

water
Reform
Northern Ireland

Reform of Water and
Sewerage Services in
Northern Ireland

Integrated Impact
Assessment of
the Government's
Proposals for the
Reform of Water and
Sewerage Services:

Summary and
Consultation
Questions

November 2004

**REFORM OF WATER AND SEWERAGE SERVICES
IN NORTHERN IRELAND**

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

Summary and Consultation Questions

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Water Reform

Northern Ireland

Water and sewerage services are vital to the people of Northern Ireland. The provision of these services is capital intensive and requires long term planning and investment. Accordingly the Government has decided to make a number of changes to the current arrangements for delivering water and sewerage services in Northern Ireland. The major proposals are:

- All households (whether owner-occupied or rented) should pay a direct charge for water and sewerage services. This will include a standing charge for each service received and a variable element which will be based on the capital value of the householder's property;
- The new household charges should be phased in over three years with one-third being payable in the first year, two-thirds in the second year and the full amount payable in year three;
- Household metering should be available when charges are fully phased in, providing this can be done in a way which would not unfairly burden any group of consumers;
- Households that receive Housing Benefit, Rate Rebate or the proposed new rate relief for those on low incomes, will receive a 25% reduction on their charges. A special hardship scheme will also be available to provide temporary assistance to those householders who find themselves unable to pay as a result of exceptional circumstances;
- Northern Ireland's water and sewerage services should be provided by a new Government Owned Company (GoCo);
- A new independent Regulator will be established to ensure that the new Water Company operates efficiently so that charges to customers are kept to a minimum;
- The General Consumer Council for Northern Ireland (GCCNI) will look after customers' interests and act on their behalf if they have complaints about their charges or standards of service;

- 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;
- The metering of non-domestic properties should be extended;
- 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; and
- Charges for the treatment and disposal of trade effluent will be more widely applied.

The intention is to implement these reform proposals on, or as soon as practicable after 1 April 2006.

Integrated Impact Assessment

All these proposals have been subjected to an impact assessment process to assess their likely effect on different groups of people. This paper provides a summary of the impact assessments. The full Integrated Impact Assessment (IIA) is set out in four separate documents:

- A **Policy Proposals Paper** sets out the background to the decision to introduce self-financing arrangements for water and sewerage services and the Government's preferred options for the reform of Northern Ireland's water and sewerage services, and explains why those options have been selected.

The Integrated Impact Assessment itself is divided into three parts:

- Part I is the **Integrated Impact Assessment** Overview document. This describes the IIA Assessment approach and sets out the screening process and provides Impacts Analysis on issues other than those dealt with in Part II and III;
- Part II sets out the detailed findings of the draft **Equality Impact Assessment** (EQIA); and
- Part III sets out the detailed findings of the partial **Regulatory Impact Assessment** (RIA).

These Impact Assessments are being issued in draft form for public consultation for a 14-week period until Friday 4 March 2005. This is to provide an opportunity to produce evidence, or suggest changes, which will inform the final stages of policy development before legislation is prepared. There will be a further period of consultation on the draft legislation during 2005.

The full set of IIA documents has been placed on the Water Reform Website, www.waterreformni.gov.uk, from where they can be downloaded. **Alternatively, see page 24 for contact details.**

Why Do We Need Reform of Water and Sewerage Services in Northern Ireland?

The present arrangements for financing and delivering water and sewerage services are in urgent need of reform for a number of reasons. Investment of up to £3 billion over the 20-year period from 2003 is needed to:

- safeguard public health;
- ensure a sustainable long term supply of clean, healthy drinking water;
- improve significantly the treatment of waste water before it is returned to the environment;
- 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;
- respond to increasing demand arising from housing growth and changing lifestyles; and
- comply fully with European Directives on water quality and waste water treatment.

What is this Investment Needed for?

