Session 2006/2007 **Fourth Report**

COMMITTEE ON THE PROGRAMME FOR GOVERNMENT

Report on Comprehensive Spending Review and Programme for Government; Rates Charges; and Water Reform

TOGETHER WITH THE MINUTES OF PROCEEDINGS, OFFICIAL REPORT
AND PAPERS RELATING TO THE WORK OF THE SUB-GROUP AND COMMITTEE

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Committee on the Programme for Government

On 24 November 2006, following a direction from the Secretary of State for Northern Ireland, the Rt Hon Peter Hain MP, the Business Committee established a Committee on the Programme for Government to agree priorities for a restored Executive and to make preparations for restoration. The Secretary of State directed that the Committee should, initially, be chaired by the deputy presiding officers, Mr Jim Wells and Mr Francie Molloy.

Membership

The Committee has ten members with a quorum of six, with at least one representative present from each party on the Committee. The membership of the Committee since its establishment on 24 November 2006 is as follows –

Gerry Adams MP
Jeffrey Donaldson MP
Mark Durkan MP
Sir Reg Empey
Michelle Gildernew MP
Martin McGuinness MP
David McClarty
Ian Paisley Jnr
Margaret Ritchie
Peter Robinson MP

At its meeting on 27 November 2006, the Committee agreed that deputies could attend if members of the Committee were unable to do so.

The Committee met on nine occasions between November 2006 and 23 January 2007. At the first meeting on 27 November 2006, the Committee noted the direction from the Secretary of State dated 23 November 2006 that a Committee on the Programme for Government should be established to agree priorities for a restored Executive and to make preparations for restoration. (A copy of the direction issued by the Secretary of State is attached at Appendix 5).

The Committee agreed to consider the Ministerial Code, Victims and Survivors issues and the Lifetime Opportunities strategy and to set up sub-groups to consider and report back on –

- Economic Issues
- Workplace 2010 and Public Sector Job Location
- Policing and Justice Issues

- Schools Admissions Policy
- Review of Public Administration and Rural Planning
- Comprehensive Spending Review; Programme for Government; Rates Charges and Water Reform

Sub-group on Comprehensive Spending Review and Programme for Government; Rates Charges and Water Reform

The Committee agreed the sub-group's terms of reference on 4 December 2006. The sub-group submitted its report on 18 January 2007. The Committee considered the report on 23 January 2007 and agreed that it should be printed.

The sub-group has six members with a quorum of four, with at least one Member from each of the four parties represented on the Committee on the Programme for Government. The membership of the sub-group, established on 27 November 2006, is as follows:

Mr Leslie Cree
Mr Mark Durkan MP
Mr Raymond McCartney
Mr Mitchel McLaughlin
Mr Jim Shannon
Mr Peter Weir

Mr Jim Wells chaired the meeting of the sub-group held on Wednesday 6 December 2006 and Mr David McNarry chaired the meeting held on Wednesday 13 December 2006.

The Committee on the Programme for Government agreed at its meeting on 11 December 2006 that the sub-group on the Comprehensive Spending Review and Programme for Government; Rates Charges; and Water Reform would be chaired by a Member from the Ulster Unionist Party. Dr Esmond Birnie was nominated as Chairperson by the party. Mr McNarry substituted for Dr Birnie on two further occasions.

The Committee on the Programme for Government agreed that deputies could attend if members of the sub-group were unable to do so. The following Members attended at various times –

Mr Wilson Clyde
Mr Paul Girvan
Mr Alex Maskey
Mr John O'Dowd
Ms Margaret Ritchie
Ms Kathy Stanton

Terms of reference

(1) **The Comprehensive Spending Review and Programme for Government**

To consider –

- the current position of CSR 2007;
- the views of the NI departments on (1) major financial pressures during the 3-year period; (2) efficiency savings; (3) longer-term investment needs; and (4) issues which should feature as priorities in a draft Programme for Government; and
- the major areas where additional new investment might be allocated as part of an agreed economic package.

(2) **Rates Charges**

To consider, in a comprehensive manner, all aspects of rating reform including the work and any proposals developed -

- to cap domestic and industrial rate charges; and
- to increase the relief available to senior citizens and low income households including those on specified benefits; and

To report on the views of the sub-group on an appropriate capping mechanism and level.

(3) **Water Reform**

To consider –

- the arrangements for water reform set out in the draft Water and Sewerage Services (Northern Ireland) Order 2006;
- the strategic business plan, governance of the GoCo and the issue of licence; and
- the arrangements for the billing and collection of the water charges.

To report to the Committee on the Programme for Government on these three issues by 18 January 2007.

Contents

Executive Summary

The sub-group on the Comprehensive Spending Review (CSR) and Programme for Government; Water Reform and Rates Charges makes 35 recommendations in this report on the 3 issues referred to it in the terms of reference set by the Committee on the Programme for Government (PfG Committee). The sub-group took oral and written evidence from a wide range of organisations and government departments on the three substantive issues of the CSR, water reform and rates charges.

The sub-group worked closely with the Economic Issues sub-group on areas of common interest in respect of water charges and the investment priorities that should underpin the case for an economic package from the Chancellor. The sub-group was firmly opposed to water charges and has fully supported the recommendations made in the Economic Issues sub-group's recent report to the PfG Committee on the deferment of water charges, on a reduction in the capital valuation and on a reduced rate of return set by Government, which directly impact on the level of charges placed on consumers. The sub-group also supports the analysis of the Chancellor's economic package and the alternative economic package proposals in the Economic Issues sub-group's report.

The sub-group has reached consensus on the conclusions and recommendations in the report and considers that these are firmly rooted in the evidence submitted. The sub-group was alarmed at the evidence provided by the Consumer Council which suggested that, notwithstanding the best efforts of the Council, there had been a serious breakdown in its relationship with the Department for Regional Development on the water reform agenda. The strength of this relationship is central to the quality and effectiveness of the protection measures for consumers and it is the view of the sub-group that the evident distrust that has been allowed to develop must be a cause for serious concern.

The report contains recommendations for a restored Executive's consideration on the identification and delivery of efficiency savings, their impact on frontline services, resources available from asset disposal and the priorities for future investment. Substantive recommendations on rates charges focus on the negative impact of non-domestic rates on the manufacturing sector and the impact of the change in domestic rates on pensioners, people with disabilities and people on benefits. The report calls for a detailed study into the cost and impact of introducing a cap on domestic rates and finding alternative ways of providing assistance for the 'asset rich/cash poor'. On water reform the report develops the work of the Economic Issues sub-group and makes recommendations including the need for a restored Executive to fully review the water reform process and to consider again all the potential alternative models for reform. The sub-group calls for increased enforcement powers for the Regulator on setting charges and disposing of assets and expresses concern about the impact that water charges will have on vulnerable people falling below the poverty line.

The sub-group recommends a number of measures that would reduce the charging burden on industrial and domestic consumers including a proposed extension from 3 to 5 years for the

phasing-in subsidy and that the Government should guarantee an extension to the affordability tariff beyond 2010.

The sub-group report outlines significant areas for consideration in the Programme for Government of a restored Executive and makes proposals on the priorities that should be set in a future programme. The sub-group commends the report's recommendations to the Programme for Government Committee for consideration and approval.

Recommendations

Comprehensive Spending Review and Programme for Government

1. The sub-group concludes that public expectation of a significant increase in public expenditure in Northern Ireland as part of a peace dividend has been dashed by the Chancellor's announced economic package; and the sub-group strongly supports the recommendation of the sub-group on Economic Issues that the PfG Committee presents the Chancellor with a robust set of counter proposals. **(Paragraph 22)**

2. The sub-group notes the target for public sector asset sales of £1 billion and recommends that a restored Executive ensures that this target is achieved in a joined-up manner with due regard to the impact on service delivery and the resource implications of new investment decisions. **(Paragraph 26)**

3. The sub-group recommends that a first major priority for a restored Executive must be to engage in the preparation for the CSR outcome in summer 2007 and the urgent development of a draft Priorities and Budget document for consultation, ensuring a transparent process of consultation. **(Paragraph 28)**

4. The sub-group believes it is imperative that efficiencies are achieved and notes the ongoing Value for Money Reviews and calls for the early publication of the findings and consultation on the policy issues and efficiency options arising from those reviews. **(Paragraph 29)**

5. The sub-group notes the progress in relation to Efficiency Development Plans and the need to achieve efficiency savings of around £770m by 2010/11 for investment in frontline services and recommends that a restored Executive engages in early consultation on the full range and implications of these plans. **(Paragraph 30)**

6. The sub-group recommends that continuing the drive for greater efficiency must be a priority for a restored Executive but that such efficiencies must not be achieved at the cost of cuts to vital frontline services. **(Paragraph 31)**

7. The sub-group recommends that a restored Executive should examine the barriers to developing sufficient capacity in the construction sector and take appropriate steps to establish greater reliability and certainty in projects coming on-stream. **(Paragraph 32)**

8. The sub-group is concerned that a significant amount of interest has been paid for capital borrowed under RRI and not subsequently used. The sub-group recommends that it should be a priority of a restored Executive to develop effective measures to reduce the amount of underspend, with particular emphasis on capital underspend, and to better plan and manage existing resources. **(Paragraph 33)**

9. The sub-group recommends that the following issues should feature as spending priorities in a draft Programme for Government. **(Paragraph 34)**

- that a restored Executive takes early account of the Value for Money Reviews proposed in the CSR process covering pharmaceutical costs, labour productivity and RPA restructuring in the health sector, together with reviews of the schools estate, school transport and special educational needs.
- that expanding the Northern Ireland private sector economy through attracting more foreign investment and supporting local business growth should receive high priority.
- that skills and training should be a priority area for future investment.
- that internal and external transport links and investment in public transport, roads, railways, and connectivity with international links and networks should be prioritised.
- that priority should be given to quantifying the financial implications of the proposed RPA reforms.
- supports the Confederation of British Industry's call for improvements to the planning system to significantly reduce the processing time for major planning applications and recommends a target of 10-12 weeks.
- supports efforts to encourage and develop cross-cutting responses to the challenging problems faced by Northern Ireland and notes the proposed Innovation Fund.
- calls for early consideration of, and engagement on, the Barnett implications of the transfer of funding for policing and justice functions.

10. The sub-group recommends that the CSR is part of a strategic approach to tackle poverty on the basis of objective need as envisaged in the new Anti-Poverty Strategy. **(Paragraph 35)**

11. The sub-group fully supports the list of priority areas for additional investment detailed in the set of counter proposals to the Chancellor set out in Annex A of the Report of 21 December 2006 by the sub-group on Economic Issues. **(Paragraph 36)**

12. The sub-group also welcomes the proposed Republic of Ireland economic package and recommends that any additional resources should be targeted at projects likely to promote sustainable economic growth and opportunity on an equitable basis and which complement the priorities set by a restored Executive. **(Paragraph 37)**

Rates Charges

13. The sub-group recognises the importance for Northern Ireland of a strong manufacturing base and calls on the Government to freeze industrial rates at 25% for 2007-08 pending the outcome of a major review of industrial rating policy. **(Paragraph 52)**

14. The sub-group welcomes the proposal by the Northern Ireland Manufacturing Focus Group and Amicus for a surcharge of 5% on industrial rates to establish a private sector-led training trust to develop skills and help increase competitiveness and productivity. The sub-group believes that this self-help approach should be encouraged and recommends that a restored Executive explores with the sector the feasibility of establishing such a fund and with matching Government funding. **(Paragraph 53)**

15. The sub-group recommends that a restored Executive should give consideration to increasing the level of deduction in the capital value of a farmhouse to 50% where it is subject to an agricultural-occupancy planning restriction. **(Paragraph 54)**

16. The sub-group welcomes the proposals to give enhanced rate relief to pensioner households and particularly the recognition that single pensioner households face greater poverty levels than pensioner couples. The sub-group would wish to see the highest possible percentage increase in allowances within the available resources but recognises that in this instance it is a matter for negotiation between Government and the political parties. **(Paragraph 58)**

17. The sub-group supports the principle of transitional relief but recommends further study of the various options, including the option of extending this relief beyond three years, and their interaction with other relief schemes. **(Paragraph 59)**

18. The sub-group recommends that urgent consideration be given to finding a more cost effective way of providing assistance with accommodation costs for students. **(Paragraph 60)**

19. The sub-group recommends that the 25% discount scheme for people with disabilities with housing adaptations should be extended to cover all those in receipt of the higher rate care component of Disability Living Allowance. **(Paragraph 61)**

20. The sub-group recommends that further consideration be given to the introduction of a single person discount of 25% and a second adult rebate in Northern Ireland on a means-tested basis. **(Paragraph 62)**

21. The sub-group recommends that a detailed study be undertaken into the cost and impact of introducing a cap on rates at various levels, including consideration of alternative ways of providing rates relief for householders on lower incomes who live in high value homes and face extremely high rates bills. **(Paragraph 64)**

22. The sub-group recommends that it should be a priority of a restored administration to work with all the relevant organisations in a concerted effort to tackle the low uptake rate of passport benefits. The sub-group recommends that any decisions on reducing the number and availability of pension advisers must be delayed pending the development of a co-ordinated and resourced awareness campaign designed to significantly increase take-up of passport benefits. **(Paragraph 65)**

23. The sub-group recommends that it should be a priority of a restored administration to undertake comprehensive monitoring of the effectiveness and take-up levels of the various rate relief measures and to carry out a comprehensive review of the implementation of the new rates scheme after one year in operation. The review should include consideration of the feasibility of linking energy efficiency or other sustainability measures to a future rates discount scheme. **(Paragraph 66)**

Water Reform

24. The sub-group strongly supports the call by the sub-group on Economic Issues to continue to press Government to defer the water reforms until they can be considered by a future devolved administration. **(Paragraph 81)**

25. The sub-group recommends a fundamental review of the water reform process and consideration of all available models and options, including the payment of charges through the regional rates system, with a view to making any necessary legislative, structural, or other changes by April 2010. **(Paragraph 83)**

26. The sub-group calls for the role of the Regulator to be strengthened, and strongly believes that the Regulator must be given full authority and enforcement powers from 1 April 2007, on all matters including issues relating to the setting of charges and the disposal of land or assets. **(Paragraph 85)**

27. The sub-group believes that assurances about authorising the Regulator to carry out enforcement, while welcome, should have been included in the legislation and strongly recommends that no surplus assets be disposed of prior to April 2007. **(Paragraph 86)**

28. The sub-group fully supports the call by the sub-group on Economic Issues for Government to reduce the capital valuation of the GoCo from £1bn to £500 million and to lower the required rate of return from 5.8% to 3.5%. **(Paragraph 88)**

29. The sub-group recommends that the consumer must not be held accountable for bad debt inherited from a historically under-funded public utility. **(Paragraph 90)**

30. The sub-group recommends that a detailed study be conducted urgently on whether the planned standing charge and variable charge based on capital value provide the fairest system for consumers. The sub-group recommends a detailed study of all options. The sub-group also recommends an urgent review of the detailed arrangements for the billing and collection of water charges. **(Paragraph 91)**

31. The sub-group calls for immediate and full openness and transparency on all aspects of the new arrangements and, in particular, the immediate publication of the draft Strategic Business Plan for public scrutiny and comment. **(Paragraph 92)**

32. The sub-group recommends that Northern Ireland Water Ltd should have a duty to consult with the Consumer Council on all matters that may impact on consumers, including the assessment of policies that should be subject to Equality Impact Assessment. **(Paragraph 93)**

33. The sub-group calls for the debt management strategy to be screened for equality implications and for an Equality Impact Assessment to be carried out on the impact of water charges on different socio-economic groups. **(Paragraph 94)**

34. The sub-group is concerned that the governance of Northern Ireland Water Ltd and the issue of the licence have not been resolved well in advance of it coming into operation and recommends that the licence must be amenable to scrutiny and change, if necessary, by a restored Executive. **(Paragraph 95)**

35. The sub-group recommends that, in the event of water reform proceeding, the current phasing-in arrangement should be extended from 3 to 5 years and resources provided by HM Treasury to guarantee an extension to the affordability tariff beyond 2010. **(Paragraph 96)**

Introduction

1. The sub-group on the Comprehensive Spending Review and Programme for Government; Rates Charges and Water Reform is one of six sub-groups set up by the Committee on the Programme for Government to consider the priorities for a new Executive and to make preparations for restoration. The sub-group has been asked to report by 18 January 2007.

2. The Terms of Reference require the sub-group to consider and report on three separate issues, namely, the Comprehensive Spending Review and Programme for Government (CSR 07); the reform of the rating system; and the introduction of water charges. The sub-group met on six occasions between 6 December 2006 and 17 January 2007. At the first meeting on 6 December, the sub-group agreed a work programme and procedures for taking forward its work.

3. In view of the short timescale to consider the issues the sub-group agreed to invite written submissions from a number of organisations in relation to each of the three topics and to take oral evidence from key organisations. Oral evidence sessions took place on 13 and 20 December 2006 and 4 January 2007.

4. A list of the organisations that submitted written evidence is attached at page 31 and a list of those witnesses and organisations that gave oral evidence is attached at pages 30-31.

5. Other evidence considered by the sub-group, listed at page 32, included the Report of the Sub-Group on Economic Issues on the Chancellor's Economic Package and on Alternative Proposals, dated 21 December 2006, and research papers.

6. The sub-group met on 17 January 2007 and agreed that this report should be submitted to the Committee on the Programme for Government.

Consideration of Issues

Section 1 - Comprehensive Spending Review and Programme for Government

Background

7. The Comprehensive Spending Review (CSR) is a UK wide in-depth examination of Government spending priorities, to establish long-term aims and objectives for each Government department and set firm and fixed spending plans for a three year period. The first Comprehensive Spending Review was conducted in 1997. The second Comprehensive Spending Review (CSR 07) was announced in July 2005 and will report in 2007. CSR 2007 will cover spending for the years 2008/09 to 2010/11. There have been smaller Spending Reviews in 2000, 2002 and 2004.

8. There are three main sources of funding for spending on the functions that will become the responsibility of a devolved administration in Northern Ireland. The first source is the share of the UK public expenditure allocations arising out of the CSR and determined under the Barnett formula. This makes up more than 90% of the total NI budget. The second source is Regional Rates collected from business and domestic properties in Northern Ireland that contributes 6%. Approximately 56% of the total rates revenue collected are regional rates with the balance being the district rate set by District Councils for local services. The third source is borrowing for capital investment under the Reinvestment and Reform Initiative (RRI) which makes up 2%. The current borrowing limit set by HM Treasury is £200 million per annum.

9. The outcome of CSR 07 will set the spending limits for Northern Ireland for the period 2008/09, 2009/10 and 2010/11 as determined through the Barnett formula. The outcome of this is expected to become known around the middle of 2007 and will be reflected in the Northern Ireland Priorities and Budget from 2008/09 onwards.

Summary of Concerns Raised with sub-group

10. The sub-group has been asked to consider the current position of the CSR07 and the financial pressures, efficiency savings and investment needs of departments over the CSR period. Although the CSR was initiated in July 2005 the outcome at a national level will not be known until summer 2007. The sub-group accepts that it is very difficult for departments to identify financial pressures at this stage as circumstances will inevitably change in the intervening period. Nevertheless, in response to a request by the sub-group, departments

have prepared a paper setting out on a departmental basis details of their likely spending priorities over the CSR period. **A summary of these is provided in Annex A**.

11. In addition to the pressures identified by departments, the sub-group sought views and input from a number of organisations, a summary of which is outlined below.

12. The Economic Research Institute of Northern Ireland (ERINI) suggests that the outcome over the CSR period is likely to see modest growth of around 3.5% per year in nominal terms. If public sector inflation is higher than this, any difference will have to be made up from other sources. ERINI also suggests that expenditure on health and education, which had enjoyed the highest expenditure priority over the past decade, had not been matched by outcomes, and it would be difficult to sustain past expenditure levels within projected growth in public expenditures. ERINI also submits that the economy has not been a high expenditure priority and over time the approach adopted to stimulate economic growth has become less effective. ERINI states that finding ways to break free of the low productivity trap and drive economic growth was the biggest challenge facing NI. This realisation that current economic policies could not deliver a level of growth capable of closing the wealth gap with the rest of the UK and the Republic of Ireland had informed ERINI support for the different and radical approach of lowering corporation tax. ERINI supports the idea of an Innovation Fund proposed in the Chancellor's Package, and suggests that even a small fund of £30-50 million per annum would make a significant difference.

13. ERINI suggests three other areas for consideration in the CSR, improving connectivity through improved transport and road maintenance, tackling the serious skills discrepancies through overhauled training efforts, and addressing the lowest participation in employment rate in the UK. On addressing balanced regional disparities, ERINI suggests that good practice entailed tuning regional strategies to the natural competitive advantages of the area. Finally, ERINI warns that NIO budgets should not be ignored in the CSR as some of its responsibilities could transfer to a devolved administration during the CSR period.

14. The Northern Ireland Council for Voluntary Action (NICVA) notes Government statements that the CSR period is likely to see a tightening of public expenditure growth. NICVA accepts that efficiency savings can and should be made but has concerns from experience that cuts in frontline services rather than genuine efficiency savings will predominate. NICVA is concerned that previous cuts fell on services provided on behalf of Government by voluntary organisations without regard to the efficiency or effectiveness of those services. NICVA suggests that there could be scope for efficiencies in what it characterises as the often exorbitant costs associated with internal audit systems, which for the voluntary sector, should be proportional to the size of the grant.

15. NICVA calls for a transformational change in the economy by expanding the private sector, developing the knowledge based or creative economy, and focusing on export growth. This requires investment in education and skills, and management level leadership skills. On tackling disadvantage in society NICVA welcomes the recent anti-poverty strategy but calls for it to be supported by policies, actions and, particularly, resources. NICVA also has concerns about the current approach to *A Shared Future* and the need for action on sustainable development.

16. The CBI key goals for the NI economy over the next decade are robust productivity growth closing the gap with the rest of the UK through increasing the economic activity rate; maintaining full employment and migrating to higher value added jobs. The CBI calls for natural resources to be used in an efficient manner while avoiding excessive pollution. The CBI sees the CSR as an opportunity to focus expenditure on growth enablers and highlights the following priorities for increased public expenditure investment: improving education and skills; promoting science, technology and innovation; developing the transport infrastructure and improving public transport services; raising employment rates; providing appropriate business support; and managing environmental and natural resources issues.

17. Northern Ireland Environment Link (NIEL) highlights the opportunity provided by the CSR to address the Sustainable Development Strategy commitments and warns of the consequences of not doing so.

18. The Strategic Investment Board (SIB) makes three points in its written submission. Firstly, a SIB / DFP review of affordability has revealed that capital costs have escalated since the publication of the first Investment Strategy for Northern Ireland (ISNI 1). It indicates that failure to increase planned investment in line with inflation will mean the scaling back, delay or cancellation of infrastructure programmes. Secondly, concern is expressed that projects where the maintenance and operating costs associated with planned investment cannot be met are unlikely to proceed. Finally, SIB stresses the need to provide for the development of public sector delivery capacity.

19. The Rural Development Council (RDC) has shared its response on the NI draft Priorities and Budgets 06-08 with the sub-group. This emphasises the specific needs of rural areas and the difficulties in competing for funding under the existing priorities.

20. The Northern Ireland Local Government Association (NILGA) believes that the CSR must be used, firstly, to help deliver high quality public services with a significant improvement in outcomes and ensuring that real savings and efficiency gains are achieved. Secondly, to help build a more sustainable, balanced, and healthy society, environment and economy. NILGA also believes that the CSR provides an opportunity to ensure that equality and good relations are mainstreamed. NILGA emphasises the need to ensure adequate resources are provided to deliver the implementation of the RPA and to meet the EU Waste Directive on waste management, including the need for £300m capital investment in waste management infrastructure.

Consideration of Issues: Priorities for a Draft Programme for Government

21. In consideration of the evidence received by the sub-group, the following six themes arise:

    (a) Addressing expectations of restricted growth in public expenditure over the CSR 2007 period;

    (b) Engaging in early consideration and consultation by an incoming Executive;

    (c) Achieving resource releasing efficiencies;

    (d) Making better use of existing resources;

(e) Investing for Northern Ireland's growth and development; and

(f) Mainstreaming of equality provisions and the new Anti-Poverty Strategy.

Addressing Restricted Growth in Public Expenditure

22. General indications are that the CSR 07 period will be a challenging one for Northern Ireland and slower growth in UK public expenditure will place increased pressures on Northern Ireland. The analysis of the Chancellor's package by the sub-group on Economic Issues concludes that the figures in the offer are no more than the standard baseline position with no growth in real terms over the CSR period. DFP has suggested that additions from the Chancellor's package to Northern Ireland, plus any additional funding from CSR will be required simply to accommodate pay and price inflation. Therefore, making resources available for additional spending on priority areas will depend on any renegotiation of the Chancellor's package and on releasing resources through efficiencies, asset sales and increased local revenue effort. **The sub-group concludes that public expectation of a significant increase in public expenditure in Northern Ireland as part of a peace dividend has been dashed by the Chancellor's announced economic package; and the sub-group strongly supports the recommendation of the sub-group on Economic Issues that the PfG Committee presents the Chancellor with a robust set of counter proposals**.

23. There is also increasing pressure for Northern Ireland to demonstrate greater local revenue effort, and the main source for this is the regional rate. The current system was recognised to be unfair and out of date by the NI Executive in 2002. The reform of rating policy conducted by direct rule Ministers is now nearing completion and comes into operation in April 2007. Government has been keen to stress that it is not increasing revenue by introducing the new rating system and revaluing property on the basis of capital value, but rather it is redistributing rate liability in a fairer, more open, way. In providing information to the sub-group on expected available resources over the CSR period DFP has assumed an uplift of 6% per annum for domestic rates and 3.3% for non-domestic rates and has assumed the phased introduction of industrial rating to 75% by 2010/11. **The sub-group has concerns that spending projections are being based on assumptions relating to resources raised for regional rates that may not be fully realised**.

24. In Section 2, in keeping with the Terms of Reference, the sub-group considers the issue of rating reform from the perspective of ensuring that the burden of rates is shared by households in a fair and open manner and that, in keeping with the anti-poverty strategy, adequate relief is available to senior citizens and other vulnerable and low-income households. In relation to industrial rates the sub-group is concerned that, in addition to the level of revenue raised in this way, the increases do not have an unduly adverse impact on an already fragile manufacturing sector.

25. In relation to water charges, which are dealt with in Section 3, the sub-group notes that, since privatisation in England and Wales in 1989, water and sewerage no longer feature in the CSR and therefore Northern Ireland receives no allocation under the Barnett Formula for these services. The sub-group is therefore conscious that any alternative proposals to meet the cost

of water and sewerage services in Northern Ireland require careful consideration. The sub-group notes that at the time of privatisation, when industry debts of £5bn in England and Wales were written off and an additional cash injection of £1.6bn was provided, Northern Ireland received a 'green dowry' of £50m per annum. However, this was added to the general Northern Ireland block rather than invested in water and sewerage.

26. DFP has identified a target for asset sales of £1bn over the period to 2010/11, and stated that it will work with departments to identify disposals to meet this target. **The sub-group notes the target for public sector asset sales of £1 billion and recommends that a restored Executive ensures that this target is achieved in a joined-up manner with due regard to the impact on service delivery and the resource implications of new investment decisions**.

Early Consideration and Consultation on Priorities & Budget 2008-09 to 2010-11

27. As part of the process of developing spending priorities for Northern Ireland over the CSR period DFP has undertaken a number of initial consultation meetings with key stakeholders during the past two months. However, ERINI has been critical of the amount of publicly available material on the CSR in Northern Ireland compared to what has been made available at a national level. While NICVA has been one of the key stakeholders who have met with DFP it has also claimed that the local consultation with the community and voluntary sector has not been as comprehensive an engagement as that undertaken by HM Treasury.

28. During 2007 NI Departments will identify with greater clarity the range and scale of pressures they face across the CSR period in line with the overall spending priorities and desired priority outcomes. A draft Priorities and Budget will then be developed for public consultation in the autumn based on this work, the level of efficiencies achieved, and the NI outcome of the national CSR. **The sub-group recommends that a first major priority for a restored Executive must be to engage in the preparation for the CSR outcome in summer 2007 and the urgent development of a draft Priorities and Budget document for consultation, ensuring a more transparent process of consultation**.

Achieving Resource Releasing Efficiencies

29. As indicated above the scope for additional spending on priority areas is likely to depend to a large extent on releasing resources through efficiencies. The Secretary of State has decided that all Northern Ireland Departments should be asked to identify cumulative efficiency savings of 3% a year over the CSR period, including an annual real reduction in administrative costs of 5%. DFP has indicated that work is continuing in this area with Value for Money (VfM) reviews underway in nine areas covering in excess of 80% of capital and revenue expenditure. **The sub-group believes it is imperative that efficiencies are achieved and notes the ongoing Value for Money Reviews and calls for the early publication of the findings and consultation on the policy issues and efficiency options arising from those reviews**.

30. Over recent months departments have been identifying options to deliver the required level of efficiency savings; and developing Efficiency Delivery Plans (EPDs) for each option.

Almost 90 EDPs have been identified to date. All resources released by efficiency measures will remain within Northern Ireland and DFP has estimated that this could be in the region of £770 million by 2010/11. DFP listed 10 efficiency options in their paper to the sub-group accounting for 70% of the total savings required by 2010/11. **The sub-group notes the progress in relation to Efficiency Development Plans and the need to achieve efficiency savings of around £770m by 2010/11 for investment in frontline services and recommends that a restored Executive engages in early consultation on the full range and implications of these plans**.

31. Organisations, in written and oral evidence to the sub-group, have acknowledged that there is scope for efficiencies and that action must be taken to achieve these. However, they also expressed concerns that experience of such exercises in the past has been of arbitrary reductions in allocations often resulting in cuts to frontline services. **The sub-group recognises the importance of achieving significant efficiencies and releasing vital resources for other priorities and supports the work that departments have undertaken to date. The sub-group recommends that continuing the drive for greater efficiency must be a priority for a restored Executive but that such efficiencies must not be achieved at the cost of cuts to vital frontline services**.

Making Better Use of Existing Resources

32. In relation to capital investment the sub-group is conscious that Northern Ireland faces a massive infrastructure investment deficit brought about to a large extent by under-investment during recent decades of direct rule. ISNI1 developed by the SIB in 2005 was a comprehensive ten year rolling programme covering a total investment potential of £16bn with the largest share of investment in schools, hospitals, roads, and social housing. A recent Northern Ireland Audit Office (NIAO) report highlighted a number of concerns relating to RRI and the Investment Strategy. In particular, it identified that delivery of the Investment Strategy presents a major capacity challenge for the local construction industry, specifically in relation to the availability of an appropriately skilled workforce, a qualified supply of construction professionals and the availability of skilled and experienced public and private sector managers to deliver complex projects. **The sub-group concludes that developing local capacity in the construction sector is vital to ensure that significant infrastructure programmes are delivered on time and on budget. The sub-group recommends that a restored Executive should examine the barriers to developing sufficient capacity in the construction sector and take appropriate steps to establish greater reliability and certainty in projects coming on-stream**. This will promote investment by companies in capacity building and encourage longer-term approaches to training and recruitment.

33. There have been persistent problems of underspend, particularly in capital investment, over a number of years. In 2005-06 there was an underspend of more than £138m (1.9%) in current expenditure and more than £227m (18.2%) in capital expenditure. Since 2002, in an attempt to tackle underspend, an element of over-commitment has been included in budgets but despite this the problem persists on the capital investment side. The results of an external review of financial forecasting and monitoring by Government departments are expected shortly. The NIAO RRI report noted that despite this history of underspend, DFP had borrowed £411m up to the end of 2005-06. The Report concluded that, if more effective

Investment Plans and systems for managing and planning capital investment programmes had been in place, a significant proportion of this borrowing under RRI could have been avoided. **The sub-group is concerned that a significant amount of interest has been paid for capital borrowed under RRI and not subsequently used. The sub-group recommends that it should be a priority of a restored Executive to develop effective measures to reduce the amount of underspend, with particular emphasis on capital underspend, and to better plan and manage existing resources**.

Investing in Northern Ireland's Growth and Development

34. The sub-group received specific suggestions in relation to areas requiring investment to promote growth across Northern Ireland. In the absence of certainty around the CSR settlement, any potential Chancellor's Package and the Republic of Ireland Economic Package, and given the difficulties faced by departments in identifying at this time the pressures they may face over the CSR period, the recommendations in relation to priorities are necessarily general. **The sub-group recommends that the following issues should feature as spending priorities in a draft Programme for Government.**

- **Health and education** look set to continue to be the major spending departments and by the nature of the services provided they rely heavily on staff resources and, in the case of health, medicines and equipment. Improving outcomes and delivering efficiencies must be a high priority. **The sub-group recommends that a restored Executive takes early account of the Value for Money Reviews proposed in the CSR process covering pharmaceutical costs, labour productivity, and RPA restructuring in the health sector, together with reviews of the schools estate, school transport and special educational needs. The sub-group believes that VfM Reviews must take account of the need to protect frontline services**.
- There was a significant degree of commonality in evidence received around the need to invest for **economic growth** in Northern Ireland. **The sub-group recommends that expanding the Northern Ireland private sector economy through attracting more foreign investment and supporting local business growth should receive high priority**. A number of useful suggestions were received in relation to the creation of supports to business which the sub-group recommends for early consideration, in the context of accelerated completion of the VfM review of Invest Northern Ireland, and the review of R&D tax credits.
- In expanding the economy **Skills and Training** have been identified as a key growth driver by HM Treasury, and by many of the respondents. This area has also been identified as a key economic driver in the Republic of Ireland (RoI) and **the sub-group recommends that skills and training should be a priority area for future investment**.
- **The sub-group recommends that internal and external transport links, identified as central to the economic and social well-being of any small economy, and investment in public transport, roads, railways, and connectivity with international links and networks should be prioritised**.
- The **RPA** was identified as an area of as yet uncovered costs and unquantified benefits and DFP has indicated that work is ongoing in this area. **The sub-group notes that**

PfG has commissioned a separate report on RPA and recommends that priority should be given to quantifying the financial implications of the proposed RPA reforms.

- While recognising the recent service improvements, reform of **planning** should be continued to bring performance in line with planning services in the rest of the UK. **The sub group supports the CBI's call for improvements to the planning system to significantly reduce the processing time for major planning applications and recommends a target of 10-12 weeks**. This would allow sufficient time for public consultation. Fewer planning delays and appropriate prioritisation of key commercial applications will help reduce cost and time over-runs in public infrastructure investment projects and increase confidence on the part of those businesses wishing to invest or expand in Northern Ireland.
- **The sub-group welcomes and supports efforts to encourage and develop cross-cutting responses to the challenging problems faced by Northern Ireland and notes the proposed Innovation Fund**. However, a restored Executive should seek further information on the proposed Innovation Fund and should give early attention to acting on lessons learned from past experiences with initiatives such as the Executive Programme Funds.
- The sub-group notes that responsibility for some **elements of policing and justice** could be transferred to a restored Executive. At present these activities are funded through the NIO, which as a Whitehall department, may have call on the reserve to meet additional unanticipated resource pressures. Once devolved, Northern Ireland would be expected to meet any additional pressure from within existing resources, in the first instance. **The sub-group calls for early consideration of, and engagement on, the Barnett implications of the transfer of funding for policing and justice functions**.

Mainstreaming of Equality Provisions and the new Anti-Poverty Strategy

35. The sub-group heard a range of evidence on increased rates and water charges and the effect that these will have on increasing the levels of poverty. **The sub-group recommends that the CSR is part of a strategic approach to tackle poverty on the basis of objective need as envisaged in the new Anti-Poverty Strategy**.

Use of an Agreed Economic Package

36. The sub-group has been asked to consider *'the major areas where additional new investment might be allocated as part of an agreed economic package'*. In this regard the sub-group notes the work already undertaken by the sub-group on Economic Issues in analysing the proposed economic package put forward by the Chancellor and in developing an alternative set of proposals. **The sub-group fully supports the list of priority areas for additional investment detailed in the set of counter proposals to the Chancellor set out in Annex A of the Report of 21 December 2006 by the sub-group on Economic Issues**.

37. **The sub-group also welcomes the proposed Republic of Ireland economic package and recommends that any additional resources should be targeted at projects likely to promote sustainable economic growth and opportunity on an equitable basis and which complement the priorities set by a restored Executive**.

Section 2 - Rates Charges

Background

38. Consultation on reform of the domestic rating system in Northern Ireland was launched by the then NI Executive shortly before suspension in October 2002. The consultation document listed a number of property based taxation options including a capital valuation system. A further consultation exercise took place in 2004, and in March 2005 the Government announced its intention to introduce a new system from April 2007 based on individual capital values.

39. The legislation (the Rates (Amendment) (NI) Order 2006) was made on 14 November 2006 and gives effect to the move from a rental value based system to one based on capital values with effect from 1 April 2007. The Order also allows for a range of rate reliefs for those on low incomes and other vulnerable groups.

40. Other legislation (the Rates (Amendment) (NI) Order 2003) provided for the phasing out of industrial de-rating from 1 April 2005. Industrial de-rating, which gave relief to traditional manufacturing businesses, has been in existence from the 1920s but was abolished in England and Wales in 1963 and in Scotland by 1995. The change is being phased in over a seven year period with businesses paying 15% of their full rate liability in 2005-06, 25% in the current year 2006-07, increasing to full liability from April 2011.

41. In September 2006 a working group made up of the Northern Ireland Manufacturing Focus Group and Amicus was set up to look at concerns about the impact of the removal of industrial de-rating on manufacturing. The findings of this group persuaded Government that there is a need for further work on the issue and it has decided to peg the phased increase at 30% next year, rather than the planned 35%, and it has agreed to carry out a review of the implementation of the policy starting in April 2007.

Summary of Concerns Raised with sub-group

42. The Northern Ireland Manufacturing Focus Group (NIMFG) states that all manufacturing companies in Northern Ireland are struggling and are facing a choice of whether to continue, to invest, to grow or to relocate. It argues that with the removal of industrial de-rating even the best and most profitable companies may be forced to move out. The manufacturing sector employs 90,000 people and NIMFG, while unable to give definitive figures on the impact of the change, estimates that about 5,000 jobs have been lost so far and refers to a recent PriceWaterhouseCooper (PWC) report that predicts the loss of 40,000 jobs if local

investment collapses. NIMFG also claims that Government will not realise the predicted £80m from the change because companies will rationalise buildings, invest elsewhere or close down and there will also be a knock on effect through reduced income from taxation, VAT etc.

43. NIMFG recommends that industrial rates should be frozen at 25% for a further year pending the outcome of the 2007 review. It also states that the manufacturing sector would be prepared to consider a compulsory surcharge of 5%, with matching Government funding, to establish a private sector led skills trust.

44. CBI states that phasing out of industrial de-rating will damage the industrial sector in Northern Ireland by adding to the already high cost base. It argues that the key question is how much damage this will do to a major export orientated and highly productive sector in comparison to the limited benefit of the additional revenue. CBI also argues that, as DETI has withdrawn the EU state aid application to reduce electricity prices, there is an urgent need to introduce a cap on the level of industrial rates until at least 2012. CBI is preparing to participate in the formal review of the policy due to commence in April 2007.

45. The Ulster Farmers Union (UFU) is concerned at the financial burden industrial rates will impose on many small businesses and believes it will discourage farm diversification. It argues for a cap on industrial rates. UFU is also opposed to domestic rates being based on capital value arguing that it discriminates against people in rural areas and that farmers, despite low incomes, will probably not qualify for rate relief because they own land.

46. Help the Aged and Age Concern in a joint submission argue that a rates charging system should be based on ability to pay and not on the capital value of the property. They welcome the principle of a new rate relief scheme and have been working with DFP on the Pensioner Rates Relief Working Group, which is examining options for relief to be provided for pensioners through a further £4m following the discussions with the political parties at St Andrew's. They argue strongly for 25% discount for single pensioner households and also for single person households. They have concerns about the level of take-up of rate relief schemes and advocate a targeted communication strategy together with comprehensive monitoring of take-up levels. Research commissioned by Help the Aged into the reasons for low uptake levels is nearing completion. Both organisations are non-committal on the issue of a cap but argue that, if introduced, it must have minimal impact on the rates bills of low-income households.

47. The Northern Ireland Fair Rates Campaign asks for the implementation of the new rating system to be deferred until a restored NI Executive can consider it. If not deferred it argues that five key additional relief measures need to be provided. First, it argues for a maximum cap of £300,000 rather than the proposed £500,000, which is higher than the rest of the UK (Scotland £212k; Wales £425k; England £320k). Second, it is concerned that landlords rather than students will benefit from the proposed student relief. Third, it argues for a 25% discount for all people with disabilities and not just those with housing adaptations. Fourth, it argues for a range of additional measures to assist pensioners, including the raising of the savings threshold, adjustment to the 'taper' where income exceeds the limit for full rebate of rates, and the introduction of a deferral option. Fifth, the provision of a 25% rebate for all single person households and a second adult rebate scheme as in England and Wales.

48. The Rural Development Council (RDC) is concerned that the move to a capital value system could have a serious negative impact in areas where residential property values are very high and where there may be little correlation between property value and ability to pay. RDC advocates close monitoring of the practical implementation of the scheme. RDC supports the rate relief scheme but calls for monitoring to ensure it benefits only those who are genuinely in need.

49. The Consumer Council welcomes the review of the domestic rating system and believes that a capital value based charge is appropriate. The Council is concerned that a new category of vulnerable consumers (asset rich, income poor) must not be allowed to develop and argues for a transitional period of three to five years to allow time for consumers to adjust to the new increased rates alongside the new water charges. It also argues that a cap must be placed on the total revenue to be generated through rates.

50. Northern Ireland Environment Link (NIEL) suggests that any future revision of rates policy should examine the possibility of incorporating sustainable development aspects (e.g. energy efficiency, water-harvesting methods, and alternative energy installation) into the overall rateable value of a house in addition to 'capital value'. This would allow people to decrease their rates by improving the 'sustainability rating' of their home.

51. The Citizens Advice Bureau (CAB) is concerned that housing benefit, which acts as a passport benefit for help with rates and water charges, is widely under-claimed and much more needs to be done to ensure uptake. It quotes DSD as acknowledging that between 5,000 and 24,000 people entitled to housing benefit are not claiming. CAB also has concerns about delays in processing some housing benefit for rates claims. CAB strongly supports the introduction of a cap on the new capital value rating system but believes that the proposed limit of £500,000 is too high and argues that a cap of around £350,000 would be more appropriate for Northern Ireland. It also argues that the cap should be used, as in England, to avoid excessive year on year increases. CAB welcomes the proposed additional help for elderly people and argues for a 25% discount for single households.

Consideration of Issues

52. The impact of the removal of industrial de-rating on manufacturing businesses is difficult to quantify but it is clearly an additional burden on a sector that is facing increasingly intense global competition. Government projections for the revenue raised from industrial rates assumes an annual decline of 2% in the number of properties. As well as around 90,000 people directly employed in manufacturing in Northern Ireland the sub-group noted that the sector supports around a further 45,000 jobs in the service industry. The sub-group also noted that, because of the nature of manufacturing, many businesses occupy very large premises but that there is no correlation between the size of premises and the profitability of the company. In deciding to limit the phased increase to 30% next year, rather than the planned 35%, the Government has accepted the need for further work on the issue and has agreed to a major review of the implementation of the policy starting in April 2007. **The sub-group recognises the importance for Northern Ireland of a strong manufacturing base and calls on the Government to freeze industrial rates at 25% for 2007-08 pending the outcome of a major review of industrial rating policy**.

53. The sub-group recognises the crucial need to raise the level of skills across all sectors and the importance of a skilled workforce for the Northern Ireland economy. This is reinforced by the CBI's written evidence to the sub-group, in the context of the Comprehensive Spending Review, when it describes the need to increase investment in education and skills as 'the top expenditure priority'. **The sub-group welcomes the proposal by the Northern Ireland Manufacturing Focus Group and Amicus of a surcharge of 5% on industrial rates to establish a private sector-led training trust to develop skills and help increase competitiveness and productivity. The sub-group believes that this self-help approach should be encouraged and recommends that a restored Executive explores with the sector the feasibility of establishing such a fund and with matching Government funding**.

54. The legislation provides that the capital value of a house for rates purposes, where the house is linked to agricultural land and where the primary occupation of the householder is farming, should be estimated on the assumption that any sale of the property would be on the basis of its continued use as a farmhouse. The level of reduction in the capital value of a farmhouse is not set out in the legislation but is a matter for the Commissioner of Valuation and, following consultation with the Ulster Farmer's Union, a deduction of 20% currently applies to farmhouses. The sub-group noted that some farmhouses are also subject to a planning restriction whereby planning is conditional on the property being used for occupation in connection with agricultural purposes only and it is contended that the value of such properties is effectively reduced by around 50% over what might be achieved on an open market. DFP advised that all houses are valued against a set of statutory assumptions and one of these assumptions is that no account is taken of particular planning restrictions or clauses in property deeds. The Department also contended that to do so could result in unequal treatment of more modern farmhouses over traditional farmhouses. **The sub-group recommends that a restored Executive should give consideration to increasing the level of deduction in the capital value of a farmhouse to 50% where it is subject to an agricultural-occupancy planning restriction**.

55. As indicated in paragraph 24 above, the sub-group believes strongly that the burden of rates should take account of ability to pay and should be shared by households in a fair and open manner with adequate relief for senior citizens and low income households.

56. The projected revenue from domestic rates in 2006/07 is approximately £446m and it is estimated that Government has set aside only £7m of this for rate relief. A further £4m for enhanced rate relief for lower income pensioners was announced following the discussions with the political parties at St Andrew's. The Department confirmed that the £4 million is to be found from within the Northern Ireland Block for 2007/08, and that it would be for Ministers to decide what reliefs would be offered in future years and how those reliefs would be funded. A working group set up by DFP, involving Help the Aged and Age Concern, has developed proposals on how this funding should be used. Proposals were sent to the political parties for consideration on 22 December seeking a response by 15 January 2007.

57. A summary of the proposals was copied to the sub-group and these indicate that a number of options for enhanced relief were considered and the preferred option proposed is to increase the personal allowance for pensioners. The paper recognises the difference in income and in poverty levels between single pensioners and pensioner couples and suggests that the personal allowance for single pensioners could be increased by a higher percentage than that for

pensioner couples. The Department calculates that a 20% increase in personal allowances for all pensioners would cost in the region of £4.4m and suggests that single pensioners should receive an increase in personal allowance of 10-15% while pensioner couples should receive an increase in personal allowances of 5-10%. The Department concludes that 'the best estimate of the cost of this option is that it will be between £3m and £4m per year'. The Department states that "a 20% increase in personal allowance across all pensioners increases the number of eligible pensioner recipients from around 81,000 under the rate relief scheme as planned to around 87,500".

58. Help the Aged and Age Concern, while noting that the funding available limits the possible options, have confirmed to the sub-group that they support the proposed option of increasing personal allowances and particularly the proposal to give a greater proportion of the increase to single pensioner households. However, they make no reference to the proposed percentage increases. **The sub-group welcomes the proposals to give enhanced rate relief to pensioner households and particularly the recognition that single pensioner households face greater poverty levels than pensioner couples. The sub-group would wish to see the highest possible percentage increase in allowances within the available resources but recognises that in this instance it is a matter for negotiation between Government and the political parties**.

59. Transitional relief will be awarded over the first three years to those most adversely affected by the change to the new capital valuation system. In the first year rate bill increases will be capped at 33% over and above what bills would otherwise have been. This relief, which will cost £36m over three years, will be awarded to around 100,000 households representing 15% of households in Northern Ireland. Government had considered other levels of transitional relief under 3 or 5-year schemes. The introduction of a cap on rates would impact on the cost of any transitional relief scheme since both would affect the rates payable by those in the highest capital value households. For some the transitional relief scheme is regarded as simply a tactic to disguise the massive rates increase under the new system. **The sub-group supports the principle of transitional relief but recommends further study of the various options, including the option of extending this relief beyond three years, and their interaction with other relief schemes**.

60. In an effort to minimise the obstacles for young people in full-time education and training the Government has decided to provide 100% relief to student ratepayers. During the consultation period concerns were raised that landlords rather than student tenants would benefit from this policy and this concern was raised again with the sub-group. Government has argued that the legislation has been strengthened to ensure that full rates relief will only be awarded where it is satisfied that the benefit is passed on to tenants. From April 2007 landlords will be obliged to notify tenants of how the tenancy charge is split between rent and rates. The Fair Rates Campaign questions how many landlords will alert students to the benefit and believes that students do not generally claim relief measures. It also argues for the scheme to be effective, relief for students must be automatic. The student relief scheme fails to take any account of ability to pay, which, as the Department argues in relation to other aspects of the new rates scheme, is 'central to the reforms'. The sub-group was told that the Department's estimate of the cost of student relief is between £3-4m and will benefit up to 3,000 households. **The sub-group supports the intention of Government policy to**

provide support for young people in full-time education and training but has serious concerns that the scheme as structured may not bring the intended benefits to students. The sub-group recommends that urgent consideration be given to finding a more cost effective way of providing assistance with accommodation costs for students.

61. At present, assistance with rates is provided to people with disabilities based on the level of adaptations made to the property. Under the new scheme a standard 25% allowance will be introduced for people with disabilities with housing adaptations. Government has argued that to provide a blanket relief to all persons with a disability would not take account of ability to pay and estimates that the additional cost of extending the scheme to include all those in receipt of Disability Living Allowance would be between £15m and £25m. The Fair Rates Campaign argues strongly for the scheme to be extended to all people with disabilities and questions whether the proposed scheme would breach Section 75 of the Northern Ireland Act 1998. **The sub-group recommends that the 25% discount scheme for people with disabilities with housing adaptations should be extended to cover all those in receipt of the higher rate care component of Disability Living Allowance. The sub-group believes that this matter requires further investigation and is of the view that the cost of this could be much less than the Department's estimate of between £15m and £25m as many of these people may already qualify for rate relief on other grounds**.

