35	£2,930	£3,180	£3,100	£6,280
Manufacturing - Non-metallics	160	£1,780	£1,930	£1,880	£3,810
Manufacturing - Metals	110	£2,760	£2,940	£2,860	£5,800
Manufacturing - Electronics	35	£5,190	£5,420	£5,280	£10,700
Manufacturing – Other	530	£4,160	£4,400	£4,290	£8,690
Construction	160	£850	£940	£920	£1,860
Wholesale & Retail Trade	1,770	£850	£1,060	£1,030	£2,090
Hotels, Bars & Restaurants	2,000	£1,150	£1,370	£1,340	£2,710
Transport	155	£3,120	£3,310	£3,220	£6,530
Business Activities	420	£1,600	£1,920	£1,870	£3,790
Miscellaneous Public Sector	1,060	£3,010	£3,500	£3,410	£6,910
Government Department – Core	210	£2,550	£2,750	£2,680	£5,430
Education Institutions	1,320	£1,650	£1,850	£1,810	£3,660
Hospitals	100	£16,360	£17,240	£16,770	£34,010
Misc. Services / Community	1,890	£950	£1,080	£1,050	£2,130
TOTAL/AVERAGE	40,805	£760	£900	£880	£1,780

* Note: Sewerage charges will only be levied where the customer is connected to the mains sewer network.

- 4.13 The information above reveals that on average, the charges levied on those customers that currently pay metered water charges would increase by 134% from £760 to £1,780 per annum. This is due to the removal of the domestic allowance, causing the increase in water charges, and the introduction of sewerage charges which are broadly equal in magnitude to water charges.
- 4.14 However, it is important to note that this average masks significant sectoral variations. Around 75 per cent of these paying metered customers are agricultural properties. In the case of these 30,500 properties (a mix of farmhouses and other agricultural ‘properties’ such as out-houses and cattle troughs) bills would only increase on average by 35%, or £120. This is because agricultural properties tend not to be connected to the public sewer and consequently will not incur a sewerage charge. However, it must be noted that agricultural properties will now be charged for any emptying of septic tanks performed by Water Service on a full cost recovery basis. In many instances though, farmers may only need to empty their tank once every few years and consequently the equivalent yearly charge would still be significantly lower than if they paid sewerage charges.
- 4.15 Alternatively, for those businesses in sectors that typically are large consumers of water (e.g. food manufacturing) the increase in bills can be in the order of thousands of pounds. However as outlined later, around 500 businesses in these manufacturing industries already pay a trade effluent charge in addition to their water charge currently.
- 4.16 There are also around 21,500 non-domestic properties that are metered but which do not pay any charges at present because their level of consumption is below their domestic allowance. The change in the average charges facing these customers is provided in Table 4.4.

Table 4.4: Impact on charges (unphased) – current metered water customers that *do not* pay any charges at present

Sector	No. of water customers	Current Average Water Charge	New Average Water Charge	New Average Sewerage Charge*	New Average Combined Charge
Agriculture	16,100	£0	£140	£0	£140
Mining & Quarrying	30	£0	£100	£100	£200
Manufacturing – Food	60	£0	£170	£170	£340
Manufacturing – Textiles	30	£0	£210	£210	£420
Manufacturing - Wood Products	70	£0	£180	£180	£360
Manufacturing – Chemicals	15	£0	£170	£170	£340
Manufacturing - Non-metallics	85	£0	£160	£160	£320
Manufacturing - Metals	75	£0	£180	£180	£360
Manufacturing – Electronics	35	£0	£180	£180	£360
Manufacturing – Other	350	£0	£250	£250	£500
Construction	100	£0	£170	£170	£340
Wholesale & Retail Trade	1,450	£0	£190	£180	£370
Hotels, Bars & Restaurants	750	£0	£460	£450	£910
Transport	90	£0	£200	£190	£390
Business Activities	330	£0	£260	£260	£520
Miscellaneous Public Sector	580	£0	£250	£250	£500
Government Department - Core	80	£0	£330	£320	£650
Education Institutions	335	£0	£220	£220	£440
Hospitals	20	£0	£450	£450	£900
Misc. Services / Community	1,125	£0	£140	£140	£280
TOTAL/AVERAGE	21,710	£0	£160	£160	£320

4.17 On average, the new charges levied on these customers for water and sewerage (where they are connected to the public sewer) services would be £160 and £160 per annum.

* Note: Sewerage charges will only be levied where the customer is connected to the mains sewer network.

4.18 However, the majority of these metered customers (in this case, non-paying) are in the agricultural sector. Consequently, their bills would not increase by as much (increasing on average to £140) as such properties are unlikely to be liable to pay a sewerage charge. These properties will mostly be farmhouses as water supplies to cattle troughs and out-buildings do not receive a domestic allowance.

4.19 Most non-agricultural properties would not experience a total combined bill much in excess of the average above except in a small number of cases where a property has more than one domestic allowance.

Unmeasured Customers

4.20 As indicated previously, it is estimated that 42,000 non-domestic properties will remain unmeasured in 2007/08. While these properties do not currently pay a charge, it is estimated that the average these customers will pay would be £490 per annum for water and sewerage services in 2007/08 before phasing is taken into account. However it is important to recognise that this figure masks significant sectoral variation in charges as illustrated in Table 4.5.

Table 4.5: Average water and sewerage bills (unphased) for unmeasured customers by sector

CUSTOMERS Sector (total number of properties with water connection)	CURRENT POSITION			PROPOSED 2007/08		
	Water charge	Sewerage charge	Total charge	Water charge	Sewerage charge	Total charge
Agriculture (very few)	This Sector is almost entirely metered			This Sector is almost entirely metered		
Commercial (32,500)	£0	£0	£0	£235	£220	£455
Industrial (2,500)	£0	£0	£0	£365	£340	£705
Voluntary (2,000)	£0	£0	£0	£140	£135	£275
Average -all sectors (42,000)	£0	£0	£0	£255	£235	£490

4.21 The average charge for industrial properties for water and sewerage would be more than twice those facing voluntary organisations. The average charges for commercial properties would lie in between these, standing at £455. Furthermore, there is also a large degree of variation in charges between non-domestic properties within the same sector. Table 4.6 provides a profile of charges for the main sectors that will remain unmeasured and that will have to pay an unmeasured charge.