A detailed asset management plan has been prepared which identifies the water and sewerage investment needed over the 20-year period from 2003 - some £3 billion. Of this some 55% is for networks, with 35% being required for the above ground assets such as reservoirs and treatment works. The remainder is for other capital investment such as in buildings and technology:

- The sewage above-ground assets require £652 million capital expenditure from 2003 to 2022;
- The water above-ground assets require some £336 million capital expenditure from 2003 to 2022;
- The sewerage network requires £755m capital expenditure from 2003 to 2022.

The water network requires £ 886m capital expenditure from 2003 to 2022.

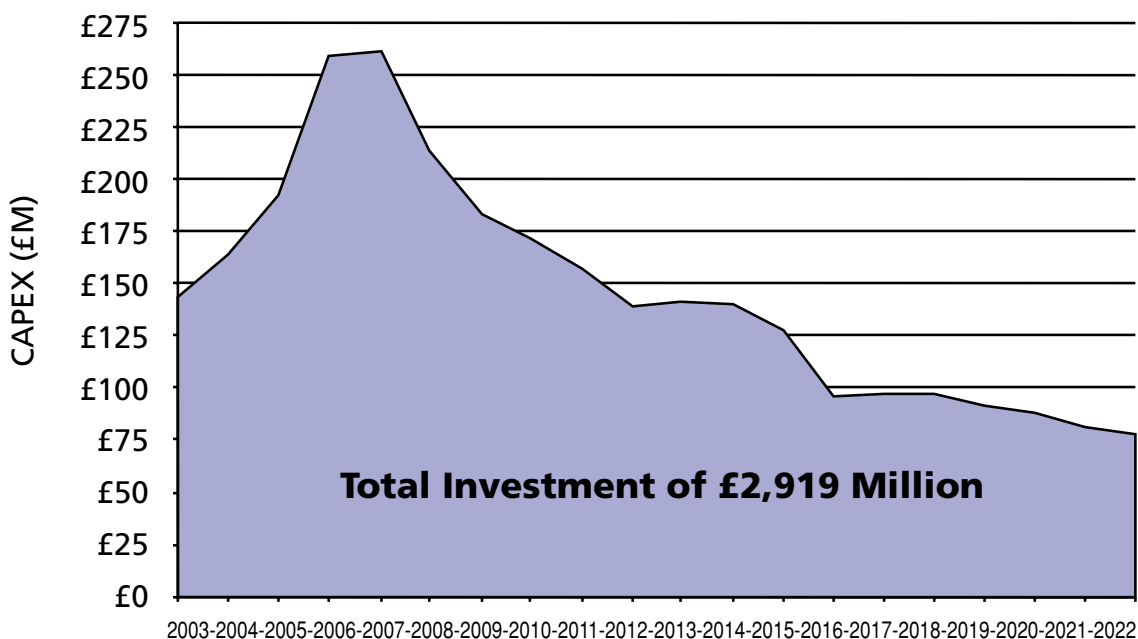
Most of the expenditure is needed in the early part of the period due to the need to:

- achieve improved drinking water standards quality compliance;
- achieve compliance with the Urban Waste Water Treatment Directive;
- complete urgent work in water networks by 2010/11; and in the sewerage network by 2015/16.

This investment is already well underway with £1.1 billion of up front investment planned to take place in the five-year period up to 2007-08.

The profile of necessary expenditure over the 20-year period is shown in the following diagram.

Figure 1 Necessary Expenditure Over the 20 Year Period



The existing water and sewerage assets are currently valued at around £5.2 billion. However, for the purposes of calculating the initial return on these assets, they will be written down by a sum that is likely to be considerably in excess of £4 billion. The write-down will significantly reduce the cost of delivering water and sewerage services and the charges borne by customers.

How Do We Currently Pay for Water and Sewerage Services?

Commercial, industrial and agricultural users in Northern Ireland pay around £40 million per year in charges to Water Service. Otherwise the service is currently funded entirely from the Northern Ireland public expenditure budget. Northern Ireland is the only region of the UK where consumers do not pay a direct charge for the costs of their water and sewerage services:

- In England and Wales there is a system of domestic water and sewerage charging based on the rateable valuation of the property or through metering; and
- In Scotland, domestic water and sewerage charges are based on the Council Tax system, which reflects the value of property.

