



Water Sector Reforms

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Water Sector Reforms

Proposed reforms

- the establishment of a new public utility, *Irish Water* to take over the responsibility for the delivery of water services from local authorities;
- the introduction of water charges with a nationwide water metering programme to commence later this year; and
- the introduction of independent economic regulation of the water sector under the Commission for Energy Regulation

○ Key drivers for reform

- Future challenges for the sector
- Commitments in Programme for Government and EU/IMF/ECB Memorandum



Water Sector in Ireland – key facts

Water Supply

- 950 public water supplies; 85% plus of the population connected to public water supply; 25,000kms of water mains; 1,600 million litres of water produced daily

Waste Water

- 480 agglomerations > 500p.e; further 500 agglomerations < 500p.e

Annual Funding

- About €1.2 billion spent annually on capital investment and operational costs:
 - €700m+ on operational costs
 - €500m+ on capital investment

Capital Funding 2000-2011

- €5.6 billion Exchequer Spend Further €1 billion by local authorities

Projects

- 317 major waste water schemes/contracts
- 294 major water schemes/contracts

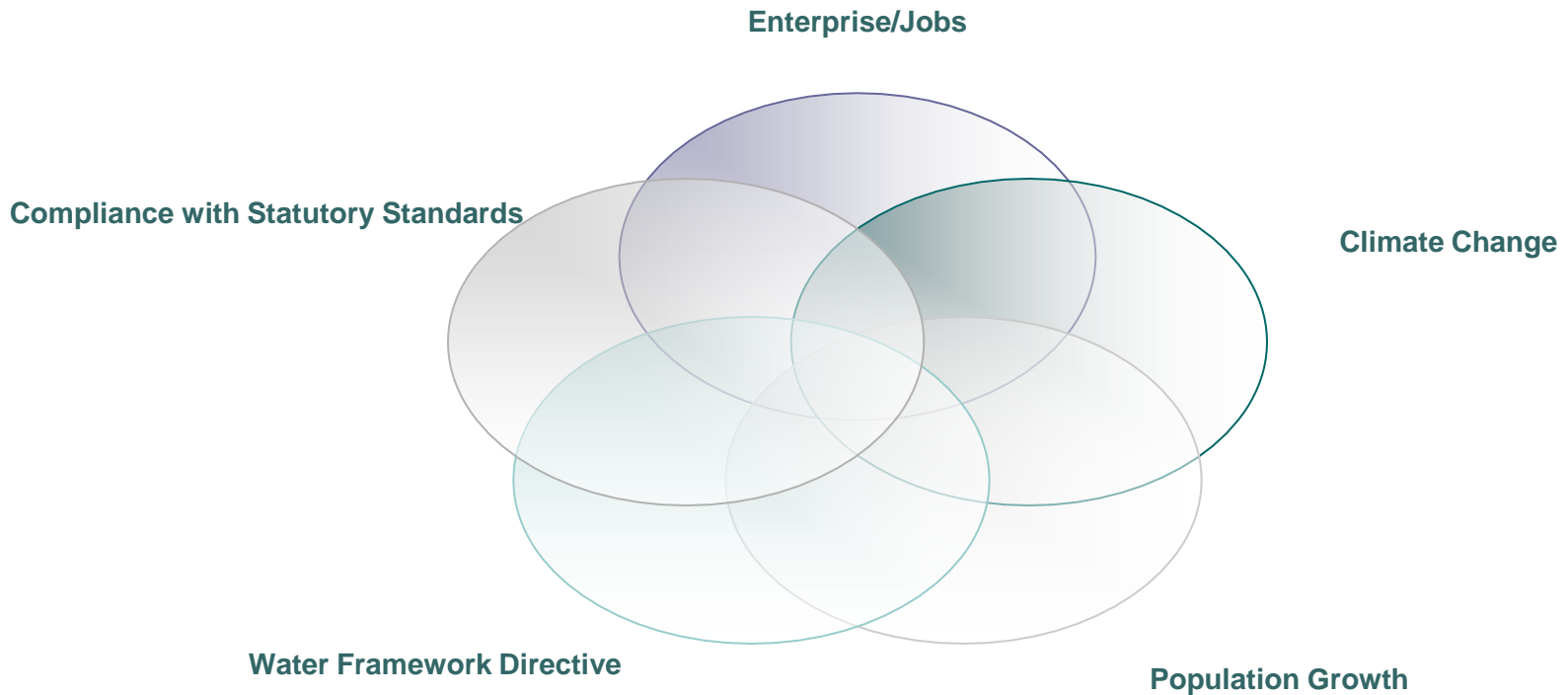
Impacts

- Waste water Treatment capacity + 4m pe
- Water Treatment Capacity + 1.4m pe

Compliance

- 25% (2000) – now over 93% UWWTD
- 89.5% for group schemes - now 96.8%/98.6% depending on whether

Future Needs



- Future investment requirements (including Investment requirements flowing from Water Framework Directive) – up to €600m per annum capital investment required.