Table 4.6: Profile of post-2007 water and sewerage bills (unphased) for unmeasured customers by sector

CUSTOMERS				PROPOSED BILLS 2007/08		
Sector (total number of properties with water connection)	NAV threshold (up to £)	Cumulative (those facing the lowest charges through to the highest)...		Water bill <i>up to</i> (£)	Sewerage bill <i>up to</i> (£)	Total bill <i>up to</i> (£)
		% of cust.	number of cust.			
Commercial (32,500)	2,100	25%	8,125	95	90	185
	4,500	50%	16,250	140	130	270
	21,800	90%	29,250	460	425	885
Industrial (2,500)	2,800	25%	625	110	100	210
	6,200	50%	1,250	170	160	330
	38,000	90%	2,250	760	700	1,460
Voluntary (2,000)	900	25%	500	70	70	140
	1,850	50%	1,000	90	85	175
	10,800	90%	1,800	255	235	490

4.22 Table 4.6 reveals that in the case of the 32,500 commercial properties remaining unmeasured, 25 per cent (8,125 properties) with a NAV of up to £2,100 would face a bill up to a maximum of £185 for both water and sewerage. It is important to stress that only a property with a NAV of £2,100 would be charged this maximum of £185. Properties with a lower NAV would face a charge of *less than* £185. Properties with a NAV of between £2,100 and £4,500 would pay between £185 and £270. Overall, 90 per cent of commercial properties could expect to pay a bill of less than £885 per annum. The top 10 per cent would pay bills in excess of this. However, given the cap of £40,000 that has been imposed in relation to property NAV, the maximum charge that any unmeasured property can be charged would be around £1,500.

4.23 Table 4.6 also reveals that the general profile of charges for industrial customers is higher, while that of voluntary organisations is lower.

Trade Effluent Customers

4.24 All of the previous tables in this Section have considered customers that are to be charged only for water and sewerage services. However, as commented previously, the trade effluent regime will also change under Water Reform. Table 4.7 illustrates the impact on trade effluent charges for the 500 existing paying trade effluent customers. The table reflects the position that existing customers may experience an increase of up to 35 per cent in their trade effluent charges, although the review of the calculation is not yet complete and these figures may be overstated.

Table 4.7: Change in trade effluent costs (unphased)

CUSTOMERS		CURRENT POSITION	PROPOSED 2007/08	CHANGE
Cumulative % of customers	Number of customers	Trade effluent bill up to (£)	Trade effluent bill up to (£)	Trade effluent bill up to (£)
25%	125	380	510	130
50%	250	950	1,290	340
75%	375	4,470	6,030	1,560
90%	450	23,500	31,800	8,300
99%	495	180,000	242,000	62,000

4.25 However, it is important that the increase in trade effluent costs is considered in the context of the introduction of sewerage charges. Customers currently paying for the waste water that they discharge via a trade effluent charge will not have to pay a sewerage charge in respect of that same volume of waste. Table 4.8 provides an overview of the impact on the charge facing these customers.

Table 4.8: Impact on charges (unphased) – current *paying* metered water and trade effluent customers

Sector	No.	Current Average Water Charge	Current Average TE Charge	Current Average Total Charge	New Average Water Charge*	New Average TE Charge	New Average Total Charge
Agriculture	-	-	-	-	-	-	-
Mining & Quarrying	-	-	-	-	-	-	-
Man. - Food	130	20,900	29,600	50,500	21,400	42,000	63,400
Man. – Textiles	40	11,900	26,400	38,300	12,300	37,500	49,800
Man. - Wood Product	10	6,600	2,800	9,400	6,800	4,000	10,800
Man. - Chemicals	30	11,900	28,800	40,700	12,300	40,900	53,200
Man. - Non-metallics	20	13,200	2,560	15,760	13,500	3,600	17,100
Man. - Metals	15	10,000	6,250	16,250	10,200	8,900	19,100
Man. - Electronics	20	22,300	25,900	48,200	23,000	36,800	59,800
Man. – Other	60	14,300	15,400	29,700	14,700	21,800	36,500
Construction	-	-	-	-	-	-	-
Wholesale & Retail Trade	20	32,900	4,800	37,700	33,800	6,850	40,650
Hotels, Bars & Restaurants	-	-	-	-	-	-	-
Transport	-	-	-	-	-	-	-
Business Activities	-	-	-	-	-	-	-
Misc. Public Sector	240	2,200	930	3,130	2,300	1,330	3,630
Govt. Depart. - Core	-	-	-	-	-	-	-
Education Institutions	-	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-	-
Misc. Services / Community	10	12,600	8,200	20,800	13,000	11,600	24,600
TOTAL/ AVERAGE	595	11,000	8,400	19,400	11,300	11,400	22,700

* Note: Very large consumers of water might see a small reduction in their water charges as a consequence of the slight reduction in the volumetric charge. In the case of most other smaller consumers of water, this slight reduction in the volumetric charge is more than offset by the removal of the domestic allowance. Consequently, their overall water charge will rise.

4.26 The figures provided above reveal that the proportionate increases in the bills of these customers are not as large as for other metered customers (which can be greater than 100 per cent), standing at 17 per cent on average. However, it is important to note that in some cases this could still amount to many thousands of pounds. For example, businesses in the food manufacturing sector may experience an increase in bills for both water and trade effluent of £12,900 (26 per cent) on average. Some businesses may experience increases of a larger magnitude.

