



Presentation  
to the  
Review Panel  
for  
Water and Sewerage Services

Katharine Bryan

# Introductions

Katharine Bryan – Chief Executive

Ronan Larkin - Director of Finance & Regulation

George Butler - Director of Asset Management

# Subjects Covered Today

- Context
- Challenge
- Strategic Business Plan
- Cost of delivery
- Funding models
- Tackling the legacy of underinvestment

# NIW – The Context

- Established 1/4/07 Water & Sewerage Order 2006
- Assets, rights, liabilities transferred to NIW
- Sole shareholder DRD – 100% government owned
- Governance based on Combined Code
- Chairman, 3 Non-Execs and 3 Executive Directors
- Full environmental and economic regulation

## Role and Function of NIW

- Provides water and sewerage services to over 795,000 customers
- Maintains and operates significant asset base:
  - 26, 500 kilometres of watermains
  - 14, 500 kilometres of sewers
  - 40 impounding reservoirs
  - 65 water treatment works
  - 1, 124 wastewater treatment works
  - 287 water pumping stations
  - 1,194 wastewater pumping stations
- Almost £1m per day invested in water and wastewater services
- Bills and collects revenue from non-domestic customers

# The challenge

- Historic under-investment
- Substandard infrastructure
- Failure to comply with EU standards –  
infraction
- Lack of appropriate systems
- Culture and skills deficit
- Limited customer confidence
- Lack of strategic planning

# Addressing the challenge

- Strategic Business Plan
- Sustainable funding
- Transformation programme  
(Customers, culture, skills)
- Prioritised capital investment  
(assets, systems, technology)

# Developing the SBP

- Internal working groups and consultancy support to challenge capex, opex & BOM proposals.
- Development of comparator analysis
- Development of multiple scenarios
- Halcrow endorsement of capital programme
- Integrated Financial Model (IFM) and tariff models developed, audited and approved
- Negotiation and challenge of financial parameters with DRD and Ministers

# SBP Objectives

- By 2015 to match or exceed the performance levels of comparable England and Wales companies
- Deliver improved water and sewerage service
- Safeguard public health and environment
- Reduce leakage levels
- Improve customer service
- Achieve cost efficiencies
- Develop a sustainable business

# SBP – NIW's approach

- Whole package balances the risks
- Balancing unprecedented Capex requirement with the desire to have reasonable bills close to E&W average.
- Achievable efficiency targets in a tight timescale.
- Important to build capability (people/technology)
- Assumptions made for PR09
- Avoid price hike in year 4

# Improvement & Efficiencies to 2009

- 18 year catch-up in less than half the time
- £44m target operational expenditure efficiencies by 2009/10
- Over £77m target capital efficiencies to 2009/10
- 26% workforce reduction
  - 1,900 posts (2007) to 1,400 posts by 2010
- High quality performance culture / capability
- NI Asset Management Plan