Since the privatisation of the water industry in England and Wales in 1989, there has been very substantial investment in the Water Industry which has been paid for directly by domestic and non-domestic chargepayers. In Northern Ireland all funding provided to Water Service has been dependent on the public finance available here and, in the absence of direct water and sewerage charges, has made use of resources which, in Great Britain, would have been allocated to other public services.

But surely we already pay for our water through the rates?

There is a widespread and understandable belief that water and sewerage services are paid for through the Regional Rate. Prior to 1999 this was the case – a portion of the Regional Rate was allocated to water and sewerage services, leaving much less as a contribution towards meeting the costs of other services. However, this is no longer the case. The Regional Rate is now a local tax that forms part of the overall Northern Ireland expenditure budget to fund public services – the NI Departmental Expenditure Limit (NI DEL). It is not now earmarked for any particular service. Rather than being funded directly from the Regional Rate, Water Service is funded from the NI DEL – of which the Regional Rate contributes around 5%.

Unlike England, Scotland and Wales, people in Northern Ireland do not pay a direct charge for water. Although everyone in the UK pays the same rates of income tax and national insurance, there is a considerable difference between what we pay in local taxes and charges and the payments made in GB towards Council Tax and Water Charges, as illustrated in Table 1.

Region	Average Property Charge per Household	Average direct water charge	Total Household charge
	£	£	£
England and Wales	967	249	1216
Scotland	886	272	1158
Northern Ireland	509	-	509

There is no realistic possibility of securing additional resources from the Treasury while payments of local taxation and charges by the domestic sector are so far below those paid in Great Britain.

What Costs Must Be Recovered from Customers over the Next 20 Years?

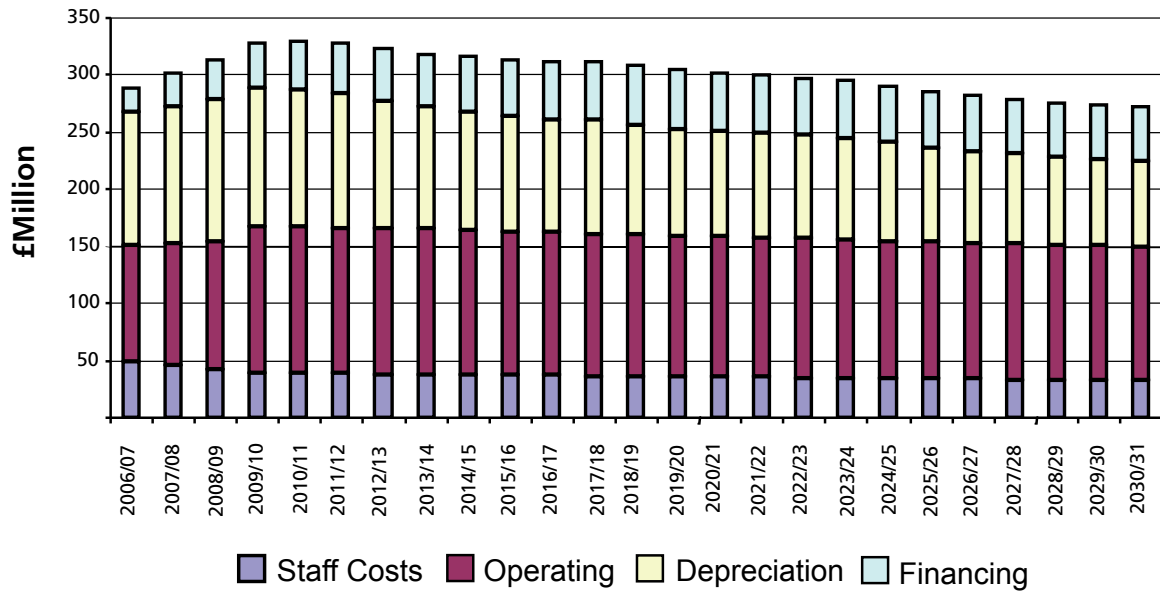
In future the full costs of providing water and sewerage services will be recovered through direct charges to customers.

