

Northern Ireland Water Forum
Session Perspectives on the Water Sector
The UK Water Sector Experience
Wednesday 20 May 2009



Pamela Taylor, Chief Executive

Good afternoon and thank you for asking Water UK to be involved today. Your event is an excellent opportunity to assess where we've got to – and an opportunity to share ideas about the future.

At Water UK it's a key principle of ours to learn from a wide range of sources and I hope I can make a useful contribution. And I'm always willing to learn.

I would like to explore 4 overarching themes this afternoon.

First, good policy depends on collaboration.

The water industry will always benefit from working together to help policy-makers make practical policy.

Second, experience isn't everything, but it is useful.

NI Water can learn from the industry in GB – successes and mistakes. It can leapfrog into a leading position.

Third, economic regulation works.

Price reviews deliver real benefits to customers and improvements to the environment.

Fourth, Northern Ireland Water has a great future.

You are facing challenges, but I firmly believe you can look forward to making a great contribution in the years ahead.

So, first...the need to work together to develop good policy.

The water industry will always benefit from working together to help policy-makers make practical policy.

Water UK exists to share ideas across the UK, but it also has strong working links throughout the European Union. As part of Water UK, NI Water shares these connections, and benefit from them. We all do.

There are many benefits.

Most of our water legislation begins life in Brussels. One of our most important jobs is to make sure the European Commission and Members of the European Parliament fully understand what they're doing – especially the impacts of their proposed decisions on ordinary citizens who have to pay for them.

Water UK has a Brussels office, and we play a leading part in the European Association of water industries, the Eureau organisation. This has been very successful – for our members and for the law-makers we work with – they appreciate the industry experience and ideas we can give them.

We work together well.

- with the Commission
- with MEPs
- and with water operators in other Member States

In England and Wales we have an important role in representing companies in dealing with regulators who don't have one-on-one regulation, as you do in NI and Scotland.

We treat our regulators, including here in NI, as very important stakeholders and we have developed constructive relationships with them. If you like, we provide a strategic focus for our members. We act as a conduit for ideas between stakeholders and members which really make a difference in producing practical legislation and regulation.

One of the great advantages for Water UK is that the companies have different business and ownership models, including publicly-owned, privately-owned and customer-owned. Among the privately-owned some are listed on the stock-exchange, others owned by consortia of investors. We

support each other and exchange information to help policy development and delivery.

The important thing is that NI Water is a valued member of the group and I'm looking forward to the new Chief Executive, Laurence Mackenzie, joining Water UK Council and making a contribution to our activities and policy direction.

My second overarching theme is that experience isn't everything, but it *is* useful.

Let me give you a potted modern history of the water sector in Great Britain!

Prior to 1974 a large number of organisations delivered water services including private water companies.

The first major step was in 1974 – the formation of ten Regional Water Authorities in England and Wales. They were self-regulating management organisations based on the ten main river basins.

In effect the Authorities were both gamekeeper and poacher in their areas, but they made important efficiencies.

The next landmark was 1989 and the privatisation of those Authorities which became the ten water and sewerage companies we still have today. The government wrote off the debts of the new companies and provided a green dowry in exchange for receipts from the sale of shares.

Three new regulators were formed: Ofwat, the economic regulator, the Drinking Water Inspectorate, and the National Rivers Authority (now the Environment Agency).

There was a customer 'watch dog' attached to Ofwat. And the Consumer Council for Water was set up by statute in 2005 – it is independent and has more teeth.

These consumer changes were mirrored in Scotland where WaterWatch Scotland was set up in 2005 with increased powers over the previous bodies.

Scottish Water originated from three water authorities formed from the water and drainage departments of the regional councils. This merger was encouraged by the economic regulator in Scotland, the Water Industry Commissioner, affectionately known as the WICS.

Since its formation in 2002 Scottish Water has made dramatic improvements in efficiency showing what can be achieved in the public sector.

The WICS is now working on the fourth price review. Customers in Scotland have good reason to be pleased with what has happened. Originally Scottish Water bills were among the highest in the UK – now it is set to become one of the lowest cost suppliers and is making real progress on service quality. It had some distance to catch up but it shows what can be done.