62. A single person discount of 25% applies in Great Britain but following the initial consultation in 2002 the Government decided not to introduce such a scheme in Northern Ireland. It argued that the Council Tax system in Great Britain (GB) was 'quite different' and that any relief in Northern Ireland should be based on ability to pay. It estimated that the cost for Northern Ireland would be about £30m and it would be unfair to make other ratepayers subsidise single householders. The Citizens Advice Bureau and the Fair Rates Campaign argue for a single person household rebate of 25% on the basis that it is wrong in principle for a single person, who uses fewer services, to pay the same rates as other households where there may be several incomes. Help the Aged also referred to evidence that poverty is disproportionately experienced by single people. The organisations, however, believe that this rebate should be based on ability to pay and there was also a call for a second adult rebate, which is a feature of the Council Tax in GB, to be applied in Northern Ireland. The rebate would apply to lone parent households where a non-dependent adult is in receipt of a qualifying benefit or a full-time student. The Department estimates that the additional cost of such a rebate is less than £1m. **The sub-group recommends that further consideration be given to the introduction of a single person discount of 25% and a second adult rebate in Northern Ireland on a means-tested basis**.

63. The sub-group in its Terms of Reference has been asked to report specifically on an appropriate capping mechanism and level. Organisations that gave evidence to the sub-group were divided on the issue. NICVA stated that it does not see a need for a cap, while Help the Aged and Age Concern were non-committal and argued that, if it is introduced, it must have minimal impact on the bills for low income households. Two organisations, the Citizens Advice Bureau and the Fair Rates Campaign, argued strongly for a cap on domestic rates and both disagreed with the Government proposal for a cap to be set at £500,000. This figure was based on limiting the maximum rates bill to around £3,000 per annum, which the Department claimed would be comparable to the highest Council Tax bills in GB, and would benefit the

top 2,700 ratepayers. CAB argued that the proposed £500,000 was too high and favours a cap of around £350,000. The Fair Rates Campaign argued strongly for the cap to be set at £300,000. This would benefit around 15,400 households and, if retained at this level, would benefit a higher proportion of households after the next revaluation. The Department has estimated that the loss in revenue would be £2.4m from a cap of £500,000; £4.6m from a cap of £400,000; and £9.8m from a cap of £300,000. However, the Fair Rates Campaign estimates the cost as £2m, £4m, and £6m respectively for these capping levels and, in further written evidence to the sub-group, argued that the average income in the rest of the UK is 26% higher than Northern Ireland and consumables and services cost at least 10% more in Northern Ireland. The group argued, therefore, for a 25% - 30% reduction in the proposed cap to £375,000.

64. The parties represented on the sub-group have different views on the principle of capping. Sinn Fein and the SDLP are not in favour of capping as a means of reducing bills for high capital value householders and consider that this blanket approach does not fairly reflect the ability to pay for cash-poor households. The DUP and UUP favour capping as a mechanism for moderating rate increases and note that this is the practice in Great Britain. The sub-group agreed that this matter requires detailed consideration by a future Executive. **The sub-group recommends that a detailed study be undertaken into the cost and impact of introducing a cap on rates at various levels, including consideration of alternative ways of providing rates relief for householders on lower incomes who live in high value homes and face extremely high rates bills**.

65. The CAB highlighted the very serious concerns about the low uptake levels of existing benefits, which act as a passport to help with rates and water charges. The Department acknowledges that up to 24,000 people may be entitled to housing benefit and are not claiming it. Linked to this the sub-group heard concerns that the number of pension advisers is being reduced. Help the Aged and Age Concern referred to work they have been involved in which suggests that older people prefer speaking to independent advisers. Nevertheless, given the low uptake rates, they remain concerned that any advice services should be reduced. The Department has provided details of how the Rate Collection Agency will be working with a number of statutory and voluntary sector organisations to promote uptake prior to April 2007. **The sub-group is concerned at the ongoing low uptake levels of benefits resulting in many people not receiving their entitlement to relief with rates payments and water charges. The sub-group recommends that it should be a priority of a restored administration to work with all the relevant organisations in a concerted effort to tackle the low uptake rate of passport benefits. The sub-group recommends that any decisions on reducing the number and availability of pension advisers must be delayed pending the development of a co-ordinated and resourced awareness campaign designed to significantly increase take-up of passport benefits**.

66. **The sub-group recommends that it should be a priority of a restored administration to undertake comprehensive monitoring of the effectiveness and take-up levels of the various rate relief measures and to carry out a comprehensive review of implementation of the new rates scheme after one year in operation. The review should include consideration of the feasibility of linking energy efficiency or other sustainability measures to a future rates discount scheme**.

Section 3 - Water Reform

Background

67. Consultation on the reform of water and sewerage services in Northern Ireland began in March 2003. The main issues identified in the consultation included, investment need; ageing infrastructure; need for compliance with EU Directives; and increasing demand.

68. The main Government proposals published in November 2004 included, water and sewerage services to be provided by a Government owned company (GoCo); all households to pay a direct charge made up of a standing charge and variable element for each service; and assistance for households in receipt of certain 'passport benefits'.

69. The Water and Sewerage Services (Northern Ireland) Order 2006 was made on 14 December 2006 to bring the proposals into effect from April 2007. The Order, in summary, provides for the appointment of Northern Ireland Water Ltd (GoCo) and sets its duties and powers; establishes a regulatory framework; and sets out a framework for levying charges, which will be phased in over a three-year period.

Summary of Concerns Raised with sub-group

70. The Regulator had serious concerns in summer 2006 but considers he has now achieved 'substantial changes' particularly in the context of the licence. He still has concerns about the delay in commencing his powers until April 2007; a shortage of resources and experienced staff; and the charging methodology in the absence of universal metering.

71. The Coalition Against Water Charges is opposed to charges on four grounds, namely, clean water supply is a fundamental right; £1bn already contributed by NI but not invested in infrastructure; charging is an inevitable step towards privatisation; and it is a regressive tax. The Coalition claims levels of income poverty will soar and feels so strongly it is urging people not to pay and believes people would be prepared to pay extra on rates bills.

72. The Consumer Council was so deeply concerned at the absence of openness and transparency it challenged the proposals in a Judicial Review. The Council regards the Strategic Business Plan as key and sees DRD refusal to make this public on grounds of 'commercial in confidence' as an excuse.

73. The Consumer Council has many serious concerns including, it doesn't know if price is fair as it has been set artificially; there is no confidence that the GoCo will break even by 2010; the price includes elements such as a capital investment backlog of £1.4bn; gross inefficiencies at present between 20-50% could be passed on to consumers if efficiency targets are not met; bad debt target is set too low and excess will be passed on to consumers; and the GoCo must not be allowed to sell off assets to cover inefficiencies. The Council also believes that the Regulator needs greater powers and has not yet worked out how to regulate a self-financing system. The draft licence, which was only consulted upon three weeks before GoCo comes into operation, must be strengthened to require consultation with both the Regulator and the Council.

74. Friends of the Earth express concerns that the legislation grants a "due diligence defence against prosecution" until the end of 2008, which effectively means that where a pollution offence can be attributed to the legacy failures of the sewerage infrastructure, the GoCo cannot be held legally liable.

75. Northern Ireland Environment Link (NIEL) believes that the new arrangements do not incentivise water conservation measures as required by the Water Framework Directive. NIEL calls for universal metering with a relatively small standing charge and the majority of charge related to the amount consumed. NIEL is opposed to any future privatisation and calls for recognition that the Water Service estate has value (biodiversity, tourism, recreation, ecosystem services, etc) beyond its contribution to water resources.

76. The Strategic Investment Board (SIB) is a limited company set up by Government to address the shortfall in public sector infrastructure development. It has highlighted its role in providing support and advice to the Department for Regional Development, the Water Service and other stakeholders in developing the new arrangements over the past three years. It supports the GoCo model and the draft operating licence is the result of work carried out by SIB in support of the Department.

77. Help the Aged and Age Concern Northern Ireland reject a current system based on the capital value of property. They welcome the option for older people to have meters installed which may help reduce their bills but have concerns that there is no commitment to an affordability tariff beyond 2010; that the proposed debt management scheme for billing is unacceptable; and around the uncertainty about who will meet the cost of bad debt.

78. The Federation of Small Businesses (FSB) is opposed to the introduction of water charges believing that charging will be a double blow for businesses, and that Government is responsible for decades of under-investment. FSB claims that businesses already pay through their rates and that comparisons with other parts of the UK are not valid.

79. The Ulster Farmers' Union (UFU) believes that a standing charge and a variable charge based on capital value do not encourage responsible use of water. UFU supports universal metering with a charge based on consumption. UFU calls for the Regulator to be able to impose penalties on the GoCo for a poor record on reducing leakage.

80. The CBI supports the establishment of a GoCo, the Regulator, and the role of the Consumer Council. It calls for significant efficiencies to be delivered and argues that the charging regime must be transparent, fair and affordable and, ideally, phased in over five years. CBI has major concerns that after 2010 it will be customers alone who will face all the risks. CBI is concerned about the value of the Regulated Asset Base (RAB) and the rate of return which Government will take from the GoCo. It argues that the RAB should be no more than £700m and the rate of return should be lower than 5.8%.

Consideration of Issues

81. The remit of the sub-group is to consider the arrangements for water reform as set out in the legislation and issues relating to their implementation. However, it is also aware that the sub-group on Economic Issues, which has now reported, had been asked to consider the potential

budget deficit in the event that the water reform legislation is deferred. The sub-group on Economic Issues recommended to PfG that it continue to press Government to take account of the opposition to water charges and defer the issue for consideration by a future devolved administration and that the cost of such deferral be covered by any negotiated economic package. **This sub-group strongly supports the call by the sub-group on Economic Issues to continue to press Government to defer the water reforms until they can be considered by a future devolved administration**.

82. The sub-group recognises that there is a need for substantial investment and modernisation of the infrastructure for water and sewerage services but that much of this need has been caused by significant under investment over the past three decades by successive direct rule administrations. The sub-group also recognises the serious widespread concerns about the fairness, affordability and sustainability of the new arrangements.

83. In the event that Government presses ahead with its plans for water reform the sub-group believes that the opportunity provided by the three-year phasing in period should be used by a future devolved administration to consider and revise the scheme. **The sub-group, therefore, recommends a fundamental review of the water reform process and consideration of all available models and options, including the payment of charges through the regional rates system, with a view to making any necessary legislative, structural, or other changes by April 2010**.

84. Much of the oral and written evidence to the sub-group, as well as expressing vehement opposition to the principle of water charges, raised many very serious issues and concerns about the arrangements for their introduction. Many see the establishment of a wholly owned Government company (GoCo) as an inevitable step towards privatisation. The reluctance of Government to be fully open and transparent on issues such as the draft strategic business plan only adds to those concerns. **The sub-group strongly believes in the principle that the provision of water services should remain permanently within the public sector**.

85. The sub-group has concerns about the governance arrangements for Northern Ireland Water Ltd (NIWL). The delay in commencing the powers of the Regulator until 1 April 2007 will hamper the Regulator's ability to undertake an assessment of efficiency levels, to set standards, and to impact on other aspects of the Company from the outset. It also means that the Department for Regional Development will take some important initial actions. The sub-group is alarmed that the Regulator will have no role in assessing or setting the appropriate level of charges until the end of the phasing-in period. **The sub-group calls for the role of the Regulator to be strengthened, and strongly believes that the Regulator must be given full authority and enforcement powers from 1 April 2007, on all matters including issues relating to the setting of charges and the disposal of land or assets**.

86. Concern has been expressed about how the proceeds of surplus land and other assets of the Water Service may be used to offset a failure to meet efficiency targets. The Order provides that such disposals are subject to departmental control but may be made a matter for the Regulator. Government appears to have given an undertaking during the passage of the Order through the House of Lords that from 1 April 2007 "the Department will issue a general authorisation for the Regulator to carry out enforcement where there is a choice between it and the Department". **The sub-group believes that assurances about authorising the**

Regulator to carry out enforcement, while welcome, should have been included in the legislation and strongly recommends that no surplus assets be disposed of prior to April 2007.

87. The Order does not prescribe the nature of the charging regime and the Department has indicated that a detailed charges scheme will be published separately. The Department has stated that the charge will consist of a separate standing charge for water and sewerage and a variable charge based on the capital value of the property for rating purposes. Following an appraisal of options for billing and collection of charges and a procurement process, the Department awarded an outsourced services contract to Crystal Alliance in January 2006. The contract is for seven years at a total cost of £70 million (£10m pa) with the initial customer base estimated at around 760,000. There are provisions for reduced charges for those in receipt of certain 'passport benefits' and those in full-time education or leaving care.

88. The evidence highlighted the range of factors that will influence the price consumers will have to pay. These include the rate of return on capital set at 5.8% which is the highest in the UK, the capital valuation of the Regulated Asset Base set by Government at £1bn, and the backlog of capital investment of £1.4bn. The sub-group supports the CBI call to reduce the rate of return and the asset valuation and **fully supports the call by the sub-group on Economic Issues for Government to reduce the capital valuation of the GoCo from £1bn to £500 million and to lower the required rate of return from 5.8% to 3.5%.**

89. The price has been set artificially for the first three years and thereafter issues such as the success or otherwise of Northern Ireland Water Ltd in meeting set efficiency targets and controlling the level of bad debt, as well as the capital issues highlighted in the previous paragraph, will have a major bearing on the cost to consumers. The Department explained that *"the draft licence provides that levels of domestic bad debt between 5% and 10% can be added to the subsequent year's charges and above 10% can be added to the Regulatory Capital Value of the company such that the debt would be recovered from customers in the future over a time period to be determined by the Regulator"*. The Consumer Council has looked at the experience in England and Wales in relation to water poverty and levels of bad debt there and has concluded that if a similar scenario is repeated in Northern Ireland it "could mean an arrears figure of £29m in Northern Ireland" which it calculates would represent 9.4% of the total revenue requirement of £307.7m for 2007/08 and would impose, on average, an additional £58 (approximately) burden on each paying household, i.e. the average bill of £340 would be increased by 17%. The Consumer Council also warns that the bad debt forecasting in Northern Ireland takes no account of any orchestrated 'won't pay' campaign and is concerned that, although water supplies cannot be disconnected for domestic customers, debt can impact on consumers in other ways such as a poor credit rating or benefit deductions to meet arrears. The Council cited evidence that debt write-offs by water companies in GB has increased by 50% in four years and it is estimated that water companies account for one-quarter of all County Court Judgements.

90. **The sub-group has grave concerns that the level of bad debt in the draft licence has been set too low and warns against unrealistic bad debt provision and efficiency expectations being set by the Department both of which would result in higher and unfair charges for consumers. The sub-group concurs with the evidence submitted by**

various groups and recommends that the consumer must not be held accountable for bad debt inherited from a historically under-funded public utility.

91. The sub-group notes that the Regulator intends to consider the issue of metering following appointment. Government has given a long-term commitment to metering and meters will be offered initially to pensioners who are householders and made a requirement in all new properties. **The sub-group recommends that a detailed study be conducted urgently on whether the planned standing charge and variable charge based on capital value provide the fairest system for consumers. The sub-group recommends a detailed study of all options. The sub-group also recommends an urgent review of the detailed arrangements for the billing and collection of water charges**.

92. The sub-group is seriously concerned at the absence of transparency and particularly the continued refusal by Government to make the draft Strategic Business Plan and its underlying assumptions, covering the three-year period up to 2009-10, available for public scrutiny. The Department explains that the Strategic Business Plan will establish the financial framework within which the GoCo will operate and argues that *"it is important that the Shareholder (i.e. the Department) and the Company can consider various scenarios in a confidential environment without giving rise to speculation and causing concern amongst staff"*. In claiming that the Plan will contain 'commercially sensitive information' the Department refers to issues, such as the capital works programme, efficiency strategies, staff remuneration and incentive policies, and the need to guard against providing 'information that may be advantageous to bidders responding to tenders for consultancy advice'. **The sub-group has great difficulty accepting the claim that the Strategic Business Plan is 'commercially sensitive' given that it involves a Government Department and a Government Owned Company funded by the public and not subject to competition. The sub-group calls for immediate and full openness and transparency on all aspects of the new arrangements and, in particular, the immediate publication of the draft Strategic Business Plan for public scrutiny and comment**.

93. The sub-group is seriously concerned at the lack of openness and trust that exists between Government and the Consumer Council, the statutory body appointed under the Order to promote and safeguard the interests of water consumers. The extent of the frustration felt by the Consumer Council was revealed in its decision to seek a Judicial Review on certain aspects of the legislation before it was enacted. **The sub-group recommends that Northern Ireland Water Ltd should have a duty to consult with the Consumer Council on all matters that may impact on consumers, including the assessment of policies that should be subject to Equality Impact Assessment**.

94. The sub-group notes that two Equality Impact Assessments have been carried out in relation to water reform, one by the Department on the overall water reform policy proposals and the other by the Water Service related to the impact on the staff in the organisation. **The sub-group has grave concerns that the introduction of water charges will result in many more vulnerable people falling below the poverty line. The sub-group calls for the debt management strategy to be screened for equality implications and for an Equality Impact Assessment to be carried out on the impact of water charges on different socio-economic groups**.

95. A draft instrument of appointment, referred to as the licence, was published for a ten week consultation period on 4 December, despite the fact that Northern Ireland Water Ltd (NIWL)comes into operation on 1 January 2007. The draft licence deals with the regulatory scrutiny and imposes conditions on NIWL about charges, quality of services, and customer interests. **The sub-group is concerned that the governance of Northern Ireland Water Ltd and the issue of the licence have not been resolved well in advance of it coming into operation and recommends that the licence must be amenable to scrutiny and change, if necessary, by a restored Executive**.

96. **The sub-group recommends that, in the event of water reform proceeding, the current phasing-in arrangement should be extended from 3 to 5 years and resources provided by HM Treasury to guarantee an extension to the affordability tariff beyond 2010**.

Annex A

Summary of Likely Spending Priorities Identified by Departments over CSR Period

- Health – major pressures across all areas, hospital stock poor, backlog of maintenance
- Implementation of Bain Report on Education (other education pressures/figures not identified)
- Implementation of Skills Strategy, Lord Leitch UK review of skills; Invest NI emphasis on skills & science
- Rebalance NI Economy by growing private sector
- Structural Maintenance Funding Plan (roads etc) £100m pa; enhancement of 5 key transport corridors; Road Safety
- Tourism – develop product, fund Signature Projects, marketing
- Waste Management, urgent infrastructure investment, avoid EU penalties
- Public sector reform programme; RPA implications; Workplace 2010; enhance Broadband capabilities
- Opportunities provided by former military sites; Masterplan for Maze site – Multi sports stadium, International Centre for Conflict Transformation
- Creation of Land & Property Services Agency
- Agri-food sector compliance with Nitrates Directive
- Canal & Navigation Development Initiative
- Water & sewerage services – new company, infrastructure
- Impact of closure of EU programmes on voluntary and community sector
- Social housing pressures, tackle waiting lists, fuel poverty

List Of Witnesses Who Gave Oral Evidence

Comprehensive Spending Review and Programme for Government

Mr Victor Hewitt	Director, ERINI
Mr Seamus McAleavey	Chief Executive, NICVA
Ms Frances McCandless	Director of Policy, NICVA
Mr Nigel Smyth	Director, CBI
Mr Declan Billington	Chairman, CBI
Mr Brian Ambrose	Vice-Chairman, CBI
Mr Alastair Hamilton	Chairman, CBI Northern Ireland Economic Affairs Committee
Mr Bruce Robinson	Second Permanent Secretary, DFP
Mr Leo O'Reilly	Budget Director, Central Finance Group, DFP
Mr Richard Pengelly	Head of Central Expenditure Division, DFP

Rates Charges

Mr Basil McCrea	Chief Executive, Northern Ireland Manufacturing Focus Group
Mr Patsy Forbes	Chairman, Northern Ireland Manufacturing Focus Group
Mr Jim Donaghy	Amicus
Ms Elaine Campbell	Head of Policy, Age Concern
Ms Pam Tilson	Political Affairs Officer, Age Concern
Ms Michelle Bagnall	Policy Officer, Help the Aged
Mr Duane Farrell	Head of Policy, Research and Communications, Help the Aged
Mr Michael Kelly	Member, Northern Ireland Fair Rates Campaign (NIFRC)
Ms Anne Monaghan	Member, NIFRC
Mr Raymond Farley	Member, NIFRC
Mr Stan Blaney	Member, NIFRC
Mr Brian McClure	Head of Rating Policy Division, DFP
Mr Leo O'Reilly	Budget Director, Central Finance Group, DFP

Water Reform

Mr Iain Osborne	Chief Executive, Northern Ireland Authority for Energy Regulation
Ms Goretti Horgan	Chairperson, NI Anti-Poverty Network
Mr John Corey	General Secretary Northern Ireland Public Service Alliance/ Chairperson, Coalition Against Water Charges
Mr Pat Torley	Amalgamated Transport and General Workers' Union - representing Water Service Trade Union
Mr Steve Costello	Chairman, General Consumer Council
Mrs Eleanor Gill	Chief Executive, General Consumer Council

Mr David Sterling	Grade 3, Department for Regional Development (DRD)
Mr Nigel McCormick	Grade 5, DRD
Ms Katharine Bryan	Chief Executive, Water Service

List of Written Submissions

Comprehensive Spending Review and Programme for Government

1. Confederation of British Industry.
2. Strategic Investment Board.
3. Northern Ireland Environmental Link.
4. Northern Ireland Local Government Association.
5. Economic Research Institute of Northern Ireland.
6. Northern Ireland Council for Voluntary Action.
7. Department of Finance and Personnel.

Rates Charges

1. Northern Ireland Manufacturing Focus Group.
2. Citizens Advice Bureau.
3. Ulster Farmer's Union.
4. Help the Aged/Age Concern and supplementary information.
5. Northern Ireland Fair Rates Campaign and supplementary information.
6. Department of Finance and Personnel.
7. Northern Ireland Environmental Link.
8. Confederation of British Industry.
9. General Consumer Council.

Water Reform

1. Confederation of British Industry.
2. Northern Ireland Authority for Energy Regulation.
3. Coalition Against Water Charges.
4. General Consumer Council and supplementary information.
5. Ulster Farmers' Union.
6. Department for Regional Development and Water Service and supplementary information.
7. Federation of Small Businesses.
8. Friends of the Earth.
9. Northern Ireland Environmental Link.
10. Strategic Investment Board.
11. Help the Aged/Age Concern
12. Citizens Advice Bureau.

Other Evidence Considered by the Sub-group

Comprehensive Spending Review and Programme for Government

1. Background Research Paper on the Comprehensive Spending Review and Programme for Government by Assembly Research.
2. Updated Research Paper on the Comprehensive Spending Review and Programme for Government by Assembly Research.
3. Report of the Sub-Group on Economic Issues on the Chancellor's Economic Package and on Alternative Proposals (21 December 2006).
4. Letter dated 18 December 2006 from the Rural Development Council forwarding the response to the Northern Ireland Draft Priorities and Budget 2006 – 2008.

Rates Charges

1. Background Research Paper on Rates Charges by Assembly Research.
2. Updated Research Paper on Rates Charges by Assembly Research.
3. Letter dated 18 December 2006 from the Rural Development Council forwarding the response to the Rates (Amendment) (Northern Ireland) Order 2006.

Water Reform

1. Background Research Paper on Water Reform by Assembly Research.
2. Updated Research Paper on Water Reform by Assembly Research.
3. Letter dated 8 December 2006 from the Department for Regional Development to Lord Glentoran during House of Lords debate on the Order.
4. Letter dated 11 December 2006 from the Consumer Council to the Minister for Regional Development.

Appendix 1

Written Submissions

Confederation of British Industry (NI 18 06)

NI 18 06
Written Submission Received from the Confederation of British Industry to Comprehensive Spending Review in Northern Ireland

Executive Summary

- The CSR must be used to help deliver high quality public services with a significant improvement in outcomes, and ensuring real savings and efficiency gains are achieved in the short to medium term
- Public expenditure must be refocused to help build a more sustainable, balanced economy by investing a higher percentage of resources in 'growth enablers' to achieve more ambitious outcomes
    - Priorities for increased public expenditure investment are in the following areas:
    - improving education and skills
    - promoting science, technology and innovation
    - developing the transport infrastructure and improving public transport services
    - raising employment rates
    - providing appropriate business support, and
    - managing environmental and natural resource issues

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Introduction

The Comprehensive Spending Review provides a real opportunity to refocus public expenditure from 2008 on developing a more sustainable, balanced economy. This submission focuses on the necessity to continue to reform public services and sets out CBI Northern Ireland priorities for public expenditure within the Comprehensive Spending Review. It is structured as follows:

- Key goals for the Northern Ireland economy over the decade ahead
- How Northern Ireland needs to step up its game
- Transforming Public Services
- Public Expenditure Priorities

Key Goals for The NI Economy Over the Decade Ahead

Northern Ireland will need to ensure that over the decade ahead:

- **Productivity growth is robust, and closes the gap with the rest of the UK**
- **The economic activity rate is increased** - with full employment maintained and underlying employment migrated to higher value added jobs
- **Natural resources are used in an efficient manner, and excessive pollution avoided**

Failure to match competitors on *productivity growth* would ultimately mean slower real growth in both wages and profits than in those countries. Failure to close the productivity gap with the rest of the UK would mean our prosperity levels will continue to lag and remain at the bottom of the UK league table. At best, this would be politically uncomfortable, as well as meaning a missed opportunity for the Northern Ireland economy to become more sustainable. At worst, a vicious spiral could emerge, with growth and the tax base placed under ever-greater pressure as knowledge, skilled labour and capital chose to locate elsewhere while a more disenfranchised society could undermine a fragile new political settlement.

Increased *economic activity* is important for its own sake, and would also ease pressures on the public finances as well as helping to achieve social goals. But in seeking to hold up aggregate employment, it would be wrong to seek to preserve the existing structure of jobs, as this could undermine the productivity growth goal.

Resource efficiency would help make a Northern Ireland contribution to tackling climate change. But it could also be in the best interests of the Northern Ireland economy and business sector anyway, by making them less vulnerable to future commodity price 'shocks'.

How Northern Ireland Needs to Step Up its Game

Emerging work on the Northern Ireland Regional Economic Strategy shows the following key indicators (key goals) and forecasts for 2015:

	2002	2015
GVA per person (NI/UK)	80.0%	80.5%
GVA per employee (NI/UK)	90.0%	89.0%
Employment Rate	72.7%	73.0%
Average earnings in private sector	74.6%	75.5%

Basically without a transformational change Northern Ireland's economic and social fortunes will not change. There is therefore a real need to ensure that the CSR is used to support the 'growth enablers' which can support a move to a faster growth and higher productivity economy, creating more high quality jobs, and helping to pull people out of poverty.

Achieving the *ultimate objectives* above will require success in terms of some key *interim objectives*, which fall broadly into three categories:

- A strong *knowledge and skills environment*, including skills at all levels and success in identifying and exploiting new and innovative technologies.
- A supportive *physical environment*, with adequate infrastructure of all kinds, and access to energy and other natural resources, but taking environmental impacts fully into account.
- An appropriate *operational environment*, in which the degree of competition, incentivisation, competitive cost base, and freedom to operate lead to desirable outcomes, namely:
    - Effective and efficient delivery of public services with a step change in outcomes
    - A dynamic private sector, capable of continual adaptation to shifting conditions in the jobs, commodities and other markets
    - Levering of private sector investment into skills and innovation, and into infrastructure, as appropriate
    - A pattern of activity that takes environmental impacts fully into account

Transforming Public Services

Technological advances, greater competition and an ageing population will all place new demands on our public services in the next decade. Balancing efficiency, equity and user needs will be the key task for policy setters.

The previous decade of steady increases in public spending as a proportion of GDP have shown that money alone will not increase the quality or even quantity in public service output. In the decade ahead public services will need to see the quality of output increase to match the increased spending of recent years as well as deliver more in an era of restricted public spending growth.

In public services there is an urgent need to act to ensure high quality services with improved outcomes, and real savings and efficiency gains are achieved in the short to medium term. The CSR must:

- Push ahead with specific initiatives such as the use of shared services to drive down costs, standardise business processes, improve service quality and release resources for the front line
- Improve procurement, particularly to improve planning and reduce delays in large capital projects so saving money and bringing stability and confidence to the market
- Drive forward with the professionalisation of public sector finance and procurement functions to ensure there is the appropriate level of skill and experience needed.

However we have serious concerns that the current public sector reform agenda, through the RPA, may result in the potential gains on reorganisation and streamlining being lost through 'harmonising up' wages and benefits and terms of employment for those employees affected.

In the medium to long term there needs to be a shift in how public services are delivered:

- Accepting that a mixed economy of service provision – involving the public, private and voluntary sectors – is permanent and that markets need to be made sustainable and based on a level playing field with less reliance on contracting-out as a one-off response to failure
- Recognising that the public sector needs to increasingly see itself as a commissioner of services and not necessarily the provider.

This will be based on acknowledging that competition and choice, whether for the commissioner or the consumer, has increased both service quality and value for money, particularly by:

- Ingraining a focus on customer satisfaction as the basis for sustainable performance
- Increasing accountability for performance at both financial and individual level
- Improving customer services through better employment practice around absence, performance management and employee relations.

We also believe that these changes in culture and outlook should be supported through the CSR by institutional change within the public sector:

- **Improving leadership and management capability** – the mechanism of the current capability reviews should be made permanent and transparent and the professional skills programme should be embedded. Better management of staff in the public sector could deliver significant service gains.
- **Focusing on delivery** - senior civil servants should be made personally accountable for delivery targets with reward for success and appropriate consequences for failure.
- **Increasing accountability** - better management information, on both finance and overall performance, should be developed to give a clearer picture of the performance of services and be used to hold senior officials to account.

There is also a growing concern at the dichotomy of employment practices between the public and private sectors in Northern Ireland, with the biggest pay differential of any region

within the UK. While different practices on their own are of little concern per se, there is some evidence that public sector employment practice is beginning to distort the overall labour market, making it difficult for some employers to compete in local labour markets and leading to inefficiencies in public sector spending.

Finally *the government must improve its management of human resources in the public sector, by*:

- Loosening collective and national bargaining arrangements on pay in the public sector – we believe the Reform of Public Administration and the re-negotiation of contracts is the ideal time to deal with this rather than after the wages have been inflated and there is nothing to "exchange" in future discussions.
- Reforming public sector pensions to make them more sustainable going forward
- Adopting best practice in the management of absence – Northern Ireland public sector absenteeism remains far too high and is costing several tens of millions of pounds per annum. High absence levels are a strong indicator of an over bureaucratic structure with too many people lacking rewarding and challenging roles.

A separate CBI Brief *'CSR 2007: Improving Public Service Management'* is available setting out in more detail how better outcomes can be achieved.

Public Expenditure Priorities

The CSR provides the opportunity to focus expenditure on growth enablers which can deliver the economic and social outcomes we all desire including greater prosperity, more high quality jobs, and a more sustainable and balanced economy for all the citizens of Northern Ireland. There are a number of clear priorities.

Improving education and skills

Increasing our investment in education and skills is the top expenditure priority and is critical if we are to achieve our economic and social goals. Northern Ireland has challenges at all skill levels and a dramatic and urgent increase in outcomes is required:

- *Essential skills*. Too many school leavers enter the labour market without basic employability skills. Employers have to provide remedial training and to design jobs around employees lacking these essential skills. Government needs to address both the inflow and stock of people with low literacy and numeracy skills. The challenge is large – in 2004/5 41% of NI pupils failed to achieve the standards expected at Key Stage 3. The CBI functional skills report provides practical examples of what it is employers expect young people with satisfactory functional numeracy and literacy skills to be able to achieve. Government must act to ensure the new functional skills modules in GCSEs and vocational diplomas (rolled out from 2008) equip young people with the basic skills they will need in the workplace.
- *Intermediate skills*. NI lags behind key EU competitors on intermediate skills. This is likely to be a real constraint on NI growth when the number of jobs requiring such skills is expected to rise significantly – eg at a UK level some 680,000 additional jobs

in associate professionals and technical occupations are expected over the next 15 years. Government must improve professional and technical education particularly to Level III – the success of the vocational diplomas and apprenticeship programmes will be key and employers are prepared to play their part (but see below).

- *Higher skills*. NI has 23% of the population qualified to Level IV lagging behind the UK, Germany and France where around 29% of adults holding a higher level qualification. However countries like the US (40%) and Japan (45%) do better. Government needs to equip graduates and other Level IV achievers with the necessary employability skills and ensure that the NI economy has sufficient numbers studying core disciplines – particularly in the science, engineering and technology fields, and that adequate post-graduates are also available in these key disciplines which in turn will help build the R&D capability (see below). This will require Government intervention.

The government also needs to simplify the skills infrastructure, to help employers navigate it and access funding for training. It also needs to remove barriers and encourage learning eg provide support for learners while earning. Additional investment in the education and training system in Northern Ireland must deliver:

- **a better alignment between the skills required to transform the local economy with those being provided** – this means a much better understanding of the demand for skills matched, responsive training provision and an enhanced provision of high quality, independent careers advice and guidance
- **a significant increase in uptake of Science, Technology, Engineering and Maths (STEM) in schools, the FE sector and in our universities** to support the development of science, technology and innovation (see below)
- **an expanded pupil profiling at age 11** to include early guidance on the future study route of the child (academic/professional and technical mix), taking into account what will best fit the child's abilities and as a prelude to more indepth careers guidance when subjects are being selected at age 14 and 16 – information on various 'career pathways' and the various opportunities to move along these must be heavily promoted
- **sufficient investment to effectively deliver the new curriculum (in schools and the FE sector) and necessary training and development of teachers** which can inspire and raise the expectations and ambitions of our young people

CBI is keen to support an increase in apprenticeships, which we see as making a valuable contribution to bridging the sectoral skills gaps that currently exist and which are having to be filled by importing foreign nationals. But if modern apprenticeships are too expensive, businesses, struggling to compete against international businesses with lower cost structures, will be forced to continue to source skills from eastern Europe, in order to avoid the training costs associated with fixing the failures of the current education system. Historically the barrier to such an action would be fear of the unknown. The supply chains from Eastern Europe are now well established and the quality of the skills and the positive attitudes to work are in no doubt. Unless local skills can be developed at a competitive cost to business, there is a serious risk that more will be brought in. This has funding and resource implications for DEL.

These recommendations are consistent with the recommendations from the recent Leitch Review *"Prosperity for all in the global economy – world class skills"* which highlights that the UK must urgently raise its game:

- at least doubling attainment at most levels to achieve these ambitions
- further streamlining of the skills infrastructure to strengthen the voice of employers
- ensuring economically valuable skills, by strengthening the influence of employers and through demand-led funding
- sustained campaign of awareness and a new careers service

Promoting science, technology and innovation

Increasing investment in science, technology and innovation is the second highest priority in order create more competitive strength and capabilities in these areas.

An increasing amount of business and economic growth in NI is underpinned by innovation, science and technology (IST). Excellent support and high levels of focused investment in these areas are essential if NI is to compete globally.

Measures are required to address Northern Ireland's weak performance in this area, and ensure our universities and research institutions play their full part in creating a more enterprising and innovation-led economy. For example public expenditure on science and technology in NI is only £11 per capita compared to £28 per capita for the UK – equivalent to a gap of £29 million per annum. Businesses clearly have a vital role in driving innovation – in certain industries this will require the promotion and encouragement of an all-island approach to gain critical mass.

Consequently we need to consider re-allocating resources (in the order of £40m per annum) to enhance the outcomes in the following areas:

- significant enhancement in public expenditure focused at enhancing our science and technology capabilities and increasing R&D within our universities – we would also be keen to support the development of a number of industry-led technology centres (
- additional funding to the Further Education Sector to enhance collaboration with SMEs to improve product/process innovation - this might be undertaken jointly with the Higher Education sector (ie an enlargement of the FE/HE Collaboration Fund) - this should include including the introduction of 'first-time engagement' vouchers and other direct support to galvanise engagement from business
- more support to be given for key emerging technologies where a relatively modest spend would help provide the research staff resources needed to progress faster in these emerging technologies
- funding to be made available for PhD students to prevent a drop in their number in the coming year and to secure over the medium term a significant increase in post-graduate numbers involved in science/technology. Such funding should not restrict applicants to those in the UK. If we are to be globally competitive in R&D and look to the all island economy we cannot restrict ourselves to regional abilities.

- Develop innovation & growth teams for the service sectors, a new innovation scoreboard and more directed support for service sector innovation
- Greater integration of support for business innovation: concentrating funds rather than spreading them thinly; providing support for innovation-based change throughout a company rather than separate schemes for training, equipment, design etc.
- Ensuring sufficient support is available within schools, Further Education and Universities to support a growing ICT/financial services sector

Northern Ireland must continue to build on its 'broadband capabilities'. The development of 8Mbps capability across Northern Ireland is essential, and there is likely to be advantages of developing some further 'Tier One' internet access centres. The investment in Classroom 2000 capabilities must also be maximised with a clearer focus on key outcomes.

Finally the Northern Ireland Science Industry Panel, which has been established to advise DETI and the Minister on how Northern Ireland's R&D and science and technology strengths can be used to better commercial advantage must have their role extended to cover the following:

- tasked with identifying and developing radical innovation solutions to major NI challenges, with significant leverage on budgets and pulling technology through to public procurement
- a wider co-ordinating role for innovation and Foresight activities in the NI

In a number of research areas we are currently ahead of the Republic of Ireland but this will now be challenged with the massive investment announced as part of the Irish Government's 'Strategy for Science, Technology and Innovation' launched in June 2006. They will soon overtake us, especially as post graduate education is better funded in the ROI to support high value companies coming to exploit the technologies developed. Indeed opportunities for collaboration may be lost unless the scale of investment in NI can be increased.

Developing the transport infrastructure

The third expenditure priority is to increase investment in the transport infrastructure to improve Northern Ireland's connectivity both internally and externally. Reducing journey times on key strategic roads and on the Belfast-Dublin rail line, and achieving a modal shift of people onto public transport are key objectives. Capital investment has increased in recent years but this comes after 30 years of neglect.

- Transport infrastructure is an essential public good that is a direct input to economic growth and productivity. It is both a direct supply chain input for many firms, but also indirectly enables labour market flexibility and social inclusion
- The NI transport system compares poorly with other developed economies
- Government's role is to provide a long term vision for NI transport, to oversee the effective capacity management of the transport system, and to ensure that funding mechanisms are in place to deliver the infrastructure required
- Current programmes (within the context of the Regional Transportation Strategy and Investment Strategy) suggest that current expenditure levels will not deliver the

necessary outcomes, including faster, reliable average speeds on the strategic road network and a modal shift onto public transport.

Expenditure priorities within the CSR should be:

- A minimum additional £50m capex per annum (over existing commitments) over the period to 2015 is required for investment in the strategic road network
- Enhanced expenditure on public transport provision (including buses and rail) to secure a modal shift in usage
- The CSR must also deliver a five year ring fenced budget for structural roads maintenance at levels envisaged by the Regional Transportation Strategy to provide greater certainty of spending

Raising employment rates

As people are living longer, healthier lives, labour market policies must adapt:

- NI has the lowest employment rate in the UK so we are starting from a point where there can be no room for complacency.
- While recent trends have seen an increase in the numbers of older workers remaining in work, the dependency ratio between workers and retired will increase from 27% to 48% by 2050.
- Many of those retiring or exiting the labour market early through ill health have skills and experience that employers need
- At the same time, many older individuals have lower skill and qualification levels than younger workers, creating barriers to them remaining in or returning to work.

Increasing participation rates and developing the skills of older workers in the labour market ought to be a key priority for government and employers. This will require:

- Rehabilitation of older individuals, whilst both inside and outside the labour market to include:
  - greater investment in skills for older workers, particularly to raise literacy and numeracy standards and update skills such as IT
  - reform of the incapacity benefit system to incentivise return to work – NI has an extremely high level of people on incapacity benefit
- Encouragement of further flexibility around retirement, building on current employer good practice and the new 'right to request' procedure
- Reform of the state pension system to encourage longer working lives, as well as increased private retirement savings
- Enhanced childcare provision and upskilling of returning mothers to the labour market - the CBI has supported the development of a 10 year childcare strategy and action plan (see Concordia's 'Childcare what works' document) which has a series of recommendations for enhancing the availability, affordability and quality of childcare provision in NI – this includes the need for 70 Sure Start Children's Centres by 2012.

Providing appropriate business support

In recent years the budget in respect of economic development has been reducing in real terms. Consequently if the government is serious about re-balancing the economy and driving private sector growth then it needs to provide sufficient resources to pump prime a radical and flexible economic development strategy.

The baseline of Invest NI is significantly below that required to support the vision of a rebalanced economy with a larger and more internationally competitive private sector. Invest NI has insufficient budget certainty in its programme expenditure going forward to aggressively pursue inward investment projects and support more start ups as well as the transformation of indigenous businesses. More ambitious export targets are essential – and this will require more resources to support appropriate programmes and training. A ring-fenced budget, which provides certainty and the ability to plan effectively over the medium term, is essential.

High quality support is a proven way of helping firms start up and grow: those who take advantage of support have higher survival and growth rates. Many business support schemes make a real difference and are fully supported by CBI members.

At the same time key areas critical to our economic development such tourism, and the development and marketing of a number of world-class 'flagship' projects is essential if NI is to tap the increasing global tourism market. Appropriate levels of public funding are essential to deliver these key projects in a timely manner, while there is a need to ensure effective joined up approach from the seven Departments involved in this area.

Managing environmental and natural resource issues

An increasingly important issue for Northern Ireland's success in the global economy is an environment which can retain and attract talent. A major effort will be required to promote Northern Ireland's image.

The NI economy needs to improve the efficiency with which it uses fossil fuels and other natural resources. Doing so would help protect the economy against global price volatility/ price rises in commodities (e.g. due to shortages caused by political/environmental factors), and be a NI contribution to the global environmental challenges of climate change and sustainable resource use.

Achieving this needs a policy framework which provides market incentives so that improving resource efficiency is a profitable option for firms. A judicious mix of policies will be required though we recognise that there is a national dimension to many of these. The mix includes:

- Internalising the environmental costs of resource use in cases where this does not currently happen (for example by expanding the Emissions Trading Scheme, continuing with the landfill tax escalator, piloting road pricing)
- Empowering the 'green consumer' (for example by green government procurement where government is the purchaser, or through better labelling and awareness where the citizen is the consumer)
- Ensuring that the way environmental regulation is implemented actually rewards sustainable behaviour

- Ensuring that resource efficient firms who managed their environmental risks effectively see a reduction in their regulation charges

However, moving policy in this direction must be done in the right way if it is to enhance, rather than undermine, the competitiveness of NI companies. In particular, adding cost to business at a faster rate than our competitors in the UK and further afield will only serve to damage the competitive of businesses. Indeed this is particularly important as NI is already disadvantaged on wide range of costs issues, including energy, transport, environmental costs, insurance etc. Policy should therefore be cost neutral to business or at worst adding cost at the same pace as our competition, in order to keep a level playing field.

CBI Northern Ireland

5 December, 2006

Confederation of British Industry (NI 19 06)

NI 19 06
Supplementary Written Submission Received from the Confederation of British Industry (CBI) to the Subgroup on the Comprehensive Spending Review and Programme for Government; Rates Charges and Water Reform

Introduction

1 CBI Northern Ireland welcomes the opportunity to give evidence to the Assembly Sub-group.

2 This submission has been developed in a short time frame to meet the Subgroup's tight schedule. A separate paper on the CSR 07 has recently been finalised by CBI Northern Ireland and covers the key issues which we would wish to highlight to the Subgroup. The CSR 07 is extremely important and provides an excellent opportunity to secure further public sector reform and secure efficiency gains as well as refocusing expenditure. A brief summary of our views on CSR 07 are included with more detailed comments on the other two aspects of the Subgroup's work, namely rates charges and water reform.

Comprehensive Spending Review 2007

3 CBI Northern Ireland has been preparing its views on the CSR 07 since June with a series of consultations with members. A paper on expenditure priorities has recently been submitted to government and this has been separately forwarded to the Assembly Sub-group. The key messages in this paper are as follows:

- The CSR must be used to help deliver high quality public services with a significant improvement in outcomes, and ensuring real savings and efficiency gains are achieved in the short to medium term (another separate policy brief has also been prepared on improving public service management)

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- Public expenditure must be refocused to help build a more sustainable, balanced economy by investing a higher percentage of resources in 'growth enablers' to achieve more ambitious economic and social outcomes. Higher productivity and increased economic activity rates must be the key goals.
  - Priorities for increased public expenditure investment are in the following areas:
  - improving education and skills
  - promoting science, technology and innovation
  - developing the transport infrastructure and improving public transport services
  - raising employment rates
  - providing appropriate business support, and
  - managing environmental and natural resource issues

4 We will not repeat the details of this paper in this submission, but would welcome the opportunity to discuss our priorities for the CSR 07 with the Assembly Subgroup.

CBI Northern Ireland
18 December 2006

Written Submission Received from The Strategic Investment Board (SIB)

The Comprehensive Spending Review (2008-10)

Background to the Investment Strategy

1. The Investment Strategy for Northern Ireland (ISNI) is a comprehensive 10-year rolling programme setting out ministers' priorities for public infrastructure renewal across Northern Ireland to forward economic, social and environmental goals. The ISNI 2005-2015, prepared by the SIB in accordance with its remit, was a first for Northern Ireland (and indeed for any part of the UK).

2. ISNI1 was published in December 2005; following a 'bottom-up' approach, it took departmental investment plans and collated them into a coherent programme that was both consistent with ministers' priorities and affordable. The strategy was subject to wide consultation with politicians, the business community and other interested parties. The total value of projects identified in the 2005 ISNI was approximately £14.4 billion, with the potential for a total investment of £16bn over the ten years.

ISNI2 (2008-2018)

3. Work on the second ISNI is now well underway with a target publication date of late 2007 in order to align with the first three years of the next CSR. The process of developing ISNI2 is designed to ensure that ministers are able to direct public investment, in a 'top-down' way, to deliver the outcomes that they consider most important. It comprises three elements: the identification of investment opportunities; the generation and evaluation of investment scenarios and the presentation of investment options to inform ministerial/Executive decision-making.

4. Working with departments, SIB has developed an investment framework that supports this process and ensures a holistic approach to planning and delivery. The framework, shown below, is consistent with the 'Economic Vision', 'Priorities and Budget' and other existing strategies; and will need to align with the forthcoming Regional Economic Strategy. ISNI2 currently comprises three cross-cutting priorities and six infrastructure investment pillars. The three priorities broadly reflect those priorities that came out of the consultation process during ISNI1. The pillars are underpinned by 23 investment sectors which in turn comprise individual programmes and projects.

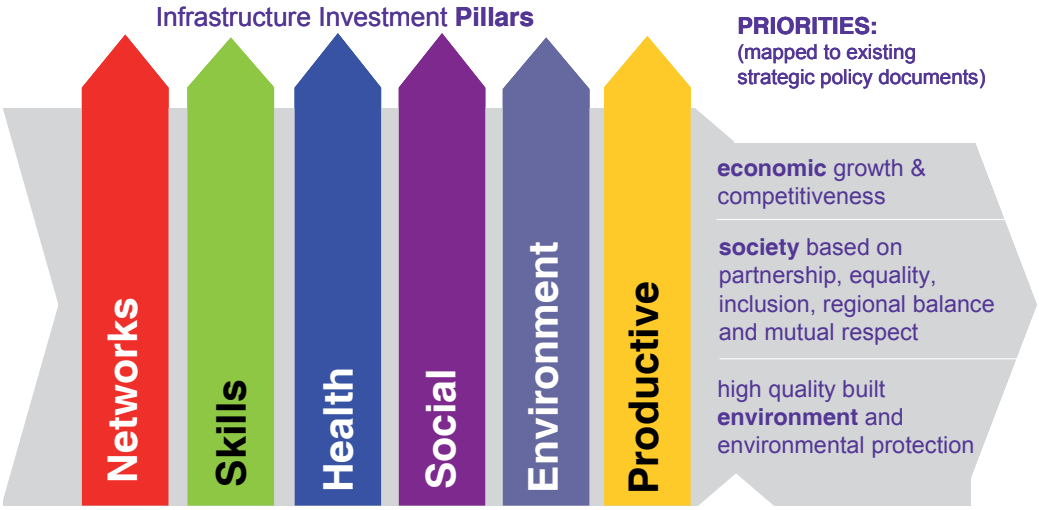


Figure 1: ISNI2 Investment Framework

5. This approach enables the departments to analyse the rationale for their proposed investments; to assess their potential impact using a range of outcome indicators, and consider questions of deliverability and affordability.

6. The final output of this work will be the generation of a series of three to five broad investment scenarios that can be put out for consultation and ministerial consideration. Each of these scenarios will present a different balance of investment, whilst being both affordable and deliverable.

7. The analysis informing ISNI2 seeks to take into account a wider range of factors than ISNI1. In particular, greater consideration is being given to issues such as equality of opportunity, sustainability, regional balance and demographic change.

The Comprehensive Spending Review

8. Within the context of ISNI2, the CSR has a particular significance because it will determine the resources available to ministers/the Executive for infrastructure investment for the first three years of ISNI2. As such it is one of the key determinant factors of the scope and pace of infrastructure delivery.

9. During the summer, SIB and the Department of Finance and personnel (DFP) conducted a review of the affordability of the investment strategy. Departments and agencies were invited to update their capital estimates to take account of inflation and changes to project scope or timing. They were also asked to take account of any new or revised projects that had emerged since the publication of the first ISNI.

10. The results suggest that there is a significant upward pressure on the capital required to deliver the investment strategy. The scale of the increased expected costs, unless matched by increased funding, is likely to require programmes to be adapted and/or reduced in scope, delayed or cancelled.

11. A second consideration for the CSR will be the requirement to provide the funds required to operate and maintain the projects proposed in the ISNI, once they have been delivered. The affordability of ISNI is determined not only by the availability of capital, but by the provision of resources to meet these running costs. Projects and programmes that lack such provision it will not be able to proceed.

12. The deliverability of the ISNI depends on the public sector being able to manage an unprecedented volume of complex projects. Studies undertaken by SIB and the Office of the First and Deputy First Minister (OFMDFM) suggest that there is an urgent need to improve and increase the public sector's delivery capabilities and capacity if this challenge is to be met.

13. The scale and scope of the challenge will become more apparent as the shape of ISNI is fully defined, but already it is clear that the establishment of departmental programme delivery units to manage this work will require the deployment of additional resources. The scale of demand for skills and experience in project procurement, and the length of the ISNI programme, does however create the opportunity to build a high-quality, long-term public sector infrastructure delivery capability.