4.27 Furthermore, up to 500 additional rated customers who currently have trade effluent discharge consents, but who don't pay trade effluent charges, will be brought within the trade effluent regime once comprehensive charges are introduced. These customers will only pay effluent charges on the process related element of their discharge, and will pay a standard sewerage charge on the remainder of their discharge to the public sewer. It is important to stress that customers will not be double charged for the same volume of water, but pay either a sewerage or trade effluent charge on each element of their discharge as appropriate. In cases where the effluent produced is very weak in strength an annual discharge licence charge could be levied.

Illustration of Charges

4.28 As indicated previously, the charges detailed in the Tables above relate to the full charges to be recovered from non-domestic customers and do not reflect any phasing in. However, new charges are to be phased on the basis of one-third of full cost in 2007/08, two-thirds in 2008/09, and full cost in 2009/10. The domestic allowance is also to be phased out in a similar fashion over the same period. Table 4.9 provides a number of illustrative examples of customers and the profile of their bills over the next four years reflecting this phasing-in:

- **Example 1:** Existing metered water (with two meters) and trade effluent customer (Large food manufacturer);
- **Example 2:** Existing metered water customer with a trade effluent consent that currently does not pay trade effluent charges (Small/Medium electrical manufacturer);
- **Example 3:** Existing metered water customer (Medium sized retail outlet);
- **Example 4:** Currently unmeasured customer (Small office); and
- **Example 5:** Existing metered water customer not connected to public sewer (Farmhouse).

Table 4.9: Illustrative examples of the impact of phasing in charges

Example 1: Existing metered water (with two meters) and trade effluent customer (Large food manufacturer)					
	Volume (m3)	Charge (2006/07)	Charge (2007/08)	Charge (2008/09)	Charge (2009/10)
Water – Meter 1	106,000	£94,300	£94,300	£94,300	£94,300
Water - Meter 2	2,300	£2,000	£2,000	£2,100	£2,100
Sewerage	1,100	£0	£400	£700	£1,100
Trade effluent	102,000	£69,800	£75,500	£81,100	£86,700
Total charge	-	£166,100	£172,200	£178,200	184,300
Charge index	-	100%	104%	107%	111%
Example 2: Existing metered water customer with a trade effluent consent that currently does not pay trade effluent charges (Small/Medium electrical manufacturer)					
	Volume (m3)	Charge (2006/07)	Charge (2007/08)	Charge (2008/09)	Charge (2009/10)
Water	2,100	£1,880	£1,880	£1,880	£1,880
Sewerage	30	£0	£30	£50	£80
Trade effluent	1,900	£0	£400	£810	£1,210
Total charge	-	£1,880	£2,300	£2,730	£3,160
Charge index	-	100%	123%	146%	169%

Example 3: Existing metered water customer (Medium sized retail outlet)

	Volume (m3)	Charge (2006/07)	Charge (2007/08)	Charge (2008/09)	Charge (2009/10)
Water	520	£330	£390	£450	£510
Sewerage	500	£0	£170	£330	£500
Total charge	-	£330	£560	£780	£1,010
Charge index	-	100%	167%	235%	302%

Example 4: Currently unmeasured customer (Small office)

	Volume (m3)	Charge (2006/07)	Charge (2007/08)	Charge (2008/09)	Charge (2009/10)
Water	n/a	£0	£60	£130	£190
Sewerage	n/a	£0	£60	£120	£180
Total charge	-	£0	£130	£250	£380
Charge index	-	n/a	N/a	n/a	n/a

Example 5: Existing metered water customer not connected to public sewer (Farmhouse)

	Volume (m3)	Charge (2006/07)	Charge (2007/08)	Charge (2008/09)	Charge (2009/10)
Water	500	£310	£370	£430	£490
Sewerage	0	£0	£0	£0	£0
Total charge	-	£310	£370	£430	£490
Charge index	-	100%	119%	138%	156%

Note: Some figures may not total due to rounding.

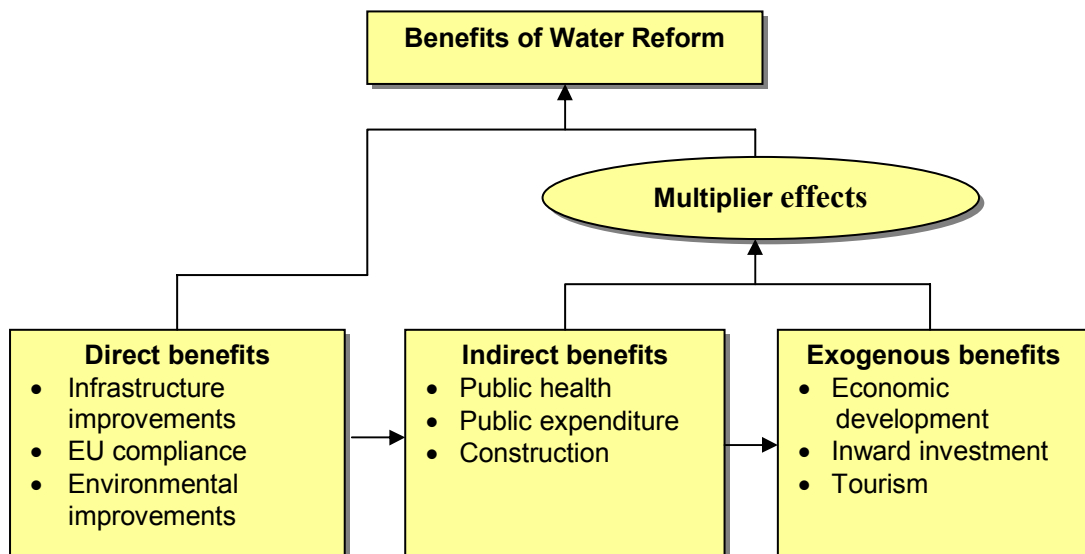
4.29 The illustrative examples suggest that existing metered water customers that also pay trade effluent charges, typically larger industrial users, will experience the smallest proportionate increase in their annual bills (11 per cent over four years in this example). However given the large volume of water consumed and effluent discharged, this would still result in a significant increase in the estimated bill of approximately £18,000.