So far economic regulation has broadly followed the initial route set by Ofwat, based on comparison with other companies. This has driven efficiencies but there are great opportunities for a more innovative approach in NI.

Here, we have the advantage of starting from scratch and should be able to leapfrog by learning from others' success and failures. And, crucially, you will ask your own Northern Ireland questions and provide your own Northern Ireland answers. There is no need only to follow what has happened elsewhere in the UK because the English and Welsh have not been without their problems.

They have been criticised for diversifying into different businesses and different geographies instead of concentrating on core functions such as preventing hosepipe bans, fixing leaks and allowing sewers to flood their customers' houses.

They have been pilloried for making allegedly excessive profits; for being owned by, quote, "foreigners"; for paying high salaries; and for misleading the regulator.

In many, but not every single one, of these accusations there is definitely another side, but my point is that it has not been by any means plain sailing for the English and Welsh companies.

But let's not forget that they have delivered very significant improvements in drinking water quality, environmental quality and customer service.

All this can be helpful and I would like to suggest some ways NI Water can go further and faster if we work together by building on the experiences of other water operators, their customers, consumers, their regulators and close stakeholders.

What can we learn?

Bureaucracy!

Let's aim to cut down on the regulatory burden of endless form-filling. Tailor everything to providing a better customer experience.

It's never easy to get the right balance between simplification and the need for detail. But it's vital not to get sucked into a spiral of ever more information, instead of focusing on the really important outcomes and finding the right incentives for delivering them.

Customer satisfaction

In England and Wales we have had the Overall Performance Assessment, the OPA, for some time and people on most sides think it's really had its day because most companies are meeting most standards and there is something very mechanical about them – they're more about how quickly you answer the phone than how helpful you are when you do.

But it is worth studying the OPA because NI will need to develop some service performance measures. Perhaps you can move straight to a mix of mechanical and more meaningful standards. We would love to help.

Innovation

There are an infinite number of ways we could all do things differently and better.

You have heard about the report the Westminster government commissioned from Professor Martin Cave about competition and innovation. Can some of Cave's suggestions for changes to the framework of regulation work here –

I'm thinking about the scope for negotiated settlements, or incentives for capital and operating expenditure, or ideas about how to encourage innovation.

Long-term planning

Most people think that a 5-year management period for setting price caps and reviewing investment makes reasonable sense. But, at the same time, it is also absurdly short for an industry like ours where we're creating assets that might last for 100 years or more. In England and Wales the 5-year cycle has often been seen as a straitjacket and a cause of frustration and wasted resources.

There is a strong message here – whatever happens, if you possibly can, make sure that the system allows decisions to be made in a long-term framework such as 25 years. This is really important.

Managing EU legislation

We're all in this together but remember that 80% of water legislation comes from Brussels. I don't say this to be euro-sceptic but I do say that we need to know what's going on and what's coming our way.

At Water UK we can help with this, and you can all work with us to avoid some of the problems of the early days when there was always a risk of hopelessly impractical legislation – there still is a risk but we can keep it too a minimum!

Above all, I do urge us all to you to ask NI questions and come up with NI answers. Learn from the other side of the Irish Sea and elsewhere in the EU but don't just follow suit.

And of course we can all agree a long-term strategy and understand the roles that all stakeholders have in playing their part to deliver it – that's ideal.

Which leads me neatly to my third overall theme which is that economic regulation works.

Economic regulation works

If they're carried out well, price reviews benefit everyone including the environment we all depend on.

I know there is still uncertainty about the introduction of domestic charges, but I do want to emphasise the value of a price review system that people trust.

A moment ago I mentioned the major improvements the regulated water businesses have delivered in the past 20 years. We have to go on investing however because the industry is facing big challenges in the shape of climate change and population growth, and we are still making up for that lack of investment in the basic infrastructure over many decades.

I can best show you where we've got to by touching on about the main areas of Water UK's work towards a successful 2009 price review in England and Wales. I know you will recognise and identify with them.