14. SIB, CPD and government departments are also actively engaged in promoting the infrastructure investment programme to the private sector. Last year SIB and OFMDFM undertook a review of the capacity of the market and are now involved in the implementation of its recommendations. It is critical to understand the need to attract adequate resources to deliver the programme, and to recognise that contractors and professionals will be increasingly drawn to opportunities elsewhere (including the major programme in the Republic of Ireland and the London Olympics in 2012).

Northern Ireland Environmental Link (NIEL) Dated 15 December 2006

Comments to the Subgroup

Northern Ireland Environment Link (NIEL) is the networking and forum body for non-statutory organisations concerned with the environment of Northern Ireland. Its 41 Full Members represent over 82,000 individuals, 265 subsidiary groups, have an annual turnover of over £38 million and manage over 230,000 acres of land. Members are involved in environmental issues of all types and at all levels from the local community to the global environment.

The short time allowed for responding to your query means that the information below has not been agreed by Members, but is based on knowledge of their views on these issues canvassed in the past.

1. **CSR**. We feel that the CSR offers significant opportunities for government to address the Sustainable Development Strategy commitments in a way which causes benefits to accrue to all aspects of Northern Ireland's people, environment and economy. Investing funding now in ways which will ensure the implementation of the Strategy and meeting its targets will be in the long term best interests of Northern Ireland and therefore must be a priority. Ensuring that proper funding is allocated to the SD Strategy and its implementation will send the proper signals to the people and businesses of Northern Ireland that Government is serious in its efforts and commitment to address these issues which have such serious local and global consequences. Grasping these issues and their solutions will bring new investment, help to avoid the worst of the impacts and bring about many supplementary benefits (improved health, greater interaction among government departments leading to efficiencies, adoption of creative solutions which will put NI at the forefront of sustainable living). Lack of such investment will undermine any statements of commitment and decrease the ability and enthusiasm with which these issues will be addressed by those outside Government.

We are sorry, but your deadline does not allow us an opportunity to provide greater detail. If you have any questions please do contact me.

Yours sincerely

Prof Sue Christie
Director

Northern Ireland Local Governement Association (NILGA)

Comprehensive Spending Review Local Government Priorities

Key Local Government Objectives

- To ensure local government is appropriately funded to operate effectively and to ensure the success of the implementation of the RPA
- To ensure local government is appropriately funded to ensure that the targets set by the EU Waste Directive are met by the required dates (first date 1st April 2010)
- To ensure that appropriate match-funding is provided for incoming EU Structural Funds programmes

Introduction

The Comprehensive Spending Review will provide a real opportunity for a long-term refocusing of public expenditure in Northern Ireland. It is essential for local government that the sector's views are heard and are taken on board from the very beginning of the process. This document sets out the local government priorities for public expenditure within the CSR, which were discussed with Mr Leo O'Reilly of Department of Finance and Personnel at a meeting held between DFPNI and NILGA on 19th December 2006. It was agreed that these priorities should be circulated to relevant government officers to assist in completing departmental bids which will include local government support.

NILGA is broadly supportive of the key themes identified by the Secretary of State for priority attention, but would take this opportunity to voice our concern at the low level of funding allocated to the environment in the share of current spend. It is our opinion that a larger share of resources must be allocated to the Department of Environment to ensure that they are capable of supporting local government in delivering our priorities in the coming financial cycle.

Setting the Context

Local Government Reform

A significant body of work has been done in the last year, following the RPA announcements of 2005, to find a clear way forward for local government. It is vital that this work is taken into account by the CSR team when preparing for the future funding of local government in Northern Ireland. Although the work is ongoing, reports and recommendations that should be used to inform the Comprehensive Spending Review are available from DOENI regarding:

- **Finance**
- Estates
- **Shared Services**
- Governance
- Capacity Building
- Community Planning
- Central-Local relations
- Human Resources
- **Performance Assessment**

Work will shortly be underway to develop these key areas, and additionally the transfer of functions into local government from government departments and agencies. NILGA has also drawn the attention of the CSR team to the recent Improvement and Development Agency review of the Local Government Reform Taskforce for background information as to how this work is proceeding.

Waste Management

Government has identified that approximately **£300 million** of funding will be required over the next ten years in order to provide the waste infrastructure necessary to meet the required EU targets. NI has already fallen significantly behind Wales and Scotland with regard to infrastructure funding and it is vital that arrangements are put in place as soon as possible to initiate the required development. A report has been produced by the Waste Infrastructure Taskforce, which was presented to the Minister on 11th December. Work is continuing between central and local government on funding issues to ensure an appropriate bid can be made to DFP for this work within the CSR.

In addition to the £300million for large scale infrastructure, local government will need funding for smaller scale work to ensure the satisfactory implementation of the waste strategy (See priority 9)

Local Government Spending Priorities

To be reflected in spending plans

There are several key priorities for local government with regard to the CSR in the context of the reform agenda:

1. Local government will be undergoing the most significant change of the last 35 years during the time period covered by the CSR. It is vital that these changes are properly budgeted for, and it may prove difficult to do this in advance of the publication of the final comprehensive spending review document. It is therefore critical that enough flexibility is allowed within the document to enable the necessary changes to occur.

2. That the functions to be transferred into local government are not drained of resources and are appropriately resourced prior to transfer, and that the transfer of functions into local government is sufficiently resourced to ensure a smooth transition. This is particularly vital for roads and planning.

3. That transfer of functions from central to local government will be achieved without additional cost to ratepayers. Whilst it is expected that the regional rate will reduce substantially and the district rate will increase substantially there should be no increase in the total rates bill as a result of the reforms.

   Initial indications suggest that existing regional rate revenues exceed the anticipated costs of the functions to be transferred to local government but analysis is required to ensure that this is the position on all of the new larger council areas.

4. That adequate government support is made available for the local government reform programme and the formation of the new councils plus associated work

5. That central government support to local government is maintained in the period up to the implementation of the RPA to ensure that significant district rate increases are not required as a result of changes in government policy. The recent review of rating policy, especially the review of the domestic rating system has had a major adverse impact on the extent of resources grant available to some of the local extent of resources grant available to some of the local authorities in Northern Ireland. In the absence of transitional relief these councils will face significantly higher increases in their district rates. It is therefore imperative that following the implementation of the new domestic rating system transitional relief is made available to those councils who would experience significant reductions in their resources grant allocations, for the period leading up to the implementation of the new structures under RPA.

6. That councils will continue to be compensated in full for the loss of the rate revenue arising from industrial de-rating and that the money available for resources grant is reinstated to previous higher levels and adjusted for inflation on an annual basis

7. That any change to funding mechanisms is agreed between central and local government and not imposed by the centre,

8. That an agreed mechanism is put in place to provide an overview of a council's performance across services and to identify and to agree planned future improvements within each authority.

9. That a new waste management grant should be allocated to local government, at least to the previous £10m p.a. level and preferably radically enhanced to achieve parity with funding provided in GB.

   In addition to and in advance of capital funding for large scale infrastructure (£300m needed over ten years), the provision of a non-hypothecated fund is of vital significance to local government in ensuring that the waste strategy is properly implemented and at least allowing for:

   - Procurement costs/consultation fees
   - Communications programme(s)
   - Ancillary capital and revenue costs

   It is acknowledged that the initial waste micro-infrastructure, partly funded in recent years by the waste management grant, is now largely in place, but it will be necessary for local government to be allocated funding for the above purposes if the waste management work is to be implemented fully and successfully

   This funding should be made available to local government in the period **before** the proposals of the Waste Infrastructure Taskforce are fully developed. It is vital that local authorities are supported in expediting the waste management plans, within a suitable timescale to enable them to meet NILAS targets.

   Waste management funding should be non-hypothecated, particularly as regards capital and revenue spend.

   Waste management needs to be included as a priority outcome in government priorities and budget documents.

10. That government provides appropriate match-funding to the incoming EU funding programme

Key Outcomes and Performance Management

What are the key outcomes DFPNI should aim to deliver for the public over the CSR period?

The CSR must be used to

- Help deliver high quality public services with a significant improvement in outcomes and ensuring real savings and efficiency gains are achieved.
- Help build a more sustainable, balanced and healthy society, environment and economy

How could the performance management framework (e.g. by the use of Public Service Agreements) be improved to ensure delivery on priorities?

- By improving resourcing of the Valuation and Lands Agency to enable a more cost-effective and efficient relationship between councils and the VLA via a Public Service Agreement (using current pilot studies as potential models).
- A more successful economy, and improved business competitiveness could be developed by increasing the efficiency of the Planning Service; by requiring planning guidance to be prepared and issued on a timely basis, and by developing service level agreements between the Planning Service and councils in the run up to the transfer of the service to local government.
- The synchronization of the government and local government budgeting systems should be closely examined and any necessary changes made to ensure that all government funding provided to councils can be used effectively and efficiently within the time allocated.

Equality and Good Relations

How should Equality/Good Relations aspects be incorporated into spending priorities?

All members of the public in NI should be able to expect access to a good standard of services provided by government and local government. This may require extra provision in some service areas.

The forthcoming Comprehensive Spending Review (CSR) 2007 also creates an opportunity to ensure that equality and good relations are mainstreamed across key public policy areas so as to ensure realistic and measurable change.

Equality and Good Relations Priorities

We have identified priority outcomes in this process in areas where positive change could be accelerated by local government:

1. To eliminate the Gender Pay Gap by 2015.
2. That investment in the infrastructure and planning development of Northern Ireland should be of equal benefit
3. To improve employment opportunities for disabled people.

1. **To eliminate the Gender Pay Gap by 2015.**

   The persistent gap between men and women's earnings remains despite 30 years of equal pay legislation. Research by ECNI suggests that this is a complex area and legislation, whilst important, will not by itself address the issue. This could be a PSA objective reflecting a number of targets and measurements recommended in the Women and Work Commission report. The deadline of 2015 for the elimination of the gender pay gap is in keeping with the timeframe of the Gender Equality Strategy.

2. **That investment in the infrastructure and planning development of Northern Ireland should be of equal benefit.**

   Improvements in infrastructure can be a means of improving the quality of life for all and addressing known disadvantages including those allowing better access to public services. Investment in the infrastructure of Northern Ireland and planning development over the next decade should be used to achieve the greatest positive impact by identifying opportunities to promote equality and good relations.

3. **Improve employment opportunities for disabled people.**

   Working age disabled people are more likely to be economically inactive and only 35% of disabled people are in employment (LFS 2005). There should be clear achievable objectives and specific targets for improving access to employment for disabled people, and targets for the numbers of disabled people in employment.

Conclusion

Improvement in these areas is of great concern to the Local Government sector and there is potential to impact on a number of other government policy initiatives such as gender strategies and A Shared Future. There will also need to be development of outcome-focused Public Service Agreements which will be an issue for the Central/Local Relations and Performance Mgt Policy Panel in implementing RPA.

The Economic Research Institute of Northern Ireland (ERINI)

Introduction

In July 2005 the Chief Secretary to the Treasury announced that the Spending Review scheduled for 2006 would be replaced by a new Comprehensive Spending Review in 2007 to cover the years 2008/09 to 2010/11.

As the title suggests, a Comprehensive Spending Review (CSR) is a more fundamental examination of spending priorities than is normally carried out in the UK public expenditure planning system. The 2007 CSR is only the second to be held, the first being in 1998. The objectives in CSR 2007 are:

- To look at the long term trends in important variables affecting the provision of public services in the UK such as demographics, globalisation and climate change;
- Detailed study of key areas where cross cutting policy actions are needed to meet these long term challenges;
- A series of value for money studies (including efficiency reviews) to identify where resources can be released to finance the challenges; and
- A more strategic approach to asset management and public sector investment strategy.

The CSR and Public Expenditure

The first CSR in 1998 coincided with a move to a new form of public expenditure planning based on a multi year planning horizon but dividing public expenditure into two categories, the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DEL contains expenditure that can be controlled with some confidence and DEL limits are normally set for three years ahead. AME expenditure by contrast is more volatile and usually demand led. It is reviewed twice yearly. Both of these new planning concepts were underpinned by two macroeconomic rules to encourage stability in the economy as a whole. The first of these was the 'Golden Rule' which restricts borrowing to fund capital spending only while the second is a prudential borrowing rule that limits total borrowing to a reasonable proportion of national output. Although these rules are seldom mentioned now they are an important constraint on the Government's freedom to manoeuvre. The 'Golden Rule' in particular is monitored by the markets as a means of deterring imprudent behaviour by the Government.

In CSR 2007 the public expenditure system has again moved on. The system is no longer cash based but accords with Resource Accounting and Budgeting (RAB) principles with expenditure measured on an accruals basis and a clear distinction made between Resources (broadly current expenditure but including some items where no cash transaction take place) and capital expenditure. This sits alongside the existing DEL/ AME division so that there is

Resource DEL, capital DEL and so on. In short the system is now quite complex and difficult to manage.

Funding in Northern Ireland

The funding of public expenditure in Northern Ireland comes through a variety of channels.

1. **The Barnett formula** – this is the formula that gives NI its population share of any change in comparable spending (up or down) in England. It is important to note that the formula acts on the total of public spending only at the margins. The formula works only on DEL.

2. **AME funding** – funding for demand led services such as benefits is met from Annually Managed Expenditure on an as required basis. These funds are ringfenced and cannot be transferred to support DEL expenditure.

3. **The Regional Rate and water charges** – receipts from the Regional Rate(s) are counted as a form of 'negative' DEL and mean that gross spending (sometimes called spending power) can exceed the DEL by the amount of rate receipts. Water charges are intended to enable the water GOCO to be directly financed from its customers so releasing public expenditure that presently has to be provided to support this service.

4. **Reinvestment and Reform Initiative Borrowing** – this is an arrangement where NI can borrow from the National Loans Fund up to £200 million per year provided the Regional rate in Northern Ireland rises faster than Council Tax in England (and also provided water charges are introduced). Since these are 20-25 year loans the money has to be spent on investments with at least that useful life in order to secure value for money.

5. **EU Funds** – all EU receipts are now counted as 'negative DEL' but the block is adjusted to ensure that apart from Peace and Reconciliation Programme funds none of these add spending power to the block.

6. **Asset sales** – receipts from most asset sales can be recycled and add to spending power. In CSR 2007 a target of £1 billion for such receipts has been set by the Treasury for Northern Ireland.

7. **Efficiency savings** – efficiency savings do not add to the total amount of spending but they do release resources from unproductive uses so that they can be reallocated to front line services. In CSR 2007 a target of £800 million of efficiency savings has been set by the Treasury for Northern Ireland.

By far the greatest amount of public expenditure that can be controlled by a devolved administration comes through the inherited DEL uplifted each year by the product of the Barnett formula consequentials. For example, over the period 2007/08 to 2010/11 the DEL baseline for Northern Ireland held constant in real terms would be £8.5/ 8.7/ 9.0/ 9.2 billion. In evidence to the Economic Sub Group DFP suggested that UK public expenditure might grow by just over 1 per cent in real terms per annum in the CSR years which when translated through the Barnett formula would allow NI public expenditure (DEL) to grow by about 0.8 per cent per year in real terms. This would give a CSR outcome of approximately £8.5/ 8.8/ 9.1/ 9.4 billion or £900 million over the 2007/08 baseline up to 2010/11. These are large

numbers but they amount to a growth of only 3.5 per cent each year in nominal terms. If public sector inflation is higher than this the difference has to be made up from other sources of income such as borrowing or asset sales or increases in the Regional rate and water charges. Moreover since the highest rates of inflation tend to be on the Resources side of the budget in matters such as pay or medical supplies this is where the financial shoe will pinch most tightly since capital cannot be switched to ease the pressure on Resources. When looked at in these terms it is quite clear why the Government is anxious to press on with contentious issues such as water charging. In a tight CSR self help assumes a much greater role as a means of sustaining public services.

The Economic Climate

The bulk of public spending in Northern Ireland goes on the major social programmes such as health and social services, education , social housing and transport and the environment. Only a relatively small proportion goes directly in support of the economy though programmes such as education and training, and transport provide longer term under pinnings for economic growth and capital spending is vital for the construction industry. Nevertheless, the state of the economy is vitally important for the future prosperity of the people of Northern Ireland and never more so than when public expenditure growth is manifestly slowing.

Over the past decade Northern Ireland has been quite successful in creating jobs, mostly in the services sector. Employment has grown by over 20 per cent in a decade and is now at an all time high. Conversely, unemployment as conventionally measured has fallen to very low levels. On the surface this is a good performance. However, when we examine relative productivity a quite different picture emerges. Despite growing employment output per head has been stuck at about 80 per cent of the UK average for more than a decade. Breaking free of this low productivity trap is the biggest challenge facing Northern Ireland because if we do not succeed in doing so our standard of living will continue to lag most of the rest of the UK and become spectacularly poorer than the Republic of Ireland.

There seems common agreement on how this might be achieved. First, the structural weaknesses in the economy have to be addressed through bringing in more high valued added companies and encouraging indigenous firms to follow the same path. Second, we need a major effort to improve the knowledge base in Northern Ireland and to up skill the workforce. Third we need an education system that is fit for purpose and which addresses decisively the problem of underachievement and lack of qualifications among students. Finally we need an infrastructure that meets the needs of a modern economy but in a way that is sensitive to the need to preserve the environment.

Priorities

The CSR is the opportunity for aligning resources with priorities. Over the past decade health in particular has enjoyed the highest priority in terms of expenditure yet the outcomes have not been commensurate with the resources deployed, and it is clear that the growth in health expenditure experienced over the past five years cannot be sustained through the CSR period. Similarly, education has benefited from substantial increases in expenditure but as the Bain review make plain the present system is riddled with structural and operational

inefficiencies arising from the attempt to run multiple school systems in parallel with one another and against a background where school rolls are falling sharply. Further CSR funding for education should be conditional on these problems being tackled.

The economy has not enjoyed a particularly high priority in expenditure terms. In part this merely reflects the fact that our primary economic development instrument, Selective Financial Assistance (SFA) has progressively become less effective at bringing in the high value added firms Northern Ireland needs. This is why a completely different and radical approach to attracting new investment through the use of lower corporation tax has gained prominence as a way forward. This is a tax rather than an expenditure issue but it may become more important if the value for money study on SFA which is thought to be part of the CSR turns out to be negative.

Although innovation is highly praised as a means of improving productivity growth Northern Ireland spends relatively trivial sums in support of this driver of growth. Perhaps the only area of the Chancellor's package offered to the political parties in November that has potential is the idea of an Innovation Fund. Regardless of the outcome of the rest of the package this is an idea that should be built upon perhaps in the form of a series of challenge funds and new initiatives such as the introduction of an 'Investors in Innovation' benchmark or standard for firms wishing to raise their game. Even a small Fund amounting to no more than £30 -50 million per annum could make a significant difference in this area.

Three other areas are also worthy of consideration in the CSR. The first is transport where Northern Ireland is now falling badly behind the effort seen in the Irish Republic. Even in the elementary matter of maintenance expenditure we are failing to preserve our existing road infrastructure. Cutting back on this expenditure was one of the most short sighted decisions taken by any Direct Rule administration and needs to be reversed in the CSR. Second, our training effort needs to be overhauled. There are serious skills discrepancies between Northern Ireland and our competitors at both intermediate and higher levels (quite apart from underachievement at school level). The finding of the Leitch Review that the UK needs to double attainment at virtually every level to be counted as having world class skills can be applied with even greater force to Northern Ireland. Finally, Northern Ireland has the lowest participation in employment rate in the UK. The additional output that would result from bringing our rate up to the UK average would add a lot to sustaining prosperity in the region and reducing our dependence on public subsidy. This is not a problem that Northern Ireland can solve entirely within the CSR context since it must involve adjustments to the benefits system and pensions as well as local expenditure but it is certainly something that needs attention.

Don't Forget the Northern Ireland Office

Virtually all the attention on the CSR in Northern Ireland goes on the local departments and their programmes, but it must not be forgotten that the Northern Ireland Office (NIO) also has extensive expenditure responsibilities and many of these could transfer to a devolved administration within the life of the current CSR. The NIO is not funded through the Barnett formula but is treated as a Whitehall department. That means that at least some of its larger programmes will be treated from a zero base in the CSR and have to justify all of their expenditure. It is not inconceivable that the NIO baselines could be cut in the CSR so any

prospective devolved administration that is expecting to inherit those baselines would be well advised not to ignore the NIO in the current examination of the CSR.

Conclusions

Preparing this document has been very difficult because of the paucity of information about the CSR in Northern Ireland that is in the public domain. Unlike the Treasury web site which has extensive background to the CSR for the UK as a whole there is noting specific on the Department of Finance and Personnel web site on this subject. Given that these major reviews of spending only take place once in every decade it is not unreasonable to expect the Department to make a greater effort to be transparent.

Northern Ireland Council For Voluntary Action (NICVA)

Introduction

NICVA welcomes the opportunity to make a submission on the CSR, rates charges and water reform to the Transitional Assembly's Programme for Government Committee Sub-Group. NICVA is the Northern Ireland Council for Voluntary Action and is the representative body for voluntary and community groups in Northern Ireland which currently has a membership in the region of 1,000 organisations with whom we actively engage on issues which cross-cut the voluntary and community sector in Northern Ireland. Clearly the Comprehensive Spending Review, rating reform and water reform are such cross-cutting issues. There has been significant engagement between NICVA and voluntary and community groups on the latter two and engagement is ongoing on the CSR itself.

CSR 2007

NICVA recognises that funding for devolved functions in Northern Ireland comes mostly (over 90%) from the application of the Barnett Formula. The rest is made up of the regional rate, borrowing and the Special EU Programme to Support Peace and Reconciliation, peace funding. We are conscious that the current UK spending review involves an even more fundamental examination of spending than previous CSRs. Its stated objective "is to identify what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead". We also note that a review of the future role of the third sector in social and economic regeneration has been carried out in England. When the Chancellor Gordon Brown published his pre-budget report on 6 December 2006, it was accompanied by an additional report 'Partnership and Public Services: an Action Plan for Third Sector Involvement' which is designed to remove barriers to third sector organisations wishing to become involved in the delivery and designing of public services.

The CSR in Northern Ireland

It is clear that the vast bulk of resources available to a Northern Ireland administration come as a consequence of public expenditure in England through the Barnett Formula. Government has trailed for some time now that the next period will see a tightening of public expenditure growth with overall budget increase not really meeting inflationary costs within key parts of the public sector. At present government has been identifying efficiency savings and departments have been asked to produce 3% efficiency savings year on year across the new CSR period. NICVA does not doubt that efficiency savings can be made in public spending and that it is a good thing as it will release resources to spend on other key priorities. However, NICVA has some worries and believes that our track record in Northern Ireland has been one

of producing cuts to front line services rather than making genuine efficiency savings. Having made representations to the Minister and to the Department of Finance and Personnel on this effect, it is our understanding that the Department has agreed that efficiency savings proposed by departments be the subject of genuine scrutiny to avoid simple cuts. The danger in cuts falling at the margins is that they are often public services provided by voluntary organisations on behalf of government which departments or agencies might regard as expendable in the circumstances. It is ironic that the delivery of these services might be the most efficient, cost effective and best value for money. In our view efficiencies could be made in administrative spending in Northern Ireland, particularly some of the exorbitant costs which must be associated with many internal audit systems placed to monitor expenditure. Reports abound of voluntary organisations being audited two and three times by different sets of auditors based on 100% vouching systems.

The Secretary of State's Four CSR Priorities

The Secretary of State has set out four cross-cutting priorities for the Comprehensive Spending Review:

(1) Children and young people.

(2) Anti-poverty and social exclusion.

(3) Sustainable development.

(4) A Shared Future.

NICVA broadly agrees with these priorities and believes they are four key areas which need attention going forward. That is not to say that the outgoing priorities of 2005 which were:

(1) Economic growth.

(2) Public sector reform.

(3) High quality public services.

(4) A society based on partnership, equality, inclusion and mutual respect.

are no longer priorities and that their work is complete.

The Northern Ireland Economy

NICVA like its partners in government and the non-government sector on the Economic Development Forum recognises that Northern Ireland will see no significant improvement in its economy over the next ten years if we continue to pursue our current policies. Most key indicators show flat line development and in some cases indicators suggest things will get worse. Northern Ireland must consider transformational change with regard to the economy which focuses on expanding the private sector, developing the knowledge based or creative economy, and focuses on export growth. Northern Ireland will need to invest in education and skills, and management leadership skills. Our recent submission to the Assembly Sub-group on the economic challenges facing Northern Ireland covered this area in more detail.

NICVA'S Focus

In general voluntary and community organisations are concerned with tackling disadvantage in society. NICVA and many of our members have lobbied government over a long period to put in place an effective anti-poverty strategy that would focus on the outcome of eradicating or greatly reducing the incidence of poverty in Northern Ireland. With the publication of Life Time Opportunities: Government's Anti-Poverty and Social Inclusion Strategy for Northern Ireland in November 2006 we believe that we have a good basis for going forward. The Secretary of State linked the Strategy to the CSR as a cross-cutting priority and this for us was critically important. Strategies are meaningless and the word itself a non sequitur if it is not backed up by policies and actions that are implemented to effect the strategic change required. The CSR priority provides government with the opportunity to consider the best possible interventions and to allocate resources to their support. For example, it is long recognised that Northern Ireland needs to do much more in developing its pre-school provision and that investing in the 0 to 4 year olds can have a big impact on breaking the cycle of poverty. We expect to see dynamic plans and proposals for resource allocation from departments that will deliver on the outcome of eradicating poverty by 2020 promised by government.

NICVA believes there is an umbilical link between an anti-poverty strategy and a shared future. Whilst we do not think the government's Triennial Action plan is inspiring or strategic enough a Shared Future is our best option. The additional cost of separation and its affect on the delivery of public services is an opportunity cost in resource terms. We need to provide services efficiently and effectively so that more can be achieved. Providing services to two communities is a waste we cannot really afford. NICVA also believes that for the region to prosper and develop it requires the coordinated participation of people here. In NICVA's view sharing should be incentivised and separate development should not.

Environmental organisations in the voluntary and community sector have put the issue of Sustainable Development on the political map. Northern Ireland is 15 or 20 years behind much of Western Europe in environmental terms. The policy /concept has to underpin everything we do in the future; any Northern Ireland Programme for Government should also be Northern Ireland's Sustainable Development Programme. There is general acceptance in society now that we have a problem and that our way of life is increasingly unsustainable. NICVA does not propose a return to pre-industrial ways of life but that economic development considers and alleviates the impact it has on the planet. There is also an economic opportunity for Northern Ireland in the development of new technologies to enhance sustainability that has export potential.

Reform of the Domestic Rating System in Northern Ireland

NICVA focus is primarily on domestic rating and we welcomed the broad thrust of the government's proposals to reform the domestic rating system in Northern Ireland. We believed that the current system was outdated, unfair and difficult to understand. As mentioned earlier we recognise the lion's share of public expenditure comes by way of the Barnett Formula in Northern Ireland and the only area open to government for raising resources locally are in rates or new charges. Voluntary and community organisations generally believe in progressive systems of taxation which are related to people's ability to pay. In the first instance we think that taxes should be related to income but clearly in many areas it is useful

to have tax associated with consumption. NICVA generally recognises that relatively speaking people live in properties which broadly reflect their income. The existing system of paying rates was in our view unfair and evidence of this was provided in the government's final Equality Impact Assessment. Households with a weekly gross income of up to £100 spend 11.6% of their income on rates, whereas households earning more than £400 spend only 2.8% of their income on rates. The highest proportion of income (12.2%) is spent on rates by low income people over the age of 60, closely followed by low paid female heads of household and families with children (both 12.1%). High earners in all three categories spend less than 3% of their income on rates.

NICVA supports the principle of a minimum charge for all properties, bearing in mind the proposed protection for people on low incomes. People should not be exempt from paying rates simply because they live in a cheap property, but we believe the minimum should be low in recognition of the fact that most people in low cost houses are poor. However, we do not accept the case for a maximum charge and we note DFP's comment that any cap "would result in some loss of revenue from households in higher capital value properties which would have to be recouped from those in lower valued properties". It seems to us that a cap would only benefit the richest people in our society. We believe that if a house is worth £2 million, it should be rated accordingly and not at the same basis as a property valued at £500,000.

NICVA supports a system of rate relief's that would ensure that people with insufficient income receive a rate rebate which is realistic and meets their ability to pay. It is fairly obvious that with the increasing capital value of houses in Northern Ireland, many people live in houses that they could not afford to buy at today's prices. They have been described as asset rich and income poor. This particularly affects people of pension age but others as well. However, we believe this does not in general distort our view that people generally live in a house that reflects their means. An adequate rates relief system should be linked to the individual's circumstances and the individual occupier's ability to pay and this should be able to cope with the anomalies that do arise. The important point for NICVA is that government will decide what revenue it needs to raise from rates; we would like to see that apportioned across the population in a way that is fair and equitable in its impact. Domestic Rates in Northern Ireland are in reality an un-hypothecated tax and are not directly related to the local government services they are supposed to provide. Like Income Tax they should be related to a person's ability to pay.

Water Reform

NICVA responded to government's consultation on the Reform of Water and Sewerage Services in Northern Ireland in June 2003. We recognised then that the infrastructure which underpinned the water system in Northern Ireland was in a dangerous state and needed a complete overhaul. We did feel that the options for the delivery of water services proposed in DRD's consultation document appeared to be an attempt by government to divest itself of political responsibility for the past as well as the future of water and sewerage services in Northern Ireland. NICVA believes that the clarity with which the argument for introducing water charges had been based was less than adequate. NICVA was deeply concerned that the proposed changes in domestic water supply, like other utilities, will evolve from the supply of a service to citizens at a subsidised rate towards the sale of a commodity to consumers on

a full cost recovery basis. The supply of a clean water and adequate sewerage system is central to public health; good public health depends on its universal availability. Whilst not a supporter of direct charging for water, NICVA believed that if government introduced any such system of charging, the system should be predicated on the principle of social equity and be based on people's ability to pay. To us water is not a utility like others but is essential to the health and wellbeing of the whole community. It is still NICVA's view that any charging system for water should tie in with the rating system and that individuals on low incomes should be protected from excessive charges and the system should reflect their ability to pay.

The Business Model for the Delivery of Water and Sewerage Services

NICVA believes there is little support in Northern Ireland for a privatised water and sewerage service delivering a profit to shareholders. Like many, we have a concern that the government GoCo created to run the water and sewerage system was simply set up with an eye to transferring the service ultimately into private hands. NICVA believes that the best business model for the delivery of water and sewerage services is the not-for-profit option. Examples of how a system could be implemented and developed exist in Wales and in elements of the Scottish system. A not-for-profit option would ensure social ownership of a utility which is seen as different from other utilities – one that is essential to life itself. The maintenance of a not-for-profit model would by its very nature adhere to the social equity agenda; we think much more so than a privatised business model. This model could build in user representation and this in conjunction with the office of regulator could provide sufficient pressure to ensure efficiency.

NICVA has worked in partnership with other organisations and participated in the Department's consultation and we recognise that the financing of the water and sewerage system as proposed is very complex. We have concerns over many of the issues including the possibility that private investors could be attracted to the potential windfall from the future disposal of assets. Many of these issues have been raised by the General Consumer Council and Government should be able to satisfy the people of Northern Ireland that the way forward they propose is in our best interest.

Department of Finance and Personnel

Mr Hugh Farren
Clerk
CSR Sub-Group
Room 245
Parliament Buildings
BELFAST
BT4 3XX

22 December 2006

Dear Hugh

Comprehensive Spending Review 2007

Your letter of 8 December 2006, to the Permanent Secretaries of all NI Departments requested information in relation to the Comprehensive Spending Review (CSR), particularly with respect to the Terms of Reference for the Programme for Government CSR Sub-Group. In light of the co-ordination role fulfilled by the Central Finance Group within the Department of Finance & Personnel with respect to public finance issues, including the CSR, I have been asked by the Minister responsible for finance, David Hanson MP, to respond on behalf of all NI Departments to your request.

The CSR was initiated by the Chief Secretary to the Treasury in July 2005 and the focus to date for NI Departments has been on the identification and delivery of efficiency savings to allow additional resources to be allocated to front line services. In addition, while the CSR outcomes for Whitehall Departments will be announced in the early summer period of 2007, the equivalent for NI Departments, in the form of the NI Priorities and Budget, will not be published in final form until December 2007. A revised Investment Strategy for Northern Ireland is also planned for publication alongside the Budget next year.

Therefore, in the normal course of events many of the elements of the Assembly sub-groups Terms of Reference would not be considered until early next year. This is to avoid nugatory work as circumstances will inevitably change in the interim period before the draft Budget is published in September. In addition, while efficiency savings options have been identified, first drafts of delivery plans have only recently been produced and Ministers have had insufficient time to consider the full implications including the equality impact, and hence whether alternatives might be more appropriate.

However subject to these constraints, we are working with all departments to provide you with as much relevant information as we can at this stage of the process. This will be set out in two papers for the consideration of the Sub-Group. The first, which

is attached, sets out the general context for planning public expenditure in NI, together with details of progress to date including our best estimate projections of the financial parameters that NI Departments will be operating to over the CSR period. The second paper, which we are seeking to finalise as soon as possible, will provide department by department details as regards spending priorities over the CSR period. The material enclosed also highlights Web Links to publications that your Committee may find useful by way of further background on the CSR.

If you have any queries regarding the material provided please do not hesitate to contact me in the first instance as your primary contact between the CSR Sub-Group and NI Departments.

NORMAN IRWIN
Parliamentary Support Unit

Department of Finance and Personnel

Comprehensive Spending Review - Background Paper - December 2006

Background - The UK Public Expenditure (PE) Framework

1. Responsibility for fiscal and macroeconomic policies and public expenditure allocations across the UK (including high level allocations to the devolved administrations) rests with HM Treasury. Public expenditure allocations to (but not within – see below) Northern Ireland are determined within this overarching framework of public expenditure planning and control in the UK.

2. Public expenditure in Northern Ireland is subject to two separate controls - **the Departmental Expenditure Limit (DEL)** and Annually Managed Expenditure (AME). DEL and AME together make up Total Managed Expenditure (TME). DEL totals are fixed for a three-year period in National Spending Reviews (carried out by Treasury biennially), whereas AME is managed on an annual basis, based on updated forecasts. This is because AME is largely comprised of demand led programmes (e.g. social security benefits), which cannot be reasonably subject to multi year limits. For this reason AME is not considered within the Spending Review process and hence is not discussed in the remainder of this paper.

3. Reflecting the differing nature of these controls, the main focus of the Priorities and Budget process is on the DEL, which is subject to allocation at the discretion of the Secretary of State, or by a devolved administration, in accordance with local needs and priorities.

4. The following describes the budgetary structure which provides a clear separation of actual consumption and investment:

   - **Current Expenditure** – the annual cost of providing services, includes all administration costs (on a ring-fenced basis). This also includes the annual consumption of capital (i.e. depreciation). Within this element, cash and non-cash costs are managed separately, with limited room to move between non cash and cash; and
   - **Investment** – expenditure which enhances or creates an asset of Government, and capital grants which support investment by other bodies, including some public bodies as well as the private and voluntary sectors.

5. DEL funding (current and investment) for the devolved administrations is determined within national Spending Reviews alongside UK Government departments, and in accordance with the polices and arrangements set out in the "Statement of Funding Policy" drawn up and

published by HM Treasury[1]. The formulaic approach to resource distribution (known as the "Barnett formula") allocates to each devolved administration a proportionate share of increases (or decreases) in comparable spending programmes in Whitehall departments, based upon the weighted average "comparability percentage" applicable to the relevant department, and the appropriate share of the population living in the region. Further detail can be found in Annexes B and C of the Statement of Funding Policy.

6. These arrangements are used to determine PE allocations to the devolved administrations at the conclusion of each Spending Review (and Comprehensive Spending Review). They are also normally used to determine any "consequentials" for the devolved administrations in the event that the Chancellor announces new public expenditure allocations on other occasions such as in his annual Budget or Pre Budget Report.

Composition of Public Spending resources available to the Devolved administration in Northern Ireland

7. There are three main sources for spending on the functions that will become the responsibility of the devolved administration. These are:

- **Share of UK public expenditure allocations (91% of total)** – determined via the Barnett formula (see above). Allocations received through this mechanism are "unhypothecated", which means that the Executive and Assembly can determine allocations to specific priorities and programmes, regardless of the nature of the spending on comparable English programmes which gives rise to the allocation.
- **Regional Rates (6%)** – Revenue received from taxation on business and domestic property in Northern Ireland. Approximately 56% of total rates revenue collected is in respect of the Regional Rate; the balance being District Rate revenue, which is levied by District Councils, on the basis of the cost of services provided by them. Regional Rate revenues are also "unhypothecated" in that the revenue collected is not targeted on any specific public spending programme; instead the revenue received is added to the total sums available for allocation by an Executive and Assembly.
- **Borrowing under the Reinvestment and Reform Initiative (RRI)** (2%) – Amounts can be borrowed each year for capital investment under the RRI arrangements. This borrowing is subject to an annual limit determined by HM Treasury – at present the limit is £200 million per annum. Other conditions are also applied to access to this borrowing source, primarily the requirement that access to borrowing is conditional upon closing the gap between average domestic Council Tax bills in England and average domestic rates bills in Northern Ireland. The repayments must be made from regional rates revenue.

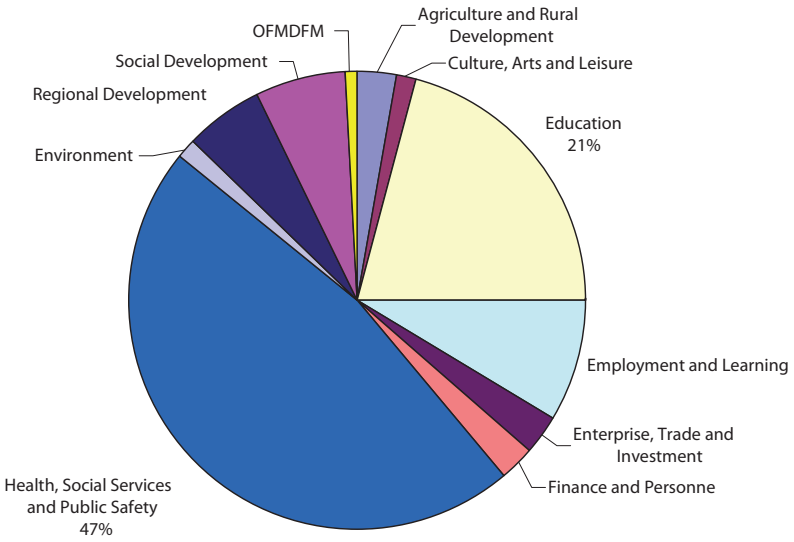
Current Expenditure

8. In 2007-08, over £8.2 billion of current expenditure is planned by NI Departments. Chart 1 below shows that the majority of current public expenditure is allocated to two main

1 *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly – A Statement of Funding Policy. http://www.hm-treasury.gov.uk./media/CB2/3C/Funding_the_Scottish_Parliament_National_Assembly_for_Wales(296kb).pdf*

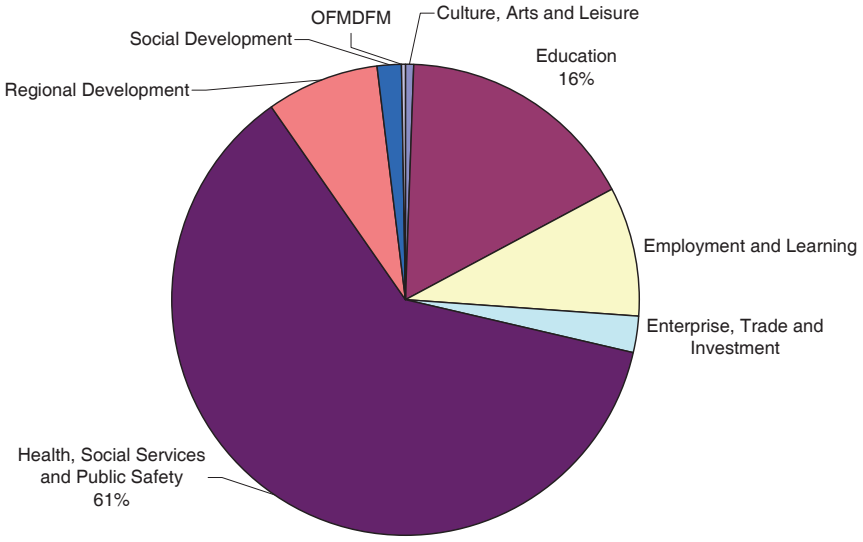
departments, the Department of Health, Social Services and Public Safety and the Department of Education. See also table A(1) (attached at Annex A) which shows the breakdown of this planned expenditure by department.

Chart 1: Breakdown of Current Expenditure by Department, 2007-08



9. In addition, the share of total expenditure accounted for by Health & Social Care has increased in recent years as shown by Chart 2. This reflects the priority that has been attributed by the Government to increasing expenditure on the Health Service in Northern Ireland, which also reflects the priority on this service at national level in these same years

Chart 2: Breakdown of Increase in Current Expenditure between 2005/06 and 2007/08.

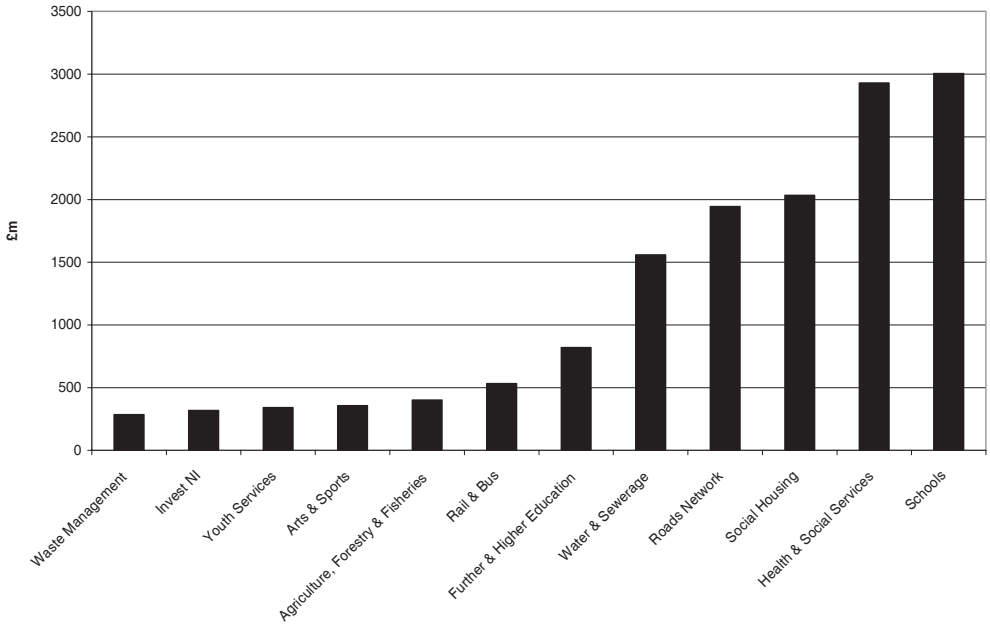


Capital Investment

10. Capital investment expenditure decisions over the CSR period will be set in the context of the Investment Strategy for Northern Ireland (ISNI) which was published in December 2005, following consultation on the draft strategy. Over the period 2005-2015, up to £16 billion

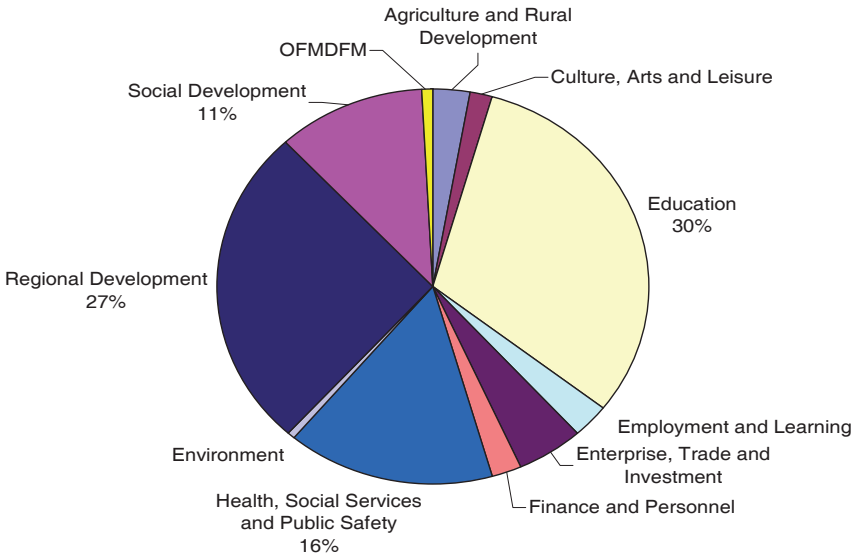
will be spent on improving public infrastructure across Northern Ireland with the largest share of investment in schools, hospitals, roads and public housing, as shown by Chart 3. The ISNI will be reviewed as part of the CSR with a revised strategy to be published for consultation in the autumn.

Chart 3: ISNI Key Investment Programme Allocations, 2005-2015



11. In 2007-08 £1.3 billion of capital expenditure is planned, with the distribution across departments shown in Chart 4. The proportion of capital expenditure allocated to the Department for Regional Development is projected to decline as Water Service functions are transferred to the GoCo.

Chart 4: Breakdown of Capital Expenditure by Department, 2007-08

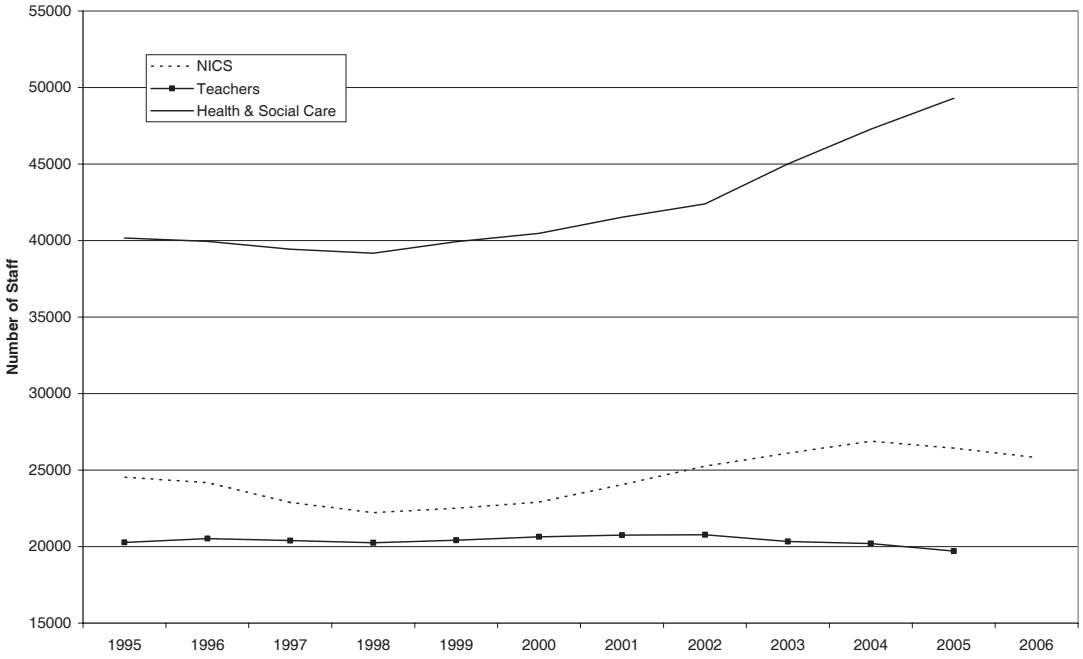


Further details on the source of funding and expenditure plans and outcomes for NI departments are set out in Annex A.

Public Sector Pay

12. The single largest element of public expenditure in NI is pay. Direct pay costs accounts for around 55% of current expenditure, while a substantial proportion of the remaining spend is used to fund salary costs indirectly. Chart 5 below shows that the number of teachers has fallen in recent years in response to falling pupil numbers. In contrast, the significant investment in health & social care has lead to significant increases in the number of nurses and medical staff. As regards the civil service, while the recent focus on efficiency (in both the 2004 Spending Review and more recently) has led to a decline in numbers, the position is still higher than in 2002 (i.e. at the time of suspension of the devolved institutions).

Chart 5: Trends in the Numbers of Major Public Sector Staff Groups.



Comprehensive Spending Review- UK

13. On 19 July 2005, the Chief Secretary to the Treasury announced the Government's intention to conduct a second Comprehensive Spending Review (CSR), reporting in 2007, to identify what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead. Spending Reviews set firm and fixed three-year Departmental Expenditure Limits and, through Public Service Agreements (PSA), define the key improvements that the public can expect from these resources.

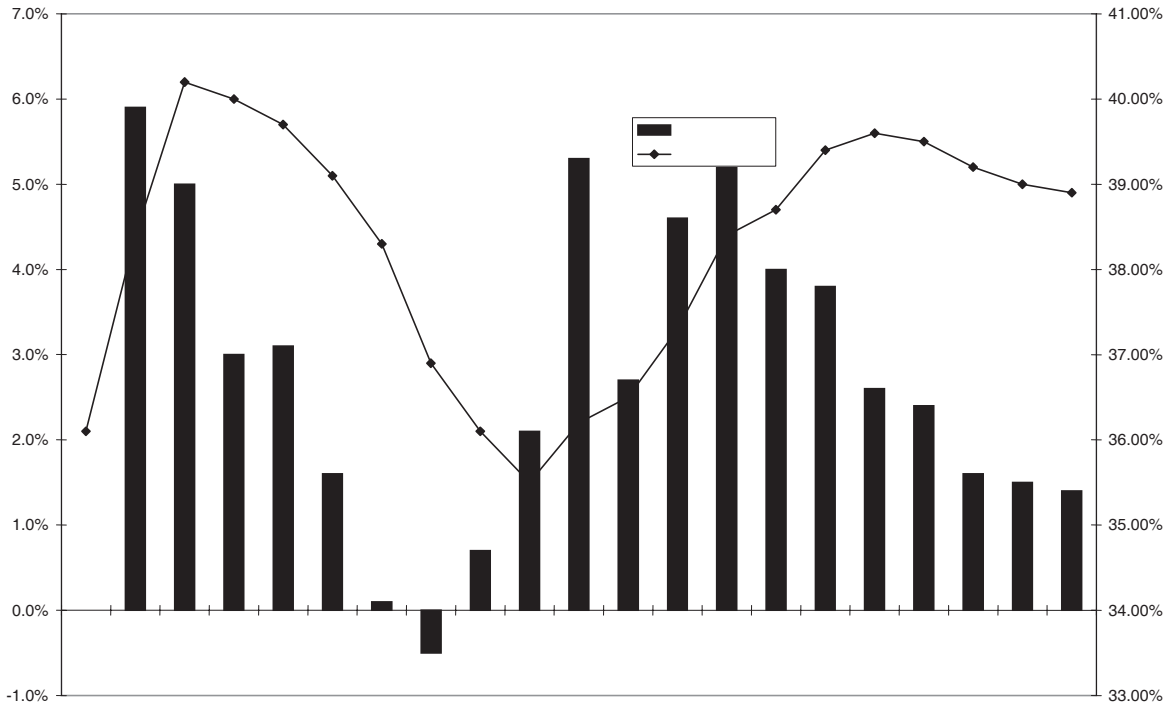
14. Successive Spending Reviews since 1997 have targeted significant increases in resources for the Government's priorities, matched by far-reaching reforms, and have set ambitious targets for improvements in key public services. The 2007 Comprehensive Spending Review will set spending plans for 2008-09, 2009-10 and 2010-11. A decade on from the first CSR, the 2007 CSR will represent a long-term and fundamental review of government expenditure.