After a few years a new economic regulator will decide how much customers will pay. Before the regulatory arrangements are in place, the Department for Regional Development will set charges based on the total cost of delivering the service. It is estimated that the costs incurred by the domestic and non-domestic sectors are apportioned as follows:

	Domestic	Non-Domestic
Water	60%	40%
Sewerage	65%	35%

The current estimate of the total costs over the next 20 years is shown in Figure 2.

Figure 2. Total Water and Sewerage Costs in 2004/05 Prices



How much will the new domestic water charge be?

Each household will pay a standing charge to contribute to the cost of maintaining connections to the water mains and sewerage systems. Households will also pay a variable charge based on an assessment of each property’s capital value. The lowest charge is likely to be around £150 per year which is £2.90 per week, or 40 pence per day. The maximum charge is likely to be around £750 per year.

We cannot say at this stage exactly how much each household will pay, but the following table shows examples of the likely level of charges for properties of different values using 2006-07 prices.

House Value (£'000)	Estimated Bill (£)	Proportion of NI Houses (%)
20 - 60	150 - 235	11
60 - 80	235 - 275	24
80 - 100	275 - 315	25
100 - 150	315 - 415	24
150 - 200	415 - 515	10
200 - 250	515 - 616	3
250 - 340	615 - 750	2
Over 340	750	1

However, charges will be phased in. Households will pay one third of the new charge in the first year, two thirds in the second year and the full amount in the third year. You can get further information on what you might pay by visiting the water reform website www.waterreformni.gov.uk or by contacting the Water Reform Unit.

Who will pay for these discounts?

The cost of the discounts and the hardship relief scheme will be paid for by other domestic customers. However, a restored Northern Ireland Executive would have the option of providing a subsidy from the Northern Ireland public expenditure budget to cover these costs albeit at the expense of other public services.

How will my property be valued and will I be able to appeal the valuation?

For domestic properties, water charges will use the same capital values as rates. Valuation and Lands Agency (VLA) will assess the capital value of each property. These assessments will be based on sales evidence from the housing market and a new Valuation Tribunal Service will provide an open and accessible way of settling disputes. You can find more information about the valuation process at www.nics.gov.uk/ratingpolicy.

Is there an Alternative to Water and Sewerage Charges?

Ministers have considered the alternatives to the proposed introduction of self-financing arrangements, including:

- paying more through general taxation: this would imply that taxpayers in Great Britain should pay more. The Government's clear position is that Northern Ireland is receiving a fair share of national taxation and that it would be unfair to ask taxpayers in Great Britain to pay more whilst households in Northern Ireland are on average already contributing less to the cost of public services (including water and sewerage services) than people in England, Scotland and Wales;
- providing a local tax varying power: this would not be possible within the legislative framework set by the Belfast Agreement;

- covering the cost of water and sewerage services through increases in the Regional Rate. This would mean that, under the Treasury's budgetary rules, the costs to customers would be significantly higher under self-financing.

Faced with the need to sustain increased investment in the Water industry, Ministers have concluded that there is no alternative course of action, which would not have unacceptable consequences for other public services. Furthermore, the resources no longer needed for water and sewerage will be available for allocation to other spending programmes – ultimately as much as some £300 million per year once charges are fully phased in.

What will be the Impact on the Non-Domestic Sector?

The metering of non-domestic properties in Northern Ireland is not as widespread as in Great Britain. The current programme for extending metering throughout the non-domestic sector will be accelerated in parallel with the introduction of domestic water and sewerage charges. Those who cannot be metered will have an assessed charge, based on an estimated and agreed level of consumption.

A new sewerage charge will be introduced for non-domestic customers in parallel with the introduction of the new domestic charges.

Owners of septic tanks will not pay an annual sewerage charge but will be charged for any septic tank emptying carried out by the water GoCo.

How will Water and Sewerage Services be delivered in the Future?

A new Government Owned Company (GoCo) will be set up from 2006-07 to deliver water and sewerage services. A GoCo is a company, established under companies legislation, where all or a proportion of the ordinary share capital is owned by the Government. When it is established the company will be wholly-owned by Government. Ministers have ruled out privatisation for the foreseeable future.