Independent Assessment – main conclusions

- Independent Assessment phase 1 published in January 2012, available on www.environ.ie
- Principal conclusion of first phase is that Irish Water should be established as a public utility, in a regulated environment. Irish Water would be
 - allocated responsibility by statute for all aspects of water services planning and delivery.
 - organised on operational regions based on river basin districts.
 - have the Assets and liabilities of local authorities transferred to it.
 - responsible for the collection of charges, which will provide an income stream to support third party funding and allow Irish Water to become self funding over time.
- Conclusions based on
 - SWOT analysis
 - International benchmarks
 - Funding requirements
 - Potential Efficiency gains



Conclusions of SWOT analysis

Strengths

- *Services are managed by bodies that are close to customers and are democratically elected. Water sector development can be consistent with Local Authority Development Plans.*
- *An experienced local workforce familiar with the assets and the operating conditions.*
- *Central co-ordination and prioritisation of major project capital expenditure plans.*
- *Track record of successful delivery of capital projects and providing continuity of service, delivering to a growing population.*
- *Clear accountability for water and wastewater quality.*
- *Ability to mobilise local resources at times of need (e.g. exceptionally cold winters).*
- *A significant majority of local authorities use the same financial system which supports consistent management reporting*

Weaknesses

- *Duplication of costs across large number of local authorities*
- *Most authorities below minimum scale required for economic provision of water services*
- *Long term underinvestment in assets*
 - *Significant compliance gap in relation to Water Framework Directive*
 - *Leakage of 41% higher than comparators*
- *Funding*
 - *Limited transparency of funding sources*
 - *Current funding regime exposed to variations in development levy income, collection rates low*
 - *Limited ability to access alternative sources of funding e.g capital markets*
- *Operational costs more expensive than benchmarks*
- *Leadership fragmented*



International Experience

- Range of models mainly based on Utility Model and municipal Provision
- Little evidence of Agency Model being deployed internationally
- Fragmentation being addressed by amalgamation into utilities or Inter-communal structures
- Creation of single function utilities has resulted in improved performance in relation to cost reduction and service quality
- Strong sector governance and regulation focused on economic efficiency, environmental preservation and ensuring good outcomes for customers.
- Importance of ensuring that the utility is appropriately sized in terms of number and skills of staff from the outset.



Models Assessed (1)

Minimal Change [investment model]

- Local authorities remaining as water services authorities;
 - Irish Water role for strategic planning, billing & collection, water metering & major projects
- *Not a recognisable structure - Irish water would be unable to borrow; complex interface leading to diffuse accountability, fragmented customer experience.*

Agency Model

- Irish Water becoming water service authority for country, with assets transferring.
 - Local authorities would be agents of Irish water for operation and maintenance and smaller capital projects
 - CER for regulation
- *While there are advantages in terms of local knowledge and accountability - not a recognisable structure in an international context making borrowing less certain and regulation more – complex.*



Models Assessed (2)

Public Utility Model

- Irish Water becoming water service authority for country, with assets transferring.
 - Water services functions of local authority moving over time to Irish Water.
 - CER for regulation
- *Optimises borrowing capacity, strategic planning, accountability, service delivery and more easily regulated.*

Inter-communal

- Companies set up by local authorities
 - Water services functions to be delegated to these companies
 - Operation could be through agency or public utility model.
- *Doesn't achieve efficiencies or necessary scale, variation between regions, separate regulation, complex decision making with continued fragmentation with duplication of systems (billing, financing, ICT etc).*



Conclusions on Assessment of Options - Rationale for Selecting the Public Utility Model

- **Borrowing:**
 - Irish Water controls all assets, revenues, costs – better economies of scale – optimised borrowing capacity.
 - Borrowing capacity higher than the Agency model;
 - Reduces the burden on the exchequer – positive impact on GDP/debt ratio
- **Strategy & accountability:**
 - Better able to implement national strategies; not curtailed by local authority boundaries or non-water related activities.
 - One decision making authority as opposed to 34; more coherent and integrated organisation structure.
 - Clear lines of accountability, authority and responsibility.
- **Service Delivery:**
 - Better able to ensure security and quality of supply.
 - Consistent and transparent service quality; more rapidly deploy resources through a strategic approach to service.
 - More efficient cost base; lower unit cost of delivery.
- **Regulation:** Single entity for regulators to regulate, as opposed to complexity of 34 separate local authorities.



Assessment of Potential Role for Existing State Agencies

- The consultants recommended that Irish Water should be established as a separate company in its own right. The independent assessment did, however, see potential for some of the semi States acting as a management partner to assist in the set up of Irish Water (on foot of a procurement process) or in successfully bidding for specific tasks eg, billing, workforce management systems, asset management systems and treasury expertise.
- At the request of Government, further detailed assessment underway on:
 - the possibility of an existing State agency taking on the role as public water utility;
 - how skills in the state agencies can be harnessed in support of the establishment/operation of Irish Water.