15. To lay the groundwork for the CSR, the UK Government has taken forward a programme of work involving:

- an examination of the key long-term trends and challenges that will shape the next decade - including demographic and socio-economic change, globalisation, climate and environmental change (Stern Report), global uncertainty and technological change;
- a national debate to build a shared understanding of how the UK and public services need to respond to these challenges;
- detailed studies of key areas where cross-cutting, innovative policy responses are required to meet these long-term challenges;
- an ambitious and far-reaching efficiency programme to release the resources needed to address the challenges; and
- a more strategic approach to asset management and investment decisions.

16. Although HM Treasury has forecast continued growth in public expenditure over the period covered by the 2007 CSR, following the very significant increases in investment in public services that have occurred over the past 7 years, it is likely that this will be at a slower rate going forward - see Chart 6 below. In order that funds can be made available to fund Ministerial spending priorities it is therefore essential that resources are released through efficiency improvements in the delivery and management of existing programmes.

Chart 6: Public Expenditure Projections for the UK for CSR Period.



17. HM Treasury published an interim report 'Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review' on 13 July 2006, setting out progress on both the implementation of the current efficiency programme and the Government's strategy for driving further value for money improvements over the CSR07 period.

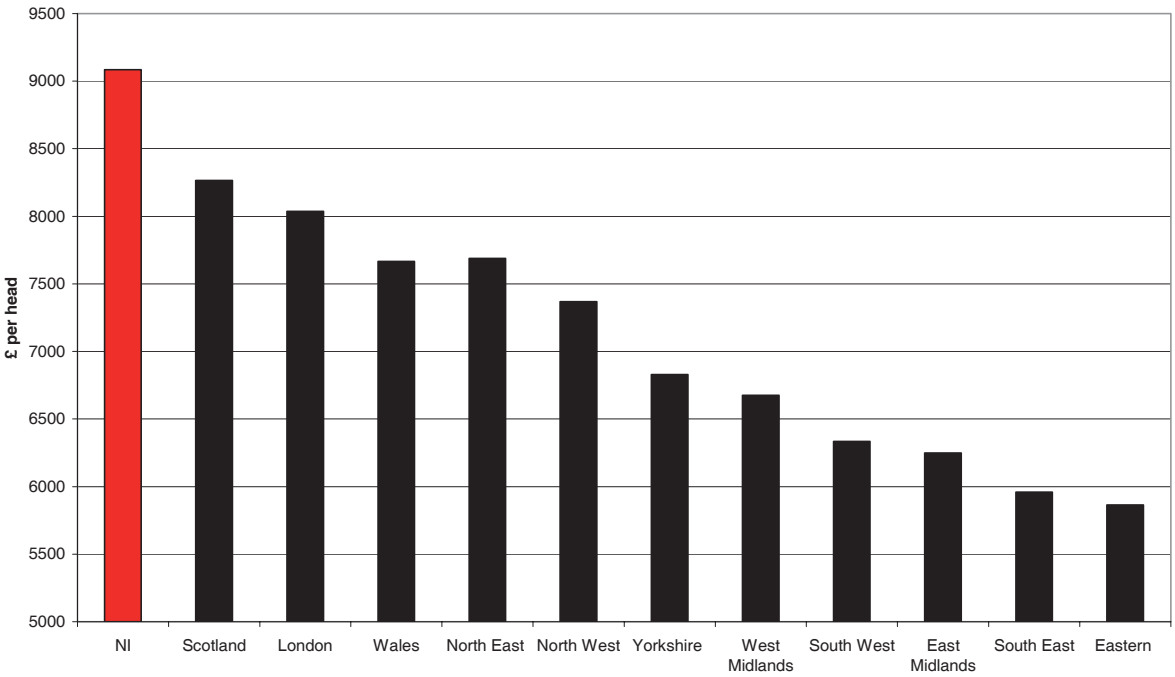
http://www.hm-treasury.gov.uk./media/67B/68/csr07_releasingresources1_130706.pdf

18. In addition, the report 'Opportunities and Challenges for the UK: analysis for the 2007 Comprehensive Spending Review" was published on 27 November 2006. It examines each set of trends in turn and explains how the Government will use the CSR as a key milestone in making further progress against its established long-term goals of sustainable growth and employment; fairness and opportunity; a secure and fair world; and modern and efficient public services in the new context of the decade ahead.

http://www.hm-treasury.gov.uk./media/298/55/csr_longterm271106.pdf

19. The issue of constrained public expenditure growth at UK level, referred to above, is particularly relevant for Northern Ireland, reflecting the starting position in Northern Ireland (with public expenditure on a per capita basis being ahead of UK levels – see Chart 7 below).

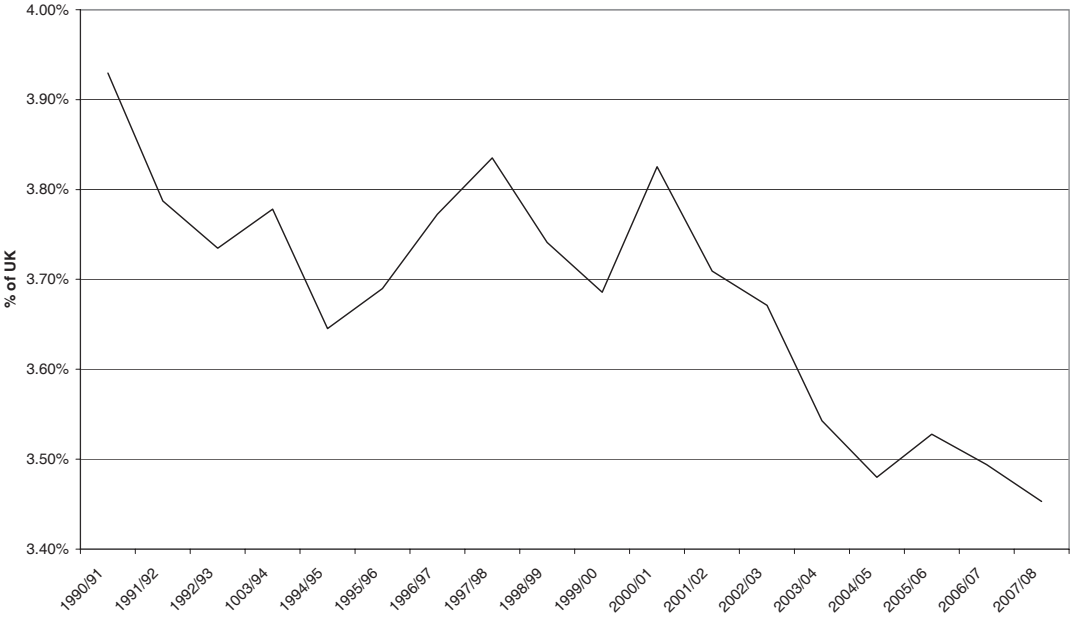
Chart 7: Total Identifiable expenditure per head for UK regions, 2005-06



Source: PESA

20. Chart 8 below shows how use of the population based allocation process, in the context of the higher level of baseline spend for NI departments compared to the UK as a whole, has lead to slower growth in spend in recent years as evidenced by NI's declining share of total UK spend.

Chart 8: Total Public Expenditure in NI as a % of the UK.



Source: PESA

The Comprehensive Spending Review in Northern Ireland

21. In terms of strategic public expenditure allocations, the Northern Ireland outcome from the CSR will be determined under the "Barnett" arrangements described above. We expect this to become known around the middle of 2007. However the Chancellor in his financial package announced following the St Andrew's Agreement and his meeting with the parties on 1 November gave a four year spending commitment, including the three years of the CSR planning period. This in effect guarantees that the Northern Ireland DEL will be maintained, over the CSR period, at a minimum of its 2007-08 level in real terms, taking account of anticipated levels of inflation over the three year period. In addition to this, we anticipate that there will be further amounts allocated to Northern Ireland once the final outcome of the CSR at national level is known.

22. In line with the approach adopted at national level, the Secretary of State has decided that all NI departments should be asked to identify how they would deliver cumulative efficiency savings of 3% a year over the CRS planning period, including an annual real reduction in administration costs of 5% (2.8% nominal), in order to accommodate expected cost pressures, and at the same deliver improvements in public service provision. All resources released by this work will remain within Northern Ireland, for reallocation to public services here.

23. Early in 2006, NI departments were asked to identify a number of areas to be considered in a series of value for money studies to be taken forward over the following year. NI departments continue to take forward a range of Value for Money (VfM) studies across major spending areas such as Health (implementation of Appleby Review) and Education (Bain Review) as well as the cross-cutting Review of Public Administration. Annex B sets out details of the Value for Money Studies.

24. Over recent months departments have identified a range of options to deliver the required level of efficiency savings, and are currently developing Efficiency Delivery Plans (EDPs)

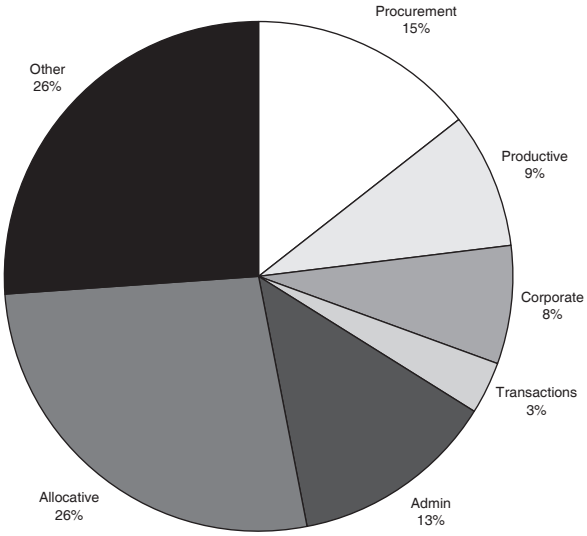
for each efficiency option. Almost 90 EDP's have been produced, with 70% of the total savings by 2010-11 are accounted for by the 10 options set out in the Table 1 below.

Table 1 : Top 10 Efficiency Options in terms of savings by 2010-11, £m

Efficiency Option	Dept	Savings
Programme of measures to improve productivity in the Health & Social Care sector (including RPA)	DHSSPS	160.1
Removal of lower priority projects from the Schools Estate Capital Investment Programme	DE	97.8
Constrained growth in pay growth for Health & Social Care sector flowing from DoH efficiency	DHSSPS	71.0
Improved efficiency in the provision of Pharmaceuticals	DHSSPS	58.7
More cost effective procurement arrangements in the Health & Social Care Sector.	DHSSPS	36.3
Aggregated Schools Budget- impact of changes in demography.	DE	32.0
Housing Executive VfM Study	DSD	27.4
Water Service - Efficiency Target for GoCO	DRD	26.2
Withdrawal of Electricity Contract But Out proposal	DETI	19.7
Review of Public Administration in the Education sector	DE	16.0
TOTAL		**545.2**

25. In order to provide greater understanding as regards the overall perspective of where efficiencies are to be derived, each efficiency option has been classified by type of efficiency following the Gershon work from SR04. Whilst this assessment is subjective, Chart 9 below shows the distribution of efficiency savings by type across the overall savings target for 2010-11.

Chart 9: Breakdown of Efficiency Savings by Gershon Classification



Summary of Potential Available Resources

Table 2: Expected Available Additional Resources (Compared to 2007-08 Position) Over the CSR period (£ million) – Current Expenditure

	2008-09	2009-10	2010-11
Additions from Chancellors Package	204	413	628
Regional Rate[1]	56	118	164
Sub-total	**260**	**531**	**792**
Efficiency Savings	200	410	590
Addition to 2007-08 baseline	**460**	**941**	**1,380**

1. Assumed uplift of 6% per annum for domestic and 3.3% for non-domestic in line with trend and phased introduction of Industrial Rating to 75% by 2010/11.

Table 3: Expected Available Additional Resources (Compared to 2007-08 Position) Over the CSR period (£ million) – Capital Investment

	2008-09	2009-10	2010-11
Additions from Chancellors Package	27	54	82
Efficiency Savings	60	120	180
Addition to 2007-08 baseline	**87**	**174**	**262**

26. Tables 2 and 3 above highlight the importance of the efficiency savings in releasing resources to meet cost pressures and fund improvements in services. Initial estimates suggest that, in total, an additional £1.6 billion will be available for NI departments to meet cost pressures, pre-commitments and new policy initiatives.

27. However, it should be noted that Tables 2 and 3 set out a baseline position and there are a number of alternative permutations. Increasing the annual growth in funding from HM Treasury by 1% each year would result in £280 million of additional resources being available by 2010-11. In addition, every additional 1% increase in the either the domestic or non-domestic underlying regional rate each year over the period would result in around £8 million of additional resources by 2010-11.

28. Alternatively any moves to further reduce / defer income generation in terms of Water Charges or Industrial Derating, will inevitably mean that less funding is available for any new initiatives that a returning Executive might wish to introduce. For example, the 70% level for industrial derating next year gives rise to £52 million of revenue foregone.

Pressures

29. The spending priorities identified by departments over the CSR period are set out in a separate paper. In terms of more general cost pressures, while the recent significant investment in public services has delivered improvements in public services, it has also lead to inflationary pressures. This means that significant resources will be required simply to maintain service provision at existing levels. For example, it will cost almost £0.5 billion to pay for the additional staff costs of workers in the education and health & social care sector over the CSR period who account for just over half of all public sector employment in NI.

30. In terms of the scale of resource pressures, a possible working assumption is that the additions from the Chancellors package, plus any further funding as a result of the UK wide CSR will be required to accommodate general pay & prices inflation, leaving the efficiency savings of £770 million by 2010-11 to fund the spending priorities identified by departments. However, this may prove to be overly optimistic.

31. In addition, commitments have been made, particularly with respect to capital projects which will also have significant resource implications once projects are complete. A number of strategies have also been developed, for example in terms of Sustainable Development, Children & Young People and Social Inclusion, which will have as yet undefined resource requirements in the coming years.

Next Steps

32. The next stage will be for departments to identify the range and scale of pressures they face across the CSR period, alongside the development and articulation of priorities, and desired priority outcomes, by Ministers. This work will be considered alongside the level of efficiencies identified by departments, and the NI outcome for the national CSR, and will form the basis for the development of a Draft Priorities and Budget, to be published for consultation in the Autumn of 2007. Following a period of formal consultation, the Priorities and Budget will be finalised and published later in 2007

Initial Consultation Exercise

33. In order to inform Ministerial decisions on the spending priorities for NI Departments over the period covered by the CSR, key stakeholders have been invited to attend a series of initial consultation events. This is in addition to the normal public consultation as part of the Priorities and Budget process, and is intended to maximise the opportunity for input into the process. The main objective of the initial consultation is to take the views of consultees as regards the following key questions:

- What should the spending priorities be over the CSR period?
- What are the key outcomes we should aim to deliver for the public over the CSR period and what does success look like?
- How do we ensure delivery on priorities and outcomes?
- How can the performance management framework be improved?

34. The current priority outcomes and associated public expenditure allocations are set out in Chapter 4 of the Priorities and Budget 2006-08 document (http://www.pfgbudgetni.gov.uk/fulldoc0608.pdf).

35. Invitations to participate in the Consultation Process have been extended to the following groups:

- NICVA - 6 November
- ECNI - 16 November

- ICTU - 4 December
- NIPSA - 19 December
- UNISON - No response
- IOD - 8 December
- CBI - 13 December
- CiNI - 22 November
- NILGA - 19 December
- Women's Groups - scheduled for New Year

36. The groups consulted with to date have raised a number of issues relevant to their particular sectors. There is concern that although the strategies produced by departments appear sufficient to address the relevant need, there is insufficient consideration of implementation and in particular that a sufficient level of resources is secured. The representatives from the business community have highlighted the need to focus on "growth enablers" and in particular addressing deficiencies in education and skills.

Equality

37. Equality, social inclusion, NTSN, good relations and sustainable development assessments will be made with respect of all spending proposals, with mitigating actions taken where appropriate, in advance of final decisions being made by Ministers.

38. High Level Impact Assessment's are currently being developed with respect to each efficiency measure and will also be required for each spending proposal The HLIA's will be used to inform spending decisions by Ministers.

Annex A

Supplementary Data Tables

Table A(1): Breakdown of Sources of Funding for NI Public Expenditure

	Final Out-Turn			Budget 2005 Plans			
	2003-04	**2004-05**	**2005-06**	**2006-07**		**2007-08**	
Allocation from HM Treasury	6,762.6	7,135.0	7,538.0	8,093.3	*7%*	8,540.6	*6%*
Regional Rate[1]	384.5	417.4	444.0	515.6	*16%*	517.7	*0.4%*
RRI Borrowing	68.1	173.8	166.6	200.0	*20%*	200.0	*0%*
1. Regional rate planned figures are most recent estimates							

Table A(2): Annual Managed Expenditure by Programme

	Final Out-Turn			Budget 2005 Plans			
	2003-04	**2004-05**	**2005-06**	**2006-07**		**2007-08**	
Benefits	3,574.3	3,698.6	3,789.0	3,973.9	*5%*	4,129.2	*4%*
Education Maintenance Allowances	0.1	8.7	17.6	29.9	*70%*	31.8	*6%*
Non Cash Costs	887.7	1,163.9	1,335.4	1,514.2	*13%*	1,556.5	*3%*
Pensions	833.6	941.4	1,214.8	1,218.2	*0.3%*	1,297.7	*7%*
Total Programme Allocations	**5,501.5**	**6,005.2**	**6,683.7**	**6,736.2**	*0.8%*	**7,015.2**	*4%*

Table A(3): Current Expenditure by Department

	Final Out-Turn			Budget 2005 Plans			
	2003-04	**2004-05**	**2005-06**	**2006-07**		**2007-08**	
Agriculture and Rural Development	207.8	219.3	227.5	222.4	*-2%*	224.8	*1%*
Culture, Arts and Leisure	92.1	85.6	95.2	102.2	*7%*	105.5	*3%*
Education	1,439.5	1,471.4	1,563.9	1624.8	*4%*	1,696.3	*4%*
Employment and Learning	576.6	617.5	626.4	649.6	*4%*	712.7	*10%*
Enterprise, Trade and Investment	176.3	180.0	201.1	194.1	*-4%*	214.5	*11%*
Finance and Personnel	132.4	136.4	190.6	197.1	*3%*	175.4	*11%*
Health, Social Services and Public Safety	2,820.8	3,090.8	3,303.3	3587.3	*9%*	3,821.9	*7%*
Environment	115.5	121.2	123.6	125.4	*2%*	130.6	*4%*
Regional Development	339.9	334.0	348.9	377.3	*8%*	423.9	*12%*
Social Development	444.8	447.0	462.3	511.3	*11%*	518.1	*1%*
OFMDFM	43.0	55.1	57.3	71.7	*25%*	71.7	*0%*

	Final Out-Turn			Budget 2005 Plans			
	2003-04	2004-05	2005-06	2006-07		2007-08	
Northern Ireland Assembly	31.9	31.3	30.9	47.6	*54%*	47.6	*0%*
Other Departments	7.8	11.7	18.0	19.0	*6%*	19.2	*1%*
Total Spend	**6,428.4**	**6,801.3**	**7,248.9**	**7,826.7**	*8%*	**8,205.0**	*5%*

Table A(4) Capital Expenditure by Department

	Final Out-Turn			Budget 2005 Plans			
	2003-04	2004-05	2005-06	2006-07		2007-08	
Agriculture and Rural Development	31.9	34.3	37.3	64.2	*72%*	28.7	*-55%*
Culture, Arts and Leisure	6.9	8.5	16.0	31.8	*99%*	22.4	*-30%*
Education	135.8	131.5	126.0	213.5	*69%*	414.5	*94%*
Employment and Learning	39.6	42.7	51.2	75.5	*48%*	37.8	*-50%*
Enterprise, Trade and Investment	31.0	55.3	37.7	61.0	*62%*	63.8	*5%*
Finance and Personnel	41.1	2.3	13.4	42.2	*215%*	30.5	*-28%*
Health, Social Services and Public Safety	121.9	150.4	158.2	188.2	*19%*	208.7	*11%*
Environment	8.9	11.7	10.8	11.0	*2%*	6.0	*-46%*
Regional Development	236.1	395.7	436.6	397.8	*-9%*	354.1	*-11%*
Social Development	7.0	115.1	126.5	192.4	*52%*	147.4	*-23%*
OFMDFM	-3.4	0.8	1.9	8.8	*363%*	11.7	*33%*
Northern Ireland Assembly	0.0	0.0	0.0	2.0	*200%*	2.0	*0%*
Other Departments	0.2	0.3	0.3	0.4	*33%*	0.4	*0%*
Total Spend	**657.0**	**948.6**	**1,016.0**	**1304.5**	*28%*	**1,338.5**	*3%*

Annex B

Comprehensive Spending Review – Zero Based Value For Money Studies

(A Summary of expenditure on these study areas is attached)

1. **Health**

(a) Structural Issues - Review of Public Administration (£200m)

The radical changes to the structures of the health administration identified through the RPA will significantly reduce the duplication of administration services across NI hospital Trusts and Boards pointing to potential savings through the adoption of good practice including the use of shared service platforms. In addition to potential saving in current expenditure there is the potential for the disposal of surplus assets arising from the review. This review will focus on how these efficiencies can be delivered within an environment of financial stability, blending the requirement to achieve best value for money with the need to reinvigorate the management of the HPSS. The aim is that the resulting savings for reinvestment in services can be identified and delivered as early as possible in the CSR period.

(b) **Implementation of Appleby Review**

In August 2005, Professor John Appleby of the Kings Fund reported the main findings and recommendations from his Independent Review of Health & Social Care Services in Northern Ireland. Professor Appleby found that across a range of indicators such as waiting times and unit costs, the health & social care sector in NI appeared to be less efficient in delivering services than in England. Possible reasons included insufficient progress on reform compared to England whilst poor performance management was also highlighted as a weakness.

Professor Appleby set out 25 recommendations relating to the future funding requirements of the health & social care sector as well as the use of resources and performance management. The recommendations cover almost all the £3.6bn health & social care budget in NI. However, in light of the limited time available to conduct the review most of the recommendations relate to the need for further research/analysis although the ultimate focus remains on better health & social care services and hence outcomes for the people of NI. Whilst NI Ministers have committed to implementing all the Appleby recommendations by March 2008, it is intended to accelerate the certain elements in order to inform the CSR 07 process whilst progress has already been made in other areas. Major areas for review include:

- **Pharmaceutical Costs (£350m)** - The number of prescriptions per head of population in NI is 19% higher than in England whilst the net cost per prescription is 8% higher despite generally less expensive items being prescribed. The Department of Health, Social Services and Public Safety has already identified £82.9m worth of savings over the period 2005/6 to 2007/08 through a programme of interlocking initiatives including therapeutic tendering as well as changes in repeat and generic prescribing patterns. The Department is making good progress in securing these efficiency gains.

  The Review will examine the extent to which further efficiency gains can be achieved working in conjunction with the Department of Health in England where appropriate to moderate the rising price of drugs and to maximise effectiveness.

- **Labour Productivity (£2bn)** - the Independent Review of Health & Social Care Services in NI found that labour productivity in NI was below that in England. In addition, although hospital activity per member of staff grew at a faster rate than England during the second half of the 1990's, since 1998/99 the decline in labour productivity has been greater in NI. This is a key concern given that pay accounts for over 60% of health & social care spend whilst the significant investment in pay reform in recent years applies equally to NI as the rest of the UK.

  Professor Appleby recognised that only crude indicators of relative productivity were available to the Review whilst there are a number of potential explanations for the lower level of labour productivity in NI such as the degree of rurality and deprivation. The review will firstly confirm the scale of the labour productivity gap taking account of complicating factors such as the integrated nature of health & social care in NI compared to England. The extent to which labour productivity gap is due to specific factors will then be explored. This is important because although certain factors such as inefficiency are amenable to influence, others such as the level of rurality are less so. This will allow appropriate, yet challenging targets, to be set for the level of labour productivity in the NI health & social care sector relative to England. A programme of actions can then be developed and implemented to achieve the targeted improvement in productivity.

2. **Education**

(a) **Structural Changes** – Review of Public Administration - The RPA will result in major changes to the structure and delivery of education services delivering cost savings and improved efficiency and effectiveness. As with the restructuring of health administration there is also the potential for the release of assets for disposal. (Further material on education below). This review will focus on identifying the timing and scale of up front costs involved, the nature and scale of the savings that will be achieved and a timetable for their delivery.

(b) **Demographic Issues** - The structure for the delivery of education in Northern Ireland is unnecessarily complex and despite declining pupil numbers, and an increasing budget, which will exceed £2 billion in 2007-08 (current and investment), pressures remain with increasing surplus places in schools and many schools are facing financial difficulties. The demographic decline and the opportunities presented by the Review of

Public Administration (see above) sets the basic rationale and purpose for a review of education provision across a range of areas.

(c) **Schools Estate** - A key aspect of all of this will be a strategic review of the planning and management of the schools estate, including planning for a coherent approach to sustainable schools, asset management plans and measures to accelerate rationalisation of the school accommodation. This is an essential feature of the action required to remove surplus places from the system. Opportunities also exist to reduce duplication of service provision through the development of a collaborative approach to sharing school support services on a regional basis.

(d) **School Transport** - Other areas of the education budget which continue to grow are the costs associated with home to school transport, now in excess of £65 million. This review will focus on identifying the key pressures that are contributing to the growing costs of school transport and will seek to identify whether there are alternative more cost effective ways of delivering this service.

(e) **Special Educational Needs (SEN)** - Costs of Special Education Needs have been increasing over recent year as a result of increasing numbers of "statemented pupils". This pressure has further increased following the introduction of the Special Educational Needs and Disability legislation in 2005. The changing requirements in relation to Special Educational Needs points to the need for a fundamental review of the assessment of costs and arrangements for the delivery in this key priority area.

(f) **Strategic Review of Education** – In addition to the above areas, we will carry out a Strategic Review of education provision and administration in NI with the aim of securing the most effective allocation of resources to key priority areas.

3. **Water Service**

The Water Service is subject of a major reform involving the introduction of self-financing arrangements, the establishment of a new GOCO, the introduction of domestic charging and the extension of non-domestic charging. Significant scope for efficiencies identified in a major Strategic and Financial Review and an ongoing VFM review will assist in the establishment of an accurate cost model for the GOCO prior to creation, as well as designing and putting into place the regulatory and financial control arrangements for the new Company.

4. **Review of Public Administration – Next Steps**

(a) Transfer of Certain Central Government Programmes to District Councils

The announcement on 22 November 2005 confirmed that the following services, currently provided by central government, will transfer to District Councils:

- Planning
- Local Roads
- Physical Regeneration

- Local Economic Development

Prior to the transfer, a baseline review of funding levels will be undertaken.

5. **Social Housing**

Social housing covers the full range of services provided by the NI Housing Executive as well as the Social Housing New Build Programme which is funded by the Department for Social Development and delivered by housing associations. The New Build Programme will be reviewed in light of the changing demographics and rising costs and to establish the best means of delivering the required service to the appropriate customer groups.

The Housing Executive delivers a wide range of programmes many of which, whilst directly relevant to housing services, could be considered to be outside its core housing function. In view of the size of the organization and the quantum of its spend, it is considered appropriate to review the organisation's functions.

6. **Employment and Training Programmes**

The review of Employment and Skills training programmes will be carried out in parallel with similar reviews in GB. The focus of this review will be to increase effectiveness of service delivery against a backdrop of changing needs among client groups.

7. **Public Transport**

The public transport programme in NI seeks to deliver the objectives of the Regional Transportation Strategy which include increasing public transport use accompanied by a shift from car use. There is also a focus on improving the quality and reducing the age of buses and trains, as well as making public transport more accessible for individuals. Public expenditure to support the transport strategy includes support for a public service obligation, concessionary fares scheme, a rural transport fund, fuel duty rebate, transport for people with disabilities, and bus route subsidies. In addition there is capital support for maintaining and improving the bus and rail infrastructure and upgrading rolling stock and bus fleets.

The purpose of this review will be to assess the effectiveness of these various public expenditure interventions in supporting the achievement of the Government's Regional Transportation Strategy. The review will also consider the effectiveness of the present statutory and administrative framework for promoting and delivering transport requirements in an effective and cost effective manner. It will further consider the scope for alternative/ supplementary means of financing public transport infrastructure as well as the potential for disposal of assets in the sector. Should the review indicate that there would be merit in assessing the scope for introducing additional or alternative providers of transport services that will also be considered in due course.

8. **Invest Northern Ireland**

This review will assess and evaluate the future optimum levels and balance of Invest NI funding to ensure that it can continue to deliver effective and targeted support to help promote the growth and development of strong and sustainable private sector in NI. This will take into consideration longer-term economic development trends at both national and international levels; likely changes to the EU state aids regulations and targeted actions to help redress the imbalance between the public and private sector components of the economy in NI. It will build on the four drivers of economic growth identified in the Economic Vision for Northern Ireland.

9. **Internal Efficiencies / Input Costs**

Workplace 2010

This reform programme will focus on the design and delivery of a three to five year programme to transform the provision of office accommodation for government departments. The programme is likely to be delivered through a PFI solution and formal expressions of interest have been sought from potential private sector parties.

Accounting Services Programe

This reform programme will modernize financial accounting processes across all of the Northern Ireland Departments, addressing the need to deliver financial information in the most effective and efficient manner, through a combination of best practice and modern technology. Benefits will be generated with the greater sharing or resources and the centralization of common services in a Shared Services Centre.

e-HR

The NICS Electronic Human Resource (e-HR) Programme is a key reform initiative, which aims to modernize and transform the personnel function throughout the Northern Ireland Departments and the Northern Ireland Office. It would replace outdated IT systems, modernize payroll and personnel processes and provide centralized administrative personnel services from an outsourced Shared Services Centre, should contract be awarded. Fujitsu Services Limited was announced as the preferred bidder on 2 December 2005 and award of contract is scheduled for the end of February 2006.

Asset Management

Building on the recent launch of the Investment Strategy, which has a focus on new investment, there is a need to further review the management of the existing asset base, including in particular the scope for disposal and redeployment of assets.

Advertising

Initial reviews of this area of spend have identified the potential for gains in effectiveness and efficiency through centralised management of the function.

Comprehensive Spending Review – Proposed Zero Based Value For Money Studies

Area		2007-08 baseline provision £m		Proportion of baseline %	
		Resource	Capital	Resource	Capital
Key Spending Areas / Programmes					
1	Health	3,800.0	206.0	46.8	17.2
2	Education	1,664.0	418.4	20.5	35.0
3	Water Service	160.0	150.0	2.0	12.6
4	Review of Public Administration	300.0		3.7	
5	Social Housing	228.6	105.2	2.8	8.8
6	Employment and Skills programmes	56.0	-	0.7	
7	Public Transport	80.1	94.6	1.0	7.9
8	Invest NI	124.8	29.9	1.5	2.5
9	Internal Efficiencies / Input Costs	185.9	7.8	2.3	0.7
	Total	**6,599.4**	**1,011.9**	**81.3**	**84.7**

Paper on Priorities Identifed by the Eleven Departments

Department of Agriculture And Rural Development

DARD's goals are established in the Department's 5-year Strategic Plan effective from 1 April 2006. The Plan sets out the Department's strategic direction over a period of time which will be particularly challenging for the agri-food industry and the wider rural community. Potentially the Department's most significant issue over the CSR period is to help ensure that the agri-food sector complies with the Nitrates Directive. This could involve adding to the existing £45m budget of the Farm Nutrient Management Capital Grant To achieve a Rural Development Programme (RDP) of a scale the European Commission and UK has already identified as being appropriate for Northern Ireland an additional £18m per annum resource funding is required to maximise EU grant income for the future expansion of the agri-environmental measure of the RDP.

Over the last 20 years the rural landscape has changed considerably as more commuters live in rural areas and travel to work in the main urban centres. This has increased pressure for improved transport networks, better schools, more shops, outlets, and restaurants, and there is an understandable expectation that these will be provided in the same numbers and to the same standard as in urban areas.

To help achieve the goal of contributing to the social and economic infrastructure of rural areas we aim to improve our villages, fishing villages and harbours via a series of measures including business creation and diversification, environmental improvements, infrastructure improvements and training for the fishing industry. In addition, there exists a unique opportunity as part of the peace dividend to acquire surplus military sites and use them for regeneration purposes in rural areas.

Market change will inevitably impact on our work: increased market competition, the growth of multiples and cheaper produce from other countries are all likely to affect the agri-food industry in the coming years. In addition the requirement for easily prepared and healthy food as well as organic products will influence the industry. Direct intervention in the market is not an option for Government rather, our role will be to assist the industry adapt to changes in the market place.

At the same time, farming culture is changing, with fewer farms being economically sustainable, a consequent downward pressure on farming's level of employment. This is being offset not only by diversification out of traditional farming, but also by the growth of a stronger, more diverse rural economy. There are a range of sectors that show opportunity to make a major impact on the rural economy by assisting farmers to diversify their incomes and develop a

self-sustaining rural economy. These areas include equine industry infrastructure, ornamental crop production and leisure activities. (Ornamentals include foliage, cut flowers, trees grown in poly-tunnels etc).

DARD's investment requirements are designed to support its strategy for service delivery, and to support the sector through a range of capital grants. Over the CSR period, it is envisaged that continued investment would be required to sustain and extend current investment initiatives such as the ongoing responsibility to maintain river culverts across Northern Ireland; infrastructure investment at the Department's College of Agriculture, Food and Rural Enterprise (CAFRE) (£9m); laboratory facilities at the Agri-Food and Biosciences Institute (AFBI) (£12m) and capital grants to support a range of activities and initiatives across the sectors, such as processing and marketing and fisheries.

Department of Culture, Arts and Leisure

Expenditure on Culture, Arts and Leisure services is behind those provided in other UK regions. Recent budget allocations to DCMS have seen this gap grow. For example, Sport in England received a 39% increase during the last budget round. Arts spend on a per capita basis in NI is £6.32, compared to £10.73 in Scotland, £9.06 in Wales and £8.27 in England. Libraries bookstock spend per capita is £2.52 in Scotland and £2.10 in England compared to £1.87 in Northern Ireland.

In addition, the Department has significant planned resource commitments as a result of the St Andrews Agreement which will require additional funding with respect to Irish and Ulster-Scots language services, and major capital commitments such as the establishment of a Multi-Sport Stadium at the Maze site, and the provision of a proposed Olympic 50 metre swimming pool. These projects, along with the run out of a number of other capital projects, will fall into the CSR period. There is also scope to improve the level of investment in our libraries and museums while there are a number of initiatives with respect to the creative arts such as support to increase local film production. Additional investment is also required for the Canal and Navigation Development Initiative and Salmon Habitat & Restoration Conservation Measures.

Department of Education

Early Years Childcare - Contributes to Lifetime Opportunities goal by ensuring that every child has an opportunity to develop their full potential through effective preparation for more formal education. This commitment takes account of childcare expansion in England. Specific measures include increased number of Sure Start centres in line with English expansion, enhanced children's centre services, increased day-care provision in disadvantaged areas,

expanded programme of support for two-year olds, increased provision of/training and support for childminders, enhanced early intervention and support for children with special educational needs.

Every School a Good School- Contributes to aims of improving educational outcomes for all children and young people with a strong emphasis on tackling low attainment while not allowing high attainment to drop thereby reducing the gap in outcomes between those who do best and those who do worst, and equipping all with the education, skills and experience to achieve their potential. Measures to raise educational standards include; literacy and numeracy interventions, improvements to quality of school leadership and professional development of teachers supported by improved classroom facilities and equipment.

Education for Skills and Employability- Contributes to improvement in educational outcomes for all children and young people as well as better preparation for the world of work by ensuring that the skills and aptitudes arising from education meet more effectively the needs of the economy. Support will be provided to enable all post-primary schools to deliver the curricular entitlement framework at Key Stage 4 and post-16, an expansion of specialist schools to promote whole school improvement, promotion of Science, Technology, Engineering and Mathematics in schools and improved careers education and guidance through a new Careers/Employability Initiative.

Connecting Schools and their Communities- Through initiatives including; all schools as extended schools, supporting learning, healthy lifestyles and creativity. An integrated schools support service could also be introduced to address behavioural and social needs among pupils, and provide a link to other agencies and provision of family link officers.

School Planning and Collaboration Reform- involving a radical plan to reorganise the school estate on a strategic basis, taking account of demographic trends. At the core of estate reorganisation is the need for strong viable schools which provide quality education for the children. There should be strong incentives to all schools to collaborate in the delivery of the curriculum, therefore making better use of facilities and the best use of the education workforce. The reform of planning of the estate and collaboration will be informed by the Strategic Review of Education being led by George Bain.

Contributing to Sustainable Living- contribute to ensuring that across Northern Ireland every school is a sustainable living school through maximising the use of existing facilities and materials and to integrate the currently fragmented inputs to the promotion of sustainable living in schools. Initiatives include; whole-school sustainable living action programmes to engage teachers, youth services and young people in sustainable living activities and widening access for young people to both residential and non-residential outdoor learning activities to complement the curriculum.

Department for Employment and Learning

The Government is committed to an economic future for Northern Ireland which is underpinned by higher value-added jobs, enhancements to productivity and competitiveness, increased skill levels and improved participation in education and training. This commitment, which is articulated in the Northern Ireland Economic Vision published in February 2005, is vital in a climate where Northern Ireland's traditional industries have declined, productivity is relatively low and the demography is changing. Ensuring that individuals have the skills relevant to future employment opportunities is one of the key drivers to achieving the Economic Vision and the implementation of the Skills Strategy for Northern Ireland, which incorporates the 'FE Means Business' change programme, is the main vehicle through which this will be delivered.

In 2004, Lord Leitch was commissioned jointly by the Department for Education and Skills and Treasury to undertake a major review of skills in the UK. His report was published on 5 December and it sets out recommendations for changes to the current skills system. His key message is that the UK must urgently raise its game – this means at least doubling attainment at most levels to achieve world class skills by 2020 – and responsibility must be shared with Government, employers and individuals. The Department is currently considering the implications of this report for NI.

As part of its Welfare Reform programme and in advance of the introduction of the Employment Support Allowance in 2008 the Government is putting measures in place, UK-wide, to facilitate and encourage people on incapacity benefits (IB) to take up jobs, where and when possible. The overall aim of IB reforms is to help sick and disabled clients who are in receipt of IB back to work by offering encouragement to clients in conjunction with a package of personalised support to address different health, skills and support needs while shifting the emphasis from 'disability' and 'economic inactivity' to the IB client's 'ability'. This will be developed and delivered through partnership with key stakeholders including health care professionals and employers.

The Departmental is also involved in a number of Cross departmental issues, some of which are likely to have expenditure implications over the CSR period. The Department will continue to work in partnership with DSD, DHSSPS and others to deliver on government's developing welfare reform agenda. This includes the implementation, across NI, of a joint work-focussed jobs and benefits service, with an improved and effective front-line service to clients, full roll-out of Pathways to Work and development of a more flexible approach to address individuals' barriers to employment. The Department is also working with DE on a joint policy for the provision of education and training for the 14 -19 cohort whilst work in relation to the innovation and skills drivers of the economic strategy is being taken forward, in consultation with the Economic Development Forum (EDF), led by DETI and DEL respectively. The universities have submitted a paper to EDF explaining the economic impact of what they do and making the case for additional funding for research, for knowledge transfer and for an increase in the number of higher degree places.

Department of Enterprise Trade and Investment

Invest NI has identified a range of spending priorities particularly with respect to skills and science. For example to build upon the success of Centres of Excellence, which encourage the attraction of skilled research staff to Northern Ireland, generate new commercial contracts for research and product development and attract new research projects. In addition, evidence shows that businesses often lack the skills to take the first steps to embed innovation within their business which could be addressed through a network of Innovation Technology Advisors. Further investment would also be beneficial with respect to the Higher Education Innovation Fund which assists local universities to increase their capability and respond to the needs of business and the wider community.

NI's international economic competitiveness could be improved through more and better exploitation and commercialisation of its science, technology and R&D capabilities. This could be achieved through (1) grant support to promote the development of High Quality Exploitation Infrastructure, (2) promotion of the capacity of businesses through the co-financing of placements to enhance knowledge transfer and process development in NI companies and (3) promotion of more and better commercialisation of R&D, Science and Technology by developing the Business – Academia interface.

On the broader development a further priority identified would be to exploit the increased investment opportunities following the St Andrew Agreement; to rebalance the NI economy by growing the private sector by expanding Invest NI's Selective Financial Assistance budget. There are also significant pressures requiring investment in land acquisition in order to provide serviced sites to facilitate economic development activity in areas of deprivation. Invest NI also has potential pressures for the Bombardier C Series while there is also scope to fund a new policy programme with the aim of increasing the number of new and existing businesses trading internationally within the tradable services sector, with a particular focus on the financial and business services sector.

Developing recreational opportunities and enhancing the visitor experience will increase the attractiveness of the Northern Ireland tourism product to out of state visitors (especially those from the largely untapped ROI market) to support the policy objective of increasing visitors numbers by 50% by 2011. This would require master classes to encourage innovation as well as financial support for creativity, enterprise skills and general skills to drive up quality. Marketing activity is proposed to increase visitor numbers from the ROI market with an additional option of developing Signature Projects to enhance the tourism product; and specifically to achieve international standout for the NI tourism product through the creation of world class visitor experiences at key tourist destinations in relation to the following: theTitanic, Giant's Causeway, St. Patrick and the Mournes.

Within the rest of DETI priorities include the further development of broadband capacity as well as integrating Northern Ireland's telecommunications infrastructure directly into global knowledge economy marketplaces and thereby underpin the accessibility of business interaction on a global basis. A major Energy Efficiency campaign using latest technology and innovative means of delivery to provide enhanced education, information and advice as well as direct financial support would assist in achieving the ultimate aim of reduced energy consumption and fuel poverty. HSENI has identified pressures as part of the fight against organised crime.

Department of Finance and Personnel

The Department provides a wide range of services for all departments through a number of discrete Business Areas many of which are relatively small and self contained. Over the CSR period a significant proportion of the Department's resources will be committed to supporting the implementation of the wide ranging public sector reform programme in Northern Ireland including Workplace 2010 and Account NI, many of which will be at a critical stage over the period covered by the CSR and will require additional financial support.

The next Census preparation also falls within the CSR period and is of critical strategic importance in terms of helping to inform the development of government, public and economic policy and in that regard will be a key funding priority. The funding of statistics and economic services more generally requires sufficient funding to facilitate better evidence based policy making in support of the Assembly. Other areas where the Department has pressures include, procurement and construction which have the potential to provide further opportunities for taking forward aspects of the government's key cross cutting strategies, particularly in relation to sustainability, anti poverty and social exclusion.

The Sustainable Development Strategy states that the vision for Northern Ireland is that it adapts to the impacts of climate change and operates as a highly energy efficient society using a sustainable energy system with Government leading by example through objectives such as its estate to become carbon neutral. DFP will play a key role in delivering on a number of specific targets included in the Implementation Plan which has been developed to achieve the Sustainable Development Strategy's objectives.

The decision to create the Land & Property Services Agency was announced by the Secretary of State for Northern Ireland in March 2006, as part of the outcome of the Review of Public Administration. The new agency will provide a range of land registration, mapping and geographic information, rate collection and property valuation services to the public sector and to the general public. Currently users have to use a number of channels, via a number of entry points, in order to access land and property services and information. Additional investment would allow customers to access services and information in one visit. In addition, the existing LRNI, OSNI, RCA and VLA front and back office IT systems will be integrated to enable the electronic provision of land and property services and information from a single point, and in a single transaction

The eGovernment Fund has to date facilitated the investigation and development of ICT-enabled services across the public sector in Northern Ireland. There are a number of workstreams that could be funded over the CSR period involving for example: greater sharing of data across public services, improved access to ICT for the socially excluded, the use of kiosks to improve access to Government information, extension of the Smartcard Pilot Project as well as projects to meet the needs of the more technologically literate.

Department of Health, Social Services and Public Safety

The Department faces a wide range of pressures across its entire baseline. Additional investment is required to deliver a high quality, safe service across all of Northern Ireland. Additional resources are needed to maintain existing services and meet already planned commitments for example; pay and non pay inflation, additional demography pressures due to the aging population, additional inescapable pressures to maintain existing services (NICE drugs requirements, pay reform, pandemic flu) and revenue consequences of an expanding capital programme.

Northern Ireland has a proportionally smaller elderly population than the rest of the UK but it is increasing at a faster rate. The increasing needs associated with a larger elderly population will have implications for the number of hospital admissions and demands for community services and residential provision. NI also has relatively high levels of deprivation which is linked to morbidity, higher levels of disability and consequential demands on the HPSS. In addition, there are more people with asthma, diabetes, hypertension etc which places a high demand on the expensive acute sector from a small number of recurring admissions. NI also has high levels of smoking, obesity and teenage pregnancy which place pressures on the system. Additional investment would provide early intervention to diagnose and identify patients with chronic illnesses who could be supported by providing better services in the community to reduce the proportion of adult smokers, to stop the increase in levels of obesity in children and to reduce binge drinking.

Technology has been one of the most important drivers of health spending and over the past 20 years and is projected to increase significantly over the next 10 years. Over the CSR period there will be net growth in the number of patients eligible for treatment for Cancer, Multiple Sclerosis, Rheumatoid Arthritis and Crohn's Disease. NI now has a formal link with the National Institute for Clinical Excellence (NICE) which means that NI patients will have more equitable access to the latest treatments. New treatments are in the pipeline for cancer, osteoporosis cardiovascular diseases amongst others. In addition to the likely introduction of MRSA screening, a number of new screening interventions are also likely within the CSR timeframe. New interventions relating to diagnostic equipment and laboratory tests will enhance the early detection, assessment and diagnosis of disease, thus assisting in the improvement of outcomes for patients. For example, conventional mammography x-ray machines will be replaced by digital mammography both for breast screening and the assessment of symptomatic disease.

The Department has embarked on a major programme of change, modernisation and reform which is already transforming the user experience of health and social services. The key themes of the reform programme for the HPSS over the CSR period include implementation of the Bamford Review, in the context of NI having 25% higher levels of mental illness than the UK as a whole, and continuation of Elective Care Reform to reduce patient journey times for hospital treatment. In addition, initiatives are proposed to improve educational support, therapeutic services and fostering services to reduce the number of children in care and improve their education/employment outcomes. Implementation of these high priority reforms will require substantial levels of investment

The quality of the NI hospital stock is poor and there is a greater backlog of maintenance compared to England. A significant number of hospitals are at an age where they need substantial

redevelopment or replacement. There will be affordability pressures if the current investment programme is to be delivered as planned.

Department of the Environment

The major pressure for DOE over the CSR period relates to the salary and non- salary costs of staff taking forward the Review of Public Administration in the Planning Service and Local Government Reform/Modernisation Unit. Post RPA it is envisaged that there will still be the costs associated with the continuance of a Local Government Modernisation Unit. There are also costs associates with professional consultancy costs for the Planning Service and the Local Government Reform/Modernisation Unit.

In terms of environment and health, a policy support team could be developed to target actions to provide a cleaner and healthier environment for all. The funding would also develop Environment and Heritage Service's dedicated environmental crime team, focusing on matters such as illegal dumping of waste, brownfield re-development, tyre burning and chemicals and tackle illegal activity which causes environmental, economic and social damage.

Increased funding for Road Safety Services could be used to establish a new partnership approach to road safety in order to achieve more ambitious casualty reduction targets. Support would be given to councils to set up local road safety partnerships, involving the local policing partnerships, along with education, health, and other local statutory, voluntary and private sector interests. Funding would also be made available to voluntary organisations.

Waste Management is a key strategic expenditure issue for the Department not only for the CSR 2007 period but beyond. Resources are required to support the provision of waste infrastructure by local government, to enable Northern Ireland to avoid the risk of substantial fines for non compliance with EU requirements in respect of the stringent landfill diversion and recycling targets. Expenditure would fall into 2 main areas, pre procurement consultancy for 2008/09 and 2009/10, and the capital/revenue costs needed for procurement depending on the preferred option for funding waste management.

An area where DoE could contribute to improved energy efficiency over the CSR period is through the production of Planning Policy Statements (PPSs) on Sustainable Development and Pollution Control. The PPS on Pollution Control would be prepared jointly with Environment and Heritage Service (Land and Revenue Management Division) with the assistance of some external consultancy input. In addition, there would be separate approaches to target both new build and existing housing stock. All new housing from April 2008 should be built to set environmental standards using an appropriate planning condition in approvals. For existing housing stock, the current grant aid scheme, provided by DETI through the Household Programme, to assist homeowners to bring their homes up to eco-home standards could be expanded and built on.

Department for Regional Development

Responsibility for the provision of water and sewerage services will transfer to Northern Ireland Water Limited (NIWL) with effect from 1 April 2007. DRD is working with Water Service and DFP to finalise the NIWL Strategic and Business Plan and associated implications for the level of public expenditure cover required across the CSR period.