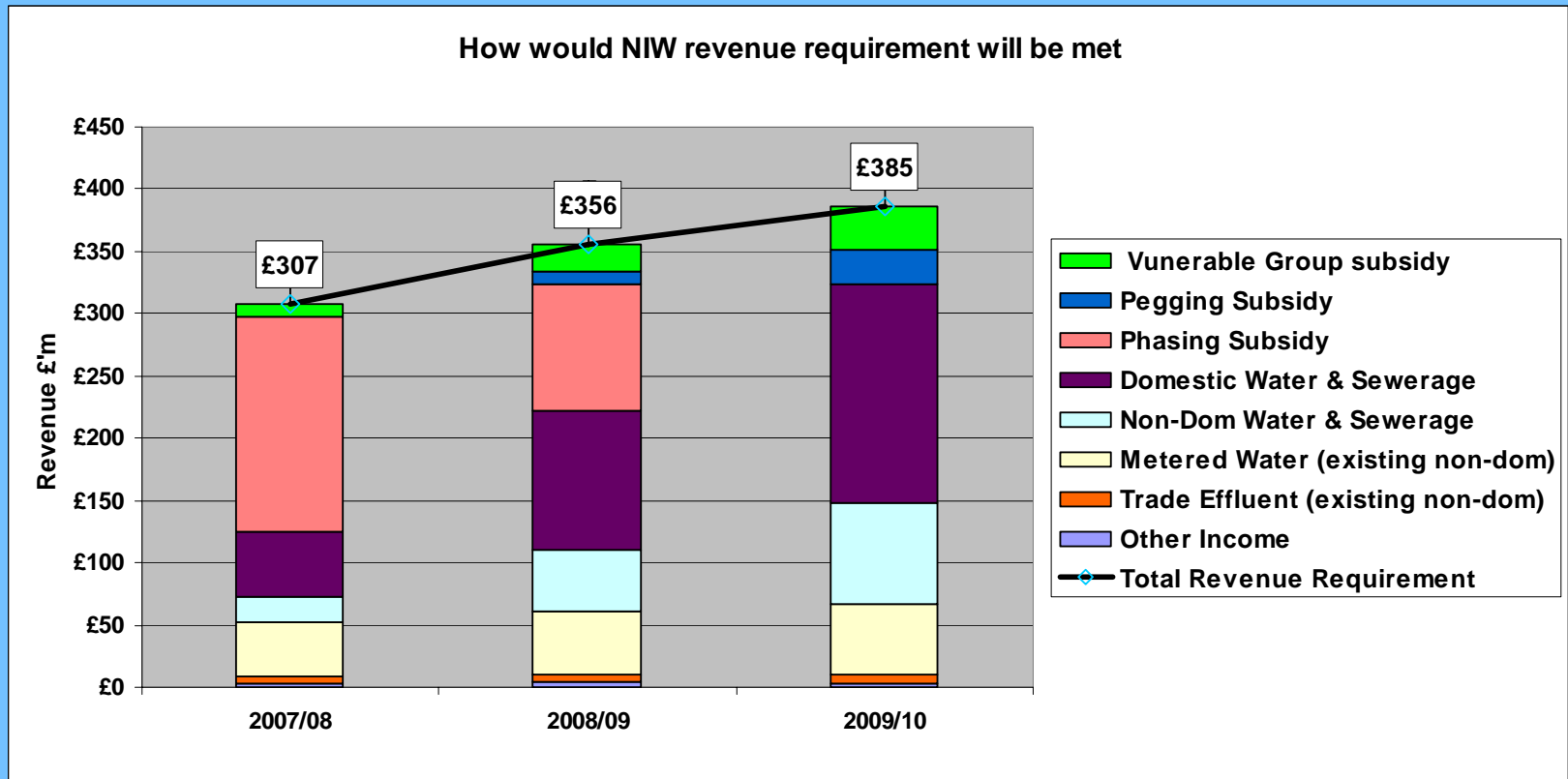
# The Costs of Delivery

Ronan Larkin

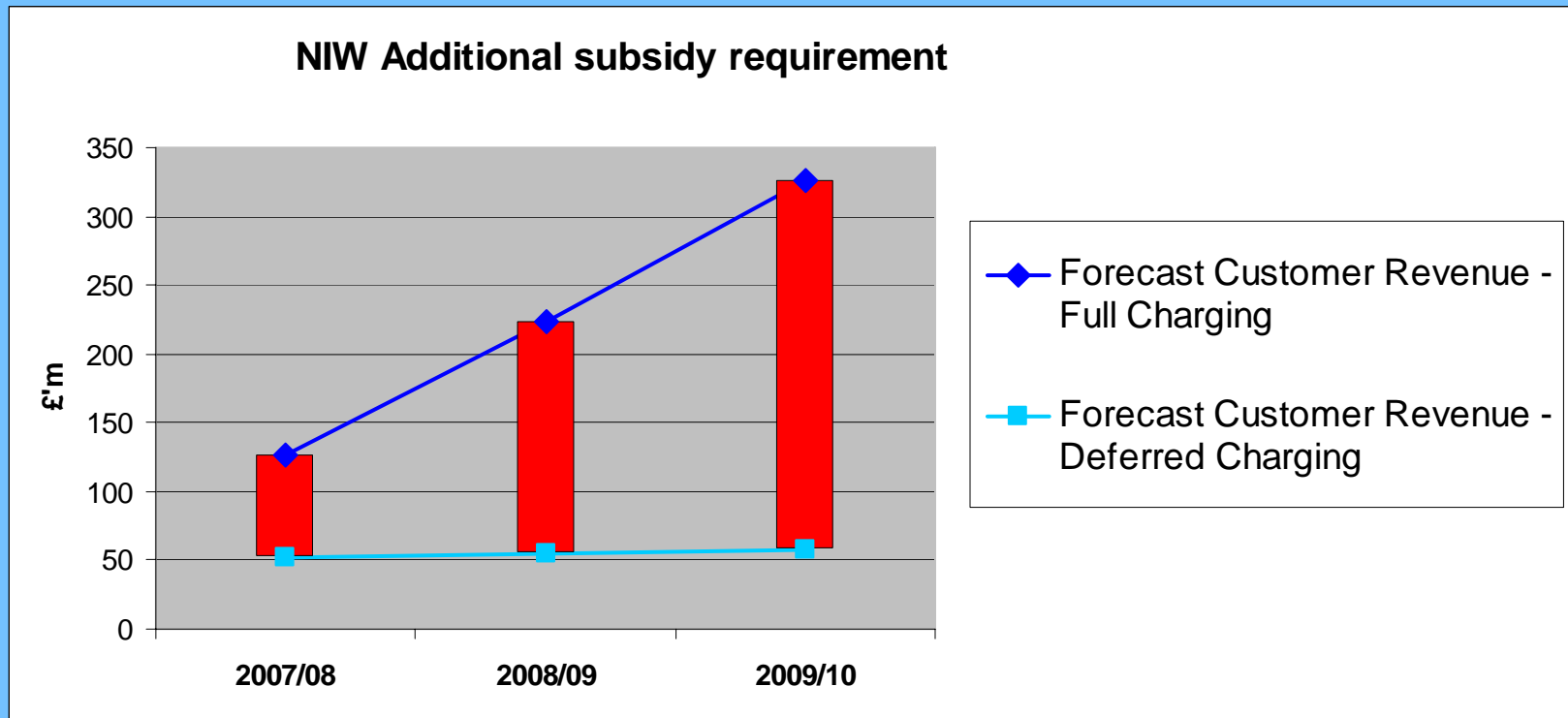
# How would NIW be funded in 2008/09

<b>Strategic Business Plan (SBP)</b>	<b>2008/09 £'m</b>
<b>Turnover</b>	<b>356</b>
<i>less</i>	
Operating Costs	(218)
Depreciation / IRC	(57)
<b>Operating Profit</b>	<b>81</b>
<i>less</i>	
Interest costs	(21)
Dividends	(35)
Tax	(18)
<b>Net Profit</b>	<b>7</b>
<i>Add back non cash items</i>	
Depreciation / IRC	57
Tax	18
<b>Cash available to fund capex from profit</b>	<b>82</b>
<i>plus</i> asset sales	4
<i>less</i> change in working capital	(22)
<b>TOTAL cash available to fund capex</b>	<b>64</b>
<b>CAPEX for year</b>	<b>256</b>
<b>DEFICIT funded by Borrowing</b>	<b>(192)</b>