4.30 Existing metered water customers (who are not paying trade effluent and are connected to the public sewer) on the other hand would experience greater proportionate increases over the period as sewerage charges, which are broadly similar in magnitude to their current water charge are introduced and the domestic allowance is phased out. Example 3 illustrates the increase in charges in relation to a medium sized retail outlet whose charges would treble from £330 to £1,010 over the period.

Benefits

4.31 Having addressed the costs that will be imposed on non-domestic properties as a consequence of Water Reform, it is essential that the benefits of reform are also considered in the RIA. It is important that the full range of benefits resulting from reform are weighed against the associated costs, and not just the immediate or 'direct' benefits. Figure 4.3 identifies the main benefits resulting from Water Reform, and each of these is discussed in the subsequent paragraphs.

Figure 4.3: Identifying the benefits of Water Reform



Direct Benefits

4.32 The expansion of non-domestic charges outlined in Section Two is a direct consequence of the introduction of self-financing arrangements for water and sewerage services and hence must be understood in the context of the rationale underpinning this change. For many years, investment in water and sewerage infrastructure, has struggled in its competition for Government funding with other priority services such as health and education. Some £3 billion in investment in water and sewerage services is required over the 20 year period from 2003. There has been a considerable increase in investment in the water and sewerage system since 1998. However, this level of expenditure cannot be sustained without diverting significant resources from other priority services.

4.33 The new strategic approach represented by self-financing arrangements will enable a step change in the level of investment in water and sewerage services over the long term that will result in **infrastructure improvements**. This investment will mean that Water Service will be able to **comply fully with increasing water quality standards**. The level of investment that will be funded under the self-financing arrangements will result in **environmental improvements**, which means a cleaner environment, cleaner rivers, and cleaner beaches. Failure to comply with the relevant European Directives would leave the United Kingdom open to infraction proceedings, possibly resulting in costly fines which would fall to the budget for the Northern Ireland Departments (the NI DEL).

Indirect Benefits

- 4.34 There are also a number of indirect benefits that flow from the direct benefits outlined above. Clean water and effective sewerage services are fundamental to **public health**. Improvements in water quality that result from increased infrastructure investment will have further benefits in this regard.
- 4.35 Furthermore, providing funding for water and sewerage services on a self-financing basis has a positive impact on the **public expenditure** system. Firstly, removing these services from the system will release public funds which may be used to meet the needs of other key public services such as education and health (see Policy Proposals Paper issued along with the IIA). This should help Northern Ireland to keep pace with improvements in these services in GB that would not otherwise be possible while Northern Ireland's water and sewerage services are financed from public expenditure. In strict economic terms, this does not represent an economic benefit of Water Reform, rather it is a redistributive effect.
- 4.36 This substantial investment in infrastructure over the next two decades, which is in part made possible by Water Reform, is already resulting in a substantial increase in public **construction** expenditure. Consequently, this investment will create and safeguard employment in the construction sector.

Exogenous Benefits

- 4.37 A broad range of potential exogenous benefits, or sometimes termed 'induced' benefits also exist. These benefits are termed exogenous because they are external to the activities of the water and sewerage sector, but are induced by its outputs.

4.38 Clean water supplies and effective sewerage services underpin sustainable economic activity and **economic development**. Failure to deliver on the level of investment needed for water and sewerage infrastructure referred to above would lead to constrained planning processes in relation to both domestic and non-domestic properties as treatment works approach capacity and fail to cope with additional demand. Furthermore, the continued deterioration of the ageing water and sewerage infrastructure in the absence of this investment would lead to out-of-sewer flooding and traffic disruption as a result of burst mains. Consequently, Water Reform is an important factor in facilitating economic development.

4.39 Similarly modern, cost-effective water and sewerage services also play an important part in the **inward investment** decisions of potential investors. Inward investment plays an important role in establishing and developing new industries and increasing the number of high quality employment opportunities in Northern Ireland. Northern Ireland faces strong competition for inward investment from other regions of the UK, Ireland and further afield. In light of this, any investment which improves the attractiveness of Northern Ireland's business environment is beneficial.

4.40 As stated previously, Water Reform will also result in environmental improvements, such as cleaner environment, cleaner rivers, and cleaner beaches. These improvements will positively impact on Northern Ireland's ability to sell its **tourism** product in both domestic and foreign markets.

Multiplier Effects

4.41 **Multiplier effects** are the secondary effects of the incomes generated by the net employment that is created (i.e. jobs created minus job lost) as a consequence of Water Reform. It can be expressed in a number of ways including as a financial value or as a measure of multiplied employment. A standard multiplier used in a wide range of economic research is a value of 1.1. That is, for every 10 jobs created, an additional 1 will be created via multiplier effects.

Assessing the Impact

4.42 The new non-domestic charging regime will have a number of costs and benefits as outlined previously in this Section. In order to fully assess the impact, it is necessary to once again look at the future scenarios where there is no change to non-domestic charging (policy neutral scenario), and where the new non-domestic charging regime is implemented.

Policy Neutral Scenario – No Change

4.43 Under the existing regime, Water Service is funded mostly by a block grant from the Government and also by direct charges to certain categories of non-domestic customers. If the organisation were to be continually funded on this basis, either:

- The level of investment in water and sewerage infrastructure needed in the future could only be sustained by redirecting significant resources away from other public spending priorities such as health and education. This would impact on the availability and quality of these front-line services in Northern Ireland; or

- In the absence of these resources, Water Service would not be able to sustain necessary levels of investment. This would mean that it would be unlikely that the organisation would be able to ensure compliance with European Directives on water quality, protect public health and the environment, respond to increasing demand for water and sewerage services, and upgrade ageing water and sewerage infrastructure in the future.