The Budget 2005 allocation for structural maintenance in 2007-08 is around £41million less than the level recommended in the independently assessed Structural Maintenance Funding Plan (at 2007-08 prices). It has been independently recommended that a Structural Maintenance Funding Plan of approximately £100million per year at (2007-08 prices) is needed to maintain the structural integrity of the Northern Ireland road network at nationally accepted good practice levels. The Roads Service power budget is also likely to be less than required mainly as a consequence of price increases in recent years. In addition, the works budget for local roads will transfer to new councils under the RPA and it is anticipated that there will be cost implications associated with the establishment of new structures for the delivery of roads services and future diseconomies of scale.

There are a number of additional pressures such as the introduction of All Ireland concessionary fares which has been announced by the Secretary of State. In addition, the last actuarial valuation of the Northern Ireland Local Government Officers' Superannuation Committee pension scheme concluded that the scheme was in deficit and Translink will now have pay increased employer contributions. Rail patronage is now increasing at around 10% per annum and the emerging evidence would suggest that the increase in the concessionary fares payable is more likely to be in the region of 30% which will cause a pressure on the concessionary fares budget.

In relation to CSR capital requirements, Roads Service has identified some additional investment requirements for its 2 major PPP programmes in those years. Belfast Harbour Commissioners will have, as per latest estimates, a substantial loan requirement which will require DEL cover over the CSR period. There are also pressures on the Bus Capital programme and rail requirements are currently being assessed.

In terms of new spending priorities that could be taken forward subject to the availability of additional resources, the current door-to-door contract could be extended, to provide services to those eligible in villages, intermediate settlements and small towns which would improve the lives of children and young people who, through disability, cannot use conventional public transport by providing them with access to specialised services. There is also scope to further improve and develop local bus services, park & ride facilities as well as to subsidise fares for those aged 16-17 and those living in rural areas.

The Regional Development Strategy identified a core transport network of important regional routes known as the Regional Strategic Transport Network (RSTN). The upper tier of the RSTN comprises 5 Key Transport Corridors which are the region's most important long distance routes. Enhancement of these 5 routes, in line with the principles of the Regional Transportation Strategy, would bring significant economic and social benefits to Northern Ireland.

Department for Social Development

Urban Regeneration, with its focus on regenerated urban neighbourhoods and strong communities, is a priority spending area and is central to tackling disadvantage and build communities. Central to the delivery of neighbourhood and community renewal is work delivered through voluntary and community sector bodies. Community Development and capacity building programmes are particularly important in maintaining community cohesion and service delivery in disadvantaged communities. Closure of EU programmes will adversely impact on the capacity of the sector to support community renewal.

Neighbourhood Renewal is Government's key vehicle to tackle disadvantage and deprivation in NI. Neighbourhood Renewal aims to develop healthy, confident, cohesive and economically active communities able to take advantage of the opportunities offered by a more stable and peaceful society in Northern Ireland. It is strongly linked to Lifetime Opportunities, the Anti-Poverty and Social Inclusion Strategy. Additional investment is required to bring NI in line with England.

With Social Housing, the key strategic expenditure issues are to enable the Department to pursue the Government's objective to give everyone the opportunity to access decent, affordable housing. In particular to address issues such as social housing waiting lists, homelessness, the needs of the Traveller community and tackling fuel poverty. This would be achieved by funding new build housing; improvements to energy efficiency and maintenance as well as extending schemes that provide assistance to those on low incomes. The current Public Service Agreement is for 1,500 additional social housing units per annum while additional investment is need to increase this to 2,000 as suggested by the Housing Executive's detailed analysis of social housing demand.

Additional investment is also needed to maintain current levels of provision (12,000 people) under the Supporting People Programme. In addition, there may be availability of ex-military sites which could be used to facilitate the Social Housing Development programme. Further funding could also be allocated to the Urban Renewal Programme aims to address poor housing and environmental conditions in primarily private housing markets. The programme involves demolition or/and improvement, usually on a mixed tenure basis. Such programmes generally form part of wider regeneration plans to address deprivation, housing unfitness and social inclusion issues.

In terms of energy efficiency a key priority would be the extension of warm homes scheme under which households with no central heating, solid fuel heating or electric heating are converted to gas/oil. Alternatively, fuel poor households could have solar water heating panels installed to reduce energy costs. A further option is to expand the use of Foyers which aim to break the 'no home – no job – no hope' cycle and are provided for young people aged between 16 and 25 who have not had sufficient economic advantage in the past and who, without intervention, may go on to experience other difficulties.

The Social Security Agency will be pursuing new policy commitments in parity with Great Britain on Pensions Reform and Employment Support Allowance which may have significant resource implications. Plans for a radical overhaul of the system of child support and the

Child Support Agency were announced on 13 December 2006. The costs of this would fall into the 3 years of the Review, although it is too early to quantify them at this point in time

Office of the First Minister and Deputy First Minister

One of the main functions of OFMDFM is to provide services directly to the Assembly. The restoration of a devolved government will therefore create a number of pressures both within the departments itself and its sponsored bodies.

In the event of restoration of devolved government next March, the Secretariat of the North South Ministerial Council will move from operating in care and maintenance mode to becoming fully functional. New functions are likely to be conferred on the Secretariat if the St Andrews Agreement is implemented, including: a review of the efficiency and value for money of existing Implementation Bodies; an examination of the case for additional Bodies and Areas of Co-operation; and identification a suitable substitute for the proposed Lights Agency of the Foyle Carlingford and Irish Lights Commission. The Secretariat has already assumed additional responsibility for the work of the Bodies and areas of co-operation and there are already a growing number of issues on the North/South agenda.

A return to devolution will also impact significantly on the work of the Equality Directorate, in terms of both an enhanced equality and good relations scrutiny role and in providing advice, support and challenge to Departments and the Executive in relation to equality, human rights, good relations and social need obligations.

The Interim Victims and Survivors Commissioner is to report early in the new year on funding for the victims and survivors sector and whether existing arrangements are meeting the need. There are two specific and distinct pressures likely to emerge. First, the IVC will suggest that the existing Northern Ireland Memorial Fund should be replaced by a new body and that resources should be specifically set aside to meet the needs of individual victims. Second, the new Commissioner, who should be in post by the new financial year, will also create a pressure.

The Planning Appeals Commission and Water Appeals Commission (PACWAC) has, over the last 5 years, experienced significant increases in appeals being received. The number of appeals received in 2002/03 was 362 compared to 1273 in 2005/06 and 2021 in the 2006/07 year up to 30 November 2006. The Commission as at 30 November has work in hand of 2412 appeals and this figure continues to increase as the intake of appeals cannot be matched by output. In addition Planning Service has referred a number of Development Plans to the Commission.

The DoE have indicated that it will forward requests in respect of at least 2 development plans in the next 3 years and DSD have indicated that they intend to refer up to 3 development schemes during the same period. The Commission has advised DoE that it will likely have to constrain its involvement in progressing examinations or inquiries and has limited the Department to referring no more than 2 of these to run concurrently. The delay in progressing plans will create subsequent difficulties as out of date plans inevitably lead to the potential

for more appeals and uncertainty in the planning process. Increased numbers of appeals lead to further delays and ultimately frustration on the part of those awaiting an appeal decision.

Should the Masterplan for the Maze Long Kesh sites be taken forward, this could lead to significant costs both across the CSR period while financial cover may be required in the CSR period for the proposed International Centre for Conflict Transformation (ICCT).

A Strategic Futures Programmes has also been initiated which will aim to engage with key stakeholders in a bid to identify some of the key long-term challenges and opportunities facing NI with the objective of informing rather than developing policy.

Northern Ireland Manufacturing Focus Group (NIMFG)

Industrial Rates - Recommendations to Programme for Government Committee from

NIMFG

Context

Manufacturing in Northern Ireland faces particularly strong challenges because of its peripherality. All raw materials need to be transported in and finished goods transported out and greater storage areas are needed as supplies are less reliable. Manufacturing has to pay energy costs amongst Europe's highest. All this squeezes already tight margins. Its land border, unique in the UK, means that profitable companies can readily relocate to take advantage of the lower Corporation Tax rate (12.5%) in the Republic than the 30% headline rate in the UK.

All manufacturing companies in Northern Ireland – the struggling, the traditional, the profitable, the capital intensive and the growing – have a choice. A choice whether to continue, to invest, to grow or relocate. The imposition and escalation of Industrial Rates is making that choice easy for many companies. This is bad for jobs, not just in manufacturing but across all sectors, and will not produce the tax take claimed, as empty factories pay no Rates.

Recommendations

1 **Do no further harm – freeze Rates for 2007/8 at 25%**

Minister Hanson has acknowledged the force of NIMFG's argument and announced a reduced level of increase – from 25% to 30% rather than the 35% originally planned – while awaiting the 2007 Review that is required under the legislation. Assembly members must go further, and back a commitment to not pre-judge that review, and avoid losing jobs that once lost cannot be recovered. Holding at 25% sends a message that manufacturing is important.

2 **engage with manufacturing – develop a new skills entity**

Manufacturing pays its way: it pays taxes and the wages of those who will face domestic rates and water charges. It wants to contribute more, in particular to help shape how skills are developed, to raise productivity and pay, and to develop and attract the firms of tomorrow. Manufacturers will pay a levy to a body which directs and manages the training that is needed for NI to prosper.

Citizens Advice Bureau (CAB)

Introduction

Citizens Advice Northern Ireland is grateful for the opportunity to provide evidence to the Sub-Group on the Comprehensive Spending Review and Programme for Government, Rates Charges and Water Reform. Many of our clients are in receipt of low incomes or are benefit dependant and will therefore be affected to a large extent by any increase in their rates bill and by the introduction of water and sewerage charges.

Citizens Advice Northern Ireland is the largest advice charity in Northern Ireland working against poverty, meeting the information and advice needs of some 250,000 people per year. The Citizens Advice Bureau (CAB) network is very finely tuned to the targeting of social need and, with its regional spread, modern integrated IT infrastructure and skilled staff, represents an efficient and cost effective arena for the delivery of information and advice to the most socially vulnerable people in Northern Ireland.

Over 50% of the enquiries to Citizens Advice are benefit related showing the growing complexity of the benefits system and the problems with delivering complex advice to socially vulnerable people in a society with 20% functional literacy. The under claiming of benefits by socially vulnerable people is one of the most important policy issues in Northern Ireland and impacts dramatically on poverty levels and on the economy.

A growing level of enquiry to Citizens Advice is that of debt. Money advice queries accounted for over 46,000 queries in the last year a significant increase of 61% on the previous year. A recent money advice project showed the average amount of debt for a CAB client in Northern Ireland was £13,362.

Rates Charges

Citizens Advice has a number of concerns about the new rating system based on capital values to be introduced from April 2007.

Northern Ireland Statistics

We believe that the statistics that exist in Northern Ireland (see Appendix One) reinforce the absolute need for a comprehensive relief package which actively targets those on lower incomes who will feel the affect of any rate rise most severely.

Housing Benefit Take-up

In the year 2005-2006 Citizens Advice dealt with 9,806 queries on housing benefit and 3,299 enquiries on housing benefit for rates.

In the latest DSD press release (23 November 2006) on income related benefits estimates of take-up in Northern Ireland 2003/05 the following figures were provided for the under-claiming of housing benefit *"Total amount of Housing Benefit left unclaimed annually was between £9 million and £51 million. The average number of people entitled to Housing Benefit and yet not claiming it was between 5,000 and 24,000."* This is further supported by feedback from CAB advisers and anecdotal evidence from a recent joint project with the SSA on Benefit Uptake (see Appendix Two) highlights the issue of under-claiming of housing benefit for rates. Many CAB clients and those contacted as part of the Benefit Uptake project were not claiming their entitlement to housing benefit for rates.

The issue of under-claiming of housing benefit for rates is accepted by the Rates Collection Agency and work has been undertaken in the past to raise awareness of entitlement to this rebate. However CAB evidence suggests that this benefit is widely under-claimed and much more work needs to be done to ensure take-up. From April 2007 the issue of benefit uptake will have much more significance as entitlement to housing benefit, housing benefit for rates and the new rate relief scheme will act as a passport to help with water charges.

Co-operation between different agencies is also important in this process to ensure that claimants are informed that entitlement to one benefit may give rise to entitlement to another benefit. CAB advisers have observed a lack of co-operation between agencies in respect of advice regarding eligibility to other benefits particularly for elderly people.

A 72 year old client of Down District CAB is an owner occupier. The client had a benefit application form filled in by an SSA clerk. The clerk ticked "no" to the question "have you applied for housing benefit". The clerk did not make the client aware that she may be entitled to housing benefit for rates. The clerk did not make client aware that if she is in receipt of Pension Credit Guarantee element she is entitled to full housing benefit for rates.

Citizens Advice welcomes the Government commitment to tackle the issue of under-claiming of benefits. Social Development Minister David Hanson said: *"It is a concern to me that there seems to be many people who, for whatever reason, are not claiming the support to which they are entitled. It is a top priority for me to see this problem addressed."* (9 March 2006). Adding to this in a more recent press release in relation to rates the Minister emphasised *"Measures will be taken to make it easier for people to claim the benefits to which they are entitled. In doing this we will work alongside the voluntary and community sector to raise awareness and increase publicity on the help that is available to pay rates."* (8 November 2006)

It is therefore vital that the issue of take-up of these benefits is addressed in partnership with the voluntary sector to ensure maximum possible take-up.

Delays

Citizens Advice has some concerns about delays in the processing of some Housing Benefit for Rates claims through the Rates Collection Agency. This appears to be due to computer problems but is having the effect of putting many elderly people off claiming housing benefit for rates. Citizens Advice appreciates that technology issues often arise when a new system is introduced. However, existing delays (in some cases upwards of five months) give cause for concern particularly given the imminent introduction of the new rating system in April 2007, which is likely to put even greater pressure on the technologies available.

A client of East Belfast CAB applied for housing benefit for rates in May 2006 and a decision on this claim has still not been received. The CAB adviser made several calls to the RCA to enquire about the status of this case and was told that due to problems with the new computer system there is a considerable backlog of cases. This elderly couple is experiencing an unacceptable delay in their claim.

Rates Cap and Extra Help for Low Income Elderly

Citizens Advice welcomes the announcement (8 November 2006) of a 50% increase in the rate relief available for elderly householders on low incomes and the cap on the new capital value rating system.

Citizens Advice understands from a press release issued by DFP on 8 November 2006 that this is "contingent upon the political parties agreeing by 24 November to the restoration of the Assembly and the formation of a new Executive." We believe very strongly that this help should be offered regardless of the restoration of devolution to Northern Ireland. This help is aimed at a group of highly vulnerable people and should not be used as an instrument of political blackmail in order to resolve the current impasse.

We welcome any additional help for the elderly as this is one of the most vulnerable groups in our society and is the group that most frequently under-claims the benefits they are entitled to.

However, we do believe that the proposed cap to be set for properties with a capital value of £500,000 and above is too high for Northern Ireland and should be lowered given the income, expenditure and cost statistics that exist here (see Appendix One). Citizens Advice believes that the cap should be set at a more reasonable level that will assist those who have the greatest need, for example, the asset rich and income poor. A capped upper limit reflecting a value in the order of £350,000 would probably be more appropriate and acceptable, especially given the differentials in costs and income that exist between Northern Ireland and the rest of the UK.

In England, for instance, the Government has taken the view that taxpayers should not be expected to pay excessive year on year rises in their council tax bills. In the 2005 Election Manifesto the Government said "we will use capping to protect council-tax payers from excessive increases". Citizens Advice would like to see this principle of year-on-year rates rise capping introduced here in order to protect the most vulnerable from excessive increases in local property taxation. In England, for the financial year 2006/07, the expected increase in Council Tax rates is set to be 4.2% (excluding the funding package for the 2012 Olympic Games). To ensure fairness to council tax payers the Government has used its capping powers

in both of the preceding years. Why should Northern Ireland be treated any differently than England?

Relief for senior citizens and low income households

Citizens Advice has welcomed the introduction of the new rate relief scheme which will extend help to those families existing just above the benefits threshold. However the vast majority of households in Northern Ireland will still have to pay the full rates bill as their income has no bearing on their rates bills. The people most likely to be affected by this are low income families, single people and pensioners. While we welcome the current announcements and widening of the existing help available with rates bills we would strongly advocate that the current relief package suggested be widened to take into account the circumstances of these particular groups. This should involve the introduction of the 25% discount for single households, a discount based on income for all pensioners and a cap on the percentage of income that any household should pay towards rates.

Revaluation

Citizens Advice has concerns about how ratepayers, particularly those on low incomes, will be affected by the next rating revaluation in 2012 if property prices continue to rise as they have in recent years. This revaluation is likely to significantly increase the capital values of homes while wages and benefit levels fail to keep pace with rising house prices. This will only serve to increase the numbers of ratepayers who will have difficulty paying their rates bill.

Ulster Farmers' Union (UFU)

15th December 2006

Rates Charges:

The Ulster Farmers' Union remains totally opposed to the new capital value rating system as the ability to pay cannot be measured by house size or value. This system will discriminate against people in rural areas, as many live in large, high capital value properties but are on low incomes:- the majority of farmers are earning less than the National Minimum Wage.

Also rural communities are less well-served by the current rated services and in many cases cannot move from larger to smaller homes to ease the cost of rates, accordingly they should not have to pay for services that aren't provided.

Claims for rate relief will be assessed in the same way as claims for housing benefit, thus a person's assets will be considered as well as their income. The majority of farmers tend to own land and therefore will probably not qualify for rate relief despite their incomes being very low.

The Ulster Farmers' Union therefore feel that further relief measures for the agricultural community should be explored.

The Ulster Farmers' Union agree there should be a cap on rates prior to their application e.g. no domestic property should have to pay twice the average rate value in Northern Ireland.

It is also essential that Industrial Rates are capped, if not, many small businesses will find rate payments too high a financial burden and this would discourage investment and entrepreneurship. The new system will also discourage farm diversification which is contrary to DARD policy of encouraging diversification. A cap on industrial rates will generate greater income in the long term, through business sustainability.

Clarke Black
Chief Executive.

Help the Aged and Age Concern Northern Ireland

15 December 2006

Help the Aged and Age Concern Northern Ireland

As separate organisations both charities campaign and lobbying on a range of issues such as combating poverty, improving the quality of life of all older people and promoting their rights as active, involved and equal citizens. Older people are directly involved in this work.

Rate Relief for Pensioners –

New rate relief measures under the incoming legislation

- We agree with the overall principle of a fairer charging system that adjusts the redistribution of charges but also provides rate relief to better reflect individual circumstances.
- We believe a rates charging system should be based on ability to pay and not on the capital value of the property. Pensioners are usually on a fixed income situation that does not increase with the value of their property. Our concern is that with increased outgoings (rates bill, water charges and increased energy costs) it will push pensioner households further towards or below the poverty line.
- We welcome the principle of the new rate relief scheme, particularly as it widens the eligibility threshold therefore providing the opportunity for near benefit pensioners to receive assistance.
- We strongly believe that single occupancy pensioner households should receive a 25 per cent discount: it is within the authority of an incoming Executive to extend the current discount available to other low income groups. We recommend the Sub Group take full consideration of this option.
- In terms of a Deferral Scheme for pensioners we recommend that the age sector is formally consulted on any draft proposals on this matter. There are several issues which would need a full discussion, such as who would be eligible for such a scheme, and how it would affect other benefits that would need to be fully explored.

Pensioner Rates Relief Working Group –

Enhanced rate relief measures

- Help the Aged and Age Concern both sit on the Pensioner Rates Relief Working Group (convened by the Department of Finance and Personnel) set up to examine the options for extending the relief available through the rate relief scheme for pensioners.
- We agree on the principle that any additional funds available should be targeted at those most at risk of poverty; it is our view that single pensioner households are the most likely group to fall into or at risk of falling into a low income category.
- We support the option to increase the personal allowance for pensioners as a means of providing additional rate relief but with a greater personal allowance increase for single household pensioners.

Communication and Monitoring of Rate Relief Measures

- Effective communication and targeted delivery of information on the new enhanced relief measures is vital in order to ensure those most in need of rate relief can benefit from it.
- We recommend careful use of communication methods and delivery mechanisms that specifically target places where pensioners are most likely to visit and utilise mail drops that are specifically for the attention of pensioners[1].
- We recommend that a comprehensive monitoring exercise is carried out to understand the impact of the measures in terms of take-up levels. To this end we would make two suggestions:
  1. The assessment of take-up levels of the new and enhanced relief measures by way of examining the statistics that illustrate actual take-up levels against the potential take-up level;
  2. A survey of attitudes towards financial relief measures, to better understand any barriers to rate relief take-up or failures with the system, for example through the NI Life and Times Survey.

Capping

- If a cap were to be introduced we strongly recommend that it results in a minimum impact on the rates bill issued to low income households.

1 *The Pension Service issues an "invitation to claim" letter to everyone within four months of retirement age.*

Supplementary Information Received from Help the Aged and Age Concern Northern Ireland

Further to the questions raised during the Oral Evidence Session, Wednesday 20 December we have provided supplementary information to further support our views and position.

21 December 2006

Rates Charges

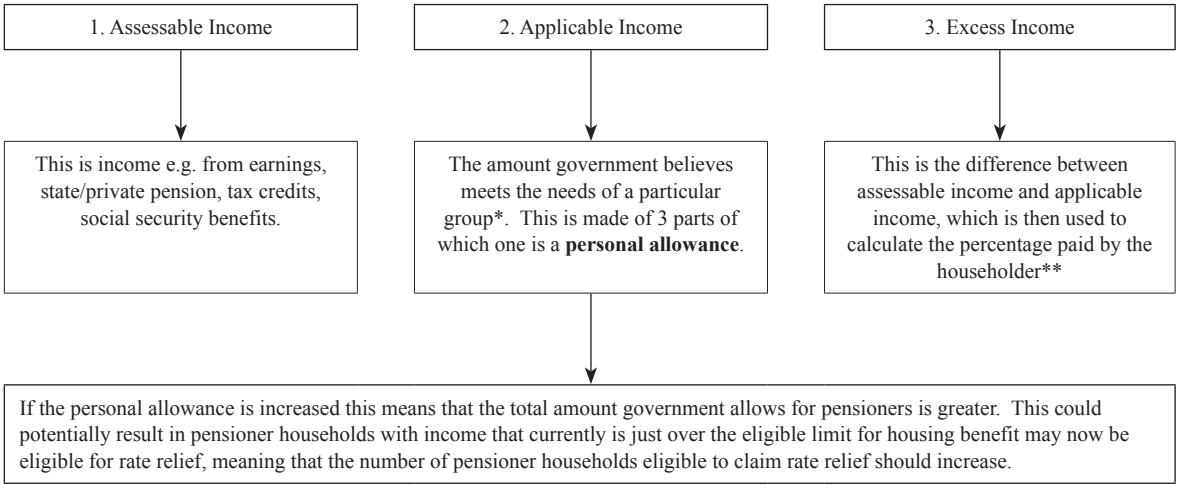
Additional Rate Relief Measures – Preferred Option Under the Terms of the Pension Rate Relief Working Group: Increasing the Personal Allowance.

We have been involved in the Pensioner Rate Relief Working Group. We have assessed the limited data available on pensioner households in relation to the specific capital value of their property and income of those households. To this end we support the proposal to target additional funds towards low income pensioner households in order to make best use of the £4 million available. At this point it must be noted that the amount of extra funds available has limited the breath of possible options.

In summary we have supported the proposed option to increase the personal allowance element of rate relief for pensioners but specifically to allow a greater proportion of the increase for single pensioner households: **this means that both single and couple pensioner households should receive further financial assistance through the additional proposed rate relief measures**. Please see proposal paper from the Department of Finance and Personnel for further details on this option however some background information is provided below.

What is meant by increasing the personal allowance?

In the first instance, personal allowance is an element within the methodology when calculating if a person is entitled to housing benefit, thus rate relief. Rate relief is determined by the assessment of three factors:



* The basic applicable amounts for pensioners (2006/2007) are: single pensioner aged 60-64 the amount is £114.05 and single pensioners aged 65+, £131.95; for pensioner couples aged 60-64 the amount is £174.05 and couples aged 65+, £197.65.

** With the Rate Reform the percentage excess amount changed from 20 per cent to 12 per cent to allow for a lower excess income amount, which translates as the amount actually paid by the household.

Help the Aged Research on Benefit Uptake

In 2006 Help the Aged commissioned research into understanding the reasons why there is a low level benefit uptake among pensioners. Focus groups were held across the province (Belfast, Fermanagh, Larne and Newry) to gather specific information on benefit uptake and the lack thereof.

Currently this research document has not been finalised. We anticipate the completed work to be available from mid January. We recognise the timescales to which the Sub-Group is working to therefore we will forward it to the Sub-Group as soon as it is possible to do so.

Supporting Statistics on the Circumstances of Older People In Northern Ireland (NI)

- Through the Department of Finance and Personnel, the Northern Ireland Housing Executive advised that there are around 40,000 pensioner Housing Executive houses claiming Housing Benefit: this accounts solely for the rented social housing sector. In terms of owner occupied pensioner households that claim Housing Benefit it is not possible to receive actual figures on this sector. It is estimated that a total 60,000 to

70,000 pensioner households i.e. both rented and owner occupied sector, are in receipt of Housing Benefit.

- There is an estimated 279,561 (16.2% of total population) pensioners in NI of which 99,000 (35.4%) are male and 180,600 (64.6%) are female[1].
- In the 2001 census 49% of pensioners were single and 50.9% of pensioners were married/remarried.
- Pensioners in Northern Ireland have lower annual gross incomes on average than Great Britain, and the United Kingdom as a whole, in 2004/5[2].
- 35% of single pensioners live on less than £90 per week[3].
- The average single pensioner's **median**[4] net income after housing costs in Northern Ireland is £146. The average pensioner couple's equivalent is £274.
- 54% of single pensioners have no savings to fall back on when in financial distress.

1 *NISRA 2005 Mid Year Population Estimates.*

2 *Department for Social Development, The Pensioner's Income Series, Northern Ireland 2004- 2005, edited by Andrew Reilly and Claire Savage.*

3 *Northern Ireland Life and Times Survey: Research Update, Eileen Evason (University of Ulster, December 2000).*

4 *The median is used here, not the average, as the most realistic representative of the income available to the typical pensioner household. The average can often give a figure which is pushed higher than it should be, due to a small minority of very high earners, resulting in a figure that is not a true representative.*

Northern Ireland Fair Rates Campaign

Introduction

The Rates (Amendment) (Northern Ireland) Order 2006 (*the Order*) is a cumbersome piece of legislation and has been made doubly so, by the unprecedented "condition clauses" attaching to the relief schemes contained therein. It is also (in our estimation) a blunt, blackmailing instrument, designed to penalise the citizens of Northern Ireland for the failure of our local politicians to reconvene the Assembly.

One can also set this in the context of the recent Northern Ireland Audit Office Report. The Department of Finance and Personnel (DFP) has borrowed £411 million up to the end of 2005-06. Should DFP access the full £2 billion borrowing available, repayments are likely to peak at approximately £137 million a year. Based on a current Northern Ireland population of 1.7 million, this equates to potentially £80 a year per head of population. In addition, the report records that the future cost of meeting commitments arising from signed PFI deals is just over £1.5billion. Given that that there was a £227million under-spend in 2005-2006 some of this money should be set aside for additional relief for single person households, pensioners, the disabled, a second adult rebate and students.

We are asking that the implementation of *the Order* be deferred until the Assembly has a chance to debate, amend and vote on it.

If deferral is not considered an option, our local politicians must review this legislation in a year's time, as we believe among other things, the **Equality Impact Assessment was not properly carried out**.

Page 72 of the Explanatory Memorandum to *the Order* refers to the "EQUALITY IMPACT ASSESSMENT" (EQIA) and states that "there is **unlikely** to be a differential impact within the age, gender etc…" – referring to the nine groups listed under Section 75.

We say that the EQIA was not properly carried out because **the Continuous Household Survey (CHS) was NOT available to assist the analysis of the single capital value system which was subsequently chosen as the new model to calculate our rates**.

It is also pertinent, that the Impact of Assessments drew attention to this fact and went even further, suggesting that the absence of the CHS may explain why a differential impact between the Section 75 groups was not detected!

The Fair Rates Campaign have formally asked the Department of Finance & Personnel for an analysis by income and tenure of the proportion of households that will be better off as a result of the Rates Reform. We suggested that they use the CHS and The Family Resources Survey to inform this request.

Additional Relief – Five Priority Points

We are anxious that the following five points be given priority to ensure that the necessary additional relief is provided. Appropriate safeguards must also be put in place to ensure no detrimental affect between Section 75 groups.

- Maximum cap at £300k - not £500k* [Article 6 & Lords motion 7 11 06]
- Full relief for students (not landlords) [Article 15]
- A 25% rebate for all disabled persons (not based on home modifications) [Articles 16 & 17]
- Relief for pensioners (additional to the new rate relief scheme) [Article 14 & Lords motion of 7 11 2006]
- A 25% rebate for single person households (as in England and Wales) [No provision in the Order]
- A second adult rebate as in the rest of the UK. [No provision in the Order]

* The following examples show the cost of adjusting the maximum Cap:
Cap at £500,000 (houses affected2367) would cost £3.46 for each house in N.I
Cap at £400,000 (houses affected 5343) would cost £6.67 per house in N.I
Cap at £300,000 (houses affected 13949) would cost £14.60 per house in N.I.

Considerations

1. Northern Ireland (with average wages 20% below England and Wales) has been singled out for the highest (maximum rates Cap) of all three regions.

2. There is no banding system as in the rest of the UK.

3. There is no provision for a relief scheme for single person households, which make up 13% of Northern Irelands homeowners.

4. One of the reasons given by David Hanson for leaving out the 25% single person discount was… "it is a blanket discount, and single-person millionaires could benefit from it, if were applied across the board ……a blanket relief would give a discount of perhaps many thousands of pounds to a single millionaire. (House of Commons Standing Committee 25 10 06).

We do not believe there are many single millionaire households in Northern Ireland. We would ask the Government why is such a rebate available to the single person households in England and Wales, and not in Northern Ireland?

5. Householders already pay £134 per annum for water in their domestic rates. (Ref. BBC Seven Days)- The introduction of separate water charges is double taxation and unfair.

6. There is no provision for a second adult rebate in the Order. In the rest of the UK two or more people can live in a property and claim a second adult rebate discount. Example: The second adult is a student. This is unfair.

7. "Low income" pensioners are not defined in the legislation.

8. It is not clear how students will benefit from the proposed full rate rebates and not landlords. In the Holyland area of Belfast, landlords will benefit by £2million rates relief but there are no provisions at pesent to show how this rebate will be passed on to the full time students.

9 In the event of rates deferment being introduced, what % interest rate will the accumulating arrears attract? It is not clear if this interest will be simple or compound.

Will the total amount of deferred arrears + interest be deducted from a pensioner's estate before any inheritance tax/capital gains tax is collected by the exchequer?

9. In the event of deferment being introduced, what would be the position if a property market slump created a negative equity at the point of sale of the pensioner's home? – Would the next of kin have any liability to pay the outstanding amount of rates NOT recovered from the net sale proceeds of the pensioner's house?

10. Would an existing equity release mortgage preclude a pensioner from applying for rates deferment?

11. It is not clear if deferment of water charges will be available to pensioners

12. The cap must be for a specific period of time, e.g. fifteen years, and should not be increased at the next revaluation, to promote confidence and security and ensure certainty in the market.

13. Lord Rooker in the Upper House said the Rates Collection Agency is looking at a range of measures that will make it easier to claim Housing Benefits (Rate Rebate). There is no information as to what this "new range of measures" will be".

14. If a fixed amount is to be set aside to fund "extra relief" it should be funded from the exchequer and not be collected from other ratepayers nor should it be time limited?

15. There is no information on the result of the Targeted Consultations in respect of the two new policy measures undertaken in July 2006.

    (a) In respect of standardisation in the social sector.

    (b) In respect of the landlord liability.

    The amount of rates raised from the standardisation across the social sector should be compared to the total rates collected under the old system, to ensure that they are the same. If standardisation results in lower rates being collected from the social sector there is really only one winner – The Exchequer, as those getting full or part rate rebate currently have their bills paid from the block grant.

16. It is not clear when legislation was passed which gave effect to:

    (a) Amalgamating the Water Rates with the general Domestic Rates?

    (b) The date this legislation was amended to remove the water rates form the general domestic rates?

17. We believe vacant domestic properties should be rated (Articles 22, 23). If rates are not levied, many owners allow such property to fall into disrepair in the knowledge that the "site" will continue to appreciate in value.

18. The Policing Precept – It should be made clear how much of the domestic rates will be taken to fund policing (when policing and justice are devolved). (Article 4).

Additional Relief for Pensioners (Suggestions)

Re-name the application forms?

We believe that the dual benefit format of the Rate Collection Agency's claim form FIA 04/05 may carries a "stigma" in the mindset of some pensioners. The name "Housing Benefit (Rate Rebate)" implies it is for Housing Executive Tenants to apply for housing benefit. Even the word "benefit" carries a stigma for pensioners who, invariably, up until they qualified for their state pension, seldom if ever depended on "Benefits" of any kind. It is our opinion that such a mindset may contribute to the massive amounts that go unclaimed each year.

We should consider the introduction of two application forms

FIA1 and FIA 2

FIA 1 for Owner Occupier Housing Benefit Applications (keep same format).

FIA 2 for Owner Occupier Rate Relief Application (include reference to the new extra relief package provided for in the Order.

The format should remain as at present to prevent additional printing costs.

Substitute the word "application" for "claim". Senior citizens have been applying for things all their lives, jobs, planning permission, driving licences and passports etc… If they apply for rate relief we believe there would be no "imagined" stigma attached; it may well encourage the pensioners to take up the benefits to which they are entitled.

New Rates Relief Scheme

If the Government is sincere about preventing financial hardship for low-income pensioners, the only way to ensure significant help is to adjust the "static" rules of assessment i.e. the "tapers" E.g.

The deduction of excess income (in the housing benefit rates rebate) contained in the legislation has been reduced from 20% to 12%. To fulfil the promise of a further 50% additional EXTRA relief for pensioners, the 12% should be reduced to a 6% deduction of excess income.

Other "taper" adjustments could be as follows:

Raise the savings threshold to £32,000.00 for pensioners.

Numerous pensioners express their frustration about the £16k limit of savings. Many would come in for relief if this amount were increased. The suggested amount would be in line with what has already been said regarding a further 50% additional EXTRA relief for pensioners

Reduce the tariff income from £1 for every £500.00 to 50p per £500,00

While this may not increase the rate rebate entitlement by much, it could become significant if the savings threshold were raised as suggested above.

Deferment should be introduced as an alternative for low-income pensioners to boost their cash flow. This new relief item would be attractive to those without next of kin or those with significant equity in their home.

Ability to Pay - affordability

An affordability cap for all pensioners should be introduced where their income is fixed e.g. state pension, works pension, etc…

The maximum and minimum amounts of rates payable by such householders should not mirror the maximum and minimum capital value of the property in which they live.

Example:

Pensioner (a) with a house valued £150k in a low valuation area – Fixed income £14,000.00 – no savings, lives alone

Pensioner (b) with an identical house in a property "hot spot" valued £300k – Fixed income £9,000.00 –no savings, lives alone.

Using the 12% excess income deduction, Pensioner (B) pays £104 more than Pensioner (A)

This cannot be justified – and it most definitely cannot be labelled fair!

A 25% single householder discount may well further help pensioners and it must be introduced. A similar ability to pay formula must be put in place to redress any such imbalance as displayed in the above example.

The two pensioners comparison above could equally apply to two young executives. Perhaps a sliding scale in proportion to the differential in the property valuations could be worked out and employed.

A second adult rebate must be considered, to bring Northern Ireland into line with the rest of the UK. Such a rebate could also assist pensioners.

Conclusion

The restrictions placed on the length of this paper has resulted in a somewhat disjointed approach in its composition. We hope that coupled with our various verbal submissions, the panel will get a fully informed assessment of our stance on the new rate reforms.

Supplementary Paper Received from the Northern Ireland Fair Rates Campaign

‘’Ratepayers rather than Taxpayers Pay the Cost of Rebuilding Ulsters Neglected Infrastructure.

The Prime Minister and Chancellors visit in the spring of 2002 suggested a 10 year investment strategy from 2005 to 2015 and initially provided a £200m grant from Treasury to commence the rebuilding of 35 years of neglected infrastructure, but at the same time required this rebuilding to be funded through 25 year loans from the National Loan Fund , or by way of Private Finance Initiative projects which would have a 35 year servicing cost. The Loan Fund offer was a further 9 years of £200m loans but with a precondition that the NI rates must rise to the English level so that there would be sufficient revenue each year to fund the repayments.

This comparable rise to English levels is called the ‘’Qualifying Revenue’’ rise and had been set a target over three years 2004-2007 of £2344m, some £35m beyond that already budgeted in the NI Spending Review. In fact the 7th Dec NI Audit Office Report states that over the 3 years £2456m will have been raised. This will have been as a consequence of larger than expected district rate rises during the 3 years, and indeed the overall 2006 rates were cynically raised 19% higher than the year before --- probably to permit statements like ’’ the 2007 rates will be revenue neutral’’

These rises were an unacceptable imposition on the NI ratepayers as they will now be expected to service the long term payments on these loans, when such infrastructure funding over 35 years should have been found from the normal tax based capital funding mechanism used throughout the UK. The Investment Strategy proposes that projects will be funded 23% PFI, 14% National Loan Funding, and only 63% from mainstream government tax revenue, which should be providing 100% of this neglected infrastructure project funding.

Clearly this capital investment on infrastructure was not spent by the direct rule government during the 35 years of the troubles, as if it had been there would not be the need to reinvest in our infrastructure, with its consequent cost of massive ongoing service charges on the NI ratepayers. These may grow by year 2015 to be £137m each year on the £1.8bn loan. In addition there will be the PFI charges of £1.5Bn over the life of the projects which will probably add a further £45m annually Ratepayers should have the cost of the Treasury policy shown on their annual rate charge statement.

The situation has been dramatically highlighted recently by the NI Audit Office which showed that Depts and the Strategic Investment Board did not have the substance to their investment programmes, service need is not clearly identified nor do they have properly developed business cases. It showed that there was not the ability to correctly project manage the projects, as shown by the previous two years of loan funding, which left Departments with a £227m underspend on projects yet £163m has been borrowed and these loans will have to be paid for.

This is compounded by an absence of suitable administrative mechanisms to undertake these tasks as we seek to radically change the local public administration. This spells an unacceptable rush now by the direct rule Ministers to make decisions on half baked schemes which may not deliver the expected infrastructure services and yet the NI ratepayers will pay for these over the long term of 20 to 35 years

A radical change to the Chancellor and Treasury's cavalier approach to the Reinvestment and Reform Initiative should permit the £1.8bn of loans over 9 years to be more correctly identified as previously unspent capital which should comes as of right to the province because it was not invested over the past 35 years in the maintenance of the provinces infrastructure during the troubles.

The likely steady state cost of the current 10 year Investment Strategy programme per ratepayer maybe £110, to service the Loans (£80) and PFI (£30).

The suggestion that a modest property will have virtually no change for ratepayers this coming year is rebutted if you consider that the ratepayer must also pay the new property tax the Water Charge. A £60k two up- two down terrace house in Belfast with an NAV payment this year of £325 may now have only a £346 rate charge next year but with the addition of £213 water charges the cost will be £417 next year, £488 (2008) and £559 (2009). This is a 72% rise over 3 years or 140% rise over 4 years if the cynical 19% rise of year 2006 is considered.

It can not be fair that the unfair capital value rate mechanism is the method to recover these infrastructure costs when the normal national tax processes of Income Tax VAT etc are the only nationally agreed mechanism to appropriately allocate cost according to a persons ability to pay ''

Supplementary Information Received from The Northern Ireland Fair Rates Campaign

29 December 2006

Index for the reply to Sub-Group's oral questions

Explanatory Notes and Confirmation of Evidence given at Oral Hearing

Introduction

Following our evidence session with the Sub-Group on 20 /12 /2006 at Stormont, we have set out below written replies to the verbal questions you posed during the session. Due to the short timeframe and the holiday period we were unable to access certain statistical data that we required. However we have provided answers to all questions with additional important information to back up our oral evidence.

Departmental Argument

The Rating Policy Division (RPD) argues that following the next property revaluation in 2010, (on which the 2012 rates will be calculated) the multiplier will be **reduced** accordingly to take account of increases in house values.
We consider this to be a flawed argument because:

(1) Rates increase year on year – they always have done!
(2) Come 2012, £95 million loan interest for strategic programmes, plus £31million Private Finance Initiative (PFI) service charges will put an additional demand of £126 million on the our domestic rates. This equates to a quarter of our total current domestic rates revenue.
(3) Policing and justice (soon to be devolved) will, under Article 4 of the Rates (Amendment)(Northern Ireland) Order 2006, put further demands on our rates.

Capping

Under a single capital value system, a maximum cap is primarily to protect vulnerable householders on low, fixed incomes from crippling rate increases on their price-inflated homes. The hardship uncapped rates will bring to the "asset rich income poor" of Northern Ireland is well documented. The absence of a cap has the potential to force numerous pensioners to sell their cherished family homes at the end of the three-year transitional relief period and move to a lower priced/rated area.
On purchasing their replacement home they will be **obliged to make the Chancellor an unintended windfall gift of £7,000 - £15,000 stamp duty.** This will compound the punishment and indignity of being "income poor" because they happen to be pensioners living in homes that they have worked all their lives to enjoy in their old age.
In their *Occasional Paper No23 [Analysis of Regional Rate Element using Capital Value Estimates]* (*Occasional Paper 23)* the Northern Ireland Statistics and Research Agency **[NISRA] recognise the unfairness of the single capital value model of rate calculation when they conclude at page 6, para. x "*The revenue-neutral assumption means that if a majority of householders have a decreased bill, the bills of the remaining households must increase to a disproportionately greater extent.***
NISRA has established that 60% of Northern Ireland's householders will have a lower rates bill under the new system. **We cite this statistic as good grounds for amending the tapers, as the resulting relief would redress the disproportionate increases in the rate bills of the other 40% of householders.**

Cost of Maximum Cap

We gave figures equating to the cost per person of introducing a cap at £500K, £400K and £300K; you requested total cost to the overall annual rates.
In their "*Summary Report on Enhanced Relief for Pensioners and Capping of Rate Bills" (The Summary Report) [Page 8 paragraph 4],* Rating Policy Division have estimated the cost of a £500k maximum cap at £2million
We estimate a £300k maximum cap and £400k maximum cap would cost approximately £6million and £4 million respectively.

The Table

No of Houses	Average Value	Capital Value Band (£'s)	Average Rate Bill Before Cap (£'s)	Cap £500,000 Average Rate Bill With Cap (£'s)	Cap £400,000 Average Rate Bill With Cap (£'s)	Cap £300,000 Average Rate Bill With Cap (£'s)
55,960	36,102	0 - 50,000	213	214	216	218
329,000	77,797	50,001 - 100,000	459	462	464	469
180,851	125,254	100,001 - 150,000	739	743	748	755
78,867	174,576	150,001 - 200,000	1,030	1,035	1,042	1,053
31,465	224,068	200,001 - 250,000	1,322	1,329	1,338	1,351
24,119	314,746	250,001 - cap level	1,857	1,867	1,806	1,658
2,367	640,169	Above cap level	3,777	2,888	2,388	1,809
		Multiplier =>	**0.00590**	**0.00593**	**0.00597**	**0.00603**
		The top band pays this times the bottom band	18	13	11	8

The Table

This table show the impact on average rate bills of maximum caps set at £500k, £400k & £300k.
It compares rate bills across the various house bands and shows the effect of increasing the multiplier. An interesting statistic that the Government has not mentioned is the comparison between the maximum and minimum rates bills in terms of the times top band pays bottom band.
The reader must bear in mind that figures are averages and some of the statistics may have changed slightly, however, contrary to Government statements, the application of a maximum cap does not significantly impact on those at the bottom end of our housing stock.

Cap fixed "for a lifetime"

The Fair Rates Campaign believe that capping would give the ratepayer a stake in his society and as he improves his property, his neighbourhood and community, he should have some expectation of recognition for the improvements to which he has contributed, rather than being penalised, should the capital value of his home rise above a certain amount.
Often the buying power of speculative landlords in a particular area will force property values far beyond what they would be worth in other areas of Northern Ireland. A maximum cap would suppress excessive increases in the rate bills of the owner-occupiers in such property hot spots.

We believe the cap should be kept at the same level for about 15 years. The Revenue will continue to be collected by adjusting the multiplier, which will protect households of a lower capital value from large rate increases.

We do not have access to statistics to allow us to give exact meaningful future projected costs for the period. However rough calculations for the three maximum caps shown are:

A cap at £300,000 for 15 years = (£6,000,000 x 15 = £90,000,000)
A cap at £400,000 for 15 years = (£4,000,000 x 15 = £60,000,000)
A cap at £500,000 for 15 years = (£2,000,000 x 15 = £30,000,000)

NB
Rating Policy Division say that ***"a cap at £500k would ensure that the maximum rate bills within the rating system in Northern Ireland are comparable with the highest council tax bills in England."***
They have not considered that:

a. The average income in the rest of the United Kingdom is (according to the Northern Ireland Housing Statistics) 26% higher than Northern Ireland (N.I.)
b. Consumables and domestic services costs are at least 10% more in N.I.

It must surely follow that our maximum rate bills and our maximum rates cap should reflect these disadvantages. We say a 25% - 30% reduction should be factored into the calculation of the cap to redress this imbalance.
If our proposed £300k cap is not to be considered, we would expect the maximum cap to be set 25% below the Government's suggested £500k (i.e. £375k). This would compensate for the income and commodity discrepancies highlighted above.

Caps and bands in G.B.

The figures we gave for England, Scotland and Wales at the oral evidence session were correct.

England	Max Cap	£320,000	Min. Cap up to £40,000 (Val 1991)
Scotland	Max. Cap	£212,000	Min. Cap up to £27,000 (Val 1991)
Wales	Max. Cap	£424,000	Min. Cap up to £44,000 (Val 2005)

The amount of council tax depends on the district council area, and on the number of bands that are used by each council.
You asked if we would confirm the maximum council tax bill for England, Scotland, and Wales; the Internet Google search engine makes it easy to access this information by naming a council and typing in "council tax".
I have selected one example from each area of the Mainland:
Slough (London), the minimum council tax is £770.82 maximum bill to £2312.44.
Edinburgh (Scotland) council tax minimum is £768.00 maximum £2304.00
Neath Port Talbot (Wales) council tax minimum £755.00 maximum £2643.57

[http://en.wikipedia.org/wiki/Council_tax] *
***This website gives full details of how Council Tax is calculated etc…**

The amount of the above minimum charges demonstrates the need for an income based affordability cap based on income for Northern Ireland, as the bottom rates band bills are significantly lower than the equivalent council tax bill on the Mainland. **It is interesting to note that regardless of the maximum and minimum cap figure, there is little or no difference in the amount of the council tax bills at the extreme ends of the scale.**

Single Person Discount

Rating Policy Division in its written reply to us on 21/12/06 estimates that **the 25% single person discount will cost £30 million a year** and states "A broadly applied single person discount inevitably has to be paid for by those who do not qualify for the discount with the result that low income families could end up paying for more wealthy ratepayers"
We say that the full cost must not fall exclusively to the non-qualifying ratepayers, as single householders on social security benefits would also become **qualifying** ratepayers. Therefore the Exchequer would benefit by the reduced demand on the Northern Ireland "block grant". **As social security benefit claimant's rates are paid out of "block grant monies", the Exchequer would be liable for part of the £30 million cost mentioned above.**
NISRA should be able to inform the amount by which the Exchequer would benefit

Disabled Discount

A **25% blanket discount for disabled persons will cost £15 to £25 million a year** according to Rating Policy Division's reply of 21 12 2006 to the Fair Rates Campaign. As with the Single Person's Discount they have again suggested that the other non-qualifying ratepayers would have pay the cost of this concession to the disabled. **We say that the Exchequer would again attract an unjust enrichment by way of further reduced demand on the "block grant" and should meet its share of the costs.**

Second Adult Rebate

No provision has been made for this method of relief in the new rate reform legislation.
The amount of second adult rebate depends on the financial status of the second adult and not the income of the applicant. It is therefore impossible to give an over all cost as each case would differ depending on the amount of the second adult's income. While this is a complex issue, if such rebate measures are in place in the rest of the United Kingdom, consideration should have been given to the introduction of a similar method of relief for Northern Ireland ratepayers.
Rating Policy Division supplied the following table, which is used on the Mainland to calculate the amount of second adult rebate.

	Council Tax Rebate:
Second Adult on income support or non-earning	**25%**
Second Adult income is less than £157 per week	**15%**
Second Adult income is £157.00 - £203.99	**7.5%**

Taper Relief

Rating Policy Division keeps referring to our suggested taper amendments as invariably helping the higher income bands.
In their *Summary Report* (page 2 para. 6) they also say, "that the majority of lower incomes are already captured by the current scheme" That being the case, who else other than the higher income bands could possibly become eligible as a result of our proposals to adjust the tapers?

Percentage Deduction (Excess Income)

Under the Rate Relief Scheme the excess income deduction has been reduced from 20% to 12% for all rate rebate applicants. **We in the Fair Rates Campaign ask that this taper be further reduced to 6% for pensioners.** This amendment has the potential to bring meaningful relief to an additional 3000 pensioners**.**
This figure is based on what is said in Rating Policy Division's (RPD) *Summary Report* (page 2 para 6) and the projected number of eligible recipients (page 5 para 2); we have also factored in the up-take ratio of 1 to 3, which R.P.D. appear to have overlooked.
As with all of our suggestions for improving relief levels and up-take, R.P.D. have again flagged up the benefit to the pensioners in higher income bands. We would again refer to what we say at **Taper Relief** above in relation to those on lower incomes.
It is not possible to give the cost of this taper amendment, as the applicant's total income is a "variable" in the housing benefit rate rebate assessment

Capital Saving

The lack of pensioner rates rebate up-take according to R.P.D "is known to be an issue, particularly among the owner occupied sector." We say that the very low disallowance threshold of £16k savings is in part responsible.
The Rating Policy division sets great store by the evidence of professor Eileen Evason in relation to the savings taper in that she claims few pensioners have savings. The statistics of NIHE include an analysis of "reasons behind failed claims to rebate" which shows that in 2004, **only 1.4% of such claims were related to excess capital. This survey included all ages of claimants including pensioners. Which would concur with Professor Evason's opinion. However the NIHE survey DOES NOT include owner-occupier pensioners in the other 610,000 households of Northern Ireland.**
Based on the number of Housing Executive tenants currently in receipt of full or part rate rebate (71536) and the total NIHE domestic housing stock (91,000), the 1.4% of failed claims related to excess capital would be about 1000 persons ACROSS ALL AGE BANDS including pensioners. The calculation is as follows:
Total Housing Executive tenants: 91,000
Total Housing Executive tenants with part/full rate rebate 71,536
Housing Executive tenants all ages disallowed by excess capital 1,015

[Calculation: 71536 divided by 98.6 (ie100 minus 1.4) x 1.4=1,015]
THE RATIO 1:70
We believe that **The Working Group has mistakenly used these figures** to inform its opinion on **ALL** pensioner potential savings.
It is difficult to predict the number of pensioners in the owner occupied sector who would benefit from amending the capital (savings) taper. However we used the 1:70 ratio and applied it across the total pensioner population of Northern Ireland (280,000), which includes social sector and owner-occupied properties**. This gave us a total of 3972 which, after factoring in the 1:3 up-take ratio, gives an estimated 1324 more pensioners that would become eligibility for housing benefit rate rebate, if the capital savings limit was raised to £32,000.**
We consider the application of a £16k savings limit, to be a deliberate Government ploy, which will forces pensioners to draw down their savings to pay these exorbitant rate demands, before they can even be considered eligible make a claim for rates rebate.