- For example Customer priorities are at the heart of water company plans

We have to be honest about this. We're providing a core public service, so we have many responsibilities to society beyond those we owe to customers. But here's the point, we can't fulfil those responsibilities properly if we have unhappy customers.

- Then there is the fact that water companies provide value for money in essential services

If you think about the real economic and social importance of what we do, and then look at what it costs, no one can deny that we offer value for money. What we have to do though is prove it. No one wants to pay more than necessary for an essential service, so it's necessary for us to do what it takes to show people how much they're paying and what they get for their money.

- Next, when it comes to a price review water is not the same as sectors

Of course it depends what you compare with. Many people still claim that water is no different from other network services such as energy, telecoms or railways. I don't accept this.

- There really are differences to do with the physical characteristics of water, its weight and the cost of moving it around.

- Then there are all the regional and local differences to do with geography and geology, hydrology and climate.

- Also I think it's clear that water means something different to people – after all we drink it, bathe in it and wash our food in it – the personal and physical nature of these uses are a world away from flicking a switch or picking up the phone.

- And what about affordability? Affordability must be tackled by companies, regulators and government

The country is in severe recession and this means a growing number of people finding it more difficult to pay for the essentials. This is ultimately a responsibility for society. In the water industry, whether we're companies or regulators, our responsibility is to make sure we're as efficient as possible to keep costs down, and to have good systems so we know what the real cost is. But we must, and do, also work closely with the government to get the solution that is right for our communities. This is true in all parts of the UK.

- And then there is the price review consideration that the industry is extremely diverse: one size does not fit all

It's normal and right for regulators to learn from each other but equally they have to recognise the differences between regulated organisations. We have an opportunity here to set up the right system that is right for Northern Ireland.

- And what about essential investment. The industry invests to maintain and improve customer service, the quality of water, and the environment

We talk about this because many people tend not to know about what the industry actually does – and it helps in all kinds of ways if customers know what the cost of water services covers.

- This need for investment in water is set to continue for the foreseeable future

We have to be straight with people. Water may fall free from the sky, but running a high quality water and sewerage service fit for the 21st Century has a significant cost. It's impossible to achieve everything that's needed in three or four short years. We need long-term investment.

Investment programmes that balance the cost and affordability for customers with the expectations of everyone that we shouldn't have to put up with sub-standard service or waste, or a polluted environment.

What is needed above all is a long-term strategic framework, agreed between government, regulators and regulated industry, and understood by consumers.

A framework of this kind means that all sides can have confidence that we're making the right investments will be made, at the right time, and at the right pace.

My fourth and last overarching point this morning – NI Water has a great future.

Northern Ireland Water and its key stakeholders are facing challenges, but I believe we can look forward to making a great contribution in the years ahead.

NI Water is different from other parts of the UK, in that its origins are as a part of the civil service.

Moving to a new culture is a big challenge and shouldn't be underestimated. Running a stand-alone water company that is accountable to customers and regulators is different from being a government department. This happened to some degree in England and Wales, and Scotland - and in fact is still happening.

The challenge is similar for everyone here today but of course the solutions will, and should, be different.

But by thinking and planning ahead and learning from each others – by talking constructively with each other – you all will create the culture that is right for this community.

Perhaps the main benefit we have found in the evolution of water companies is that they can focus solely on the job in hand – providing water and sewerage services.

The value of effective business management really does come from the capacity to focus – focus on efficiency and on getting and giving good value; focus on protecting and enhancing the environment; focus on continuously improving service to customers.

If the community sees the value and benefit of this kind of development, they will also see the point and the value of customers paying directly for water services.

Conclusion

So, to conclude.

This is an exciting time to create a new water service organisation.

All new organisations take time. Sometimes it can be uncomfortable. The most important thing is that you all agree on the right structure, the right regulatory framework for Northern Ireland, and the right long-term strategy.

This means that all of you – all of us - all the stakeholder groups here today – have a part to play in making NI Water a success. It's not just down to the management, or the regulator, or the Assembly. Everyone's view counts and everyone's goodwill is needed. And everyone's hard work is necessary.

I'm very confident that it will work. At Water UK we are ready to help, or advise, at any time. And crucially, we are ready to learn from all of you.

Thank you.

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