4.44 It is unlikely that the resources could be released at the level required on a sustainable basis from the Northern Ireland budget to fund the investment programme without unacceptably impacting on other key spending programmes. Therefore, under a policy neutral scenario, the most likely outcome is the latter proposition. Failure to comply with the European Directives could result in costly infractions. These infraction proceedings take the form of fines, which can amount to tens of thousands of pounds per day, and which would divert public resources away from key services and spending priorities.

4.45 In this scenario there would not be any significant change in the scope of the customer base or the magnitude of the charges and as such there would be little direct impact on businesses and other non-domestic properties. However, the benefits of Water Reform outlined earlier in this Section such as the health, environmental and economic development benefits would not be realised. In fact it is possible that in the future, as the sewerage system reaches capacity there could be detrimental impacts on health and the environment and a constraining of economic development.

New Charging Regime - Non-Domestic Charging Proposals

4.46 The non-domestic charging proposals will have a wide range of positive impacts as discussed previously under 'benefits' in this Section. The level of investment made possible by the introduction of comprehensive charges will ensure compliance with European Directives and will realise the other benefits identified. However, given the nature of the indirect and exogenous benefits, it is not possible to quantify in monetary terms the overall benefit that will accrue from implementing the proposals (e.g. while modern infrastructure might well be a key element influencing the decision of a potential inward investor whether or not to locate in Northern Ireland, it is not possible to say how much of the investment was as a consequence of that infrastructure). Nevertheless, while these benefits cannot be quantified, it is important not to underestimate their value to the general public in Northern Ireland and the wider economy of the region.

4.47 On the other hand, the non-domestic charging proposals also impose a greater cost burden on businesses and other non-domestic properties in Northern Ireland.

4.48 Pre-consultation with representatives of the business and farming communities, and submissions received during the consultation process revealed a number of concerns in relation to the potential impact that these increased costs could have. These representations highlighted the fact that while water charges in many cases might constitute a relatively small component of a business' overall cost base, an increase in these costs must be considered in the context of the wider cost environment in Northern Ireland. Businesses locally have experienced significant increases in other cost areas such as energy and insurance over recent years. They also commented that increases in the overall cost base can eat into profits and threaten the viability of marginal businesses. The importance of maintaining international competitiveness was also stressed in relation to Northern Ireland's large number of exporting firms.

4.49 In terms of impact:

- **Competition** – Cabinet Office guidance stipulates that all RIAs must include a competition assessment. It is important to note that the competition assessment does not attempt to consider whether the proposals will affect the ability of local firms to compete outside of Northern Ireland and the UK (i.e. the impact on a firm's competitiveness). Rather, the assessment considers whether proposals will prevent markets from functioning competitively (e.g. deterring/preventing new entrants to the market). Comprehensive charging for water and sewerage services is the norm in the rest of the UK, and throughout many other countries. The introduction of comprehensive charging in Northern Ireland will bring the region into line with the rest of the UK and other EU member states. Charges will be applied universally across all businesses and all sectors. Consequently the proposals will not distort the operation of the market and there are no competition issues.
- **Vulnerable sectors** – The analysis has revealed the introduction of comprehensive charges will have the greatest proportional impact on those water intensive industries that do not currently pay for the treatment of their waste water via trade effluent charges. Many of the businesses in these intensive industries such as textiles, food processing and electronic manufacturing do pay trade effluent charges already, which should cushion the cost increases to a certain extent. However, given the volume of water consumed and discharged these cost increases could be large in magnitude. Furthermore, many of these businesses compete in international markets and where demand might be sensitive to price rises. The impact of these proposals on profitability / viability will vary depending on individual business circumstances.

- **Small business** – The analysis also reveals that most unmeasured customers who do not currently pay charges will receive a bill in the order of a few hundred pounds per annum. These customers typically tend to be small businesses. While the analysis reveals that these cost increases might be relatively low in comparison to other cost pressures, our pre-consultation and consultation responses suggest that some marginal businesses might find these difficult to absorb.
- **Agriculture** – Because farms are almost entirely metered and in most cases not connected to the public sewer, the additional costs imposed will be equivalent to the removal of the domestic allowance. Against this, farmhouses supplied through the farm meter will not incur an unmeasured domestic charge.
- **Public Sector** – The charges faced by Public Sector organisations will also be affected by the proposals. Hospitals in particular tend to consume substantial volumes of water and will experience increases in charges largely as a consequence of the introduction of sewerage charges.

Annex A

CONSULTATION RESPONSES ON THE RIA

ORGANISATION	ISSUE	RESPONSE
Assets		
3, 4, 24, 32	Independently Audited Asset Management Plan required to contain costs and maximise efficiencies.	Water Service's Asset Management Plan (NIAMP2) provides the best current estimate of future capital funding requirements for Water Service to 2022/23 currently available. It has been validated by independent technical auditors, and will be subject to audit by the Regulator to ensure the efficient use of resources.
3	Investment Plan outputs should be designed and monitored. Can Water Service deliver?	The Water Service Capital Works Programme (CWP) is the investment plan. It is constantly revisited with progress monitored against strategic aims and at an individual project level.
3	Sell surplus assets to reduce borrowing and minimise maintenance costs. Relocate offices.	The GoCo will be challenged by the Economic Regulator to seek out and realise efficiencies in its operations and the use of its assets and estate. However, the pursuit of efficiency savings will be balanced against the need to maintain and improve service standards.
20, 24, 47 3, 32	Ensure not paying for Water Service Assets twice by write-down. Asset write-down should be maximised.	Full write-off is unrealistic given the high levels of recent investment and the fact that Government investment is funded by borrowing. A major adjustment will be agreed, consistent with the need to ensure the company has a robust financial structure, and also to ensure that tariffs are kept as low as possible.
59 31, 42, 51, 62, 63	Does not address fairly under investment legacy or assets of GoCo already purchased by consumer. Modernise infrastructure first.	Water services in NI have been financed from public expenditure over the last 15 years in contrast to the significant investment made by English water companies which has been paid for directly by consumers. There has been a high level of investment over the past few years with over £1 billion likely to have been invested in the five years up to and including 2007-08.
65	Consider for political negotiation a ring-fenced addition to the NI block to assist with the backlog of investment.	Exchequer unlikely to be sympathetic given NI's high-level share of public expenditure per person and lower contribution to public services. Water services in NI have also been financed from public expenditure over the last 15 years in contrast to the significant investment made by English water companies, paid for by consumers.