Transitional Relief

In our oral submission we referred to transitional relief as a "con" because we regard it as a Government tactic to disguise the massive rates increases that are to be foisted on the Northern Ireland ratepayers in three years time. Extending the drip-feed period will not make any difference to the hardship that this single capital value system will impose on the people once this concession is withdrawn. It will only prolong the agony.

Rate Arrears and repossessions

We believe that in three years time the current £15,000,000 domestic rate arrears will treble and home repossessions will increase from 30 a month to 30 a week, regardless the length of the transitional relief period.

Obscure Aspects of New Rate Reform: Item 1

We now document some very important items that are usually masked by the complexities of this capital value system, particularly in the way it has been framed to appear fair when it is blatantly unfair.
Consider Northern Ireland's most expensive home in New Forge Lane, Belfast; in January 2005 the Valuation and Lands Agency valued it at £2.5 million. By comparison, in the village of Windlesham, England's most expensive home was valued at £70 million, in the same year.
Due to these vastly different capital values, it is grossly unfair to make a comparison between our maximum rates bill and England's highest council tax bill. However in their *Summary Report*, it is clearly Rating Policy Division's stated intention to "ensure that the maximum rate bills within the rating system in Northern Ireland are comparable with the highest council tax bills in England"
It is a long-term Government plan to force the convergence of Northern Ireland's rates bills with the council tax bills in the United Kingdom (UK). At present our average rates bill is £670.00; in the UK the average council tax bill is £1243

(approximately 86% higher). To bring these two average bills to "level revenue" the multiplier, used in the new capital value system, would have to be increased from the present 0.0059 to 0.0109.
With our cap set at £500,000 this upward variation in the multiplier (if applied now) would raise our maximum bill from £2888.00 to £5357 (86% more than the highest in the rest of the UK).
While this will not happen in the first year of the new single capital value system, the long-term inbuilt convergence will come to pass. Our local politicians must be alert to the inherent danger and have the good sense to reduce the maximum cap accordingly, to prevent gross inflation of our maximum rate bills.

Obscure Aspects of New Rate Reform: Item 2

The stricter application of the **Barnett Formula** in recent times, alerts us to another ticking financial time bomb.
The Formula was designed some 20 years ago with a long-term goal to reduce the amount of the "block grant monies" that flow to Northern Ireland each year from the Exchequer. **Professor David Bell, Department of Economics, University of Stirling highlights this "reduction factor" at page thirteen of the conclusion to his paper on the Barnett Formula.**
Year on year as the "block grant monies" reduce, the burden of additional service costs etc, will invariably be passed to the ratepayers
Under the old system of rate calculation there was only one method of increasing the revenue from rates, and that was by increasing the multiplier. Under the single capital value model there are three methods by which the Government raise additional rate revenue, these are:

(1) Increase the multiplier
(2) revalue the hereditaments
(3) Increase the amount of the maximum cap.

Obscure Aspects of New Rate Reform: Item 3

In view of the recent developments on the political front in respect of policing and justice, we see the provisions of Article 4 of the Rates (Amendment)(Northern Ireland) Order 2006 being invoked sooner rather than later.
Once policing and justice are devolved to the local Assembly, the £500million policing costs normally drawn from the Exchequer as part of the "block grant monies" will be diverted to the regional rates, piece by piece until no provision is made from general taxation to pay for policing and justice in Northern Ireland.

Conclusion
The Fair Rates Campaign apologise for the lengthy response to the Sub-Group's oral questions. However in addition to answering the specific questions raised during our oral submission, we have also included (in this document) additional evidence and statistics that we believe will be beneficial to the Sub-Group.
We have also attached an appendix dealing with the issues of banding and capping on the Mainland
Should you require any further information or clarification please contact:

Annex A
Rating Policy Division's preferred option- Increase the personal allowance

In their Summary Report on Enhanced Relief for Pensioners and Capping of Rates Bills *[Summary Report]* Rating Policy Division (R.P.D.) have considered seven options by which additional relief can be passed to pensioners.

Options

1. Amend the personal allowance
2. Further adjustment to the taper
3. Amend the non-dependant deduction
4. Amend the capital limit
5. Amend the tariff
6. Amend one of the premiums
7. Combination of options 1-6

It was no surprise to the Fair Rates Campaign that R.P.D. came down on the side of amending the personal allowance as it is the only option that can be structured to levy the exact amount that the Government say they have available to meet the extra relief for pensioners.

On reading the *Summary Report* it is obvious that Option1has the potential to bring in a maximum of 6000 extra pensioner applicants. If all six thousand apply, the percentages are structured to use up the £4 million specifically set aside for extra pensioner relief. However on evidence of the Special Working Party, only one third of the 6000 pensioners are likely to make a claim. That would result in an under spend of £3.5 million. It is also pathetic that the Government are not even prepared to give the full percentage that it has put forward as " the most effective option available for targeting lower income pensioners". In the section on "Refining the Preferred Option, R.P.D. proceed to halve the potential award to pensioner couples.

On page 5 of the *Summary Report,* R.P.D. say that adjusting the taper (the percentage deduction from excess income) would benefit those in the higher income bands. However tables 21 and 21(a) [Page 5] used to back up this assumption, do not show the amount of any person's income. **The property values would indicate that persons living in more expensive houses would benefit more, but there is no evidence to prove that those persons "would be in the higher income bands". This is a further exposure of the Government's flawed notion that people living in higher value houses have higher incomes.**

Reducing the taper and raising the capital savings limit would guarantee an increase in the uptake of rate rebate applications among pensioners.

From the excuses given by R.P.D. not to implement these changes, it is obvious that they are not really interested in increasing the up-take figures. It is a known fact that low up-take of benefits provides a nice little earner for the Exchequer. Millions of pounds of benefits go unclaimed each year but there is no information readily available to inform the amount of unclaimed rates rebate.

We say that the amount of unjust enrichment that the Exchequer enjoys by way of unclaimed benefits each year would pay for the full implementation of ALL the options!

In conclusion, we find it unusual that the property values used in all tables informing the new single capital value system statistics, are **ALWAYS** at the bottom end of the property bands i.e. £50,000 to £155,000. It is our opinion that this is a deliberate ploy to conceal the massive increases that are going to be levied against those pensioners who live in houses valued £250,000 to £500.000, but do not have the income to meet the proposed increases. Some households are going to be asked to pay amounts of £3500 and more; a few pounds housing benefit is not going to protect such vulnerable pensioners in the property hotspots of Foyleside and South Belfast.

Michael Kelly

Department of Finance and Personnel

Rating Reform in Northern Ireland
December 2006

An information paper on Rate Charges for the Northern Ireland Assembly Sub-Group

Content

Annexes

Background

The rating system in Northern Ireland is universally acknowledged as being both out of date and unfair with the principles underlying it largely unchanged for 150 years. The last revaluation of domestic property for rating purposes took place in 1976 on the basis of rental values evidence dating back to the 1960s. Some households are therefore currently paying more than they should and others are paying less. In 2000, the NI Executive recognised the need to make the system fairer and easier for ratepayers to understand and to bring it into the 21st Century.

Proposals for reform were published in July 2004 based on the outcomes of independent research and analysis and an extensive consultation exercise in 2002 (launched by the then NI Executive just prior to suspension). These proposals were the subject of a further consultation exercise in 2004 and, in March 2005, the Government published its final report confirming its intention to introduce a new system based on individual capital values in April 2007.

Legislation

Three Orders in Council have been made in Westminster which give effect to the Government's proposals for the new individual capital value system. **The Rates (Amendment) (NI) Order 2003** focused on the non-domestic sector and legislated for the rating of vacant non-domestic property from 1 April 2004 and the phasing out of industrial de-rating from 1 April 2005.

The Rates (Capital Values, etc.) (NI) Order 2006 provided for the new domestic property capital valuations to be determined and enabled the Commissioner of Valuation to publish them in advance of the new system becoming operational. These were issued on a phased basis during June, July and August 2006 to every home in Northern Ireland. The Order also provided for full rate exemption for community halls, subject to certain criteria, and an increase in the level of sport and recreation relief from 65% to 80%.

The final Order, **the Rates (Amendment) (NI) Order 2006**, was made at Privy Council on 14 November 2006. Its main aim is to give final effect to the move from a rental based domestic rating system to one based on capital values and to provide for rate bills to be calculated accordingly from 1 April 2007. However, it also allows for a range of rate reliefs for those on low incomes, vulnerable groups and those most adversely affected by the move to the new system. The key domestic sector reforms contained in the Order included:-

- the introduction of a new rate relief scheme for those on low incomes;
- 100% rate relief for people in full-time education and training, 16/17 year olds and young people leaving care;
- the standardisation of rate liability in the social rented sector;
- transitional relief over three years where rate bills increase by more than 33% as a result of revaluation; and
- the establishment of a new independent valuation tribunal.

The Order also contained a number of non-domestic reliefs and exemptions for the benefit of rural businesses. These included farm diversification relief and exemption for rural automatic telling machines.

The Wider Context for Local Taxation

The scope of the review of rating policy was constrained from the outset by the Northern Ireland Act 1998 (c 47) which limits the powers of the NI Executive on most issues of taxation. In essence, the Executive is unable to interfere with or duplicate the national taxation system and, therefore, is prevented from introducing a local tax system based on income tax, capital tax, VAT, Stamp Duty and so on. At a very early stage, it became apparent that the focus of the review would be to explore options for a property based tax system.

The 2002 consultation document listed a number of property based taxation options and explored in some detail the relative merits of a capital valuation system. Nevertheless, views were canvassed on alternatives to a property tax such as a local income tax. It did not attract popular support, though two political parties noted this to be their first preference.

There are a number of reasons why the Government does not think that a local tax based on income is right. These include the cost of administration, yield uncertainty, loss of local accountability and the ease of evasion. Properties do not move about, people do, which is why the Government believes a property tax is a better system for local taxation and why it is found in the most advanced countries around the world. It is not considered to be a perfect tax but it compliments other taxes. There is also uncertainty over what the impact of a local income tax might be, both in terms of the effect on the distribution of rate bills, as well as on the wider economy. It would also add to the cost of business, as it would almost certainly have to be recovered through PAYE. It is worth noting that the review of local taxation in Scotland, undertaken by the Burt Inquiry, published a report last month which suggested that local income tax would add 5.7% to 7.9% to general income tax.

The local taxation system in England is currently subject to a wide-ranging inquiry. Sir Michael Lyons is currently considering how best to reform the system, taking account of a range of issues such as fairness and flexibility. His report is due for publication in March 2007. This inquiry is wide ranging and covers the functions, role and financing Local Government there. It was commissioned by the Government in recognition of the balance of funding problems that exist with Councils in England but it also addresses issues with the council tax system in England. Any change that emerges from this work is likely to be well beyond the next General Election. If any of its recommendations are considered to be of relevance in an NI context, the Government or a restored Executive can consider it in due course.

Revaluation

To give effect to the reforms the VLA carried out a revaluation of all domestic properties based on their capital valuation.

The capital value is the amount a property could reasonably have been sold for on the open market on 1 January 2005. A fixed valuation date is required to ensure a consistent approach and January 2005 was chosen simply to allow VLA to undertake the necessary market analysis and to administer the valuation process. Changes in house prices since the 1st January 2005, therefore, do not affect the rates payable. In assessing the valuations, a number of statutory assumptions were made to maintain a level of fairness; for example, it was assumed that properties had the same standard of kitchen and bathroom for the age, type of property and location. Development value is ignored.

The Valuation and Lands Agency used a combination of Computer Assisted Mass Appraisal (CAMA), the world recognised standard approach to mass valuation exercises for property taxation purposes, and a process of review and verification by local qualified valuers to produce the capital valuations. Every ratepayer in NI was subsequently notified on a phased basis over the summer months of their valuation together with an estimate of what their rate bill would have been this year had the new value been applied. This afforded people the opportunity to discuss their valuation with VLA staff before the system becomes operational in April 2007 and, if they wished, to formally seek a review. Of the 720,000-plus properties assessed, to date 3% of households (some 22,500 ratepayers) have asked for their capital value to be reviewed.

The Government is not increasing revenue by introducing the new rating system and revaluing property on the basis of capital value. It is simply redistributing rate liability in a fairer, more open way that is much easier for people to understand.

Housing Benefit

Housing Benefit (Rate Rebate) is a Social Security benefit to help people on low income pay their rent or rates. Both Housing Executive and private tenants are eligible to apply. Housing Executive tenant applications are processed by the Housing Executive's District Offices and in Belfast by the Private Sector Housing Benefit Office. The Rate Collection Agency is responsible for the administration of Housing Benefit for people who own and occupy their own homes.

Entitlement to Housing Benefit is means-tested and factors considered include:-

- total net income for the claimant and partner (if any);
- the amount of savings;
- the applicant's particular personal circumstances (such as having children, being disabled, other people living in the household).
- the amount of rates payable.

Currently approximately 170,000 ratepayers receive full or part rebate with their rate liability. Entitlement to Housing Benefit will continue under the new rating system.

Low Income Relief

A major issue identified by the 2002 consultation exercise was the lack of domestic rate reliefs beyond that available through the existing Housing Benefit system. In particular, people were concerned about the lack of adequate assistance for those on low incomes who fall just outside the Housing Benefit thresholds but nonetheless find it difficult to pay their rate bills.

To address this, the Government proposed in the 2004 policy paper that a new rate relief scheme (RRS) should be introduced that would sit above the current Housing Benefit system, and provide assistance on the basis of need to those on low incomes.

The advantages of using the Housing Benefit scheme as a model for the new rate relief scheme in addition to the more obvious use of existing legislation, administrative arrangements and IT systems, is that the targeting of rate relief at specific groups can be achieved by adjusting elements of the Housing Benefit scheme for rate relief purposes such as applicable amounts; disregards; tariff income (from capital) and, where claimant's income exceeds requirements, the taper.

The Government has made provision in the primary legislation to enable the rate relief scheme to be changed and this can be done by regulation.

The scheme will benefit those on lower incomes and with savings of less than £16,000 in high value houses; indeed the higher a person's rate bill is the more likely it is, all other things being equal, that they will get help through the rate relief scheme. In this way, the Government is applying the principle of ability to pay to the new system. There is no cap on the amount of rate relief.

A number of examples of how the rate relief scheme will operate in practice are listed below:-

Example 1: Single pensioner on a basic state pension plus a small private pension of £5000 per annum. If their rate bill was £670 (which is not around the average rate bill), they would previously have received no rate rebate. Under the new system, they will get £256 off their rate bill.

Example 2: Lone parent with 2 children, earning £5800 plus receiving other statutory benefits. With a rate bill of £780, previously this household would have received no rate relief. Under the new scheme, they will get a reduction of £256.

Example 3: Single person with a small annual wage of £9000 and a rate bill of £950. Again, under the existing scheme this person would not have been awarded any rate rebate. Through the new scheme, they qualify for a £260 reduction.

Enhanced Pensioner Relief

As part of the St. Andrew's agreement, the Government undertook to examine the possibility of further rate reliefs for pensioners on lower incomes. The Finance Minister, David Hanson, subsequently announced that the Government was prepared to increase by 50% the help to be provided to pensioners within the rate relief scheme. A short paper outlining a number of options for the application of this additional money is being prepared for consideration by local political parties. It will also incorporate information on the revenue consequences of the proposed changes. The paper has been produced by a working group incorporating officials from the Department of Finance and Personnel and representatives of Help the Aged and Age Concern. It is intended that it will be issued prior to Christmas to ensure that the extra help is available in time for billing in April 2007.

Transitional Relief

Transitional relief will be awarded to those most adversely affected by the move to the new system. In the first year, rate bill increases will be capped at 33% over and above what bills

would otherwise have been. For the following two years increases above this level will phased in, with full rates only becoming due and payable from April 2010.

The relief will be awarded to in the region of 100,000 households, with an average award of £178 in 2007-08. This represents 15% of households.

The cost of transitional relief is almost £18m in the first year. In subsequent years the cost is £12m in 2008/2009 and £6m in 2009/2010. In the first year because of the Government's commitment to keep the Regional Rate increase at 6% this would be a loss of revenue. In subsequent years the cost is likely to be spread amongst all domestic ratepayers.

Although The Government's preferred option is for a 3-year transitional scheme capped at 33% in year 1, other options were considered. A table illustrating the cost of a 20% and 25% model, based on a 3 and 5 year transition, is attached as an annex to this paper (Annex A).

Single Person Discount

Following initial consultation in 2002 the Government decided not to introduce a single person discount in NI. While such a discount currently operates in GB, the Council Tax system in place there is quite different from that in NI and has been for some time. It was felt that any reliefs in Northern Ireland should be on the basis of ability to pay, rather than being given on a blanket basis. The Government was also mindful of the impact a concession such as single person discount inevitably would have on other ratepayers who would have to subsidise it through an increased bill. It estimates the annual cost of providing a single person discount to be in the region of £30m in terms of revenue forgone, if the 25% model that applies under the Council Tax was adopted.

Disabled Person's Allowance (DPA)

The new scheme from April 2007 provides a standard 25% discount for people who have a disability which requires some special modification to the house in which they live, such as a specially adapted (and additional) downstairs toilet or bathroom, specially designed corridors for wheelchair access and so on. The rationale for such relief is to ensure that people who have had to improve their home because of their disability are not penalised in any way should these adaptations add value to the house. It is more generous than the scheme that operates in GB.

Some have argued against restricting the allowance in this way. However, if all people with disabilities were included in a discount scheme, for example members of the household entitled to disability living allowance (DLA), the additional cost of the scheme could be significant and it is likely to fall in the range of £15m to £25m.

It is worth noting, however, that DLA (and also attendance allowance for over 65's) are ignored in calculating rate rebate under Housing Benefit and the low income rate relief scheme.

Full Time Education and Training Relief (FTET)

One of the Government's top priorities is to improve the educational and development opportunities for young people. In an effort to minimise the obstacles to people entering or remaining in full time education and training, one of which would be liability for both rates and the new water charge, it decided to award full time student ratepayers 100% relief. It is also recognition that many students living on their own do not qualify for either the current housing benefit system or the new rate relief scheme.

A significant number of replies to consultation on the draft Order argued that landlords, and not their student tenants, would benefit from this policy. The Government was also mindful of this issue and, to address these concerns, it decided to amend the relevant legislative provisions. The legislation has been strengthened so that full relief from rates will only be awarded where the Government is satisfied that the benefit is passed onto tenants. From next April landlords will be obliged to notify tenants of how their tenancy charge is split between rent and rates. This should result in reduced tenancy charges over and above what they would otherwise have been. Where the Government is not satisfied that this benefit is being passed on, the relief will not be awarded. It will be the responsibility of the Rates Collection Agency to take forward and monitor this aspect.

Capping

The Government's position on a maximum cap for rating liability is that it is not in favour of its introduction. It does not think that it is fair that people in higher valued properties in NI should be subsidised by others. However, having listened to the views of local political parties, Ministers have agreed, in the context of the St. Andrews Agreement, to introduce the necessary subordinate legislation for a cap. The Government's view is that it should be set at a valuation level in line with the highest Council Tax Bill in GB. This is around £3,000, which is likely to equate to a capital valuation of £500,000. A table illustrating a range of options, the revenue consequences and the number of ratepayers affected is attached at Annex B.

The primary legislation provides for a valuation cap, not a rate bill cap, which should ensure that the level set will remain in place until the next revaluation, unless it gets significantly out of line with the maximum Council Tax bill. If required, any change to this level is easily made through subordinate legislation.

A short paper is being prepared for discussion with local political parties on proposals for the introduction of a maximum cap. This should issue prior to Christmas.

Relationship between Water and Sewerage Services and Regional Rate

In addition to the new rating system becoming operational in April 2007, the Government proposes to introduce a charge for water and sewerage services in NI.

For most of the 1990s, an element of the regional rate was separately identified for the provision of water and sewerage services. However, this did not constitute a specific charge and did not imply that the regional rate was directly linked to any specific item of expenditure. The link was merely an accounting treatment and was broken in 1999 in preparation for

devolution. Figures indicate that the public expenditure required to fund the Water Service as an agency would far exceed the total revenue from the domestic element of the regional rate (see Annex C).

Last year, water and sewerage services cost approximately £735 million (as a consequence of the Treasury concession to allow the non cash costs associated with water and sewerage services to score in Annually Managed Expenditure (AME), approximately £416 million of this amount was a direct charge on the Northern Ireland Departmental Expenditure Limit (DEL)). In 2003 it was estimated that £3 billion of investment would be needed over the following 20 years in Northern Ireland to meet standards and cater for the extra 200,000 new homes that are expected to be built.

The scale of these costs means that the funding requirement cannot be met from the existing Northern Ireland DEL without depriving other public services, such as health, education and transportation, of much needed resources. The water and sewerage charges will be made up of two parts, each having a yearly standing charge of around £55 and a variable charge, based on the same capital value assessment of property used for rates.

The Government proposes to introduce a number of measures to assist low income families with the water charge. In addition to the charge being phased in for the first 2 years, an affordability tariff will be introduced to insure that no-one on low income need spend more than 3% of their income on water and sewerage charges. Eligibility to this new water affordability tariff will be by means of passport benefits which includes Housing Benefit, the new rate relief scheme and full relief from rates for those in full time education and training, young people leaving care and those under 18.

Industrial De-rating

The Government passed the necessary legislation in 2004 to phase out de-rating to manufacturing companies in Northern Ireland from 1 April 2005. It is considered to be an out of date and untargeted system of support for businesses which was abolished in England and Wales in 1963 and in Scotland by 1995. It gives relief to just one type of business (traditional manufacturing), but not to others including software development, general retailing, design companies or the financial services sector. The legislative change brings the policy on the rating of industrial property in NI into line with the rest of the UK.

To give manufacturing companies time to prepare for the changes, the Government decided to phase in the removal of de-rating over a period commencing 2005 to 2011. Therefore, it will be from April 2011 that full rate liability on the same basis as all other businesses in Northern Ireland and in the rest of the UK will commence.

All the extra revenue generated from the gradual removal of de-rating will be available for investment in public services and infrastructure in Northern Ireland. In 2005/06, when rating liability was 15%, some £10.9 million was collected from around 4,300 businesses. This year's rate bill (2006/07) is 25% of their full rate liability and around £20 million has been billed.

In November 2005, Jeff Rooker (then the Minister with responsibility for DFP), agreed to bring forward the planned review of the policy to April 2007.

In the meantime a Working Group was established in September 2006 as a forum for the Northern Ireland Manufacturing Forum Group (NIMFG) and Amicus to voice their concerns about the impact of the removal of industrial de-rating on manufacturing. It provided an early opportunity to present evidence as to why de-rating should be retained. Its work commenced in mid-September and concluded in late November.

Having considered the Group's findings, the Government was not persuaded that a case remains for retaining de-rating, but it accepted that there is a need for further work on the issue. The Government decided to peg the phased increase at 30% next year, instead of the expected 35%. (This 5% difference will cost £3.7m in lost revenue for 2007-08.) This legislative change can be made through subordinate legislation and this is currently being drafted.

The Government has agreed to carry out its main review the implementation of the policy commencing in April 2007.

Small Business Relief

Small Business Rate Relief (SBRR) was introduced in Scotland in April 2003 and in England from April 2005. The matter was consulted upon in Northern Ireland both in 2002 and 2005 and the Government announced in April 2006 that it would not be proceeding with a scheme because:

- Northern Ireland does not have the same scale of big business found in England and Scotland and which is necessary to fund the schemes there;
- evidence from Scotland concluded that the SBRR scheme was not effective as the relief was too thinly spread, it added a major complication to the rating system and take up is low;
- the current phasing out of industrial derating may affect many large firms and to add a supplementary rate to reduce the rate burden on small firms could cause hardship.

Although the Government decided not to introduce a SBRR scheme at that time, it agreed, given the support arising from the consultation, notably from the Federation of Small Businesses, to reconsider the case in 2007.

ANNEX A

Transitional relief – Cost of Options

Level at which TR is awarded	3 year scheme			
	year 1	year 2	year 3	cumulative cost
20%	£26,478,092	£17,690,895	£8,903,698	£53,072,686
25%	£22,655,089	£15,142,226	£7,629,364	£45,426,679
33%	£17,910,790	£11,979,361	£6,047,931	£35,938,082

Level at which TR is awarded	5 year scheme					
	year 1	year 2	year 3	year 4	year 5	cumulative cost
20%	£26,478,092	£21,205,774	£15,933,456	£10,661,138	£5,388,820	£79,667,280
25%	£22,655,089	£18,147,371	£13,639,654	£9,131,936	£4,624,219	£68,198,268
33%	£17,910,790	£14,351,933	£10,793,075	£7,234,217	£3,675,359	£53,965,374

Annex B

Cap Option Table with Comparison Against NAV Bills

Cap Option	Cap Capital Value Limit (£000's)	Revenue Loss on DCV Rate Bills	No. Of Domestic Dwellings Eligible	Proportion of Total Dwellings Eligible for Cap (%)	Est. Supplement Per Property (£)	No. of winners compared to their current NAV bill
1	250	9,948,069	28,797	4.086	14.72	13,666
2	300	6,074,910	15,386	2.183	8.81	5,074
3	350	3,937,923	9,176	1.302	5.66	2,120
4	400	2,641,849	5,879	0.834	3.78	956
5	450	1,848,320	3,873	0.550	2.64	479
6	500	1,315,422	2,684	0.381	1.87	270
7	550	994,425	1,835	0.260	1.41	169
8	600	774,730	1,305	0.185	1.10	102
9	650	311,932	946	0.134	0.44	55
10	700	476,554	736	0.104	0.68	43
11	750	385,441	563	0.080	0.55	26
12	800	308,664	445	0.063	0.44	19
13	850	249,356	398	0.056	0.35	15
14	900	199,050	356	0.051	0.28	10
15	950	170,295	228	0.032	0.24	7
16	1000	130,265	198	0.028	0.18	6

Annex C

Comparison of PE requirements – Water Service as an Agency

Revenue source	2003-04 £m	2004-05 £m	2005-06 £m	2006-07 £m
Resource DEL	*95*	*97*	*110*	*118*
Capital DEL	*157*	*232*	*265*	*236*
DEL subtotal	252	329	375	354
AME	249	291	319	319
Tariffs	41	40	41	44
Total	**542**	**660**	**735**	**717**

By comparison …

Total Regional Rate	**378**	**421**	**451**	**509**
Domestic	*162*	*182*	*204*	*249*
Non-domestic	*216*	*240*	*247*	*260*

Supplementary Information Received From The Department Of Finance And Personnel

1. Is the standard 25% discount being offered more generous than in GB. In GB a similar scheme operates for Council Tax through each Local Authority. Unlike the new system in Northern Ireland which is coming into operation on 1. 4. 07, domestic properties in GB are not subject to individual discrete values but are grouped into bands. When someone qualifies for DPA the council tax bill for the property is calculated as if it were in the band below. This generally provides a reduction in the associated council tax bill in the region of 13%. DFP analysis shows that the current average reduction in rate bills in Northern Ireland under the current DPA scheme is 19%. Those in NI who currently receive DPA and whose reduction is greater than 25% will retain their current reduction under the revised scheme from 1.4.07 and until such time as there is a change in their circumstances.

2. What is the uptake in NI?

   There are currently some 9,000 households receiving DPA and the averageapplications received each year is 1,500. However under the revised arrangements central heating and garages will be excluded from being eligible items and so this may have the effect of reducing new applications.

3. Did anyone say that the discount amount for new applicants of 25% was too low? The consultation on rating reforms showed the following -

   A NISRA survey showed 61% thought the level was just right; 25% thought it was too low and 9% thought it was too high.

   53% of those with a disability thought it was about right; 39% felt it was too low.

   The majority of organisational responses felt it was about right. NILGA and Craigavon Borough Council thought 25% was absolute minimum.

   Sinn Fein considered 25% was insufficient and should be available to everyone not just those whose property had been modified.

   Only 4 written responses from ratepayers and only one of those disagreed with the proposal.

4. It will not be available to all persons with disabilities and if it was it would add an extra £15m - £25m to the cost of the Scheme. Can this figure be broken down more?

   It was not the intention of Government to provide a blanket relief to all with disabilities. The revised Scheme therefore requires a property to have sufficient space for a wheel chair to be used indoors and/or modifications to have been made to the dwelling to give the person with disabilities the chance of a better quality of life. The primary purpose is to ensure that the person with disabilites is not disadvantaged in rating terms because of the facilities within their house to provide for their needs.

Northern Ireland Environmental Link
Dated 15 December 2006

Comments to the Subgroup

Northern Ireland Environment Link (NIEL) is the networking and forum body for non-statutory organisations concerned with the environment of Northern Ireland. Its 41 Full Members represent over 82,000 individuals, 265 subsidiary groups, have an annual turnover of over £38 million and manage over 230,000 acres of land. Members are involved in environmental issues of all types and at all levels from the local community to the global environment.

The short time allowed for responding to your query means that the information below has not been agreed by Members, but is based on knowledge of their views on these issues canvassed in the past.

2. **Rates charges**. At this point further changes are probably not feasible. However, we would like to encourage the Committee to think for future revisions of the possibility of incorporating sustainable development aspects (e.g. energy efficiency, water harvesting methods, alternative energy installation) into the overall rateable value of a house in addition to 'capital value'. This would allow people to decrease their rates by improving the 'sustainability rating' of their home, encouraging them to engage in such actions and installations and to request such action by the builders of new homes.

Prof Sue Christie
Director

Confederation of British Industry (CBI)

NI 19 06

Introduction

1 CBI Northern Ireland welcomes the opportunity to give evidence to the Assembly Sub-group.

2 This submission has been developed in a short time frame to meet the Subgroup's tight schedule. A separate paper on the CSR 07 has recently been finalised by CBI Northern Ireland and covers the key issues which we would wish to highlight to the Subgroup. The CSR 07 is extremely important and provides an excellent opportunity to secure further public sector reform and secure efficiency gains as well as refocusing expenditure. A brief summary of our views on CSR 07 are included with more detailed comments on the other two aspects of the Subgroup's work, namely rates charges and water reform.

Rates charges

3 CBI Northern Ireland's primary interest in rating reform has been the impact on the business sector. The most significant concern has been the phasing out of de-rating, which is discussed below. The introduction of rating (at 50%) on vacant commercial properties appears to have been accepted with no major fallout assisted in part by a buoyant property market, though speculative building of offices has been held back with developers now having to factor in these additional costs. The other concern CBI expressed at the time was the introduction by government of rating on vacant warehousing/distribution centres, whereas in the rest of the UK rates are not paid if these buildings are vacant.

4 It may be useful to set out the CBI's position on industrial de-rating over the last 5/6 years before focusing on the current situation:

- 2000/01 - CBI opposed phasing out of derating until after 2011 when electricity prices would become more competitive as stranded costs dropped out (costing electricity consumers c£60m in early years falling to c£20m pa in latter years)

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- 2002/03 – Black hole left in the Budget with Executive intending to phase out derating when Assembly was suspended. Two Assembly Committees (Finance and Enterprise) both argued for short phasing periods
- CBI survey of impact provided evidence on impact of removal of derating and undermined DTZ Pieda Report commissioned by Government
- CBI lobbied very hard to secure delay and long phase-in period, in addition to focusing on reducing other costs, notably electricity costs (until 'stranded costs' are reduced in 2011)
- In March 2003 the then Minister, Ian Pearson, agreed to delay introduction and phase in industrial rating over a seven year period (in direct response to CBI lobbying) and also gave a commitment to review the situation at a future date. Furthermore in September 2003 he also gave a commitment to reduce the costs of electricity to business by 10% (the proposed scheme needed EU state aid approval) and agreed to undertake further research into the costs of doing business in Northern Ireland - which has subsequently been completed by ERINI
- 2004/05 - CBI priorities were to secure the delivery of a 10% price reduction in electricity to businesses – promised by Ministers and worth c£30m pa. The funds were budgeted for in public expenditure plans up to 2007/8 but were largely unused – some funds were reallocated to support energy efficiency. CBI also focused on reducing other costs to business and in preventing additional costs being imposed on business
- October 2006 - DETI withdrew EU state aid application. Government announced the rating liability will increase from 25% to 30% (and not the 35% originally scheduled). Government also announced that the formal review of the policy will be brought forward to April 2007
- 2006 - CBI, with other members of the Business Alliance, have been working with the political parties to develop a 'economic package' including fiscal incentives as part of a new political deal which will help to transform the economy

5 Let us be clear: phasing out of industrial de-rating is unwelcome and will damage the industrial base in Northern Ireland by adding costs to what is already a high cost base within the UK – the key question is how much damage will this do to a major export orientated and highly productive sector of the economy versus the 'benefit' of raising an additional £50m - £60m rating revenue (NB we believe it is likely to be at the lower end of the scale as manufacturers close or reduce the size of their premises). In 2003 government recognised that the additional burden of rating on the industrial sector required a quid pro quo reduction in electricity prices which will remain at uncompetitive levels through to 2011/2012 – over £20m per annum in additional cost is allocated to the Public Service Obligation every year to 2011.

6 Furthermore our understanding is that the revenues raised by the phasing out of industrial de-rating is contributing to paying the interest on the borrowings negotiated under the 'Reinvestment and Reform Initiative' (RRI) which in turn are helping to enable the significant capital investment programme get underway across a range of public services under the Investment Strategy – this investment is welcomed by business. Some level of re-negotiation of the RRI will be required to allow 'capping' to be introduced.

7 CBI Northern Ireland believes that key principles should underpin a fair rating policy:

- Business rates are a tax and, as with all taxes, government needs to take into account the impact on business competitiveness (and employment)
- There should be a fair distribution of the rates burden across business sectors
- Business needs predictability on future bills and plenty of time to plan ahead for any changes
- Wide-ranging rate relief arrangements within the business rates system should be avoided – an expensive tax with lots of reliefs is a bad tax
- Rating policy should encourage fair competition and not lead to distortions in competition – any departures from a level playing field between different types of business, or between different business behaviour, must be clearly and objectively justified

Economic studies are likely to show that rates are less than 1% of turnover – however as a percentage of profits the rate burden will be very significant for many companies. For example in the food and drink sector with a profit margin of 2.9% in 2004 (DARD's latest figures) the rating burden is likely to exceed a quarter of profits for the entire sector, which directly employs over 18,000 people and which provides markets for farmers and supports the rural economy. CBI Northern Ireland research in 2002 revealed that across the manufacturing sector:

- In 19% of companies the full rating burden will be between 50% and 100% of profits
- In 20% of companies it will be between 20% and 50% of profits

8 In light of DETI's withdrawal of the EU state aid application to reduce electricity prices we believe there is an urgent need to review the current policy and introduce a permanent 'cap' on the level of industrial rates at least until 2012, accepting the principles set out above. There are several key issues to take into account to reinforce this requirement:

- Manufacturing employs c 86,000 people directly and we estimate another 45,000 jobs in the service sector are totally dependent on the sector. Despite manufacturing employing only c12.3% of total jobs the sector contributes over 25% of Gross Value Added (which reflects the high value of these jobs) – 76.2% of the output of this sector is sold outside Northern Ireland – this sector is the major wealth creator in Northern Ireland, and it is also the sector most exposed to international competition
- Research by the Economic Research Institute of Northern Ireland (ERINI, 2005) has shown that all major costs, other than labour and property costs, are higher in Northern Ireland than in the rest of the UK – energy costs in particular are a significant burden. However a closer assessment of property costs reveals that it is commercial property in Northern Ireland which has a distinct competitive cost advantage relative to the rest of the UK – industrial property costs are on a par with most of the rest of the UK excluding London and the South East (ERINI found six UK regions with lower industrial property costs than NI)
- While labour costs are highlighted as being lower in Northern Ireland much of this is due to size, structural and market differences – many of our members have wage rates which are broadly in line with other parts of the UK, excluding London and the South East. The argument used by many economists and government ministers that wage rates

are lower in Northern Ireland holds little weight with these companies - those that pay the highest wages (and are often the most productive) are penalised!

- The ERINI research also indicated that comparable rates in the Republic of Ireland are around 65% of the full Northern Ireland rates (CBI will be doing more comparative work on this next year) which again suggests a 'capping' on the level of rates must be considered
- The manufacturing sector remains under intense global competitive pressures with downward pressure on output prices, but it has been facing significant input price rises, such as energy, transport, raw materials, environmental compliance costs, pension costs etc. It is also facing additional cost burdens imposed by government in the form of a new water charging regime from April 2007 (adding across the business sector some £40m pa by 2010/11), costs relating to extending paid holiday entitlement (several tens of millions of pounds), etc.

9 Furthermore the impact of these additional costs will inhibit the manufacturing sector moving up the value chain. CBI survey evidence from 2002 revealed that

- Over 49% of manufacturing companies indicated that there would be a significant reduction in employment as a result of the introduction of rating
- 63% indicated a significant reduction in capital expenditure
- 39% indicated a significant reduction in research and development expenditure
- 8% of companies believe they would not be viable while only 7% believe there would be no impact.

10 CBI Northern Ireland has not been able, in the short timescale allowed, to undertake a detailed assessment of the impact of the phasing out of de-rating but is preparing for the formal review which will commence in April 2007. However we hope the evidence in this submission is of use to the Subgroup.

11 With regard to other rating reform issues we would make the following points:

Small firms relief - We have previously argued against a small business relief scheme being introduced (particularly if it is to be funded from other business rate payers) for the reasons highlighted below:

- the majority of very small businesses tend not to grow and are less internationally exposed and hence there is a considerable amount of 'dead weight' in terms of the policy impact
- survival rates for small businesses in Northern Ireland are the highest of any region in the UK – our problems stem from not having enough start-up businesses with export ambitions in the first place
- rate relief is a blunt instrument to support growing small firms – there are other more effective measures and support available that should be used to help them (and there are a wide variety of business support programmes available from Invest NI and other local agencies)

- there is evidence to indicate that rate reductions/reliefs will be offset by increased rents – small firms may be more exposed here with rate reliefs, growing businesses would have additional barriers once they achieved a certain size

The key challenge for the Northern Ireland economy is to increase productivity levels. There are much more effective mechanisms to support small business achieve this goal than through the blunt instrument of rates relief.

Hardship Relief – we welcomed the introduction of this scheme in line with that operating in the rest of the UK.

Freight Transport relief - We welcomed the intention to retain freight transport relief until at least 2006 when the EU will consider all existing state aids, whether they pre-date accession or not (paragraphs 80 and 82). This is a modest relief (valued at c £1.5m pa). We believe the Government has a strong pre-accession case to argue and hope that they will provide robust support for the retention of this relief post 2006. This particular relief is particularly beneficial to rural areas by reducing the cost of essential animal feed, and to public transport.

12 With respect to domestic rating, CBI has no comments to make other than that there seems to be little recognition that the revaluation in January 2005 is the first since 1975 (based on rental values) so it is clear that there will be significant winners and losers. On an ongoing basis it is essential that more regular, five yearly re-valuations are undertaken to avoid such large changes occurring – this has already been committed to for the non-domestic sector.

CBI Northern Ireland

18 December 2006

General Consumer Council

Rates Charges

December 2006

General

The Consumer Council welcomes the review of the current domestic rating system as it gives an opportunity for consumers to better understand what they are paying for. As a start we believe a capital value-based charge is appropriate given that the majority of Northern Ireland householders (72 per cent) now own their own home rather than rent it. Few understand the rationale behind rental value and should view the new system as a fairer way to calculate rates. Other more attractive alternatives worth considering, such as a local sales or income tax, we recognise as being unachievable currently.

Publication of capital values

We welcomed the publication of the capital value of every domestic property in April 2006. The process must be co-ordinated to ensure that information is given out by as many means as possible to ensure all households receive accurate assessments. The Consumer Council has consistently called for clarity in respect of the water reform process and this must also apply to rating reform. Clarity is required concerning what exactly rates covers and it is a duty on the Government to clearly explain how rates are spent. This is an opportunity to go a step further and not just introduce the capital value system but also to educate consumers about rates.

Our research has shown that consumers are confused by what rates pay for. When consumers were asked in a 2002 GCCNI survey what their rates covered 'refuse collection' was the most mentioned service (61 per cent) followed by 'water' (41 per cent)[1]. When asked the same question in 2004[2] more than half (56 per cent) continued to spontaneously cite bin collection while one-third (33 per cent) believed water services are funded through the collection of rates. An important minority (12 per cent) was unable to give any response to this question highlighting an important public education deficit.

Consumers are also confused by the distinction between the Regional and District rates and the 55 per cent / 45 per cent (respective) split in their bills. The services that each provide must be clearly explained. If it is not possible to be explicit, and there is no clear correlation

1 *GCCNI Water Survey, August 2002.*

2 *GCCNI Water and Rating Policy Survey, October 2004.*

between the tax and service provided, then this must be made clear. Consumers can then deduce that rates are effectively a tax or local property tax. There should also be a sophisticated level of performance monitoring by an independent Audit Commission as in GB. Monitored criteria should include value for money, cost of services and customer satisfaction surveys. These criteria should be monitored across all public services to ensure accountability and transparency to the ratepayer.

Impact on consumers

The Consumer Council registered our concerns regarding the impact of this reform and the new water charge on the Total Household Bill in a response to DRD in March 2005[3]. Nowhere has the Government tried to explain or acknowledge the impact of these two new charges as a total household bill. However it is worth re-emphasising that consumers in Northern Ireland already pay more for other essential utility services, for example energy costs almost 30 per cent more, and these costs continue to rise. For this reason we believe that the Reform of the Domestic Rating system in Northern Ireland should be phased in over a transitional period.

We strongly recommend that a new category of vulnerable consumers must not develop as a result. For example, capital value is not always synonymous with ability to pay. Householders may be living above benefit levels but are being taxed on something they cannot realise without an undesirable change in their standard of living. This is because inflation on house value has risen disproportionately with income. Therefore, asset rich: income poor householders are a real consideration and must be adequately protected.

We recommend that a cap must be placed on the total revenue to be generated through rates, as this should not be allowed to increase unreservedly. There must be full transparency and accountability to ratepayers for any rise in rates accompanied with efficiencies and value for money on all rates spending.

We welcome the important recognition within this reform that the householder's ability to pay must be taken into account. This is a welcome principle and, in response, the Government must ensure that the revised rates bills are fair, affordable and sustainable.

Cross-subsidy

Within the review, Housing Benefit will assist vulnerable consumer groups and will be funded from taxation rather than through a cross-subsidy on other ratepayers. We welcome this situation. However, we understand that the new proposed rate relief scheme for those just above the housing benefit threshold is not a state benefit but will be funded from the local tax base meaning most taxpayers will pay a little more as a result. We prefer that relief should be provided by way of social policy and not a cross-subsidy on other householders in order that the majority does not bear the burden of a large minority. The principle of transparency and the need for efficiency mean that cross subsidies should be avoided where possible and be open to public scrutiny where they do exist.

3 *GCCNI Submission to the Department for Regional Development on the Reform of Water and Sewerage Services in Northern Ireland - Integrated Impact Assessment, March 2005.*

Transitional arrangements

We strongly recommend that transitional arrangements should be transparent, clear and smooth so that rating reform does not unnecessarily disadvantage / confuse consumers. Given the potential impact on every household in Northern Ireland we believe that the transitional period should be sufficiently long to reduce the impact on the total household bill. At the same time, there must be full transparency so that consumers can understand their total household bill and its impact on them. An adequate transitional period of between three to five years would allow more time for consumers to adjust to the new increased rates bill alongside that of the new, direct water charge. Water charges will be phased in over three years.

Appeals mechanism

We believe that the appeals mechanism must be easily accessible by householders who believe that their revaluation is inaccurate or who simply do not understand their rates assessment. The appeals process must be user-friendly, robust and offer a timely means of redress for consumers suffering detriment. To reduce misunderstanding, we advise that money must be ring-fenced for advising households as to what the rates reform means for them and how the appeals process operates.

Revaluations

The housing market will not increase in value across all property types or regions. We welcome the commitment for regular revaluations to reflect property market changes in particular to ensure consumers whose properties experience limited capital increases are not overcharged and accurate rates are collected. We agree that revaluations should occur, after a period of three to five years in order to ensure currency of house values and avoid detriment among those whose property values may not increase at the same rate as higher rateable valued properties. For the proposal to work in practice these revaluations must be carried out regularly to ensure that the newly reformed rates do not similarly become outdated.

Summary

- A capital value-based charge is appropriate against the background that Northern Ireland has no tax-raising powers.
- A new category of vulnerable consumers (asset rich: income poor or those near benefits) must not develop as a result.
- A cap must be placed on the total revenue to be generated through rates, as this should not be allowed to increase unreservedly.
- Nowhere has Government tried to explain or acknowledge the impact of rates reform and water reform as a total household bill. The impact of these changes is significant and increases are well above expected cost of living increases in the same time frame.
- There needs to be a wider debate that focuses on exactly how much revenue Northern Ireland needs to generate and calculate the best means of bridging the gap that would meet the twin criteria of fairness and affordability.

- Rates bills should be reduced to reflect the new water charge being collected.
- Any review of rating policy must be considered alongside the proposed change in paying for water and sewerage services.
- Government must be truly joined-up with regard to all of these policies in order to protect consumers' interests.
- Northern Ireland should have the same sophisticated level of performance monitoring by an independent Audit Commission as GB.
- Government must ensure that the revised rates bills are fair, affordable and sustainable
- There is no clear consensus among consumers as to how rates should be calculated. However, irrespective of the calculation method employed, adequate protection must be built-in from the outset.
- There must be adequate protection for those whose property value is not a good proxy for ability to pay. Assistance should be targeted in order to be accessible to those either on or near the vulnerable threshold.
- A public education campaign should raise awareness of benefit eligibility to promote the uptake of benefits.
- Relief should be provided by way of social policy and not a cross-subsidy on other householders in order that the majority does not bear the burden of a large minority.
- The transitional period should be sufficiently long to reduce the impact on the total household bill. Transitional arrangements should be transparent, clear and smooth so that rating reform does not unnecessarily disadvantage/confuse consumers
- There must be full transparency so that consumers can understand their total household bill and its impact on them
- There must be regular revaluations to reflect property market changes in particular to ensure consumers whose properties experience limited capital rises are not overcharged and accurate rates are collected
- For the proposal to work in practice revaluations must be carried out regularly to ensure that the newly reformed rates do not become outdated.
- The appeals mechanism must be easily accessible, user-friendly, robust and offer a timely means of redress for householders.

Confederation of British Industry (CBI)

NI 19 06

Introduction

1 CBI Northern Ireland welcomes the opportunity to give evidence to the Assembly Sub-group.

2 This submission has been developed in a short time frame to meet the Subgroup's tight schedule. A separate paper on the CSR 07 has recently been finalised by CBI Northern Ireland and covers the key issues which we would wish to highlight to the Subgroup. The CSR 07 is extremely important and provides an excellent opportunity to secure further public sector reform and secure efficiency gains as well as refocusing expenditure. A brief summary of our views on CSR 07 are included with more detailed comments on the other two aspects of the Subgroup's work, namely rates charges and water reform.

Water Reform

3 CBI Northern Ireland wishes to see a world-class water and sewerage company providing services efficiently and with a strong customer orientation. We are strongly supportive of the establishment of a Government Owned Company (GoCo), the establishment of a regulator (NIAER) and having consumers' interests represented by the NI Consumer Council. We recognise that a major reform agenda is underway to create the world-class organisation that customers require, and are keen to support and encourage progress in achieving that reform agenda.

4 There is an urgent and real need for change. This will require political commitment to drive that change, and strong leadership and management competence to delivery the necessary changes. Significant efficiencies must be delivered, otherwise customers will have to pay more than they need to and Northern Ireland companies will be further disadvantaged relative to their national and international competitors.

5 Many businesses, especially medium and larger companies, already pay for water and trade effluent charges. We believe it is reasonable for companies, and indeed all customers, to pay for the services they use, provided these are delivered efficiently (as happens in the rest of

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the UK). This is also consistent with the 'polluter pays' principle. Clearly no one wishes to pay more, and it is easy for single issue groups to support the case for no change without taking into account the wider implications, and indeed opportunities for improving public services. Overall we have argued that the charging regime must be transparent, fair and affordable and that cross-subsidisation across consumer groups should be avoided.

6 We have also argued that new charges should be introduced in a phased manner (ideally over five years) to minimise their impact and provide sufficient time to enable organisations to manage these additional costs. An expected £40 million of additional costs on the business sector is likely by 2009/10 as a result of the introduction of the new water charging regime – this is a considerable additional burden to be introduced over a relatively short period of time – many small and medium sized companies, particularly in the services sector, will face new bills for water and sewerage. Companies need predictability re future costs and likely trends in order to prepare their business plans – we have argued that 'dummy bills' should be circulated in 2006 in advance of the charges coming into affect in April 2007.

7 Our policy efforts and overall goal has been to ensure that customer charges are fair and affordable and the services delivered are provided efficiently. We have major concerns that post 2010 it will be customers alone who will face all the risks associated with delivering a major reform programme, which requires a significant change of culture within the organisation. During the course of 2006 we highlighted the following key issues to the Water Reform Unit as needing to be addressed. It is unclear at present, from the proposed legislation and the recently published draft licence, what progress has been made in addressing these issues.