Transition Strategy – Proposed Phasing

The initial transition plan in the report envisages a staged approach involving:

- Appointment of an interim board and Project Management Office in 2012 pending the establishment of **Irish Water under its own statute by mid 2013**;
- Irish Water would acquire statutory responsibility for water services **in mid 2013**, with ownership of assets transferring from local authorities from that date;
- **Local authorities would be agents of Irish Water for a period** with Irish Water taking over their operations on a phased basis from January 2015;
- **The full transfer of operations would be completed by end 2017.**

The initial transition plan will be the subject of further detailed analysis leading to the development of a detailed implementation plan.



Transition Strategy – travelling through “agency model” to “public utility”

Current Model [2012]

- DoECLG – policy, legislation and Capital Programmes
- 34 local authorities
 - Water Services Authorities
 - Delivery of infrastructure
 - Operation and maintenance (including contracts with DBOs)
 - Supervision & funding of group water sector
- Environmental Protection Agency
 - Supervision of sector – monitoring, licensing, reporting.
- Economic Regulation
 - No independent regulation



Transition Strategy – travelling through “agency model” to “public utility”

Transition – Agency Arrangements [2013-2017]

- **DoECLG** – legislation, policy, including policy framework for Irish Water & Regulator.
- **Irish Water**
 - Water Service authority and owns assets
 - Responsible for capital funding, customer billing & charging
 - Service Level Agreements with local authorities
 - DBO contracts assigned to Irish Water
 - Regional Structures developed
- **34 local authorities**
 - Agents of Irish Water for public schemes
 - Agents for supervision (with EPA) & funding (with Irish Water) of group water sector
- **Environmental Protection Agency**
 - Environmental supervision of sector – monitoring, licensing, reporting.
- **Commission for Energy Regulation**
 - Economic regulation of Irish Water



Transition Strategy – travelling through “agency model” to “public utility”

Public Utility [2017 onwards]

- **DoECLG** – legislation, policy, including policy framework for Irish Water & Regulator.
- **Irish Water**
 - Water Service authority and owns assets
 - Responsible for capital funding, customer billing & charging
 - Responsible for operations
- **34 local authorities**
 - May remain as Agents of Irish Water for some functions beyond 2017, including group water sector;
 - Ongoing relationship with Irish Water in terms of strategic planning, wider water management and emergency planning
- **Environmental Protection Agency**
 - Environmental supervision of sector – monitoring, licensing, reporting.
- **Commission for Energy Regulation**
 - Economic regulation of Irish Water



Funding Requirements

- Funding Requirements
 - €1.2 billion to run in 2010 (€715m in operational costs, €500m in capital costs)
 - Capital allocation for 2012 €371m - requirements for steady state investment of €600 pa identified in PWC report
 - Revenue from non-domestic sector just over €200m



Approach to water charges

- Approach to water charging for Domestic Consumers
 - Government proposing domestic charges based on metered usage.
 - Metering is internationally recognised as being the fairest way to charge for water and as the OECD has noted the absence of metering in Ireland gives consumers no incentive to save or conserve water.
 - The main benefits are reductions in operational costs arising from reduced consumption and lower levels of leakage on customer's property as well as deferred capital expenditure.
 - Metering programme to commence by end 2012.



Approach to water charges

- Approach to Water charging for Domestic Consumers (continued)
 - Programme will not initially include properties which would be either too expensive or technically difficult to meter individually (e.g. multi-occupancy premises such as apartments).
 - Water charges for domestic and non-domestic sectors will be subject to independent economic regulation (Commission for Energy Regulation will act as water regulator).
 - Regulation will ensure protection of customers and a fair transparent charging system
 - Regulation will also ensure a stable model for the water utility to source finance for long-term investment needs.
 - Issues to be addressed in advance of introduction of charges include approach to be taken to free allowance (proposed in Programme for Government) and affordability supports for low-income groups.



Next Steps

- **Consultation Phase** - 300 submissions received, being analysed to inform **implementation plan** being prepared as part of phase 2 of the independent assessment. A range of work streams to be developed:

<ul style="list-style-type: none">● Legal● Governance● Organisational● Human Resources● Stakeholder engagement● Systems (ICT/MIS)● Business Strategy	<ul style="list-style-type: none">● Finance● Operations● Asset Management● Environmental Regulation● Economic Regulation● Facilities● Programme Management
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- National **procurement for metering programme** to commence, with installation of metering infrastructure to start by year end to be rolled out on an accelerated basis.
- Proposed reforms represent a radical transformation of water services provision and will require substantial amendments to **legislative framework**.