ORGANISATION	ISSUE	RESPONSE
35	Supportive of additional investment	Noted.
Charging Assumptions and Costs		
3	Use revenue bond and other forms of securitisation.	While the prospect of issuing bonds to finance infrastructure investments has a number of attractions, not least the potential scope for securing much larger sources of funding, all bonds would ultimately have to be guaranteed by the Northern Ireland Executive. The Treasury has made it clear that it would not support a "bond financed" approach nor would it be prepared to act as ultimate guarantor which would likely be sought from financial institutions and investors.
3, 35	Customers should only pay for benchmarked costs, charges should be kept stable. Essential to minimise starting costs and charges which will set standard.	Charges will be phased in over three years. After that charges will be subject to Regulation by the Economic Regulator.
3, 5, 35	Business should not subsidise the domestic sector. May be case without meters. Unclear if it is – charges should recognise better asset utilisation.	This will not be the case. The basis of the split between domestic and non-domestic is on the total volume of water used/sewerage produced by each sector.
25	Does apportionment of Costs Table 2 PG 8 summary doc reflect relative usage of resources?	Yes
3, 4	Independent regulation required as soon as possible to guarantee efficiency targets/aid consumer.	The role of the Northern Ireland Authority for Energy Regulation (NIAER) will be extended to include the regulation of the Northern Ireland water industry.
35, 47	Wrong to ask other users, including business to pay for vulnerable groups' discounts this should be borne by Government.	The revised and enhanced protections developed for low-income households will be funded by the Northern Ireland public expenditure budget and not by other customers.
3	Staff and operating cost increases from 5/6 – 13/14 unacceptable.	Future operating costs will be subject to economic regulation and achievement of industry standard costs and efficiencies.
3	Clarify the phasing arrangements 5.8/8.20 inconsistent.	The phasing in period consists of one-third of the tariff in the year 07/08, two-thirds in 08/09 and full charging in 09/10.

ORGANISATION	ISSUE	RESPONSE
3	Has the impact of changes in economic make up over 10-15 years been tailored into the charging model?	The financial model takes account of changes in customer numbers and consumption data.
3	Who pays for bad debt?	Water and sewerage services will be self-financing. Debts will be pursued through the normal channels including the courts.
59, 20, 32, 40, 47	Details on first time charges should have been included – ensure developers fully cover charges to new infrastructure and housing.	Proposals will be brought forward shortly.
3, 20, 32	Clarification needed on liabilities risks.	Investment programmes have been accelerated to minimise the risk of infraction proceedings. Infraction fines for non-compliance with EU directives would fall to the UK Government. However, these would be passed on to the budget for the Northern Ireland departments.
35	GoCo should maximise efficiency, minimise charges and contract out significant portion of services provided on open market.	The NIAER will regulate the GoCo to industry standards, maximising efficiency and keeping costs at the minimum required to meet the business objectives. Contracting out will be considered where this provides value for money.
35	Efficiency savings should be doubled to reduce charges. Estimated charges unnecessarily high and coincide with reintroduction of the business rate – up to 302% increase for business sector.	The regulation of the GoCo by the NIAER will involve the setting of efficiency targets in order to maximise efficiency and minimise cost and thus charges. The NIAER will strive to ensure that these targets are both challenging and achievable. The Government has to consider the financial implications of delay in Water Reform on other public services.
35	Estimated charges unnecessarily high and coincide with reintroduction of the business rate – up to 302% increase for business sector.	The level of charges detailed in the RIA are those which are required to recover the full cost of providing water and sewerage services to non-domestic customers in Northern Ireland. New charges which are introduced will be phased in order to help reduce the impact on customers.
29, 40, 63	Contain costs by control of leakage.	Significant progress has been achieved on leakage through capital investment, which is programmed to achieve economic levels of leakage by 2008. This level will be kept under review.
39, 43, 47, 54, 58, 59	Sums don't add up.	The figures referred to in the RIA are the best estimates available at the time of writing the report.