Key issues needing to be addressed

Liabilities

- Pensions – vital that customers are protected from pension liabilities prior to 1 April 2007 – need clarity on whether regulator has control over what pension costs can be passed on to customers
- Environmental liabilities – need to ensure customers are not exposed once Crown immunity is lifted and if infraction proceedings result in fines
- Seek assurance that customers are protected from legacy liabilities and protect GoCo from prosecution for a period of time

Government proposals should give Ofreg same powers as in GB

- Will there be enforcement powers with respect to sewage and sewers?
- Regulatory Asset Base (RAB) may be written into the licence and not be adjustable by the regulator. However, this prevents regulator from reducing the asset value and so reducing tariffs. CBI was informed earlier in the year that the RAB could be reduced by the Regulator if necessary. This is a key issue – and may be a critical means of ensuring that all the risks do not lie with customers post 2010

- The regulator will be required to pass material non-payment into the asset base used to set tariffs for all (with the result that non-payment by domestic customers will be covered by all customers, including the business sector)
- Regulator not able to determine use of revenues from sale of surplus land.

Cross-subsidy of domestic customers

- As noted, the current proposal is for material non-payment by domestic customers to be rolled into the asset base, and to be covered by all customers
- If company fails to hit efficiency targets, from where is the gap to be made up? What customers are exposed? Is government prepared to take a hit (especially as it is government who has been responsible for the current substantial inefficiencies) – as it currently stands it would appear that customers face all these risks

Sustainability of water company

- It is not clear what levels of funding, if any, are being made available by government to cover transition costs (for example, we understand no funds are being made available up front to help with redundancies and help to achieve a more efficient organisation quicker)
- Government is expecting a private-sector rate of return (5.8%). Normally, such a rate would reward risk. But where is government risk in this programme (unless government is prepared to take a lower return if efficiencies are not delivered?)

8 While there are several important issues here the most critical from a customer perspective is probably the value of the Regulated Asset Base (RAB) and the rate of return which government intends to take from the GoCo. We believe the RAB should be no more than £700m at the time of transfer to the GoCo (rather than the £1 billion currently being discussed) which is sufficient for a sustainable business to be developed, and that the rate of return should be lower (than 5.8%).

CBI Northern Ireland

18 December 2006

Northern Ireland Authority for Energy Regulation

Water Reform

OFREG Submission Before Hearing of 12th December 2006

General remarks

1. Northern Ireland needs a sustainable and efficient water industry. In the next decade or so, the main challenges are to improve customer service and environmental standards – which will require a very large investment programme - and substantially to improve the efficiency of the water company. Independent regulation has a good track record of driving efficiency and managing trade-offs between customers short- and long-term needs.

2. Ofreg's primary aim is to protect customers and we would be concerned if we were given insufficient powers to protect customers. However, the legal framework within the Order appears to us reasonably robust.

3. Taken together, our new powers in water are greater than those of other UK regulators. In particular, our powers (notably on the land-bank and out-sourcing) will be greater than Ofwat's. Government has substantially shifted its position on regulatory independence – we describe below a long list of topics on which the regulator's powers have been strengthened during the autumn's discussions. This is to be welcomed, and concerns about insufficient regulatory powers appear to us misplaced.

4. We look forward to using these powers from next April to set in place customer protection, and to address some of the main concerns about water reform. Recognising public concern about use of property values as a basis for charging, we will consult in summer 2007 on accelerating the roll-out of water meters. We aim to treat the new water company like a fully commercial undertaking, without concessions because of its public ownership.

Regulatory independence

5. We note concerns about the extent of regulatory independence. Ofreg itself shared this concern in the summer of 2006 when consultation on the draft Order began and debate began in earnest on the content of the licence under which NI Water Limited (NIWL) will operate. However, we have seen substantial changes during the consultation phase and in preparation for the current consultation on the licence. The most important are as follows:

- It was proposed that the parts of the Order giving Ofreg enforcement powers in sewerage should not be commenced until some time had elapsed. The Department has now stated publicly its intention to commence them immediately;
- It was proposed that Ofreg should not control the proceeds from land sales. The draft licence now requires NIWL to produce an Estates Management Plan for the regulator setting out their intentions. This will prevent a short-term "fire sale" of surplus land, and is a power not held by Ofwat. The licence also provides that from 2010 customers will receive 50% of the benefits of land sales, the GB approach. We understand from Hansard that Lord Rooker said on Monday that we will be given further powers, but we have yet to see confirmation of detail;
- It was proposed that Ofreg should be able to allow into prices costs relating to public-private partnerships (PPPs), even if these were inefficient. It is now agreed that PPPs will be regulated like other outsourced contracts in the price control from 2010, and from 2007 Ofreg can intervene if the existing PPPs become unacceptably inefficient;
- Ofreg has also been given a role scrutinizing NIWL's outsourcing plans, which Ofwat do not have for most companies;
- It was initially proposed that the Regulatory Capital Value (RCV) or rate of return for the 2010 price review should be fixed in the licence. This is not the case, and Ofreg are free to set these. I have said that I think Ofreg is likely take the £1bn RCV used as an input to the initial Strategic Business Plan as a starting point; and that the rate of return we use for price controls is likely to be a commercial rate;
- It is now agreed that NIWL will secure an investment grade credit rating not later than April 2010, although we continue to seek confirmation that this will be done in 2009;
- It is now agreed that the Directors of NIWL will be required to issue Ofreg with a certificate confirming in effect that the dividend can be afforded;
- The provisions on the NIWL Asset Management Plan have been extended so we supervise not only the below-ground assets (as per Ofwat licences) but also above-ground assets.

6. We will use our powers vigorously in customers' interests. From next April we will consult on guaranteed standards of customer service. If these are not met customers will be entitled to compensation and we may fine the water company for systematic failure. We will have powers to ensure that customer disputes are resolved fairly, although we hope the General Consumer Council will play the same kind of useful role as they do in energy. We will monitor the water company's delivery of its investment and reform programmes, challenging where we see unacceptable inefficiency. We will supervise the company's out-sourcing activities, and use of its landbank.

Concerns

7. Some concerns remain. These are focused in three areas:

- Commencement provisions. The Department has taken the view that our water powers should not be "commenced" until 1 April 2007. The implications is that work-strands such as preparation of Guaranteed Standards cannot begin until then, which will delay the coming into force of the standards, probably until January 2008;
- Resources. Although the Department have agreed funding arrangements, a limited number of experienced staff are available. So far only one DRD staff member has been released to Ofreg. We have begun external recruitment, but nevertheless our team will build to full effectiveness slower than I would have wished; and
- Charging methodology. In the absence of universal metering it is likely that no charging methodology would be fully fair. We intend to consult in summer 2007 on accelerating the roll-out of metering. This would not only enable a clearer link between consumption and charges, it would also enable more effective action to improve water efficiency, for instance enabling stepped tariffs.

Northern Ireland Authority for Energy Regulation

9th January 2007

Thank you for your letter dated 21st December asking us on behalf of the Programme for Government Sub-Group to answer a series of questions. Your letter unfortunately arrived after all our water staff had left for the Christmas holiday, and so was not tackled until Thursday 4th January. We have sought to provide as much detail in our answers as possible in the time available, and these are annexed to this letter.

The basis for this response is the same as that on which I gave evidence to the Committee orally. This letter sets out my own view as Chief Executive of the Authority. The Authority's powers in relation to water and sewerage have not yet been commenced and so as a department we have no vires in these areas. Given this legal situation, this letter cannot give legitimate expectations on which stakeholders can firmly rely, but I hope the Sub-Group will receive my answers in the spirit of good faith in which it is given.

I remain at your disposal for further clarification,

Yours sincerely

Iain Osborne
Chief Executive, NIAER

Annex – Answers to Questions

1. **Can you define self-financing? Can you identify how a self-financing system will be regulated?**

We understand "self-financing" to be a short-hand term used by Ministers to refer to a shift away from financing NI's water system from taxation, towards financing it more completely from charges for services provided. (Although the business is already funded partly from service charges; and, at least for the first few years, will still be partly funded from taxes after 2007.) Evidently, it is largely the same group of householders who pay in both cases.

The system will be regulated in the manner set out in the Water and Sewerage Services (NI) Order 2006, and (subject to consultation) in the draft licence and is envisaged as applying much of the present Ofwat system of regulation applying to England & Wales (E&W). The Order and draft licence are broadly analogous to their equivalents in England and Wales. Local discretion is assured by empowering the local Northern Ireland Authority for Utility Regulation (NIAUR) as regulator so as to avoid rote duplication of parts of the E&W system that are unlikely to sit well in the Northern Ireland context.

Broadly, this system of regulation aims to balance the short and long-term interests of consumers. Their short-term interests are met by setting enforceable quality standards and controlling prices. Their longer-term interests are set by ensuring that price controls create incentives to improve both quality and efficiency, and by ensuring the water industry is financially and environmentally sustainable and safeguards security of supply.

Can you outline how you will be dealing with a) bad debt above 5%; b) non-payment; c) PPP commitments; d) subsidies to the GOCO; e) affordability tariff; f) unmet efficiency targets; g) pension and redundancy costs within this self-financing model?

a) Along with the draft licence DRD published a letter from me setting out the principles I expect the new regulator to follow. These are subject to confirmation or change by the Authority when it has relevant vires. Paragraph 30 of this statement of regulatory principles says:

"It is currently envisaged that bad debt above a threshold level during the price control period to 2010 and costs not reflected in tariffs due to the exercise of a Ministerial veto will be rolled forward in the RCV (where such costs have not otherwise been explicitly subject to an additional Government subsidy). I would expect NIAUR to follow this approach, so that such bad debts would be included in the RCV at 2010; but I would expect NIAUR then to review this approach in respect of subsequent bad debt in the light of the wider structure and levels of tariffs that are associated with its future price control determinations."

b) Non-payment produces bad debt – see (a). We will encourage the Water Service to take a commercial approach to collecting receivables, treating vulnerable customers sensitively, and expecting customers to pay for services received.

c) For the first three years, Ofreg has the power under condition 4.4(i) of the draft licence to deem that some element of PPP costs are unacceptably inefficient and exclude them from prices. Our expected treatment of costs from the existing PPP contract after 2010 is described in paragraph 22 of my statement of regulatory principles:

"NIWL has concluded two recent major PPP contracts on the basis of assuming that the cost variations associated with the contracts are fully recoverable from funders. I expect NIAUR will recognise that it is inappropriate to place risks on regulated businesses which they cannot efficiently manage. In consequence, I expect that NIAUR will include the costs of the PPP contracts in the regulated cost base of NIWL for the purposes of determining the funding from consumer prices after 2010, provided that NIWL is managing these contracts efficiently in the pursuance of continuous improvement. As costs relating to these contracts are subject to efficiency review, they are equally subject to efficiency incentives from 2010. This means that benefits from efficiency out-performance may be retained by NIWL for a number of years before being passed to customers."

d) Subsidies to the GoCo are in addition to revenues raised under the licence. In that sense they fall outside the regulatory regime.

e) See (d). In the longer run, Ministers retain a role in that they provide guidance as to how the regulator should balance various objectives in the price-control process. Such guidance could lead us to create a similar social tariff to allow continued support for vulnerable groups. Without any further direct subsidy, such a tariff would require cross-subsidy between customer groups.

f) Paragraph 25 of the statement of regulatory principles states:

"I would expect NIAUR to treat NIWL as a fully commercial company for the purposes of future price control reviews, notwithstanding its status as a Government-owned corporation. As with the industry in England and Wales, the actual ownership and balance sheet positions of individual companies should not be the main determinants of regulators' assessments of their efficient costs (including financing costs) when undertaking price control reviews[1]. Consequently, in future price control determinations, I would expect NIAUR to allow NIWL, as a commercial company, to be fully remunerated for the efficient expenditures it is expected to undertake, including appropriate remuneration for the costs of capital invested in the business and reflected in the regulatory capital value ("RCV"). This should, among other things, enable directors of NIWL to fulfil their own statutory duties including duties to shareholders."

The commitment is only to ensuring that prices cover efficiently incurred costs. However, the regulator must also be confident that efficiency targets are achievable, and has a duty to secure the financeability of the company. Striking the right balance between these

1 *Appropriate consideration will however be given to the undertaker's financiability. Such analysis supported an Ofwat uplift to company price limits of around 1% in 2007-08 to maintain financiability in the face of worsening cashflow positions.*

various considerations will be an important part of the price review which we will undertake from 2007 to 2009 (known as "PR09").

Pension and redundancy costs are in principle legitimate costs of a business (particularly one undergoing significant re-organisation). However, such costs can be disallowed if the structure of a re-organisation allocates an unfair share to consumers. This is an issue for review in the PR09 process, although we would not expect to micro-manage NIWL's pension arrangements.

2. **What are the current inefficiencies within the Water Service, and from where have you drawn this information? Have you been consulted on the efficiency targets being set for the new GOCO and been given full analysis for any deviation from the 35% operating and 27% capital efficiencies previously defined by DRD?**

Ofreg has had very limited engagement with the development of efficiency targets. The main vehicle for their development is the current elaboration by DRD and the Water Service of the latter's Strategic Business Plan (SBP). (Our engagement with the SBP has been similar to the General Consumer Council's, but less since the Council has had more resources available to analyse a draft plan.) The limits to our engagement are made clear in the statement of regulatory principles (para. 21):

> *"The appropriate level of NIWL's projected expenditures during the first price control period to 2010 has not been reviewed by us as regulator in advance of NIAUR's creation. However, given the substantial efforts by the shareholder to validate NIWL's expenditure projections, I expect that NIAUR will find that expenditure which has been incurred in line with the assumptions and output expectations in the initial price control to 2010 will have been efficiently incurred, given the position of NIWL. This will be reflected in the way in which the RCV will be rolled forward to the start of the price control commencing in 2010. Conversely, NIAUR is not in a position to provide a "glidepath" for cost efficiency gains in the period immediately after 2010[2]. Nevertheless, NIAUR will review actual expenditure in the first control period in assessing appropriate price controls for the next control period."*

In other words, we do not regard the SBP as negligible, but will nevertheless conduct our own analysis. This work will be taken forward within the PR09 process, and its results are obviously not available now.

Given this, we do not so far have our own view of the current level of inefficiency within Water Service. We are, however, aware that all who have looked at this question seem to agree that the GoCo will begin life very substantially less efficient than comparators.

2 *A glidepath is provided for water and sewerage companies in England and Wales, whereby a proportion of the companies' capex efficiency out-performance is not passed immediately back to consumers at the subsequent price control review but is currently subject to a rolling 5-year period for out-performance. Any opex out-performance is handed back to customers at subsequent Periodic Review. Up to 5 years worth of opex and capex out-performance and the pure profits resulting are deemed appropriate incentive for companies to meet their efficiency targets.*

Can you outline how you will practically be bearing down on inefficiencies from2 007 to 2010?

The GoCo will be required to provide data returns to us each year. We will use these returns to monitor the company's performance both against its own targets and against our developing understanding of what the company ought to be able to achieve. We will challenge the company year-by-year where appropriate, and may let the company know in advance that certain costs will be disallowed in the first price control period.

3. **Can you define all or any engagement you have had on the development of the Ministerial Guidance you will be operating under?**

Ofreg (the non departmental public body which supports and advises the regulatory Authority, NIAUR from 1st Apr-07) staff have attended a number of a new Regulators' Group meetings pre-2007.

The Regulators' Group includes representatives from EHS, DWI, DRD, DFP & Consumer Council and its Terms of Reference are similar to that employed in the E&W context; an open forum, employing Chatham House procedure to debate respective roles, duties and requirements for the regulated companies. Although this discussion was not directly focused on producing ministerial guidance, we expect that it will be helpful for this purpose in the future, as has been experience in E&W.

The Regulators' Group has recently been stood down by DRD as they enter the final stages to agree the Strategic Business Plan with Water Service; DRD intend liaising bilaterally for the foreseeable.

In addition one member of Ofreg staff attended, as observer, a number of Environmental Steering Group sub-group meetings where DRD, EHS and DWI have attempted to agree an amended Capital Works Programme to apply to NIWL up to 2010.

4. **Can you define all or any engagement you have had on the development of the Strategic Business Plan from September 2006 to present? Are you to have a role prior to its sign-off?**

See our answer to question 2. Looking forward, we understand that DRD will outline to us the main financial parameters of the SBP before it is finally settled. There may be an opportunity for us to seek changes at that time, although this is not clear. This is a bilateral consultation process, but DRD have informed us that they intend to undertake a similar process separately with GCC and the Environment and Heritage Service.

5. **Have you been given full access to the PPP contracts to investigate and approve the commitments within them? Can we have your assessment?**

No, we have not seen the PPP contracts. It is not generally the regulator's role to approve such contracts in advance. If the contracts turn out to be inefficient, such inefficiency will not be passed through into consumer prices.

6. **While technically you can adjust the RCV of £1bn, what factors would constrain or prevent your doing so, if any?**

7. **Have you the power to adjust the cost of capital presently at 5.8%? What factors would constrain or prevent your doing so, if any?**

Prices from 2010 will be set to allow recovery of efficient costs. A major cost is the cost of capital, which is built up from a capital valuation multiplied by a cost of capital. We therefore take these questions together.

Both elements will be subject to independent review by the regulator. We are not prevented by the licence or otherwise from altering these factors. Our approach will be chiefly guided by the statutory duties provided in the Water and Sewerage Services (NI) Order 2006.

Our approach to the regulatory capital value is discussed in the statement of regulatory principles, paragraphs 27-28:

> *"I expect that NIAUR will recognise the importance of the RCV and its stability in providing a consistent incentive to efficient investment and financing to the long-term benefit of consumers. I would expect NIAUR to use an RCV for NIWL as an integral part of its price control determination for future price control periods.*
>
> *"I also expect that NIAUR will recognise that Ministers have set an initial RCV of £1bn (2006/07 prices) for NIWL, following a write-down of historic cost assets, in establishing the price caps in the initial Licence. This RCV has been used both to determine the initial capital structure of NIWL and the assumed tariff path. I expect that NIAUR will acknowledge and respect the use of this initial RCV of £1bn by Ministers to those ends. In the absence of any direct market value indicator, and in the interests of stability and sustained and efficient investment by the company throughout and beyond the initial price control period, I expect that NIAUR will adopt this initial RCV as the starting point for determining the RCV in its own price control determinations."*

As regards cost of capital, this is covered in paragraph 34 of the statement of regulatory principles:

> *"I expect that NIAUR will set the weighted average cost of capital (WACC) in line with investment grade precedents. More generally, I would expect to follow regulatory best practice in this area, notably having regard to Ofwat precedent."*

8. **Can you confirm that you have full authorisation for land disposal from 1 April 2007 and can you confirm that the new GOCO will require your approval to dispose of any land and assets? Can you confirm that you have been given guarantees that all potential constraining elements of the draft licence to your authorisation role including paragraph 4.2 will be removed? Can you please advise if any land and asset**

disposal has been sought by Water Service and/or approved by DRD which would be effected after the transfer date of 1 April 2007?

We have no information on this subject that is not publicly available. The draft licence issued for consultation requires regulatory approval of a 10-year Estates Management Plan, but it does not create a regulatory approval role for individual disposals where a Disposal Certificate has been provided. However, we have also seen the letter from DRD to Lord Glentoran of 8 December 2006 which suggests this is not DRD's final position. We have written to DRD asking for clarification.

We have been told by DRD in general terms that its intention is to remove fetters on regulatory discretion, but not in detail how DRD sees this policy applying to Condition K.

We see no legal basis, in advance of the licence coming into force, for the Water Service to bring to us any land disposal, nor have we received any such approach.

9. **When do you take on full authorisation and enforcement powers for a) water and b) sewerage and waste water? Where is this documented? Can we have a copy please?**

Our understanding is that these powers take effect when the relevant sections of the Water and Sewerage Services (NI) Order 2006 are commenced. We have written to DRD to request a timetable for commencement, but have not received an answer.

The Coalition Against Water Reform

Introduction

The Northern Ireland Anti-Poverty Network was established in 1991 to create a focus on poverty. It is an interactive network with over 300 members drawn from the voluntary and community sectors, public and statutory bodies. NIAPN provide newsletters, organise seminars, meetings and conferences, undertake research and disseminate information on poverty and social exclusion. We are part of the European Anti-Poverty Network, which has networks in 22 EU countries.

The Northern Ireland Anti Poverty Network (NIAPN) believes that the right to an adequate supply of safe, clean water is a basic human right. Water is a fundamental requirement of public health and hygiene, particularly for families with children. Further, a modern, safe and effective water and sewerage system is essential for the protection of both people and the environment now and into the future.

Government's Ideological Commitment to Privatisation

NIAPN opposes the privatisation of NI's Water Service. Just as the General Consumer Council's 2002 Water Survey found 92 per cent of the public opposed to privatisation, so every consultation with members that we have carried out has revealed a similar level of opposition. That opposition is based on an awareness that privatisation means that some of the money coming from people with already low incomes will go to the profits of private water companies rather than into the water service. NIAPN supports the model proposed by the trade unions whereby water and sewerage services should be paid for through the rates system. While the rates system is generally a regressive one, it at least protects from water poverty – and greater levels of other social and material deprivation – all those who receive Housing Benefit. Further, experience in other parts of these islands and across the globe indicates that privatisation brings huge profits for water companies at the expense of the poorest in society. We believe that even quite large increases in rates bills – based on ability to pay – in order to meet the investment needs of the Water Service would be acceptable since people would know that their money was not being used to boost private profit. Further, any such money, because it is public money, could be used under the Reform and Re-investment Initiative to borrow against for further infrastructural development. But, once water charges are being paid to a private company, whether a Go-Co or a private corporation, the money will be private and so not available to borrow against for developing public services.

While NIAPN believes that water and sewerage services should be paid for through the rates system, which protects all those who receive Housing Benefit, we are horrified at the deception which is being perpetrated on the public which has been led to believe that the "affordability tariff" is to be "guaranteed" for low-income households (while it is only available for three years). NIAPN is further concerned at the basis on which the "affordability

tariff" is based. The Explanatory Memorandum accompanying the legislation says here that the affordability tariff is based on the single person pension credit guarantee, which is £114 at present – this is more than double what a working age person without children on benefit receives. At present 40 percent of those dependent on state benefits in NI are working age adults without children. Most, if not all, of these people will be plunged into water poverty even under the "affordability tariff". In NIAPN's estimation, the basis of the affordability tariff entails a return to the idea of the "deserving" and "undeserving" poor, i.e. pensioners and families with children are seen as "deserving" while those of working age without children who are dependent on benefits are seen as "undeserving"

Water charges will greatly increase poverty levels in NI

The recent Monitoring Poverty and Social Exclusion in Northern Ireland 2006 report from the Joseph Rowntree Foundation indicated that levels of income poverty here are likely to soar with the introduction of water charges and increases in household rates. This is because housing costs in NI have traditionally been lower than in Britain. Housing costs are deemed to include not only the cost of rent or mortgage but also rates/council tax and water charges. However, with the rapid increase in the cost of buying a house and the imposition of much higher rates, the evidence is clear that the introduction of separate water charges will make poverty here far greater.

Non-payment Campaign

In view of the Government's refusal to keep water in public hands and protect the poorest in our society from falling into deeper poverty, NIAPN will be supporting the water charges non-payment campaign. The point of non-payment is to ensure that a stream of revenue attractive to private corporations will not be established and the Government will be forced to reconsider its position and take account of the strongly held views of the overwhelming majority of people in Northern Ireland about how our water should be provided and funded.

Coalition Against Water Reform

Irish Congress of Trade Unions
Northern Ireland Committee

Response by NIC.ICTU to the Consultation on the Proposal for a Draft Water and Sewerage Services (NI) Order

1. **Introduction**

The Irish Congress of Trade Unions is the largest voluntary organisation in Northern Ireland. Congress represents in excess of 222,000 workers covering over 30 trade unions. These workers are employed in all sectors of economic and social activity.

In this response Congress will limit its comments to those which are necessary in order to highlight the opposition of the Trade Union Movement to the Government's proposals as detailed in the Draft Order. Congress will not comment on every chapter or schedule of the Order.

2. **Background and Policy Objectives**

2.1 It is evident to all that the infrastructure for water and sewerage services in Northern Ireland is in need of considerable investment and modernisation. It is the contention of Congress and a wide range of interested groups that this investment is needed due, in no small measure, to the neglect of successive Direct Rule administrations. The responsibility for addressing the infrastructural deficit rests clearly with Government. The population of Northern Ireland has made substantial financial contributions to the provision of water and sewerage services through the domestic rating system. Congress is totally opposed to the proposal to levy additional charges as outlined in the Draft Order.

2.2 Paragraph 3 in the Explanatory Memorandum refers to the creation of a Government owned company (Go-Co). It goes on to state that the 'Go-Co' 'will be appointed as (initially the sole) water undertaker and sewerage undertaker for the whole of Northern Ireland…' This implies that more than one undertaker may provide one or other or even both of the undertakings in the future. Congress sees the creation of a 'Go-Co' as a vehicle to the privatisation of our water and sewerage services. The international experience would show that privatisation of such services has meant the reduction in quality of service provision, the quality of water and increased, excessive costs. The public has the right to expect that high quality services are the norm. Congress believes that this can only be assured by keeping the services public.

3. **Financial Effects of the Order**

3.1 Paragraphs 7 and 8 go on to state that there will be additional public expenditure costs to support activities by DRD, the NI Authority for Energy Regulation and the remit of the General Consumer Council. These additional costs will be at least £4m per annum according to the Government's own figures. Paragraph 8 goes on to say that these additional costs will be charged to the water and sewerage undertakers.

3.2 What they really mean is that the consumer will be required to carry this additional financial burden. Paragraph 9 makes it clear that the legislation will levy new and additional charges for water and sewerage services on top of these charges already being met by the consumer. With the additional charges for domestic rates, the highest energy costs in the United Kingdom and, notwithstanding comments in Paragraph 10, these proposals will lead to increased poverty and hardship in Northern Ireland.

4. Overview of the Order

4.1 When Paragraphs 13-21 of the Explanatory Memorandum are read in conjunction with the relevant parts of Chapter 1: Appointments, it is crystal clear that Government intends to introduce more than one undertaker in the future. It also presents further evidence that the provision of water and sewerage services are liable to be split among different undertakers and areas of Northern Ireland. Paragraph 20 states '…although the legislation distinguishes between water services and sewerage services and refers to water undertakers and sewerage undertakers, only one company (the GoCo) will be appointed, for the present, to carry out all of these functions.'

4.2 Congress is further convinced that privatisation is on the agenda when we read in Paragraph 21 that the Order is based on 'the legislation governing the delivery of water and sewerage services in England and Wales.'

5. Appointment and Regulation of Undertakers (Chapter 1)

5.1 Congress has already commented on this part of the Order in paragraphs 4.1 and 4.2 of this response. This part of Chapter 1 makes it clear that the legislation will allow for more than one undertaker in each of the services and throughout different areas of Northern Ireland. This is further evidence of the intention to privatise services and could easily lead to variations in quality and level of provision if highly populated and industrial/commercial regions are isolated from sparsely populated rural districts.

6. Financial Provisions

6.1 Part VII of the Order provides for the undertaker to set charges for the use of water and sewerage services. As we stated at the outset of this response these charges represent additional charges on the consumer. Congress is opposed to this measure. The Order is deficient in that it does not give any detail of how the undertaker intends to set the rate of charges for water and sewerage services. The only indication of the charging regime is given in Paragraph 99 of the Memorandum which states that charges will be based on a standing charge and an element based on the capital value of the property. This method of apportioning charges has little support among the public. It is also clear from the Order that the undertaker may determine his own method of calculating charges.

7. Reorganisation of the Industry

7.1 Congress has agreed with affiliated trade unions that this issue will be responded to by the Water Service Trade Union Group.

ANNEX

RECEIVED FROM THE COALITION AGAINST WATER REFORM

Response to the consultation document 'Reform of Water and sewerage services in Northern Ireland' March 2003

By

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This paper was commissioned by NIPSA in conjunction with Water Service trade unions and the Irish Congress of Trade Unions

About the author

David Hall is director of the Public Services International Research Unit (PSIRU) at the University of Greenwich, London, UK (www.psiru.org). PSIRU is recognised worldwide for its work on public services and privatisation, especially in the fields of water, energy, waste management and healthcare.

He has published many reports, including articles in academic journals, on water, energy, healthcare, local government and restructuring and privatisation of public services in general. Some of these have been widely circulated: "Water in Public Hands" (2001 – www.psiru.org/reports/2001-06-W-public.doc) , which has been translated into at least 8 languages. He has been invited as a guest lecturer to the water division of the World Bank, and as an expert speaker at meetings of many other international institutions including the European Parliament, United Nations, UNCTAD, ILO, and OECD; has presented papers at international academic seminars and conferences on water, energy, privatisation and corruption; and spoken at many meetings of trade unions, environmental and development NGOs in 33 countries.

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PSIRU's research is published on its website, www.psiru.org . It is centred around the maintenance of an extensive database of information on the economic, political, financial, social and technical experience with privatisation and restructuring of public services worldwide, and the multinational companies involved in these processes. This core database is financed by Public Services International (PSI - www.world-psi.org), the worldwide confederation of public service trade unions.

PSIRU is leading a consortium of five universities and institutes across Europe in a major 3-year research project on decision-making on water in cities in Europe, Watertime (www.watertime.org). The project is funded by the European Commission.

1 Introduction

This report offers a critical response to the proposals and arguments in the government's consultation paper "The Reform of Water and Sewerage Services in Northern Ireland" (March 2003). There are three main sections to the paper: one concerning finance, one concerning organisational structure, and one concerned with regulation and representation. Each is considered in turn.

It concludes that the government's proposals are based on an unsound analysis of the financial and governance issues, and sets out an alternative approach which addresses the need to finance investment without introducing a new tax.

2 Finance

2.1 General structure and limitations

The proposal advanced by the document is that a new charge should be introduced in Northern Ireland, specifically to finance water services. The structure of the arguments in the paper can be summarised as follows:

- Starting point: the need for investment
- Financing investment requires water charges
- The Treasury is waiving new accounting rules in exchange for introducing charges
- The EU Water Framework Directive requires water charges
- Curbing charges requires cost reductions
- Cost reductions would be more likely from involving the private sector

There are serious weaknesses in these arguments as presented in the paper. Specific points are addressed in the following sections..

One general weakness of the consultation paper is that it presents little financial information. The previous consultation paper on this subject, issued in 1999, included basic data on the actual levels of investment, the current sources of finance, projected needs, and the consequences for taxes or charges. The new paper does not even update the data in the 1999 report. This is a weakness of the paper, because some of its key assertions are difficult to understand or believe without

supporting evidence. The claim that users in Northern Ireland might have to pay £350-£400 for water services, for example, which is given a prominent place in the public leaflet as well, has no connection with actual data and so has no credibility.

2.2 Need for investment

This is made the core of the government's case for the need to reform financing mechanisms. The first sentence of the minister's introduction identifies the 'need for massive investment', and in answer to the question posed (1.6) 'What are the challenges facing the water industry in Northern Ireland?', the paper starts with the heading 'Investment Need'. There clearly are investment needs, which have to be financed and paid for. The paper uses these needs as an argument for introducing new charges, implying that the future requirements cannot be sustained without such drastic action. But data in the paper and elsewhere shows that the future requirement for investment finance is no greater than previously expected, and existing plans already provide for the necessary investment.

2.2.1 Investment forecasts

The paper says that the Asset Management Plan is still in progress, and refers to the previous plan in 1992, which showed an investment backlog of £460m and "a need for investment of £3billion over the ensuing 20 years", and then states that the plan in progress, "is likely to define similar investment needs" (para 1.7) . The same figure is given in the Water Services 2002 Corporate Plan, of £3 billion over the next 30 years, implying average annual investment of £150m.[1]; the Corporate Plan in the previous year declared that there was "a need to invest some £1.6 billion on new and upgraded water and wastewater treatment works and improvements to the water distribution system, over the next 10 years."; and the 1999 consultation paper [2] stated that "The level of investment required ....has been estimated at up to £2.5 billion over the next 15 to 20 years" – which implied annual expenditure averaging £125m-£167m.

What is most striking about these figures is their consistency. The projected level of investment in water services in Northern Ireland is not a new figure, higher than previously thought, but almost exactly the same as has been expected for over a decade, around £150m per annum. The forecasts cannot be used to justify new, or higher, taxes or charges on the grounds of changing expectation.

2.2.2 Actual and budgeted levels of capital expenditure

The document nowhere sets out or refers to the actual level of capital investment in recent years and the immediate, but a picture can be constructed from other reports. The Corporate Plan for 2002-2005 states that the capital expenditure budget for 2002/03 is £100m; the Water Services Annual Report for 2001-2002 states that capital expenditure during the year was £98m [3]; and the 1999 consultation paper [4] states that capital expenditure from 1994/95 to 1998/99 was £85m, £91m, £76m, £79m, and £86m. So capital expenditure has been rising during the last 8 years to £100m in the current year.

To meet the forecasts of £150m will therefore require an increase of £50m in the annual capital spending. This is a significant increase, and will require a corresponding increase in finance. This is already provided for, according to the paper, which states that the budget for the Northern Ireland departments provides for capital expenditure of £139m in 2003/04, £148m in 2004/05, and £174m the following year (2005/06). (Table 1, p 6).[5]

In effect, the next three years taken together will already be over-achieving the forecast level of investment needed. So by 2006, the year when it proposes to introduce the new charge, annual investment will no longer be rising, and will not be expected to rise. If new charges were introduced in or after 2006 they would not be financing higher levels of capital spending, but relieving another source of finance. It would be a shift in the burden of taxation, not a means of financing capital expenditure.

2.3 What citizens pay for water at present

The paper argues that in Northern Ireland " domestic users do not pay a direct charge for water services"(1.12) , and says that the 'widespread perception' that people pay for water through the rates "is no longer the case" (1.23). The denial that users pay is strongest in the public leaflet, which says 'No' to the question 'Do I not already pay a water charge as part of my rates bill?' and argues "*The Regional Rate is a local tax that forms part of the overall revenues available to the Northern Ireland Executive to fund public services such as health, education and transport. Rate revenues are not earmarked for any particular service, and your rates bill does not include a direct charge for water and sewerage services.*"

But it is not possible to conclude from this that people do not pay for water services. The same points apply equally to all public services funded by local or central taxation – tax revenues are not earmarked for the health service, for example, but that does not mean that people do not pay for it. The paper itself acknowledges this when it says that water services in Northern Ireland are treated as public expenditure *"and are simply part of the wider cost of local public services that the regional rates help to finance"* (1.23). People do pay for water, through the rates.

This payment was quantified in 1999: the minister's forward to the consultation paper of that year acknowledged that *"the contribution this year by the average domestic ratepayer in Northern Ireland for water and sewerage services is £127"*. [6] Those payments, according to the paper, had "been rising in recent years to reflect increasing levels of investment" and further increases were expected. The paper then estimated that *"increasing the Water Services annual income by an additional amount of £50million would represent an increase of approximately 10% in the average domestic rates bill (roughly £35 per annum…)"* [7]

This result means that the cost of the water service in 1999, just under £200m, could be increased by £50m to a total spending level of £250m, and could be financed by an annual domestic rates payment of £162 (the then level of £127 plus the £35 to fund the extra £50m).

The 1999 consultation paper gave clear information on all sources of funding. Over three-quarters of the total expenditure of £195m was financed by the rates, which provided £150m; charges for commercial water use, trade effluent charges and connection charges, provided £36m; and the balance of £9m came from central government.[8] The present paper notes that commercial and industrial users pay £40m in charges at present, but says nothing about the future plans for these charges. The paper implies that all increases in capital investment must be financed solely by charges to domestic users. This is either an oversight, or needs justification.

The denial that users pay is used to justify a new, additional charge, on top of the existing rates and other taxes and charges. Because users do pay, this new charge is simply a new tax.

2.3.1 Exaggerated forecast and 'cost reduction'

The paper (and the public leaflet) both claim that this new charge would have to be at a very high level, and this provides a strong reason for major cost-cutting. The paper states that *"If water charges were introduced in Northern Ireland without a major cost reduction programme, and investment in new technology, it is estimated that the average household charges would be in the region of £350 to £400 per year"* (para 1.33) [9]

However, the paper offers no explanation or justification for this figure. It is far higher than would be expected, and it is impossible to reconcile with the clear data from the 1999 paper. The level of expenditure forecast for 2005-2006 is £313million, which is £118m above the level in 1999. Using the 1999 paper's figures that each extra £50m implies £35 on the annual domestic rates bill, then households would have to pay an extra £82 in addition to the 1999 level of £127, giving a total contribution of £209 Whether this was paid through the rates, or through some separate special water charge, makes no difference to the figure. [10]

Without further explanation of the basis for the calculation, the government's figures of £350-£400 seem without foundation or credibility.

The context in which they are used is also unusual, implying that unless there is a major cost reduction, the cost of water will be £350-£400 per household. But it does not add any more credibility to the suspect figure of £350-£400 to say that it will be smaller if costs are reduced - cost reductions are bound to reduce the amount of finance necessary, whatever their level. It should also be remembered that water is a capital intensive business, and so a 10% saving savings in current expenditure will equate to only a 5% reduction in total expenditure.

2.4 Diversion – the distribution of taxation in the UK

The paper then diverges into a quite separate argument, namely that "people in Northern Ireland do not contribute enough towards the cost of public services, compared to citizens in the rest of the UK" (1.24), and compares levels of rates and water charges for other parts of the UK. This is a general question about the distribution of the burden of taxation in the UK, not a question about the funding of water and sewerage services. The same issue was touched on in the 1999 consultation paper, when the minister stated that the rates paid towards water were about half the average charge for water in England and Wales, but hastened to

add that "great care should be taken in using these general average figures for comparison purposes". [11]

This issue is nevertheless central to the proposal, because the charging policies proposed in the paper would significantly alter the distribution of the burden of taxation. The charge would not finance some new service that is not already being provided, but would enable the government to relocate the burden of financing an existing service.

It would be the equivalent of a new tax on the people of Northern Ireland.

2.5 New capital charges: a bargaining issue

The paper then sets out the impact of new accounting rules that the government has decided to introduce, which impose depreciation and capital charges on capital spending. Whatever the merits of these new accounting rules, they would burden water, a capital intensive service, especially hard, with "substantial new costs" (1.28).

The next step taken by the paper is not an argument as such but a bargaining position. It says that *"the Treasury exceptionally offered a concession whereby it agreed to an effective waiver of these charges providing the necessary commitment was given that the Service would be reformed so that it would be put on a self-financing basis."* (1.29) This commitment was reportedly given in December 2002 on behalf of the Secretary of State.

This 'deal' is remarkable for a number of reasons. Firstly, it is unusual for a finance ministry to waive accounting rules in exchange for some other policy objective, and such a waiver undermines the credibility of the accounting rules. Secondly, it appears to override most other arguments - whatever the merits of any particular financial or organisational arrangement, the new water charges have to be introduced as a quid pro quo for waiving the accounting rules.

The deal affects some of the organisational options under discussion in section 3: the options of privatisation, a not-for-profit company, and a state-owned GoCO would not be worth considering because under those options the Treasury would not be in a position to waive accounting rules, which would have to follow requirements for private companies.

2.6 Sustainable finance: arguments for specific charges

The paper argues that self-financing status requires a special charge for the costs of water, to "provide a reliable and sustainable revenue stream"(1.34) : continuing to finance water through the rates would not meet the requirement because the rates are determined by the executive or ministers – and so, by implication, subject to political influences [12] that might disrupt the service (para 1.31). This is a common argument for corporatisation of services such as water, but water prices cannot be excluded from political influences. In England and Wales water prices became an acutely political issue following privatisation – despite the theoretical distance of ministers from the price rises which followed.

The paper implies that the models of water financing used in England and Wales, or in Scotland, are the correct way to finance water, and that Northern Ireland is out of step (para 1.18 "at odds with the rest of the UK"). It is worth pointing out that the rest of the UK is at odds with the rest of Europe. England and Wales are the only places in Europe where most domestic users are charged an annual lump sum calculated on a tax base that no longer exists for any other purpose (metering is an option used in a minority of cases). Nearly all other European countries use water meters and charge users by their measured consumption plus a standing charge. England and Wales are also the only places in Europe where the network system itself is privately owned, and the only places where local authorities have no responsibility for water services. In all other countries, the water and sewerage systems are owned by local authorities, who also run the services in the large majority of cases.

In a number of countries, in addition to user charges, there is a contribution from central government out of general taxation. The outstanding example of this is the Republic of Ireland, which continues to use the same system of financing water through tax revenues as is currently used in Northern Ireland – there are no specific water charges, and no meters.

The Water Framework Directive (WFD) is referred to by the paper (para 1.11) , but it does not require the introduction of specific user charges. The WFD says (Art 9 para 1) that member states must "take account of the principle of recovery of costs of water services", and ensure "that water-pricing policies provide adequate incentives for users to use water resources efficiently" and "an adequate contribution". But the definition of an adequate contribution is left wide open, and "member states

shall not be in breach if they decide in accordance with established practice not to apply" these requirements (Art 9 para 4).

Finally, the paper's discussion of how to collect a water charge seems to highlight a weakness in the argument that it is a separate, non-political water-related payment. Of the possible options for the basis of charging, it appears to favour a charge based on the capital (or rental) value of the property, as used by the rating system (para 2.11). It then points out that if this basis is used, then "*the domestic water and sewerage charge could be calculated, billed and collected by the Rates Collection Agency. This may offer advantages in terms of set up costs, and ease and cost effectiveness of administration*" (para. 2.30) These are sound points, but if users are charged on the basis of the rateable value, and that charge is billed and collected by the same public authority that collects the rates, it is not clear that such proposed charges are significantly different from continuing to pay through money collected from the rates.

3 Organisational structure

3.1 Experiences with privatisation

The paper's discussion of the structural options for the Water Service starts with a presentation on the results of water privatisation in England and Wales, and moves rapidly to discussing possible roles for the private sector. It assumes, without much argument, that involving the private sector leads to improved results in water (para 3.10), and presents the English experience as having delivered investment and efficiency (para 3.2). These assumptions are questionable.

Privatisation in any form is exceptional in the rest of Europe, despite extensive marketing efforts by the private companies. No country in the world has adopted the form of privatisation used in England and Wales, which remains a unique experiment by the government of Mrs Thatcher.

It has not been a successful model. For the first 8 years the companies sharply increased prices, using exaggerated forecasts of capital expenditure to persuade the regulator to allow these increases. The profits were used to pay inflated salaries to the directors, high dividends to shareholders, and to diversify into other ventures which almost without exception proved unprofitable. The new Labour government elected in 1997 recognised these problems by imposing a windfall tax to claw back

the excessive profits, and encouraged the regulator to impose tighter price controls. These controls have halved the rate of return of the water companies, which are responding by withdrawing their equity (shareholders' capital) and replacing it with long-term borrowing.[13] This process means that the core of the Thatcher model has been abandoned within 14 years.

The 'not-for-dividend' company which now runs water in Wales is itself a product of this process. As the paper rightly points out (para 3.17), this is in fact a private sector model, which was created when an electricity multinational took over the privatised Welsh water and decided to rid itself of the water operation: the present company, Glas Cymru, was designed by the American energy multinational as a way of reducing its liabilities.

Other forms of introducing the private sector into water, through PPPs, PFI schemes, outsourcing or concessions have also proved problematic. The difficulties of regulating the private sector to preventing the extraction of monopoly profits are much greater than is often assumed by policy-makers. The one attraction of PPP/PFI schemes is that they are an 'off balance sheet' way of financing public investment: but they involve borrowing private debt at higher rates than the public sector pays, and so are likely to be more expensive in the long run. There have been extensive criticisms of PFI schemes in the UK, and problems with water concessions and PFI schemes internationally. [14]

3.1.1 Collapsing roads

There is an underlying assumption in the paper, as in many publications on water, that problems of ageing infrastructure are somehow reduced once private companies are involved in water. This assumption is incorrect, which can be illustrated by reference to the risk of traffic disruption.

The paper speaks at 1.8 of 'vulnerable' cast iron water mains, and 'Victorian brick sewers', which are "vulnerable to collapse and can give rise to major traffic disruption". These are real problems of ageing water infrastructure. Elsewhere the paper considers alternative ways of organising the service, and mentions privatisation as an option under which a private company "would be able to finance infrastructure investment" (3.13).

It would be wrong, however, to imply that privatisation is a solution to these problems. In April 2002 a large crater appeared in the main A2 road linking London to Dover, and the most likely cause was identified by an official report as leakage from ageing pipes and sewers washing away the subsoil.[15] Hundreds of people were temporarily rehoused, and the road remained closed for 8 months while Thames Water were required to lay new pipes.[16]

3.2 The options

The options considered are privatisation (as in England); not-for-profit (as in Wales); public private partnerships (PPPs); statutory corporation (as in Scotland); and a government-owned company (GoCo). All of these are separate corporatised bodies, at arms length – or further – from a public authority.

Corporatised, but publicly-owned, water companies are common elsewhere in Europe, direct management by public authorities, usually at municipal or intermunicipal level, is still widespread. There has been a clear trend towards corporatisation in Europe in the last decade, partly because of the monetary convergence rules of the EU, but direct management remains widespread. The evidence on efficiency is neutral. There have been a number of empirical studies over the years of the relative efficiencies of public and private water operations: overall, these suggest that there is no systematic difference in efficiency either way.[17]

The public sector options (in this case option 4 and 5) have the considerable advantage, as the paper itself points out (para. 3.32), of being able to borrow money at the most favourable public sector rates. Given that private companies in England and France are now seeking to use debt for all their financing, this alone is a compelling argument for a public sector model.

4 Regulation and representation

4.1 Regulation and public accountability

The section on regulation assumes that this is the core way of supervising the provision of water services. This is not true: outside the USA and the UK, most countries do not have a regulator. The work of the water services, whether provided directly or through a corporatised or even private operators, are normally supervised by public authorities. These have the traditional advantages of being

publicly accountable through electoral procedures. The current arrangements in Northern Ireland (para. 4.13) are examples of typical practice.

The case for regulation as laid out in the paper depends heavily on the assumption that water is run by private companies. Because they would otherwise exploit the monopoly to extract excessive profits, a regulator is supposed to constrain these problems. Without privatisation, the case for regulation is not very strong, and adds an extra layer of bureaucracy to the system.

4.2 Consumer representation

The discussion of customer representation underestimates the potential of more open and democratic models. Formal representation of consumers and other stakeholders is important, but does not in itself generate active public participation and scrutiny. More simply, existing institutions could be used to move towards greater transparency and public access to information, or a system of public meetings and discussions on priorities and policies.

5 Alternative approach

The foregoing analysis has shown that the government's proposals are not soundly based. There are nevertheless some real issues which should be addressed. Investment needs are real, and expensive, and need to be financed; there is a lack of transparency; and there appears to be a lack of institutional arrangements to encourage public participation and scrutiny. The following measures would deal with these issues without the imposition of a new tax or charge, and without the need for privatisation.

5.1 Finance

There is no need to adopt any particular formula for finance or organisation: the water practices in the rest of the UK and the rest of Europe are diverse enough to accommodate any option that suits local needs and traditions. The current system of financing through the rates meets the requirements of equity and of the Water Framework Directive, and is more sustainable than , for example, the obsolete tax base used by the private English water companies.

There is clearly an increase in capital spending since 1999, and the available figures suggest that the spending planned for 2006 would require a rates contribution of about £209, if all the increase was funded from the rates. This

would certainly be an 'adequate' contribution (in the words of the EU Water Framework Directive): and it would mean a substantial increase of 57% over the 1999 level, effectively in a 7 year period.

This could be mitigated if the UK government belatedly gave Northern Ireland its share of the 'green dowry' which the private companies in England and Wales enjoyed 14 years ago. This was an injection of £6.6 billion by the UK government in 1989, achieved by writing off all the debts of the water companies before privatisation, worth over £5 billion pounds, plus a further donation of £1.6 billion pounds to meet the environmental standards required by the EU. This dowry was paid for out of general taxation, and so Northern Ireland taxpayers made a contribution to it without, so far receiving any benefit. The equivalent for Northern Ireland today would need to be adjusted in line with the population difference, officially reckoned as 3.4% [18] – and increased to account for inflation since 1989, which rose by 53.0% between 1989 and 2002.[19] This calculation gives a figure of £342m.

If the UK government made this available to mitigate the capital expenditure programme over the next 10 years, it would reduce the amount required by 22.8% - from £1500m to £1158m. In annual terms, that would reduce the amount required to be financed by £34.2m, which translates into a rates reduction of about £23.94 per year compared with what would otherwise be needed. Earlier this was estimated to be close to £209 in 2006, so the dowry for Northern Ireland would allow this to be reduced to £185.06. This would still be 45.7% above the level of 1999, over a 7-year period. An increase of this size would still need to be staged over a number of years, especially as it could not be started until near the end of that period. So if a policy decision was made that the rates should bear all the cost of the increase in capital spending on water, the belated payment of the dowry for Northern Ireland could make this more manageable.

5.2 Transparency

There is a need for far greater transparency about the expenditure of Water Service and its financing. The consultation paper appears to be a step backwards in this regard, while the Corporate Plans are not very accessible to non-accountants. Further work should be done to establish what information is wanted by the public, and to present complete sets of data for public scrutiny and discussion.