Setting up a new business structure outside central government will lead to more efficient and economical delivery of services and therefore lower charges than otherwise would be the case. A GoCo also offers greater potential to accommodate future organisational change as the local water industry matures and evolves.

Who will Regulate this New Company?

With the introduction of a new charging regime it will be important to have effective controls in place to ensure the new company can meet standards while keeping costs charged to customers affordable. The role of the Northern Ireland Authority for Energy Regulation is to be expanded to include the economic regulation of water and sewerage services in Northern Ireland.

Who will Represent Consumers Interests?

The role of the General Consumer Council for Northern Ireland (GCCNI) will be expanded to provide an independent voice on behalf of consumers on issues such as price, service and value for money. GCCNI will also provide an independent source of redress for complaints and disputes.

What will Happen to the Northern Ireland Water Council?

As a consequence of the decisions on the economic and consumer regulator and consumer representative body, the future of the Northern Ireland Water Council has been reviewed. Ministers have concluded that, in view of the introduction of the new regulatory mechanisms, the Council should not be reappointed after its current term expires in March 2006.

Overview of the Integrated Impact Assessment Process for the Water Reform Programme

A fundamental requirement of good policy development by Government is to ensure that emerging policy proposals comply with its basic policy objectives, and with statutory obligations. Integrated Impact Assessment (IIA) is a new means of gathering all the various impact assessments into one place, considering their impacts in a co-ordinated way, and presenting the conclusions for public consultation in a comprehensive and accessible way.

Three main types of impact assessment were considered in the formulation of the water reform policy proposals, as illustrated in Table 4:

Table 4: Summary of Screening Process	
Type of Assessment and Status	Requirement for Impact Assessment
Legislative obligations	
Equality Impact Assessment	Yes
Human Rights	No
Compliance with Regional Development Strategy	No
State Aid Compliance (European Commission, Treaty of Rome, Article 87)	No
Strategic Environmental Assessment (EU Directive)	No
Over-arching Government Policy	
Health Impact Assessment	No
New Targeting Social Need	Yes
Regulatory Impact Assessment	Yes
Rural Proofing	Yes
Good Practice	
Community Safety	No
Public Expenditure and Public Service (Economic Appraisal)	No
Sustainable Development	Yes
Victims	No

Following a detailed screening process (which is described in detail in Part I of the IIA) the need for four assessments was identified. These were: New Targeting Social Need (New TSN), Rural Proofing, Equality Impact Assessment (EQIA), and Regulatory Impact Assessment. Details of the screen process are set out in Part I of the IIA. The Results of the EQIA are set out in Part II of the IIA, while the results of the partial Regulatory Impact Assessment RIA may be found in Part III. A summary of the major findings of the four assessments is set overleaf.

New Targeting Social Need (TSN)

This is the Government's high-level policy for tackling poverty and social exclusion in Northern Ireland. New TSN places an obligation on all Departments to identify and assess the New TSN impacts of new policy developments as they emerge in order to ensure that efforts and resources are appropriately targeted and that any negative impacts are minimised.

Ministers are proposing to minimise the negative impacts of the domestic charging arrangements in a number of ways:

- phasing charges in over a three year period starting 2006-07;
- the use of capital values for the variable element of the charge which has the broad effect of skewing higher charges towards more affluent areas;
- providing a 25% discount for low income households, targeted at those in receipt of Housing Benefit, Rate Rebate or the proposed new Rate Relief Scheme (these being recognised measures of households in greatest need);
- a special hardship scheme which will provide temporary assistance to those facing exceptional hardships;
- the use of metering (following further policy development designed to identify how this might be introduced without adversely affecting other users); and
- promoting higher benefit take-up in partnership with the Social Security Agency.

It should also be recognised that as water charges are introduced considerable resources currently allocated to water and sewerage services will be released and become available for other public services – ultimately perhaps some £300 million per year once charges have been fully phased in.