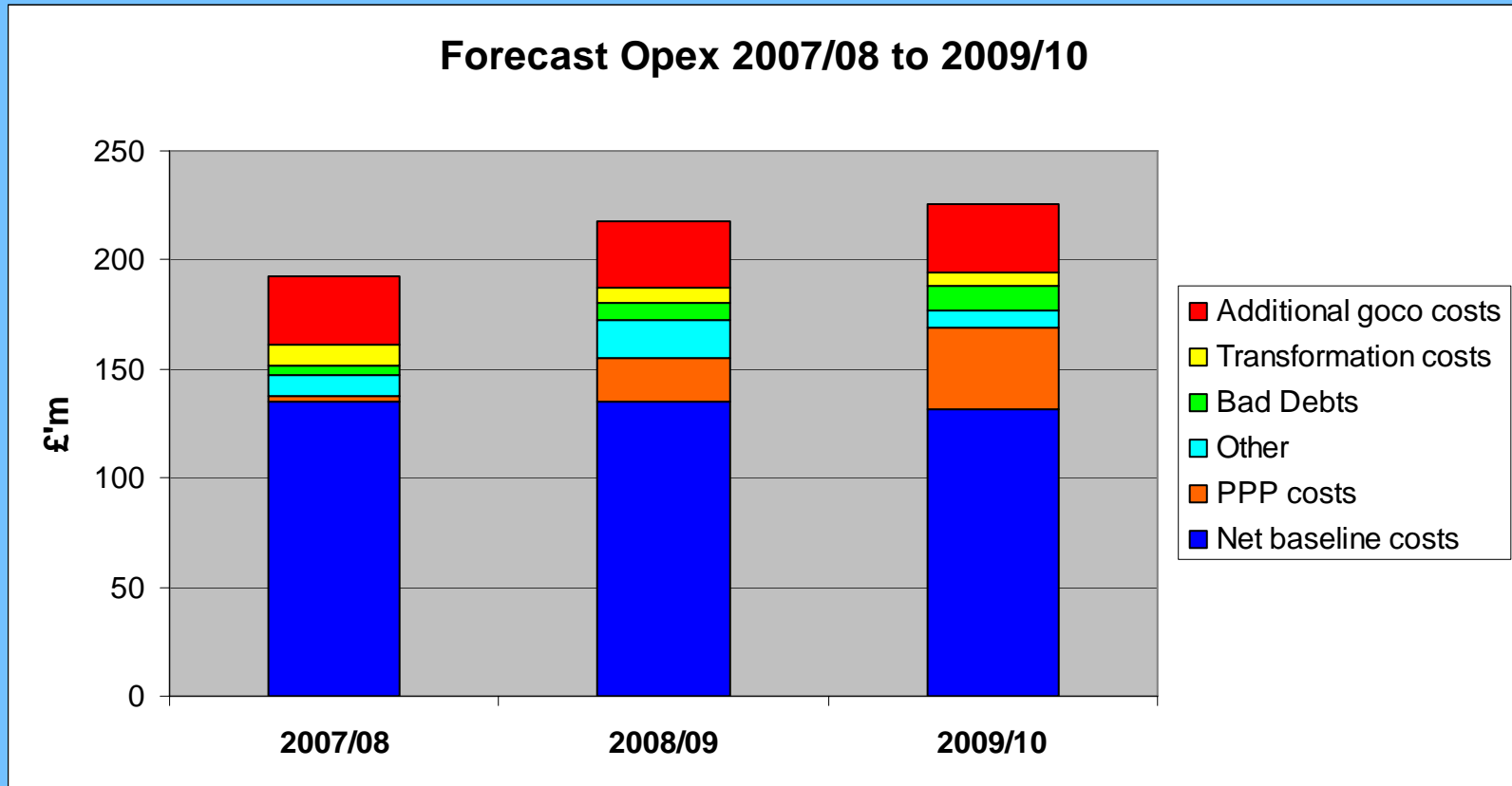
# How would NIW be funded in 2008/09



# NIW – Revenue requirement – if charge had gone ahead



# Financial analysis – Forecast Opex



# Opex

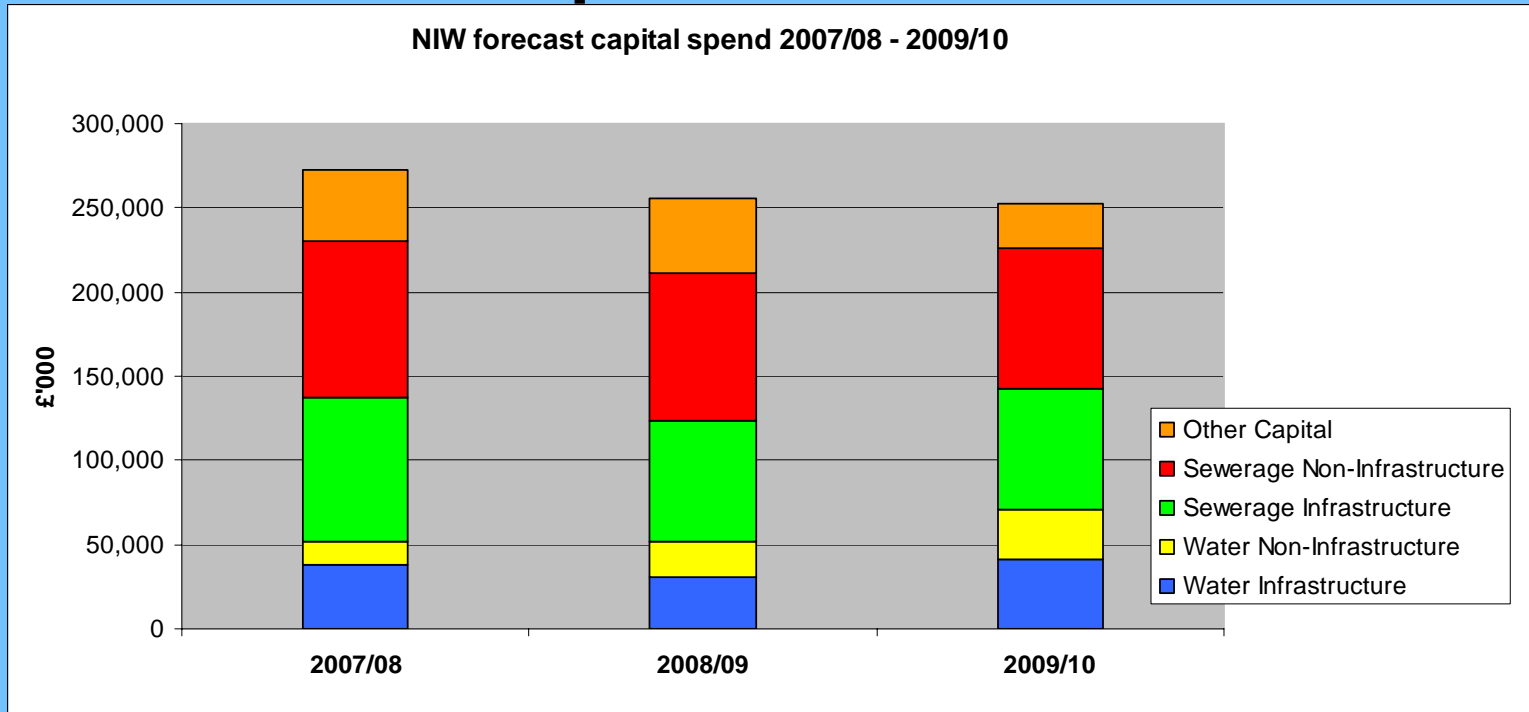
## **What we plan to deliver by 2010**

- Improved customer service to meet higher expectations
- Opex efficiencies by 2010:
  - £44m reduction in Opex
  - 26% of controllable costs
- Staff numbers reduced by 500, leaving 1,400 post by 2010.

## **Approach to developing the opex programme**

- Evaluation of base opex and cost drivers
- Assess efficiency from transformation projects
- Opex from capex (including costs of not investing)
- Delivering through partnerships (e.g. MWM-Crystal)
- Looked across the business at opportunities, e.g. procurement
- Looked at industry best practice
- Unending search for efficiency

# NIW – Capital Investment



# NIW – Capital Investment

- £667m capital works programme to 2009/10:
  - £174m in water treatment/storage/improvements
  - £492m improvements to WwTw and sewers
  - £30m poorly performing small WwTw (2014)\*
- £232m Public Private Partnership to 2009/10:
  - £110m in water treatment, storage and improvements
  - £122m in improvements to WwTw and collection systems

\*performance post 2009 subject to funding at the 2009 periodic review

# Financial analysis - Funding

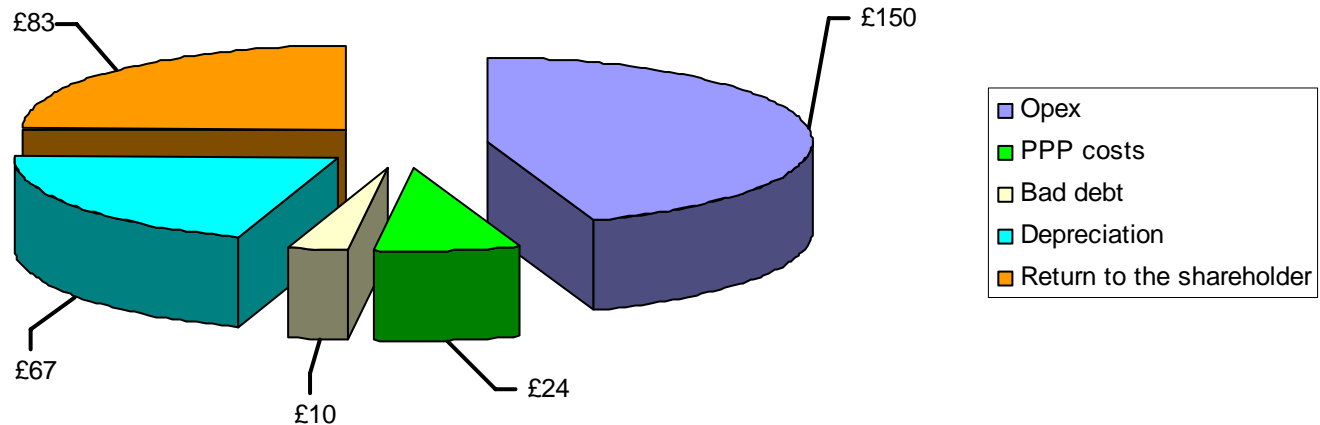
- Funding – Debt.
- £150m Opening Debt as part of Loan Note facility
- £696m by 2009/10
- Debt to RCV ratio 52%
- Facilities
  - Working Capital facility (to fund variations in working capital)
  - Revolving Credit Facility (to fund unforeseen expenditures and contingent liabilities)
  - Loan Note Facility (to fund capex programme agreed under the SBP)
- Interest at 5.25% for first 3 years.
- No scheduled repayment of debt in the SBP period