ORGANISATION	ISSUE	RESPONSE
39	Non-domestic sector does not pay enough – 60% use /28% bill. Welcome changes which recognise this discrepancy. Business sector should pay more for service.	The basis of the apportionment of costs between the domestic and non-domestic sector is the total volume of water used/ sewerage produced by each sector. This results in a 60:40 domestic/non-domestic split for water and a 65:35 split for sewerage. Making the business sector pay more would mean that it was subsidising the domestic sector, which is inconsistent with the Department's charging principles.
59	Domestic consumer unfairly burdened with costs from non domestic sector.	The basis of the apportionment of costs between the domestic and non-domestic sectors is the total volume of water used/ sewerage produced by each sector. This results in a 60:40 domestic/non-domestic split for water and a 65:35 split for sewerage. Therefore the domestic sector only pays for the costs that households impose on water and sewerage system in Northern Ireland. There is to be no cross-subsidisation between the domestic and non-domestic sectors.
40	Business should pay for water usage at a corresponding or higher rate to that of domestic consumers.	Noted. However, this would be inconsistent with the principles which underpin the charging regime whereby costs are apportioned to customers, both domestic and non-domestic, on the basis of the volume of water consumed.
4, 8, 10, 13, 14, 17, 19, 20, 21, 24, 27, 29	Costs have increased under privatisation over 10 years – concern re future costs and standards.	Cost of domestic charges in GB have both increased and decreased since privatisation. Privatisation has been ruled out for the foreseeable future. The new framework will have a regulatory arrangement that will monitor costs, standards and investment.
63	Costs have already been billed into current payment procedures.	Current arrangements are not able to raise the revenue required for long-term investment in the water and sewerage service. Most non-domestic customers who are currently charged only pay for the clean water that they consume and do not contribute towards the cost of the sewerage services they receive.
65	What will be the level of charge for non-domestic properties?	Details of estimated charges for non-domestic (unmeasured) customers are set out in the RIA.
65	Who will be billed for metered installation?	Customers will not have to pay for meter installation "up front". The costs of metering are recovered through the annual bills of metered customers as a class of customers.

ORGANISATION	ISSUE	RESPONSE
35	Welcome the apportionment of costs and the calculation of charges based on usage.	Noted.
35	Support for extension of metering.	Noted.
Sustainability		
48, 33, 62	Ensure better use of water and more efficient technologies in building developments, and give farms incentives to reduce pollution.	In developing the legislation to implement Water Reform, consideration will be given to placing the Department and the Economic Regulator under a statutory duty to exercise their oversight of the Northern Ireland water industry in accordance with sustainable development principles. GoCo will be specifically tasked to promote the efficient use of water by customers to ensure that in undertaking its activities it takes into account effects on the natural and built environment; and on public access to places of interest and natural beauty.
30, 32, 31, 62, 40	Investigate water efficiency polices – aim to reduce the need for drinking quality water to be used for gardens and car washing – research grey water usage.	The charging proposals, in particular the extension of metering in the non-domestic sector and the introduction of metering in the domestic properties, together with the implementation of water efficiency plans, will help to conserve water.
53, 62	Charges should encourage sustainability iro recycled water services.	Development of charging arrangements takes into account the various requirements of the Water Framework Directive in respect of the apportionment of costs across consumer groups, the 'polluter pays principle' and the sustainability obligation.
32	Building Regulations and tax incentives to increase grey water use.	As above.
32	Review Building Regulations to ensure water-efficient developments.	As above
30, 62	Disappointed that the only costs associated with cleaner rivers is avoidance of EU fines.	The partial RIA considered the implications of cleaner rivers under the benefits of Water Reform (paras 3.33 – 3.43) section where the broad spectrum of benefits that would accrue from Reform were outlined. While it was commented that the overall impact of these benefits was difficult to quantify, it was added that their value to the Northern Ireland people and economy should not be underestimated.

ORGANISATION	ISSUE	RESPONSE
40	Businesses should be encouraged to clean water before discharge, eg, hairdressers.	Under current legislation businesses have the option to pre-treat their trade effluent prior to discharge.
48	Perhaps farmers could achieve reduced charges by adopting proactive Water management measures.	Agreed. As farmers are metered, they have a direct incentive to efficiently use water. It is noted that DARD offers positive incentives to farmers to contribute to positive impacts on the environment.
Impacts		
65, 66	Lead in period for charges should be extended so that organisations are able to plan financially for implementation.	A balance has been struck between phasing in the introduction of charges and the financial implications of delay for other public services. The introduction of new charges will also not start now until April 2007.
3	Phase in over 5 years and raise awareness to reduce vulnerabilities.	A range of initiatives has been undertaken including the issue of information leaflets to all non-domestic properties in order to raise awareness of Water Reform.
65	The increase in costs to the non-domestic sector is excessive and will be damaging to the economy.	Charges will be kept as low as possible for businesses. However, it is recognised that some businesses and water intensive companies may face problems. That is why the charges will be phased-in over three years.
3	Agri-food sector vulnerable with IPPC & EU requirements; every effort needed to minimise increases. Manufacturing sector also vulnerable with de-rating.	Noted.
3	Has investment plan taken account of IPPC legislation?	Works currently being constructed under the Capital Works Programme will include all requirements.
3, 27	Lower disposal incomes will impact on business.	Noted.
4, 21	GoCo benefits unlikely to be for Northern Ireland companies – big French monopolies and personnel from GB Water Companies will be involved.	EU competition policy ensures open competition of contracts. Firms in Northern Ireland should be well placed to bid for outsourced construction contracts.
8, 54	Document fails to outline how industry and other sectors will pay for water & sewerage.	A significant proportion of businesses already pay for water in Northern Ireland. The RIA acknowledges that the introduction of new charges will impose a greater cost burden on businesses locally which they will have to absorb within their wider cost base.