Rural Proofing

The Water Reform Programme proposals have been developed with sensitivity to the needs of those living in rural areas:

- the basis upon which domestic charges will be set will not disadvantage those living in rural areas;
- universal standards of water quality and supply by GoCo will be secured in legislation and subject to enforcement by an Economic Regulator (the Northern Ireland Authority for Energy Regulation) which will be required to pay particular regard to the needs of customers in rural areas;
- charges will be levied only in respect of services actually provided to individual households, so those who have a private water supply will not pay a water charge. Similarly, those who have a septic tank will not pay a sewerage charge (though they will have to pay for septic tank emptying); and
- standards of service provision will be scrutinised by the Consumer Representative on water matters (The General Consumer Council for Northern Ireland), which can be expected to demonstrate understanding of the needs and concerns of Northern Ireland's rural users.

Draft Equality Impact Assessment

The creation of a GoCo and the domestic element of the new charging arrangements give rise to equality impacts. The proposals for economic and consumer regulation and customer representation have been screened out. The impacts of internal rationalisation and reform of Water Service arising as a result of the establishment of the GoCo will be assessed by Water Service when firm proposals have been developed. The draft EQIA therefore focuses on the impacts arising from the proposed introduction of a domestic charging regime based on property capital values. The draft EQIA concludes that this will have a negative differential impact on households from the Protestant and Unionist communities, married people and the elderly and those that care for them. None of the proposals will impact on good relations between persons of different religious beliefs, political opinion or racial group.

However, the negative equality impacts will be mitigated by elements of the charging scheme. These include a uniform standing charge and the imposition of a cap on the maximum level of charge that can be levied on households. Metering is to be introduced once charges have been fully phased in. This provides the potential to provide further mitigation of these impacts.

A Partial Regulatory Impact Assessment - Summary

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.

Proposed charging arrangements

The main elements of the non-domestic charging proposals are:

- 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 over three years;
- the programme for extending metering to those unmetered 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 NAV will also be applied;
- from April 2006, or as soon as practicable thereafter, non-domestic properties connected to the public sewer will be charged for sewerage services; and
- the calculation of trade effluent charges will be brought into line with GB practice in this area.

The proposals will impact on both the number of non-domestic customers paying charges, and the scale of the charges to be paid.

The removal of the domestic allowance means that all non-domestic users will now 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. Those properties that are currently metered, but are not

charged because they consume less than the domestic allowance, will have to pay for all the water they use once the domestic allowance is removed (as well as sewerage charges if connected to the public sewer).

In addition, a significant proportion of properties are currently unmeasured and consequently do not pay any charges. 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 properties, which will then be charged on the basis of their consumption. Where it is not possible to install a meter for technical reasons, an assessed charge may be applied. Those non-domestic properties that remain unmeasured will pay a charge for water and sewerage (if connected to the public sewer) based on the value of their property.

The main changes in relation to the scale of the charges are as follows:

- on average, the annual charges levied on those customers that currently pay metered water charges will increase by 134% from £740 to £1,720, largely as a consequence of the introduction of sewerage charges and the removal of the domestic allowance. It is important to note however that this average masks significant variation in charges between and within sectors;
- on average, charges levied on existing metered customers that do not currently pay charges, because they consume less than their domestic allowance, will increase from zero to £306 per annum. It is important to stress that this represents the average charge, and that many non-domestic customers will pay significantly less than this;
- it is estimated that the non-domestic properties that will remain unmeasured will, on average, have to pay £365 per annum for water and sewerage services. Again, many properties will pay less than this average. For example, of the commercial properties remaining unmeasured, 25 per cent (8,125 properties) with a NAV of up to £2,100 will face a bill up to a maximum of £150 for both water and sewerage; and
- generally, existing trade effluent customers will experience an increase of approximately 35 per cent in their trade effluent charges.

The increases in average charges relate to customers that are connected to both the main water and sewer network. Most non-agricultural properties and other properties not connected to the public sewer will not experience an increase in charges as great as those average increases outlined above. Furthermore, these average charges relate to full annual charges and do not reflect the phased-in period where charges will be levied at one-third, and then two-thirds of the full annual charge in the first two years, after comprehensive charges are introduced.