# Financial analysis - Equity

- Funding – Equity.
- Shareholder equity equals £671.1m
  - Opening RCV £800m
  - Opening debt £150m
  - Surplus assets £21.1m
- Dividends based on a return of 5.1% of RCV less net debt.

# Where would your domestic charge have gone?

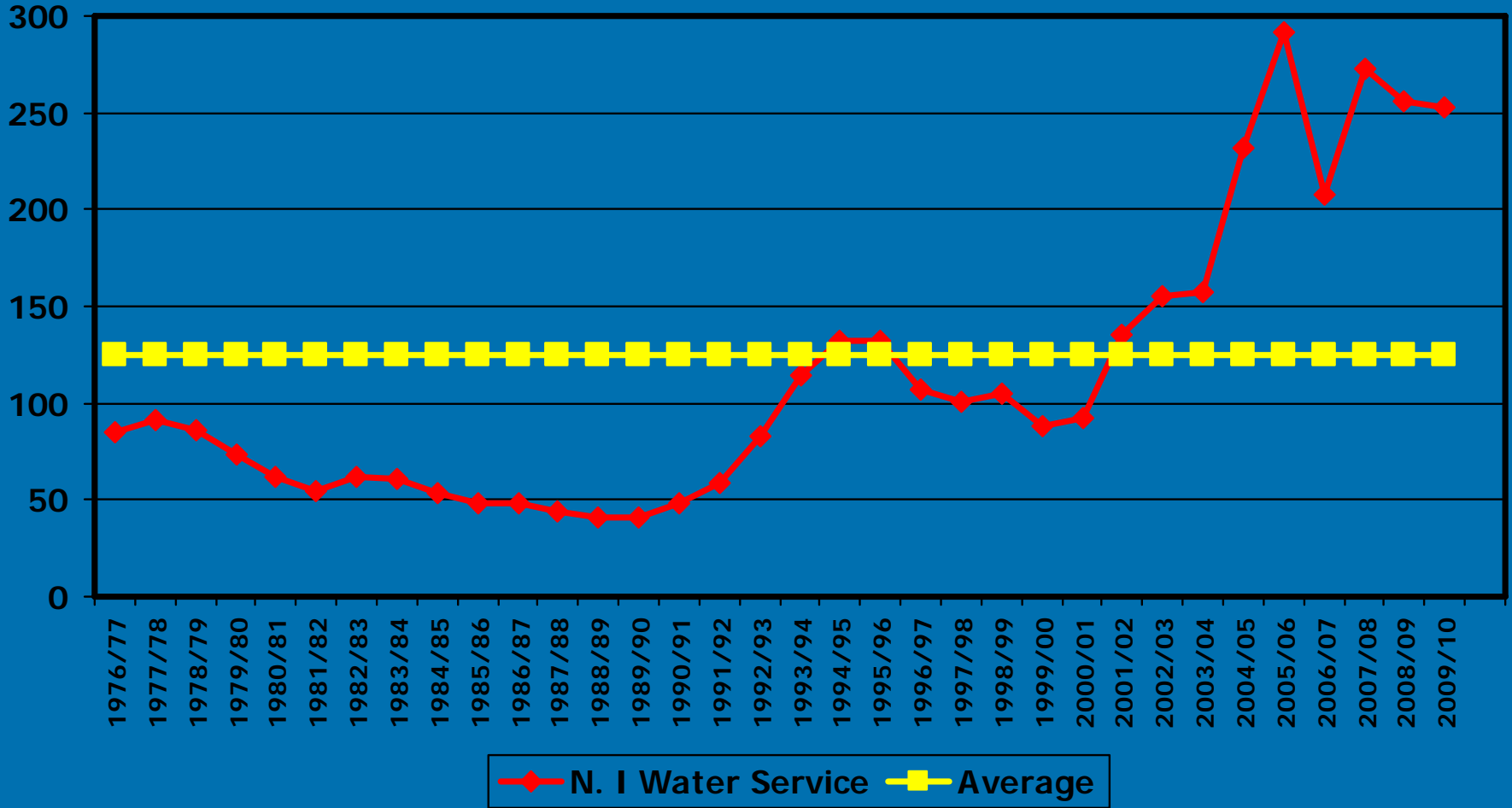
Where does your domestic charge go in 2009/10



