

**Speech by Fergus O'Dowd, T.D,  
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**Irish Congress of Trade Unions Conference**

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I would like to thank Congress for inviting me to speak today about the important reforms proposed by Government for the water sector.

We are on the cusp of major change for the sector. A series of reforms are being rolled out by Government involving:

- 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.

The proposed reforms will have significant implications for local government, the water industry in Ireland and its many stakeholders. These reforms are not being embarked upon lightly. And so, I value the opportunity today to set out the rationale for these changes; to update you on the current position; and particularly to reassure the many people in the audience who are working in the sector, that the Government, working with stakeholders, is committed to ensuring that this change is managed well. This will involve ongoing consultation with staff, trade unions and local authorities as the plans are rolled out.

We will listen to the issues and concerns raised as the programme of reforms are rolled out and engage with all those involved in the sector to ensure that in building a new future for the sector we retain the significant expertise and knowledge within the sector, the commitment to public service and the integration with wider economic development needs.

The six week public consultation on the reforms proposed for the sector which was launched in January has provided an important opportunity for engagement on the reform process. I would like to thank Congress, individual trade unions, and individuals in the sector for the time and effort taken in contributing to this process. All of the views expressed will be taken into consideration in developing the implementation plan for the public water utility, *Irish Water*. It is expected that the implementation plan will be developed over the course of the next month or so. The views will also inform the further development of our approach to water metering and charging.

While the implementation plan will give further clarity on the process, there would be a value today in focussing on some key issues in relation to the proposed transfer of water sector functions to Irish Water.

## Irish Water

The Programme for Government committed to the establishment of Irish Water to oversee accelerated investment in the sector as part of the wider NewERA proposals. This commitment arose, in part, from the experience in recent winters, which highlighted the vulnerability of our ageing water distribution networks, the constrained capacity in some areas and the need for substantial investment to meet the future demands of all customers for quality service and security of supply.

While the over €5 billion in Exchequer resources spent in the last decade has led to significant achievements, a lot more remains to be done. There needs to be a “steady state” of capital investment in water services, estimated at €600 million annually, together with provision for the backlog of investment required mainly to meet statutory obligations. But how do we fund this investment as well as operational costs, at a time when the public finances are severely constrained?

Within the current funding model, the Government’s plan for *Infrastructure and Capital Investment 2012-16* which accords a high priority to water services, shows a decline in Exchequer capital investment in water and waste water services from €435 million in 2011 to €371 million in 2012 and a further decline to €296 million by 2014. From a capital investment perspective alone it is clear that a new approach to funding the sector is required.

Part of this new approach will involve the introduction of water charges for domestic customers. We are the only country in the OECD where households do not pay directly for the water they use and this is no longer sustainable. The Government believes that metering is the fairest way to charge households for water. The introduction of volumetric water charges will provide households with an important incentive to reduce their consumption of water. International experience suggests the introduction of water meters can achieve a reduction in consumption of at least 10%. This will also reduce the operational costs of providing water services as well as providing longer term savings in relation to requirements for capital investment.

The installation of meters will commence in 2012 and the programme will be rolled out on an accelerated basis. A strategy for procurement of the metering programme is being finalised by the Department and two key objectives will be to maximise value for money and facilitate to the greatest extent possible the scope for SME participation in the overall programme generating significant employment opportunities in communities across the State.

### **Independent Assessment.**

The phase 1 report of the independent assessment of the transfer of responsibility for water service provision to a water utility was published in January this year. It

identifies a number of strengths in the existing system which will resonate with participants at today's conference. These include:

- that services are managed by bodies that are close to customers and democratically elected;
- that Water sector development can be aligned with local authority development plans;
- an experienced local workforce familiar with assets and operating conditions;
- a track record of successive delivery of capital projects and continuity of service; and
- an ability to mobilise local resources at times of need.

However, the independent assessment has pointed to a number of significant weaknesses with the current system, and I emphasise the system, which need to be addressed to meet the challenges of the future. The delivery through 34 separate water services authorities, inevitably leads to fragmentation, inefficiencies and the inability to garner advantages through economies of scale. The assessment also shows that the system is expensive in terms of operational costs per connection, we are losing too much water through leakage and our collection rates for non-domestic charges are too low.