Benefits

The partial RIA also identified a number of benefits which the Water Reform Programme will deliver and which should be of benefit to the non-domestic sector. Direct benefits will include an improved infrastructure and compliance with EU directives on water quality and environmental protection. Indirect benefits will include improved public health and an expansion of activity in the construction sector. Wider benefits that may follow should include more economic development, inward investment and tourism.

Integrated Impact Assessment – Consultation Questions

Integrated Impact Assessment – Consultation Questions

The full Integrated Impact Assessment contains a number of questions on which views would be welcome. All these questions are set out below. This is not an exhaustive list and any other comments may be made.

IIA – Part I

A. General Questions

1. Do you have any views on the conclusions reached by the Department to screen out from further assessment the implications of Water Reform in respect of:
 - a. Human Rights;
 - b. The Regional Development Strategy;
 - c. State Aid; and
 - d. Strategic Environmental Assessment.
2. Is there any other evidence which you consider should have been taken into account in these assessments?

B. Health Impact - Consultation Questions

1. Do you have any views on the assessment of health impacts?
2. Are there any other potential health impacts that you consider should have been addressed?
3. Is there any other material evidence which you consider should have been taken into account in this assessment of health impacts?

C. New TSN - Consultation Questions

1. Do you have any comments on the New TSN analysis provided by the Department?

2. Do you have any comments on the conclusions reached by the Department in respect of the compliance of Water Reform with New TSN?
3. Is there any other evidence which you consider the Department should take into account?

D. Rural Proofing Consultation Questions:

1. Do you have any views on the analysis of rural impacts?
2. Are there any rural impacts that you consider should have been addressed?
3. Is there any other material evidence which you consider should have been taken into account in this assessment of rural impacts?

E. Community Safety Consultation Question

1. Do you have any views on the conclusion reached by the Department that there is no need to perform a Community Safety Assessment in respect of Water Reform?

F. Public Expenditure and Public Service Consultation Question

1. Do you agree with the Department's view that a separate Economic Appraisal of Water Reform is not required?

G. Victims Consultation Question

1. Do you agree with the Department's view that Water Reform will not have particular impacts on victims.

IIA – Part II

H. Equality Impact Assessment – Consultation Questions

Comments are welcome on any aspect of the draft equality impact assessment. The Department would particularly welcome feedback on the following:

1. on the assessment performed;
2. on the draft conclusions; and

3. any other relevant qualitative or quantitative information which you consider should have been taken into account in performing this analysis.

IIA – Part III

I. A Partial Regulatory Impact Assessment - Consultation Questions

1. Do you have any general comments on the overall approach that was taken in completing the RIA?
2. Do you consider that there are any other issues which need to be either assessed or taken into account in the development of the non-domestic charging arrangements?
3. What are your views on the identification and assessment of costs?
4. What impact do you think these additional costs will have on businesses and other voluntary and community organisations?
5. What sectors or types of businesses/organisations do you think might be particularly vulnerable to the introduction of comprehensive charges?
6. What are your views on the identification and assessment of benefits?
7. Do you agree that the benefits outlined justify the changes in the charging regime covered in our proposals?
8. Do you agree that the proposals represent a fair and equitable means of charging non-domestic properties for the costs that they impose on the water and sewerage system?

How to give your views

You are invited to send your views on this draft Integrated Impact Assessment on Water Reform by **Friday 4 March 2005**. Please note that your response may be made publicly available unless you specifically indicate that it is to be treated in confidence.

Please send your response to:

Martin McKee
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5 Linenhall St
Belfast
BT2 8AA

Fax: 028 9054 7875

e-mail: **queries@waterreformni.gov.uk**

Text Phone: 028 9054 0642

Further information is provided on the Water Reform website at:
www.waterreformni.gov.uk

Following consideration of all responses a final IIA will be published on the Water Reform website, **www.waterreformni.gov.uk**. This document will also be available from the Water Reform Unit.