# Tackling the Level of Underinvestment

George Butler

# NIW Historical Capital Spend 1976-2010



# Tackling the Legacy of Underinvestment

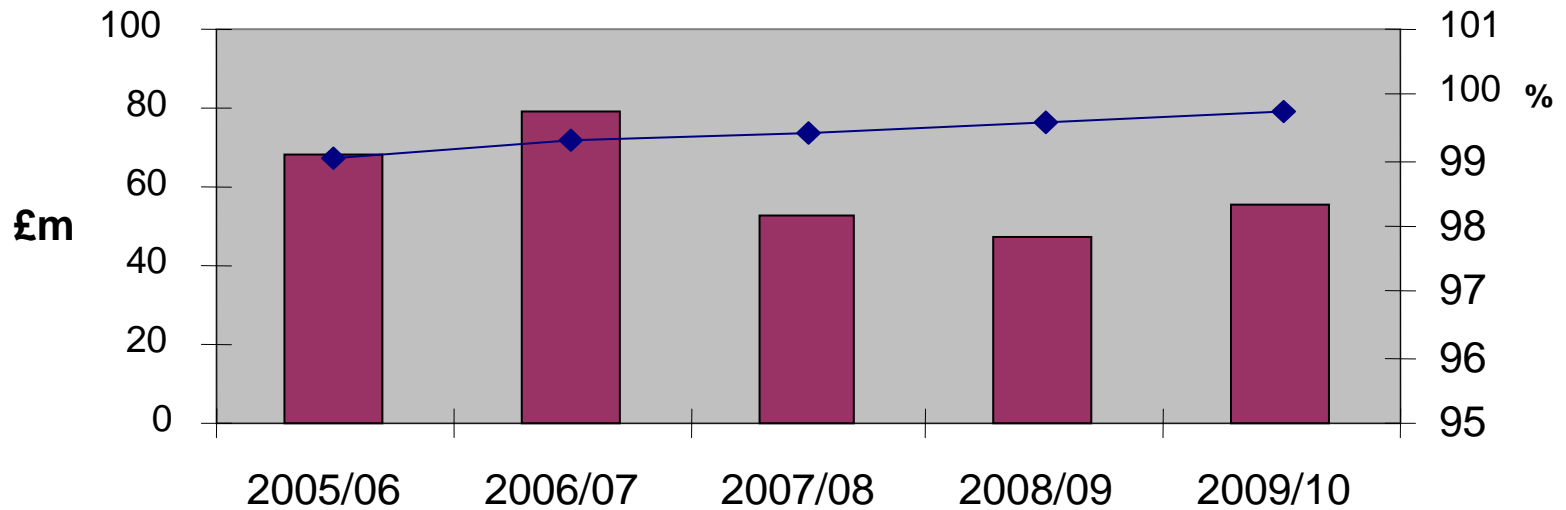
- Significant underinvestment over several decades
- Increased investment since 2000 driven by :
  - Public health events:
    - 3 Cryptosporidiosis out breaks
    - Water quality deterioration
  - EU Infraction:
    - Water Quality – currently 24 Authorised Departures
    - Wastewater – 9 out 13 sites are in NI
  - Action to address the issues:
    - c£1Bn out of £1.6Bn SBP capex is for backlog
    - Risks – c£700m backlog is unfunded

# NIW's Water targets to 2009/10

- 99.77% Mean Zonal Compliance (target 2009)
  - 99.34% actual 2006 (MZC)
  - 99.02% actual 2005 (MZC)
  - 98.65% actual 2004 (MZC)
- 20% leakage reduction
  - 169ml/day (actual 2006/07)
  - 135.5 ml/day (target 2009/10)
- 910 km of water main replaced/ upgraded
- 50% reduction in interruptions to supply exceeding 12 hours