The independent assessment concludes, based on examination of the current system, international experience and stakeholder soundings, that a public utility

offers the best opportunity to improve the efficiency and effectiveness of water services delivery, provide access to new funding sources, and improve strategic planning and accountability.

The Government has accepted that a public utility is the appropriate organisational form. In my view, there is an enormous talent and commitment to service within this sector, but the current organisational form and the financing arrangements are acting as constraints. The full potential of the sector is not being realised.

I want to state categorically, that the proposal to create a public utility is not about privatisation of our water resource or a pre-cursor to privatisation. The Government are very clear that Irish water will be in public ownership – with the assets owned by the State. Perhaps, because of our close proximity and the similarity of our water systems, we do tend to look at the experience of our near neighbours in the UK as comparators. While water companies are privatised operations in England, this is not the case in Scotland and Northern Ireland where different models apply. Congress has itself highlighted research by the University of Greenwich which indicates that privatisation is not the norm in Europe or the US. The same paper also comments that unlike other sectors “ *the EU has not passed a liberalisation directive, and is not likely to do so.* ”

While the private sector may be involved in different aspects of water provision, broader trends revolve around public ownership. I might quote from the Deputy Mayor of Paris, and President of the Eau de Paris public water company, Madame Anne Le Strat, who, in explaining context for decision for Paris water production and distribution reverting to public sector provision stated “*water is a common good, which implies an absolute need to control the resource and the services based on a vision and long-term project.*”

I fully agree with this perspective. Water has an economic, social and environmental dimension. It is key to our national strategic interests, to balanced regional development and to the health and wellbeing of our citizens and must remain in public ownership. Section 31 of the Water Services Act 2007 already provides a prohibition on privatisation of assets. This will not change.

Internationally, the public utility model, where decisions about investment and operation are integrated, is more typical. The other models examined by the consultants, including services provided by regional groupings of local authorities, would not deliver these benefits. Departmental Officials will outline more about this in the presentation which follows shortly. I would simply say that the analysis ultimately faced the question of scale in the Irish environment. Irish Water will be a medium sized water company, with a potential 1.5 million customers - it would be much smaller for example than the City of Paris, which provides services for 2.2



million inhabitants and 1m workers in the centre of Paris. In an Irish context, there would be very substantial difference between the scale of operation achievable in the Eastern region compared to the other regions. This would lead to sharp variations in water charges and constrained investment in some regions as borrowing for investment would not be viable. Even at that, the East region would not be self sufficient.

As a public utility in a regulated environment, Irish Water can build on the strengths of the existing system, and can develop a sustainable financial model, leverage additional funding for investment and achieve efficiencies through economies of scale. Any revenue generated by Irish Water will be re-invested in infrastructure and operations, as there is a huge requirement for upgrading our infrastructure and providing new infrastructure over the coming decade. We have a strong tradition of delivery by commercial Semi-States in Ireland, and the move of functions over time to Irish Water offers the potential to realise a new and necessary level of ambition for the sector. While the consultants indicated that Irish Water should be established as a new agency, the Government is closely examining the possibility of harnessing skills within the existing Semi-State companies as part of the establishment and operation of Irish Water.

The move to a new utility is a radical step, but one we must take. We cannot expect domestic customers to begin paying for water if we cannot demonstrate that the water sector is operating as efficiently as possible and that investment is being made to deliver and sustain the quality of service. However, it requires a careful, well planned, graduated approach rather than a “big bang”, particularly to ensure continuity of service and this will be factored into the implementation plan.

**Ensuring local expertise is not lost.**

So in taking this course, how do we ensure that the strengths of the existing system are not lost?

Firstly, Irish Water, although a national company, will have a regional and local focus. There will have to be local presence to ensure continuity of operation, response to customer complaints and emergencies. The independent assessment has highlighted areas where operational efficiencies may be gained - elimination of duplication of activity, creating centres of excellence and leveraging technologies for example. This is likely to build on existing shared services arrangements. There is already a coalescing of certain water management activities under the river basin district approach flowing from the Water Framework Directive, and this is likely to be a feature of Irish Water organisational design.