ORGANISATION	ISSUE	RESPONSE
24	Concerns about Water Service cuts impacts on economy.	Noted.
24	Concerns about impacts on small business and farming in rural west.	There will be a 'phasing in' period for those small businesses that are currently not charged. This will provide time to help them to absorb the costs.
30, 62	Disappointing, a comprehensive RIA could have highlighted clear benefits of water charging – tourism, food production, benefits for water users.	The partial RIA (paras 3.33 – 3.43) highlighted the broad spectrum of benefits that would accrue from Water Reform, from direct benefits such as environmental improvements, to indirect and exogenous benefits such as tourism and economic development. While it was commented that the overall impact of these benefits was difficult to quantify, it was added that their value to the Northern Ireland people and economy should not be underestimated.
9, 25, 30, 62	Concerned about potential impact of charging system on pollution re septic tanks in non-domestic sector, duty to inform owners of best practice and to rigorously control suppliers of septic tank and trade effluent services.	Septic Tank owners are required under conditions of Water NI Order 1999, Schedule One, Discharge Consents to ensure annual desludging, and that any discharges into waterways do not exceed prescribed levels. EHS (Water Management Unit) will instigate a proportional and appropriate level of enforcement against any septic tank consent holder who causes pollution due to non compliance with any consent. This enforcement process can be triggered by public complaint or routine random inspection by staff.
31	New charges double blow-loss of domestic allowance and domestic charge c£800 pa.	Noted. The removal of the domestic allowance will bring Northern Ireland more in line with the rest of the UK customers pay for all of the water that they consume. There will also be a phasing-in period which consists of one-third of the tariff in the year 07/08, 2/3rd 08/09 before full charging in 09/10 to help soften the impact of new charges on businesses.
63	Negative impacts on small business.	Noted. There will be a 'phasing in' period for those small businesses that are currently not charged. This will provide time to help them to absorb the costs.
58	Charges unfair to Farmers, who are asset rich, cash poor - will put over £3m onto agricultural sector before taking septic tank emptying into account.	Currently, almost all farms pay for a metered water supply. This arrangement will be maintained. Therefore in most cases, the increase in bills will be limited to the equivalent of the domestic allowance which is to be phased out, expected to be around £160-£170 p.a. Most farms will not incur a sewerage charge, as they are not connected to the public sewer.

ORGANISATION	ISSUE	RESPONSE
35, 67	Will landlords be billed in rented accommodation and will students be treated as domestic properties? How will charges be levied on those in temporary accommodation?	Properties will be treated as domestic if they are classified as domestic on the VLA database (e.g. Queen's Elms Halls of Residence are non-domestic but many student houses are domestic). Occupiers (householders) will be liable for charges although the legislation will allow the water company to enter into agreements with owners for the payment of charges. For those in temporary accommodation it depends on the nature of their occupancy. For example, if a person is temporarily in a house they will be liable as an occupier. If they are in a room in a hostel and the hostel has a single non-domestic supply, the hostel will pay the charges for the whole building.
Budgetary Issues		
27, 59	Will savings of £300m stay in Northern Ireland?	Resources no longer needed for water and sewerage services (up to £300 million per year when water charging is fully implemented) will be allocated to other public services in Northern Ireland.
65	Clarify the role of water charges in the context of RRI to ensure water investment is additional to other capital spending on public services.	The capital investment requirements of GoCo will be funded by income from customers and borrowing. NIWL will be classed as a Public Corporation (PC) for public expenditure purposes. As such, any lending from the Department will score against DRD's capital DEL. The capital investment funded by customers will not be a call on DEL and will allow the DEL/RRI to be available for investments in public services. The continued availability of RRI is contingent on the introduction of Water Reform.
31	Give Northern Ireland Assembly tax varying powers.	Local income tax is outside the powers of the local administration as determined by the NI Act 1998 which limits us to taxes which are not in the character of UK wide taxation.
Voluntary and Public Sector		
39	Exempt schools and hospitals from charges and protect rural poor.	Any new costs will be taken into account in setting the Education and Health expenditure plans. The proposals have undergone the rural proofing exercise in the IIA. Furthermore, the low-income proposals will help protect low income households in both rural and urban areas.
40, 43, 63	Special consideration for charities and not for profit organisations – exemption /reduced charges.	Noted. The provision of water and sewerage services is a utility for which a charge is levied, similar to electricity and gas. One of the charging principles is that all properties connected to the water and sewerage service network should pay for the service, as is the case elsewhere in the UK. There are no proposals to provide relief to charities / not-for-profit organisations.
53	Charges increase funding pressures on schools.	Any new costs will be taken into account in setting the Education Budget in future public expenditure plans.

ORGANISATION	ISSUE	RESPONSE
43	Rate relief is to be retained for deserving organisations. The same organisations should be exempt from water charges otherwise there will be a devastating effect on all Voluntary and Community organisations with additional costs of c£1.1m per year . Government needs to ease not add to burden on sector.	Noted. The provision of water and sewerage services is a utility for which a charge is levied, similar to electricity and gas. One of the charging principles is that all properties connected to the water and sewerage service network should pay something for the service, as is the case elsewhere.
67	Accommodation with meters – Can Simon Community apply for discount on behalf of service users? If it is more beneficial can they get meters fitted?	If accommodation currently has a meter it suggests that it is a non-domestic property. That being the case no low income protection is available to non-domestic customers. Only householders are eligible for low income protection because they have to be in receipt of a passport benefit. If the Simon Community is a big user they either will have or will soon be getting a meter. Otherwise they will pay an unmeasured charge.
3	Additional resources for education, skills and infrastructure welcomed.	Noted.
Miscellaneous		
59	Multiplier effect has not been factored in for loss of 700 jobs in Water Service.	Noted. This should be considered in the context of new opportunities in IT, billing, the construction industry, and as a consequence of the economic development benefits of Reform.
62	RIA disappointing; narrow in interpretation of duties and inadequate in assessment of proposals under SEA and Sustainable Development.	It is not within the RIA's remit to deal with SEA and Sustainable Development. Impacts have been considered more widely in the Integrated Impact Assessment.
59	SOS/Executive have responsibility to secure adequate funding levels to take account of legacy of neglect and future demands.	There has been a high level of investment over the past few years. However, the water and sewerage infrastructure needs further resources; this is unlikely to be sustainable from the DEL as water and sewerage services will need to compete with Health and Education etc. for resources.
59	Why was NICICTU not included in pre-consultation?	Pre-consultation on the RIA was focused on key stakeholders representing the interests of the business, farming and voluntary sectors. All public and stakeholder groups have had the opportunity to respond to the issues identified in the consultation document during the 14 week consultation period, reflecting best practice.