# Water Quality Outputs

## Drinking Water Compliance



■ Level of investment in drinking water

◆ Mean zonal compliance

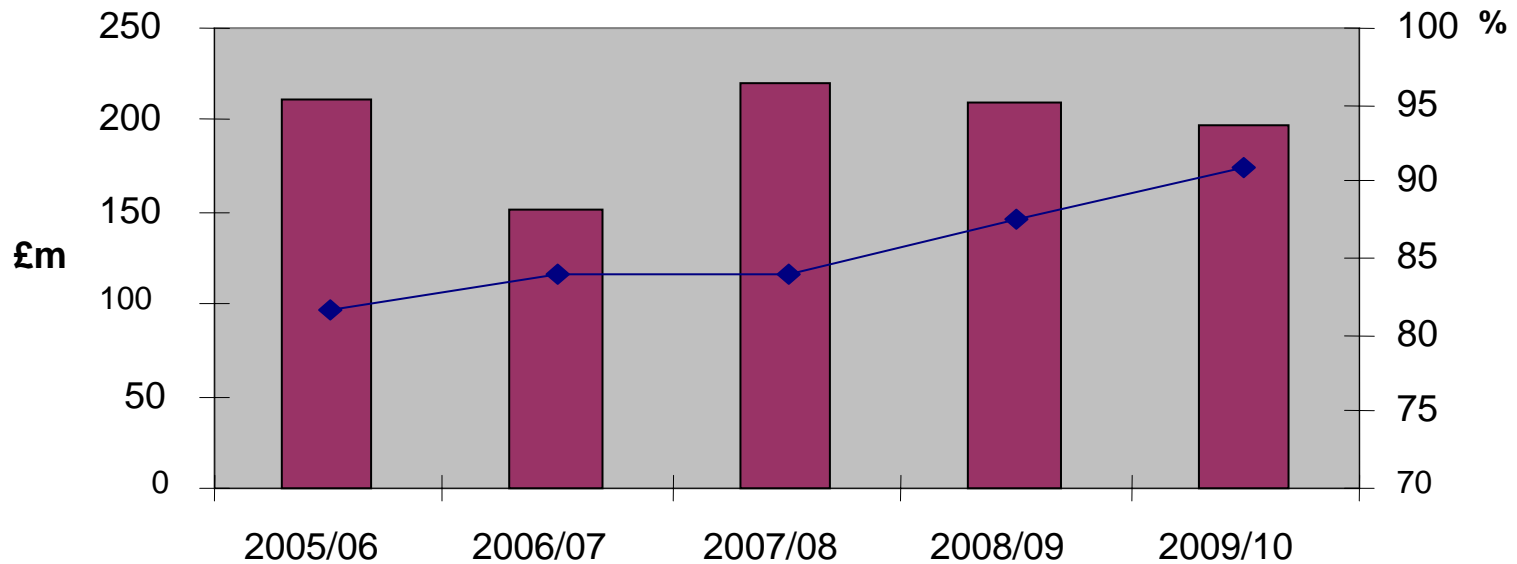
# NIW's Sewage Treatment Targets to 2009/10

- Compliance with NI Water Order Numeric Consents (Works):
  - 84% in 2006 (actual)
  - 91% in 2009 (target)/ 100% in 2014\* (target)
- % population served by compliant works:
  - 77% in 2006 (actual)- 63% in 2004 (actual)
  - 94% in 2009 (target)/ 100% in 2014\* (target)
- Existing infraction sites sorted and risk reduced by end 2007
- 11% reduction in pollution incidents by 2009

\*performance post 2009 subject to funding at the 2009 periodic review

# Wastewater Compliance

## Wastewater Compliance



■ Level of investment in waste water  
◆ Compliance with waste water standards

Summary

Katharine Bryan



# We are addressing a Common Agenda

- A strong sense of public/personal ownership of water
- Supplying water and sewerage services in way which has public confidence and political legitimacy
- Wide acceptance of massive underinvestment
- Cost of delivery significant, but being reduced
- Any charging must be fair and affordable and protect less able to pay
- A sustainable medium term funding model is essential
- Commitment to fair employment, regulated standards and supporting economic development in NI

# Working with the Panel

- How can we best assist the Panel in its work?
- Facilitating site visits to see our operations
- What types of analysis would the Panel find useful?
- Points of contact and liaison arrangements