Secondly, a phased transition is proposed to ensure continuity of service and the building of a fit for purpose organisation within a reasonable timescale. It is proposed that Irish Water will be established under its own Statute by mid 2013, with interim arrangements in place before then. Ownership of water services assets, and associated liabilities, will transfer from local authorities to Irish Water at that point. Local authorities would be agents of Irish Water for a period, with operations being transferred to Irish Water on a phased basis between 2015 and the end of 2017 at the earliest.

This phased transition is designed to ensure that there is no loss of knowledge or disruption to local services. Local authorities will be operating under service level agreements with Irish Water for a considerable period, doing exactly what they do on a day to day basis at present. Irish Water will be setting the performance standards, in light of its contract with the regulator, and driving efficiencies and accelerated investment.

Finally, local authorities will have an ongoing relationship with Irish Water. Local government is universally seen as an essential component of a healthy democracy, and in Ireland, it has Constitutional recognition. While water services functions will be re-assigned to Irish Water, this does not mean that there will not be a continuing role for local authorities in the water sector, albeit through an interface with Irish Water. For example, from a capital investment perspective, we need to ensure that Irish Water's investment plans are aligned with local development plans and regional planning guidelines. From an operational perspective, protocols will need to be in place to deal with emergency situations, as local authorities will continue to be responsible for emergency management and there will be situations where local authority resources will have to be deployed to assist Irish Water.

We will be closely examining this issue in developing the implementation plan I referred to earlier, in terms of both the approach for the transition, when service level agreements are in place and for the longer term. Some of these issues will be addressed in the policy framework set by the Department and the legislation establishing Irish Water, others will take effect in the context of wider water governance structures.

## **What are the implications for those staff?**

I fully accept that the staff in the sector will have concerns about the programme of reform, in terms of their personal circumstances and the future direction of the sector, particularly at this stage in the process, before detailed implementation plans are available.

As I have outlined, in the initial phase, Irish Water will work largely through service level agreements with local authorities. This will ensure a smooth transition to the new model and mean that working arrangements for many people will not change radically. It will ultimately be a matter for Irish Water to determine the staffing and skills required for the new organisation. Irish Water will be able to present opportunities not otherwise available to staff who wish to pursue a career in water services. Increased specialisation will provide routes for career development as well as enhancing job satisfaction. An increased emphasis on training and development and the introduction of new systems at an accelerated pace will provide both challenges and opportunities. As Irish Water will be a public sector body, considerable protection will be provided by law for staff transferring to Irish Water from local authorities.

These issues will be further considered in the development of the implementation plan which will address transformation planning, including human resources issues, and will be the subject of discussion with local authorities, staff and the Unions. As

I said at the outset, we want to ensure that this process is managed well. The implementation plan will be a road map, with a range of areas to be developed over the coming year as part of the transition plan. Communication and involvement of the sector in this process will be key to its success.

### Conclusion

The Government is convinced that the package of reforms, involving the establishment of Irish Water, regulation of the sector and introduction of domestic charging based on metered use, are necessary steps to ensure that the sector can meet this level of ambition and address the challenges of the future.

Water is a vital requirement to support economic growth, social stability and environmental protection and in the competitive global markets, Ireland's valuable water resources have the capacity to position Ireland well in terms of competitiveness, and to support the growth of many water dependent sectors, such as the pharmaceuticals, chemicals, food production and processing and technology sectors.

Unless we address key organisational and funding issues for the sector, we will constrain our capacity to continue to exploit this natural advantage to attract foreign direct investment, high end employment, and meet the needs and demands of our existing businesses and communities for high quality water and security of supply.

So, we need to work together in the transition period, to ensure that we harness the expertise and talent in the current system, redefine and articulate the future role of local government and its relationship with Irish Water. In this way, we will achieve the levels of investment, economic growth and regional development and quality customer service that is required.

Thank you again for your invitation, and I know we will have many more fruitful discussions on this issue as the implementation plan is developed and rolled out.

**ENDS**