5.3 Participation

Regulation and consumer representation do not provide a framework for public participation in the planning of water services. Yet water is one service whose functioning and effects are quite clear to the public, who often have specific and general views on priorities. It is therefore suitable for introducing more democratic and open systems of planning, based on public debate around priorities, with input from consumers and workers' representatives as well as community organisations. Amongst other advantages, it can be an effective mechanism for ensuring informed public consent for major changes to the service, including changes in financing levels.[20]

Notes

[1] The same figures are given in the Water Service Corporate Plan 2002 p.7 .
[2] Water and Sewerage Services in Northern Ireland – a consultation document. DoEe 1999; p.15, para 5.1
[3] Water Service Annual Report and Accounts 2001-2002
[4] Ibid, p. 7 para 2.3
[5] Funding for increased capital spending has already been injected for earlier years, according to the Corporate Plan for 2002-2005, which says that: *"additional funding of £91.3 million has been made available for water and sewerage services for the three years commencing 2001/02 compared to the 2000/01 baseline"*. This implies that an average of £30m per year extra funding has been provided for capital expenditure, on top of a baseline of about £90m, for the years 2001/02, 2002/03, and 2003/04.
[6] Water and Sewerage Services in Northern Ireland – a consultation document. DoEe 1999; p.2
[7] Ibid, p.16, para 6.2 . This estimate seems reasonable: the annual expenditure on water was then £195m, so an extra £50m spending is an increase of just over 25%: applied to the rate contribution of £127 gives a figure of just over £32.
[8] Water and Sewerage Services in Northern Ireland – a consultation document. DoEe 1999; p.9, para 3.2
[9] The paragraph's final sentence is also suspect: *"This figure would rise steadily as investment levels increase, as they must"*. On the investment projections discussed above, investment levels will remain stable, no increases in spending will be necessary, nor will there be a need for extra finance.
[10] The only conceivable way that a figure as high as £350 or £400 could be generated would be by increasing the rates to cover the depreciation and capital charges which are being introduced. These amounted to £276m in 2001-2002, according to the Report and Accounts (note 6 p.37), which would involve a further rate of £193 on the basis of the 1999 calculation: when added to the figure of £200 this would create a total water element in the rates of about £393. This however cannot be necessary: if water is being financed 'self-sufficiently', as it would be with a £200 contribution, then, if the Treasury keeps its word, the capital charges should not be imposed.
[11] Water and Sewerage Services in Northern Ireland – a consultation document. DoEe 1999: p.2.
In fact, it appears that what people in Northern Ireland have been paying for water services (a) has got closer to the level of charges in England and Wales (E&W) (b) is closer to the average water payment in E&W than the payments for other local services. In 1999 the water payments equalled about 50% of the payments in E&W, but those charges have since

been reduced to £228, so the N. Ireland level of £127 (the 1999 figure) is now about 55% of the E&W average. Whereas for other local services, if the N. Ireland water contribution of £127 is deducted from the figures given in Table 3, it leaves £318 being paid for other local services, compared with £804 in E&W: less than 40%. So if the

[12] However, political influences can have a restraining and beneficial effect on such monopoly services – the impact of privatised water companies in England and Wales was considerably altered by the election of a new Labour government in 1997 and the introduction of a windfall tax and more stringent regulation of prices. There is a general economic case for political interference in monopoly services such as water

13 For more details see the PSIRU paper "UK Water privatisation – a briefing" www.psiru.org/reports/2001-02-W-UK-over.doc ; and "Capital structure of water companies" : final report to Ofwat by Oxera 31/10/02 at www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/oxera_report_1002.pdf/$FILE/oxera_report_1002.pdf

[14] For a number of reports on the problems of water privatisation internationally, see www.psiru.org/reports . For critiques of PFI schemes in general, see http://www.unison.org.uk/pfi/docs_list.asp

[15] Transport For London A2 Blackheath Hill - Causes Of Collapse Report Ref:1000110/R/9 at http://www.transportforlondon.gov.uk/streets/pdfdocs/A2-Causes_of_Collapse.pdf

[16] The Evening Standard (London), December 23, 2002: "IT HAS been the hole in the road "from hell", taking eight months and £2.5 million to repair. Every day about 35,000 commuters who would normally use the **A2** at Blackheath have been delayed or diverted. More than 100 residents were evacuated after the road at Blackheath Hill began moving "like chocolate melting" on 7 April and sank into a huge crater. This led to the closure of one of the main arteries into central London. ..... TfL said the work took eight months because it had to ensure that there was no risk of further "catastrophic collapses". **Thames Water,** which denies it was to blame for the original subsidence, spent £1 million replacing and modernising water mains. ...." UK Newsquest Regional Press - This is Local London, October 8, 2002 "…. Transport for London (TfL) expects to reopen the road next month, once cement works to stabilise the ground are completed, following the appearance of a huge crater in April. TfL chief engineer Trevor Williams … said: "The likely cause is water movement through the ground washed away fine material, taking away the support for large lumps which could then settle. "This could have been caused by a burst water mains." A spokesman for **Thames Water** says it was the subsidence which caused the water main to burst and not the other way around…."

17 For discussion of this see "Secret Reports and Public Concerns" www.psiru.org/reports/2002-08-Skeptics.doc

[18] See NI Economic Council Report on Funding page 8, note 13

[19] From an index of 115.2 to 176.2: see RPI02 at http://www.statistics.gov.uk/downloads/theme_economy/RP02.pdf

[20] This kind of system works elsewhere, in countries as different as Switzerland and Brazil. For an account of the participatory budgeting system used in Porto Alegre, Brazil, see "Water in Porto Alegre, Brazil - accountable, effective, sustainable and democratic" August 2002 http://www.psiru.org/reports/2002-08-W-dmae.pdf

WRITTEN SUBMISSION RECEIVED FROM THE GENERAL CONSUMER COUNCIL

Water Reform A Matter for the NI Assembly: Agenda for Change

Presentation by
the Consumer Council to the
Programme for Government Committee

13 December 2006

Presentation Objectives ….

1. To outline our starting position and principles
2. To identify key areas of consumer risk
3. To present questions requiring answers
4. To make ourselves available to Programme for Government Committee to get the fairest deal for consumers

Principles ….

- Consumers have right to know as the owners
  - Scrutiny, openness, independence, accountability
  - Culture? Due diligence?
- Legislation is passed
  - Concessions won? Side deals agreed? Openness and clarity needed
- Water and sewerage services must be paid for
  - Fair, affordable and sustainable
  - £3 bn project over next 20 years – EXTRA £10k average household
- Need NI Assembly to get it right
  - Your inheritance - set up to fail or built to last?
  - Start with answer and work backwards – best approach?
  - 3 – year project?

Where are we now?….

- SofS/HMT Financial Agreement, 2005
- Draft Legislation – passing through Parliament
- Licence – consultation 3 weeks before Go-Co
- Business Plan – work in progress (3rd version?)
- Governance Letter - ?

Question:
Will the Business Plan be independently reviewed **before** sign-off?
Do you accept "Commercial in Confidence" as barrier to scrutiny and due diligence of a Government-Owned Company?

First Task: Scrutiny of Building Blocks …

- Capital value – a fair premise?
  - Not linked to ability to pay or sustainability
- HMT/SofS Financial Agreement – a fair deal?
  - Cost of capital/borrowing/asset value/RRI link
- Go-Co – a fair model?
  - Independent assessment of other business models
- Self-financing – a fair system?
  - Must be shared risk and cost after 2010
  - Shared benefit from day 1
- Average of England and Wales – a fair charge?
  - Artificial. What is the lowest possible bill?
  - Unfair elements: picking up past underinvestment?

Go-Co Stability? ….

- Strategic Business Plan, September 2006

  "The current version …. does not set out a sustainable future"

  "Insufficient evidence …. Significant price increase"
- Real Risk or "Scare-Mongering"?
  - Will the Go-Co break-even by 2010? Will the Go-Co pay the dividend in full each year to 2010?
  - Asset value of £1bn – is that set at the right level? Cost of capital of 5.8% - why are we highest in UK? Can these be realistically changed?
  - What are the current levels of inefficiencies? "Hugely inefficient"
  - What are the efficiency targets? If efficiency set below 35% and 27% - why? And where is the shortfall being met? (£1 on each bill for each £1m shortfall)
  - 5% bad debt – too low? Is bad debt to be passed to customers?
  - Who picks up cost of non-payment?
  - £220 m+ PPP contracts – who has reviewed these? Are commitments to be passed to customers?

General Consumer Council

Recommendations to Programme for Government Committee

Medium to Long Term

1. NI Assembly use 3-year phasing period (2007 – 2010) to scrutinise and review entire water reform process in terms of fairness, affordability and sustainability and to make necessary amendments and changes for 1 April 2010.

2. In doing so to consider each of these fundamental questions:

   a. Is Capital Value and Standing Charge the fairest premise for water charges?

   b. Is the HMT/SofS financial deal the best one for water consumers?

   c. Is the Go-Co the best model?

   d. Is self-financing the best system?

   e. Is the charge fair, affordable and sustainable?

Short Term

1. **Stability of Go-Co**

   a. Release of draft Strategic Business Plan and its underlying assumptions for independent scrutiny and review ahead of its sign-off to ensure it presents a viable and stable Go-Co in the short and medium term.

   b. Rejection of concept of "Commercial in Confidence" for a Government Owned Company paid for by the public and not subject to competition.

2. **Price and Affordability**

   Within the context of the St Andrew's Financial Package scrutinise and seek commitment to funding changes to the HMT/SofS Financial Deal to get lowest possible price and best possible deal:

   a. Reduction in cost of capital (NI water consumers paying higher cost of capital (5.8%) than the rest of UK water consumers e.g. 5.1% in England and 4.1% in Scotland);

   b. Reduction in cost of borrowing

   c. Reduction to asset value or RCV without creating gap in NI block funding

d. Cost of backlog of capital paid in significant part, or in full, by Treasury (calculated at £1.4 billion)

e. Cost of affordability tariff to be centrally funded rather than having to be found from other public services in 2010 (calculated at £45 – 50 million in 2010, and rising each year)

3. **Land**

- Suspension of any land and asset disposal until Estate Management Plan has been finalised and approved by the Regulator and until the NI Assembly has agreed how it would like proceeds to be used before and after 2010 following full consideration of the draft licence consultation.
- Seek guarantees from DRD that the Regulator will be given full and unfettered authorisation from 1 April 2007 to make all decisions on disposal of land and assets.
- Seek guarantees from DRD that all conditions within the draft licence which would impede the Regulator in this role or to ensure that "the department will not interfere" (Lord Rooker, 11 December in House of Lords) will be removed.
- Agree with the Regulator the frequency and content of his reporting to the NI Assembly, DRD and the Consumer Council on status of land and assets, value, disposal requests and approvals etc.

4. **Ownership**

- Conduct a full business model review.
- Seek assurances that the NI Assembly will not be tied to the planned 2008 Treasury Review.

5. **Regulation**

- Full authorisation and enforcement passed to the Regulator from 1 April 2007, with no caveats or exceptions.
- Agreement on the Regulator's reporting requirements to the NI Assembly, DRD and the Consumer Council from 1 April 2007.
- The Regulator to bring forward paper on method of regulation within a self-financing model and regulatory methods to be employed for treatment of debt, non-payment and other costs.
- The Regulator to produce a report of the current status of the Water Service based on the draft Strategic Business Plan and assessment of short, medium and long term to include efficiency, performance management and service delivery, sustainability and stability.

5. **Consumer Representation**

- Go-Co to have a duty to consult the Consumer Council on all matters which may impact on consumers.
- The Consumer Council to provide assessment of policies which should be subject to equality impact assessment.

6. **Water Service**

- Review and audit of the Crystal Alliance contract to include the approval of Key Performance Indicators, costs etc.
- Strategic Business Plan subjected to independent review prior to sign-off
- Rejection of concept of "Commercial in Confidence" in relation to establishment of a Government-Owned Company paid for by the public.

Supplementary Written Submission Received from the General Consumer Council

Questions From Consumer Council to Programme for Government Committee

Programme for Government Committee

5 Fundamental Questions Requiring Analysis and Response Ahead of 2010

1. Is Capital Value and Fixed Charge the fairest premise for Water Charges?
2. Is the Secretary of State/Her Majesty's Treasury deal, September 2005, a good deal for water consumers?
3. Is the Go-Co the best business model to provide value for money and quality services for water consumers?
4. Is self-financing the fairest system after 2010?
5. Is the water charge fair, affordable and sustainable?

Immediate Questions

1. Do you believe due diligence has been observed on behalf of consumers prior to introduction of water reform on 1 April 2007? Will you have access to the Strategic Business Plan prior to its sign-off? Will you have access to the SofS/HMT Treasury deal, September 2005, prior to 1 April 2005? If not, is there any action you can take to ensure consumers are aware of what they are being expected to pay for, in addition to potential risks and benefits?

Department for Regional Development

1. Can you define self-financing? Can you identify how a self-financing system will be regulated? Where does funding come from for payment of the affordability tariff and any further pegging subsidy after 2010 within this self-financing model?
2. Will the Strategic Business Plan and underlying assumptions be made available for independent review before it is signed off by the Minister? What is the intended consultation

and/or engagement process prior to finalisation and approval of the Strategic Business Plan? Can you identify the specific elements of the complete Strategic Business Plan being proposed as Commercial In Confidence and reasons for same?

3. Is the Strategic Business Plan viable without (a) disposal of land and assets?; (b) further extension of a subsidy from 2010 when the pegging subsidy disappears?

4. How much money will be collected from domestic customers each year from 2007 to 2010? How much is the total dividend going back to Treasury from DRD each year from 2007 to 2010?

5. Will the Go-Co be in a break-even position by 2010 when it becomes self-financing? Will the Go-Co be required to pay its dividend in full each year up to 2010? What are the current efficiency levels within Water Service, and what efficiency targets have been set for the new Go-Co up to 2010? If these are less than the targets of 35% operating efficiencies and 27% capital efficiencies advised by DRD in March 2006 can you explain why these have been eased and where the shortfalls are being dealt with?

6. Why are NI customers having to pay a higher cost of capital at 5.8 per cent than any other UK water customer?

7. Who will pay for (a) infraction costs if the Go-Co fails to comply with EU Water and Sewerage Directives; (b) pension and redundancy costs; (c) bad debt above 5 per cent estimate before and after 2010?

8. What is being done to satisfy the EC in relation to the Formal Letter of Notice in relation to Urban Waste Water Directive? When did you become aware of this formal letter of notice? Why was no statement been made on this? What are the implications if the EC is not happy with the regulations you put in place?

9. Can you confirm that the draft licence in relation to land disposal will be amended to allow for an unfettered authority being given on the regulator in approval of land disposal from 1 April 2007 as outlined by Lord Rooker on 11 December 2006 in the House of Lords? Can you confirm that any exemptions to his role including paragraph 4.2 of the draft licence will be removed including:

   - Any disposal defined to be £1 million or such greater amount as may be determined by DRD;
   - Any disposal which DRD has consented to or authorised under relevant legislation;
   - Any disposal which is made as a result of an obligation entered into by Water Service prior to the transfer date.
   - Can you please advise if any land and asset disposal has been sought by Water Service and/or approved by DRD to be effected after 1 April 2007.

10. Will the Ministerial Guidance to the Regulator be open to scrutiny, and by whom, before it is signed off?

Water Service

1. Is your Strategic Business Plan viable without (a) land disposal; (b) further subsidies after 2010? What are efficiency levels and targets set?

2. What are your estimated transformation costs each year up to 2010? Can we have a breakdown of these costs?

3. What are your estimated reductions in headcount from 2007 and 2010 and how much will this save in numbers and amount?

4. What are your estimated performance related pay costs each year up to 2010? Can we have a breakdown of these costs?

5. What are the plans for pension and redundancy up to and after 2010?

6. Can you please advise if any land and asset disposal has been sought by Water Service and/or approved by DRD to be effected after 1 April 2007.

7. Can Water Service guarantee that the Experian database has been withdrawn from use by the Water Service/Crystal Alliance? Can Water Service confirm and guarantee that location does not and will not play a part in debt management and recovery? Can Water Service guarantee that a two-tier system of debt recovery will not be employed at anytime by the new Go-Co? Can Water Service outline their proposals for consulting fully and meaningfully with the Consumer Council before public consultation on any change in debt management system? Can Water Service document to the Committee what the proposed debt management and recovery system is at present and confirm that this has been consulted on and signed off with Consumer Council? If not, when will this occur?

Regulator

1. Can you define self-financing? Can you identify how a self-financing system will be regulated? Can you outline how you will be dealing with (a) bad debt above 5% level; (b) non-payment; (c) PPP commitments; (d) subsidies to the Go-co; (e) affordability tariff; (f) unmet efficiency targets; (g) pension and redundancy costs within this self-financing model?

2. What are the current inefficiencies within Water Service, and from where have you drawn this information? Have you been consulted on the efficiency targets being set for the new Go-Co and been given full analysis for any deviation from the 35% operating and 27% capital efficiencies previously defined by DRD? Can you outline how you will practically be bearing down on inefficiencies from 2007 to 2010?

3. Can you define all or any engagement you have had on the development of the Ministerial Guidance you will be operating under?

4. Can you define all or any engagement you have had on the development of the Strategic Business Plan from September 2006 to present? Are you to have a role prior to its sign-off?

5. Have you been given full access to the PPP contracts to investigate and approve the commitments within them? Can we have your assessment?

6. While technically you can adjust the RCV (Asset Value) of £1bn, what factors would constrain or prevent you doing so, if any?

7. Have you the power to adjust the costs of capital presently at 5.8%. What factors would constrain or prevent you doing so, if any?

8. Can you confirm that you have full authorization for land disposal from 1 April 2007 and can you confirm that the new Go-Co will require your approval to dispose of any land and assets? Can you confirm that you have been given guarantees that all potential constraining elements of the draft licence to your authorization role including paragraph 4.2 will be removed? Can you please advise if any land and asset disposal has been sought by Water Service and/or approved by DRD which would be effected after the transfer date of 1 April 2007?

9. When do you take on full authorisation and enforcement powers for (a) water; (b) sewerage and waste water? Where is this documented? Can we have a copy please.

Supplementary Written Submission Received from the General Consumer Council

Water Poverty and Bad Debt

Water poverty has risen in GB: 8-10 per cent of all households and 55 per cent of low-income households are in water poverty[1], where a household needs to spend more than 3 per cent of its income on water charges[2]. According to the Government, the number of customers spending more than 3 per cent of their disposable income on water charges is forecast to increase from 7.8 per cent to 10.7 per cent of all UK households by 2009/10[3].

The English and Welsh experience

It is calculated that one in five (or 4.4 million[4]) homes in GB is in arrears to their water company with a total bill estimated at £1bn[5,6]. In fact, money owed (bad debt) to water companies has risen significantly (£960 million in 2005/6 out of an annual turnover of approx £7 billion)[7]. The result is that water companies have an annual non-recoverable debt of £164m[8]. Such outstanding debts are adding an estimated £10 to water bills around the UK[9]. Alarmingly, the Office of Water Services'[10] (OFWAT) figures for outstanding revenue show a 17 per cent increase in debt levels between 1998/99 and 2003/04[11]. Additionally debt write-offs by water companies has increased by 50 per cent in four years[12]. It is estimated that water companies account for one-quarter of all County Court Judgements[13].

Managing debt remains a key challenge for water companies – OFWAT Press release 13.10.06

Companies need to nip water debt in the bud in order to prevent rising costs for all customers, says Ofwat.

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1 *ICF International (2006) Presentation to the Global Smart Metering Water Summit London 29 and 30 June 2006)*

2 *Fitch, M. and Price, H. (2002) Water Poverty In England and Wales.*

3 *Public Utility Access Forum (2006) Newsletter Members News, Issue 55, July 2006*

4 *Papworth, J. (2001) Poorest Pay the Highest Price. Guardian, 21.07.01*

5 *Watervoice (July 2004) quoting UK Water Industry Research*

6 *Source (2004) Water UK's Symposium at Lancaster House, 21 October 2004*

7 *Consumer Council for Water (2006) Too Precious to Waste: Review 2006*

8 *Debt, Charging and Social Impacts; A Water UK Think Tank, 19 May 2004.*

9 *Public Utilities Access Forum (2006) Members News, Issue 55, July 2006, p.18*

10 *OFWAT is the economic regulator for the water and sewerage industry in England and Wales.*

11 *OFWAT RD32/03 letter (28 August 2003) – Industry Information on Household Debt Levels and Debt Recovery Costs*

12 *Wessex Water figures, PUAF Conference, London 3 February 2005*

13 *Water Industry Debt – Socioeconomic and Demographic effects, UKWIR, 2004*

Ofwat's head of consumer affairs Sue Cox said: "Once a customer's debt slips over a year old, the next year's bill will become due which can make the problem worse and make it difficult for them to get back on track."

"Companies need to manage debt effectively to stop that happening, particularly as the costs of recovering older debt tend to be higher and this can increase costs for all customers."

She added: "We would also encourage customers who are struggling to pay their bill to contact their water company as early as possible. We expect all companies to help customers in financial difficulties make suitable payment arrangements as set out in our debt guidelines."

Ofwat has today also published figures on household debt in the water industry for 2005-06.

Key points:

- The level of household water bills unpaid for less than 12 months in 2005-06 was £446 million, much of this is likely to be collected through companies' debt recovery practices. Of this, £122 million had only recently been billed Reported as revenue outstanding for less than three months.
- Older debt (revenue outstanding for over 12 months) totalled just over £490 million, £30 million more than in 2004-05.
- The industry spent £78 million on debt management activities in 2005-06, ranging from sending reminders to taking legal action, which equates to £3.59 per household.
- The industry wrote off £103 million of household debt in 2005-06, 10 per cent less than in 2004-05 (an exceptionally high level for that year, owing to a small number of companies writing off unusually large amounts of debt).
- In 2005-06, 8.3 million letters were sent to household customers warning that they could face legal action because of the non-payment of bills. This is an increase of 43 per cent compared to 2004-05. In 2005-06 over 137,000 county court judgements were issued for the non-payment of bills.

Notes to Editors:

1. The Water Services Regulation Authority (Ofwat) is the economic regulator of water and sewerage companies in England and Wales. It exercises its powers in a way that it judges will allow companies to carry out their functions properly, and finance them. Its duties include protecting the interests of consumers, wherever appropriate by promoting effective competition. The Water Services Regulation Authority succeeded the Director General of Water Services on 1 April 2006.

2. More information about debt and revenue outstanding is in the letter to regulatory directors, RD 16/06 which can be found on our website www.ofwat.gov.uk

The Scottish experience

As of 31st March 2006, Scottish Water's total amount of household bad debt was £223.3 million (accumulated from 1996/97 to 2005/06). This equates to 5.3 per cent of the total amount billed. For 2006/07 Scottish Water is forecasting £27.9 million (4.35 per cent of amount billed), and have set an in-year target of 4 per cent for 2009/10[14].

The level of bad debt in Scotland is generally decreasing, with better collection procedures. While Scottish Water's bad debt provision may be higher than in England and Wales, the English and Welsh water companies' bad debt is experiencing an upwards trend[15].

Extrapolating the English and Welsh bad debt to Northern Ireland

In the water industry, it is widely recognised that the growing level of customer debt is linked to issues of affordability. UK Water Industry research[16] shows that over half of the debts that have to be written-off come from people who earn below £10,000 per annum and a significant proportion are likely to be unemployed and/or in receipt of benefits. In England and Wales £527m of arrears to water companies (of a total of £893 million consumer debt) is over 12 months old.

If the English and Welsh scenario were repeated here, this could mean an arrears figure of £29 million in Northern Ireland and 169,926 (one in four) households at risk of water affordability, defined as spending less than 3 per cent of disposable household income on water charges. It would also impose an additional £58 (approximately) burden on paying households. This is a conservative estimate, as it must be remembered that this debt will be accrued against lower incomes and higher benefits dependency.

Bad debt in a self-financing model

Within a self-financing model those who can afford to pay for water and sewerage services are burdened with meeting the full costs of the system. Other consumers are required to pay for the levels of mounting arrears and debts. In England and Wales the cost of the debt burden to other customers adds about £10 to each bill[17].

According to research carried out by CreditScorer[18] in 2003 for customers in GB, household debt for water is rising at a faster rate than debt for electricity or gas and is currently double the levels of those sectors.

In 1999 it became illegal for water companies to disconnect water supplies for domestic customers. With a no disconnection policy comes the possibility of a rise in non-payers as the water charge is viewed as 'soft' since there is no chance of disconnection. Customers will

14 *Personal communication with Grace Rose-Miller at Waterwatch Scotland 14.07.06*

15 *Personal communication with Grace Rose-Miller at Waterwatch Scotland 14.07.06*

16 *Water Industry Debt – Socioeconomic and demographic effects, 2004*

17 *Public Utilities Access Forum (2006) Members News, Issue 55, July 2006 p.19*

18 *'Water Industry Debt – Current Trends and Good Practise Approaches', report for UKWIR CreditScorer (Oct 03)*

pay higher priority debts first. In GB in 2000-01 this led to the water industry being the largest user of the Court Service with 240,000 claims[19].

Bad debt forecasting for Northern Ireland

The Water Reform Unit has allowed a 5 per cent provision for domestic bad debt (and 2 per cent for non-domestic customers) in its Integrated Financial Model (IFM). The Unit bases this figure on local experience re: non-domestic customers and the English and Welsh experience. This is the equivalent of £3.9 million in 2007/08 of a total revenue requirement of £307.7 million[20]. This assumes a normal working level (ie) the IFM takes no account of any orchestrated won't pay campaign. In January 2005 Minister Spellar claimed that this figure was known to be too low.

A further concern is the misinformation that has been commonplace throughout the Water Reform agenda. Debt can impact on consumers in other ways such as a poor credit rating or benefit reductions to meet arrears. For example, the Water Reform Unit in Northern Ireland has investigated the issue of deductions from benefits. While it seems to be the case that deductions from benefits is not part of the general means of civil debt enforcement in Northern Ireland it is the case that the Department for Social Development can make deductions from benefits to pay certain types of debt. This is done in respect of water charges in England and Wales and in respect of other utilities in Northern Ireland. There would need to be a change to social security administration regulations to allow this to happen in respect of water charges in Northern Ireland. Water Reform Unit's initial reaction is that they would seek to make such a change and, thus, allow the Go-Co to be able to seek deductions from benefits as a means of recovering debt[21].

Water Affordability

Using the definition of water affordability equating to spending less than three per cent of income on water bills then the average water charge of £340 for Northern Ireland domestic consumers would equate to up to 169,926 households i.e. one in four are at risk of problems with water affordability (see Table). It is worth noting that these figures are potentially underestimated as they are gross income based rather than disposable income, which is the contemporary definition adopted by DEFRA[22].

An average water charge of £340 would mean that households would need a disposable household income of £11,333 to avoid water affordability problems (refer to table). This is approximately £1,800 - £2,500 higher than in England, Scotland and Wales where household incomes would need to be between £8,800 and £9,533 to provide water affordability.

19 *Water UK Debt, Charging and Social Impacts Think Tank Report, 19 May 2004*

20 *Water Reform (2006) Integrated Financial Model Overview: Presentation to the Consumer Council 23.06.06*

21 *John Mills (2006) Personal Communication 30.06.06*

22 *DEFRA website www.sustainable-development.gov.uk/sustainable/quality04/maind/04q03.htm*

Estimated number of households at risk of water affordability problems based on full charge

If the full price were (£)	Minimum income (to be water affordable) (£)	% of NI households earning less than this minimum income[1]	Estimated number of NI households at risk[2] (base = 669,000)
150	5,000	1.9	13,000
200	6666	7	47,000
250	8333	12.8	86,000
300	10000	18.6	124,000
315	10500	20.6	138,000
365	12167	30.2	202,000
415	13833	39.8	266,000

Note: Above Table is using gross household income.

(Footnotes)

1 Regional Trends 2004, ONS

2 This assumes an even spread of households across each salary band.

Ulster Farmers' Union

15th December 2006

RE: The Ulster Farmers' Union's Submission for the Sub-Group on the comprehensive spending review and programme for Government; Rates Charges; and Water Reform.

The Ulster Farmers' Union welcomes the opportunity to comment on the above.

Water Reform:

The UFU has always considered water and sewerage provision to be a public service funded by general taxation, thereby ensuring through the progressive nature of taxation that the cost burden on the less well-off is eased. The current social security arrangement adds to this effect, often substantially. However, the increased cost burden caused by EU environmental regulations and the greater difficulty of finding suitable water sources and disposal sites now calls into question the earlier principle, and more importantly demands charging systems that encourage conservation, preservation and responsible use leading to a sustainable, stable water service, as well as minimising the loading of sewerage systems.

However, the UFU disagrees that a water and sewerage charge consisting of a standing charge and a variable element based on the discrete capital value of a property, encourage responsible use of water. We feel that there should be universal metering of water supplies where every household would be charged in relation to the actual amount consumed rather than the capital value of their home.

The Ulster Farmers' Union agrees with the general governance plans for the water reform. However from experience, the UFU stress there must be formal agreements between all relevant bodies, on their duties, powers and communication strategy. All too often an informal approach can lead to serious inconsistencies and a un co-ordinated outcome. The regulatory authorities should operate in an open and accountable manner and have a duty to share information so that the consumer is best informed.

The UFU feel that DRD must continue to support the affordability tariff for the new GoCo after the initial 3 year transition period has finished. If not, the affordability tariff could cease to exist for lower income groups and we stress it must continue to protect vulnerable groups in Northern Ireland. It is essential that consumers do not have to end up funding the affordability tariff.

The regulator must be given the power to impose financial penalties on water suppliers if they have a poor record on reducing leakage.

I trust these points will be fully considered, and should you wish to discuss them in greater detail then please do not hesitate to get in touch

Clarke Black
Chief Executive.

Department for Regional Development

Water Reform Programme

An information paper for the Programme for Government Sub Group on the Comprehensive Spending Review; Rates Charges and Water Reform

Prepared by:

Water Reform Unit
Department for Regional Development 11 December 2006

Content

Section 1.
The arrangements for Water Reform set out in the draft Water and Sewerage Services (NI) Order 2006

Section 2.
The strategic business plan, governance of the GoCo and the issue of Licence

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Annexes

A: Presentation given to Economic Sub-group on 7 December 2006

B: Current Memorandum and Articles of Association

C: Press Release setting out details of appointments to the shadow board of the Water Service

Section 1.

The arrangements for Water Reform set out in the draft Water and Sewerage Services (NI) Order 2006

Background to Water Reform Programme

1. For many years Government had been seeking to address the need for a step change in investment in Northern Ireland's water and sewerage services. In 2002 it had been estimated that the water and sewerage infrastructure would need £3 billion of investment over the next 20 years. Water and sewerage services in Northern Ireland currently cost around £1 million every day as demand for water services continues to grow and ever increasing environmental and water quality standards need to be met.

2. The challenge facing Government was, and is, to sustain investment in water and sewerage services over the long term without impacting on other priority public services. This has been difficult to do whilst Water Service was within central government and subject to three-year financial planning periods. This problem is exacerbated because Northern Ireland receives no extra funding for in the cost of water and sewerage services through the Barnett mechanism. This is because the industry has been outside the public expenditure system since privatisation in 1989. This means that the increased investment in water and sewerage services in Northern Ireland can only be funded at the expense of other services which makes it more difficult for Northern Ireland to keep pace with improvements in (eg) health and education in Great Britain. This problem is described in more detail in a presentation provided to the Programme for Government Economic Sub-group on 7 December 2006 (see Annex A).

3. It was clear to Government from experience elsewhere in the UK that the water industry needs long-term planning and reliable revenue streams if it is to be efficient and effective.

4. In Northern Ireland the Department for Regional Development's Water Service Agency had to compete for public funds with other public services such as health, education and transport, unlike the position in England, Scotland and Wales where domestic customers pay direct charges for their water and sewerage services. Over the past 15 years, the English water companies have invested over £50 billion in improving their water and sewerage services. This has been financed by shareholder equity and borrowing, all paid for fully by direct water charges paid by consumers and not from council taxes or general taxation.

5. By comparison people in Northern Ireland do not pay direct charges as shown in the table below. Whilst elsewhere in the UK water and sewerage services have been funded by direct charges, Northern Ireland has continued to finance these services from public expenditure, thereby depriving other public services of much needed resources.

Average UK Local Household Taxes and Charges paid in 2006-07			
Region	**Average property charge per household**	**Average direct water & sewerage charge**	**Total Average**
England & Wales	1043	294	1337
Scotland	958	295	1253
Northern Ireland	668	-	668

6. The general funding dilemma was fully recognised by the Northern Ireland Executive before suspension in 2002 during its Review of Rating Policy launched in May 2002. The view was taken during that consultation that there was no realistic prospect that the future funding required for the Northern Ireland water industry could be met from routine public expenditure without placing unacceptable constraints on the funding of other essential public services. The Executive also concluded that it would be unrealistic to expect the Treasury to provide additional public expenditure on the scale required while households in Northern Ireland are contributing much less than those in similar circumstances in Great Britain.

7. Although the Executive was suspended later that year, Ministers decided to follow through on the thinking initiated by the Executive. In December 2002 Ministers announced the strategic decision to achieve radical reform in the organisation and funding of Water Service (at that stage a Central Government executive agency) so that it would become a self-financing organisation. This was considered to be the best means of achieving and sustaining a step-change in capital investment in water and sewerage infrastructure without depriving other priority public services, such as health, education and transport. Water Reform effectively became, along with the on-going review of Rating Policy a fundamental pillar of Government's plans to deliver both investment in infrastructure and modernisation of public services in Northern Ireland.

8. It was recognised that a move to self-financing status would require the introduction of direct charges for the use of water and sewerage services and radical re-organisation of the industry. It was fully recognised that this would represent a controversial agenda, which Ministers would clearly have preferred to have been undertaken by a local administration. Nevertheless Government concluded that the difficult issues associated with water had been avoided for too long, and the potential benefits for Northern Ireland public services were so great, that they had to move matters forward. In light of this the Government has taken forward a comprehensive programme of consultation over a three year period.

9. The issue was first raised by the Northern Ireland Executive in its "Review of Rating Policy" consultation published in May 2002. That paper asked how water and sewerage costs might be distributed among domestic customers if the Executive and the Assembly agreed to introduce these. Subsequently the Secretary of State gave a commitment that water and sewerage services should become self-financing. A consultation paper entitled "The Reform of Water and Sewerage Services in Northern Ireland" (March 2003) outlined the need for enhanced and sustained investment in Northern Ireland's water and sewerage infrastructure and invited views on options as to how this could be achieved, including the issue relating to domestic charging. The results of consultation were published in October 2003. Detailed proposals for reform were announced in summer 2004 and a draft Integrated Impact Assessment was published in November 2004. Government's response to this public consultation and its revised policy is set out in a Consultation Report, published in December 2005, along with the final Integrated Impact Assessment and Regulatory Impact Assessment, including the Equality Impact Assessment. All of the above consultation papers can be viewed at www.waterreformni.gov.uk

Legislation

10. The proposed reform of the water industry in Northern Ireland will involve transferring responsibility for delivery of water and sewerage services on 1 April 2007 from the Department to a government owned company ("GoCo") to be known as Northern Ireland Water Limited (NIWL). This will be appointed as (initially the sole) water undertaker and sewerage undertaker for the whole of Northern Ireland and will be run on a commercial basis subject to utility regulation. It is the Government's intention to introduce domestic charging for water and sewerage services (many commercial customers already pay charges and this will be extended) from April 2007.

11. The draft Water and Sewerage Services (NI) Order 2006 (the Order) will place extensive general and specific duties on NIWL as a water and sewerage undertaker and provide detailed statutory powers to enable water and sewerage undertakers to carry out their duties, with suitable safeguards for customers. It will establish a regulatory regime by which the Department and the new economic and customer service regulator will act as the principal regulators of undertakers. This regime will include a system of regulatory controls in relation to supply obligations, drinking water quality standards, trade effluent and sewage disposal, charges and customer levels of service. The draft Order sets out a framework for making charges and provides for appropriate mechanisms to deal with customer complaints. It also includes provisions on private water supplies, for which the Department of the Environment (DOE) will continue to have regulatory responsibility, and makes amendments to the provisions of the Water (Northern Ireland) Order 1999 to update and expand DOE's functions relating to environmental regulation.

12. NIWL's costs will be recovered in full from customers (excepting the first three years – see below). New charges for water and sewerage services for domestic customers and the extension of existing charges for non-domestic customers will be introduced. For the first three years of NIWL's operation, the Government has said that it will provide grants to cover the costs of two thirds (year one), one third (year two) and charges no higher than English and Welsh average charges (year three) of total bills. Capital and borrowings will be funded by the Department. The legislation does not prescribe the nature of the charging regime. A detailed charges scheme will be published separately before the new charges are introduced in April 2007.

13. The legislation enables the Department to develop regulations to provide assistance to lower-income groups with respect to domestic charges. Assistance will be funded by government rather than from other customers; the amount of public expenditure available for other public services will be reduced accordingly by a sum currently estimated to be in excess of £40 million in 2009/10.

14. The legislation provides for the transfer of the rights, properties and liabilities of the Water Service (as part of DRD) to the GoCo. This will result in a write down in the value of the asset in the government's accounts of between £5 and 5.5 billion. The transfer of the Water Service to the undertaker will also require the establishment of a pension scheme for the undertaker and the bulk transfer of pension entitlement from the PCSPS (NI) to the new pension scheme is estimated to be in the region of £250 million if all employees decided to transfer their accrued service.

15. The Legislation will provide a framework to improve drinking water, better protect the environment, enhance the ability to sustain economic growth, improve essential services and introduce new protections for customers. The legislation will provide many new protections for consumers, for example it:

- enshrines rights to water and sewerage services (of which there are none at present);
- places general duties on all concerned to look after consumer interests and especially more vulnerable members of society;
- guarantees the provision of information to consumers (of which there is none at present);
- guarantees standards on vital issues like pressure and constancy (of which there are none at present);
- allows schemes to be made to compensate consumers where standards aren't met (of which there are none at present);
- prevents disconnection of water for domestic premises for non-payment of bills;
- provides for new complaints procedures based on existing utility models; and
- provides for a much more robust system of enforcement where environmental protection is concerned (currently, enforcement action can't be taken against Government because of "Crown Immunity").

Legislation Timetable

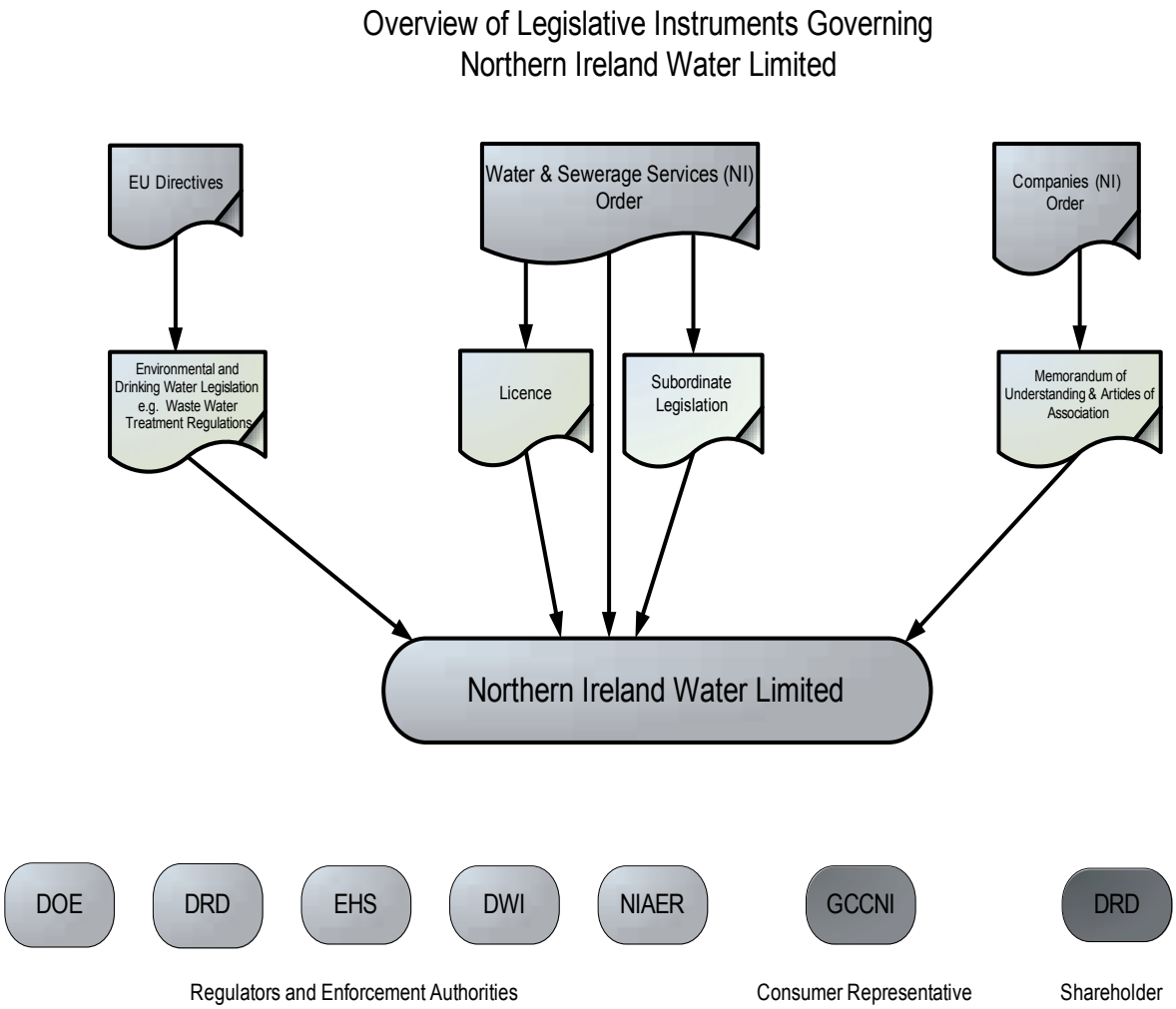
16. A list of key milestones is set out below:-

- Draft Order issued for consultation - 1 June 2006;
- Draft Order laid in Parliament - 9 October 2006;
- Draft Order debated in House of Commons - 28 November 2006;
- Draft Order debated in House of Lords - 11 December 2006;
- Order to be made at Privy Council (subject to Parliamentary approval) - 14 December 2006;
- Make subordinate legislation - present to March 2006.
- Order operative - 1 April 2007.
-

Section 2.

The strategic business plan, governance of the GoCo and the issue of licence

Overview of Legislative Documents Governing Northern Ireland Water Limited[1]



Companies Legislation

17. Northern Ireland Water Limited (NIWL) will be a private limited company wholly owned by the government. The Department for Regional Development will be the 100% shareholder. In common with other limited companies, NIWL will be constituted and operate under companies law – the Companies Northern Ireland Order 2006. It will also be subject to the same range of general legislation as other limited companies (not shown on the chart). The Companies (Northern Ireland) Order 2006 provides that limited companies are constituted through a Memorandum of Association (which sets out matters such as the name and objects

1 *This section is intended to give a brief overview of the legislative context for the draft licence. It is not a comprehensive description of the range of legislation applying to NIWL . It is necessarily a simplification of the context and should not therefore be read as an authoritative description.*

of the company) and the Articles of Association (which sets how the company will be governed, eg appointment and removal of directors).

Water and Sewerage Legislation

18. The Water and Sewerage Services (Northern Ireland) Order 2006 described in Section 1 provides for water and sewerage undertakers to be appointed under licence to deliver the services in Northern Ireland.

Environmental Legislation

19. NIWL must also comply with a range of environmental legislation particularly with regard to how it abstracts water from the environment and returns treated effluent to it. This legislation is required by European Directives. Similarly the company must comply with drinking water quality requirements.

20. Enforcement of these requirements is primarily the responsibility of the Department of the Environment although the Department for Regional Development also has a significant role. In practice enforcement is carried out by the Environmental Heritage Service (EHS) and the Drinking Water Inspectorate (DWI).

Instrument of Appointment or Licence

21. The Government published a draft instrument of appointment commonly known as the "licence" for Northern Ireland Water Limited (NIWL) on 4 December 2007 for a ten week consultation which will end on 9 February 2007.

Purpose of the licence

22. The draft licence builds on best regulatory practice and provides the means by which the Regulator can ensure that NIWL is focused on efficiency and customer service. Its aim is to protect the interest of customers through robust regulatory scrutiny whilst setting an appropriate framework to enable NIWL to operate effectively and sustainably.

23. It also gives effect to the full range of Government policy for the reform of water and sewerage services through the imposition of conditions that have been developed to ensure that charges are fair and affordable, that the future quality of services are maintained and that customer interests are protected at all times.

24. The draft is the result of seven months of review by the Licence Development Working Group led on behalf of the Department by the Strategic Investment Board (SIB) with significant input from the other members that included:

- The Northern Ireland Water Service;
- The Northern Ireland Authority for Energy Regulation;
- The Consumer Council;
- The Department of Finance and Personnel;

25. The draft Licence contains policy that;

- the Northern Ireland Authority for Utility Regulation (NIAUR) will regulate the water industry and carry out important appellate, enforcement, appointment, price setting, charging approval, standard setting, performance monitoring among its functions set out under the draft Water and Sewerage Order (NI)rand other functions;
- NIAUR will be demonstrably independent of Government; and
- regulatory powers should be passed to the NIAUR to coincide with the establishment of GoCo in April 2007.

26. The template for regulation by the Office of Water Services (Ofwat), the economic regulator in England & Wales has been used for developing the draft licence, though careful consideration has been given to ensuring that the licence properly reflects the differences that will exist between NIWL and water companies in England and Wales, most notably that NIWL will be 100% owned by government.

27. Improvements have been made to the E&W template to take account of the experiences of the last price review in England and Wales as well as current industry best practice.

Form of Price Control

28. The adopted approach is based on the specification of the maximum allowed revenue in each year (until 2010) that is consistent with the phasing in of tariffs that step-up for domestic customers towards the average E&W tariff in 2010, and will cost reflective levels for non-domestic customers. After 2010 an approach consistent with Ofwat's methodology is to be adopted (though with a subsidy correction factor).

Treatment of Non-Payment and Bad Debt

29. The draft licence has been drafted to avoid exacerbating potential bad debt. The approach adopted is based on;

- automatic price adjustments to cover revenue shortfalls due to bad debt above a specified lower threshold; and
- for significant levels of bad debt above an upper threshold to be recovered from customers at an amount and over a time period determined by the regulator

Correction Factor Mechanism

30. The actual revenue recovered by NIWL (even excluding bad debt) is unlikely to exactly match what was originally estimated. If the company over or under recovers this will need to be corrected in subsequent years in order to comply with the Government policy on tariffs and meet the company's financing requirements. The draft licence sets out the approach to calculating the correction factor and adjusting allowable revenues best suited to the Northern Ireland situation

Legacy (PPP) Contracts

31. The Licence does not permit the indefinite and wholesale pass-through of long term legacy contract costs to customer

32. In making the first price determination the regulator will treat the costs like any other and there will be no special ring-fencing of these costs. Any proposed pass-through of costs will be subject to scrutiny to ensure that costs that are ultimately passed through to customers are efficiently incurred.

Proceeds from the Disposal of NIWL Land and Property

33. The draft Order provides that land disposal by the company is subject to departmental control. However the Department is permitted to give a general authorisation on land disposal making disposals entirely a matter for the independent regulator. There will be exceptions to accommodate the role of the environmental regulator and for land which was originally acquired compulsorily

34. As far as proceeds are concerned, in England and Wales the approach adopted by Ofwat is a 50:50 sharing of surpluses from land sales between the companies and customers. This is not be appropriate in Northern Ireland in the first three years given the extent of government subsidy prior to 2010.

35. The adopted approach in the licence is that prior to 2010 all proceeds are retained by NIWL at the discretion of DRD (in consultation with DFP), and after 2010 the approach adopted by Ofwat will apply.

36. In addition an Estates Management Plan will be submitted to the regulator for its approval. The controls over the disposal of land/property and the application of the proceeds reflect a greater degree of control for the regulator than the controls in England and Wales. In addition the obligations on NIWL are more onerous than those on the water and wastewater companies in England and Wales.

Strategic Business Plan

37. The Department for Regional Development is currently working with Water Service to develop a Strategic Business Plan (SBP) covering the three year period to 2009/10. The SBP will enable the Department as Shareholder to manage its interest in the new water and sewerage undertaking and to set out how the company plans to deliver its objectives. The SBP will contain commercially sensitive material and will not be published. However Water Service will publish a summary of key elements of the Plan before April 2007. Work on the Plan is still ongoing.

Corporate Governance – Arrangements

38. NIWL will be established under the Companies Order. The objects of the company and constitutional arrangements will be set out in the Memorandum and Articles of Association. The company will be known as Northern Ireland Water Limited, this company is currently registered with Companies Registry as a dormant company to secure the name. The current

Memorandum and Articles of Association are attached (Annex B) these will be subject to revision before go live date. The company will be 100% government owned.

NIWL Board

39. The Minister for Regional Development will be responsible for appointments to the Board of the new company. The Minister has agreed that the Board will consist of no fewer than 8 and no more than 10 members, with two more non-executive members than executives. In addition the Minister may arrange for a senior official at DRD to attend Board meetings as an observer from time to time.

40. The appointments will come within the remit of the Commissioner for Public Appointments, DRD will be bound by the rules set by the Office of the Commissioners for Public Appointments (OCPA) and will follow the Code of Practice for Public Appointments when developing its procedures. An OCPA independent assessor, who is an expert in the appointments process, will be involved throughout to ensure that the process is transparent and objective.

41. In addition to appointing the Chairman and the non-executive Directors to the Board, the Minister will approve the appointments of the Chief Executive and the executive directors to the Board. The Minister appointed a shadow board to the Water Service in April 2006 details of the appointments are included in the Press Releases attached at Annex C. It is intended that the shadow board will become the first Board of the new company. The current Chief Executive and Executive Directors have been recruited by the Department and appointed by the Minister, however in future, the Board, with the Minister's approval as shareholder, will appointment the Chief Executive and Executive Directors.

42. In accordance with best practice the Chairman has established, Remuneration and Audit Committees, and a Risk and Reputation Committee with defined terms of reference. The Minister has said that the Remuneration Committee should consist entirely of non-executive directors, whilst the Audit Committee will be required to consist of non-executive board members and be chaired by a member who has experience of financial matters (not the Chairman of the Board).

The Department as Shareholder

43. The Department intends to adopt the Shareholder Executive model which recommends that shareholding Departments adopt a systematic approach to the application of corporate governance best practice. This will involve the Department setting up a Shareholder Team whose role will be to:

- Ensure the company adheres to relevant aspects of corporate governance best practice standards;
- set out, in a "governance letter", a description of the governance arrangements and a clear and comprehensive description of the rights and levers the shareholder holds and how they intend to use them; and
- take an active role in reviewing compliance of the company with the governance letter and best practice corporate governance (including Board structure).

Governance Letter

44. The governance letter will deal with the following main areas of influence that the Government as shareholder will exercise over NIWL:

- setting objectives;
- approving strategy;
- making appointments to the Board;
- providing financial delegations;
- providing an incentive structure for senior management;
- monitoring company performance (and intervening if necessary); and
- financing and payment of dividends.

45. The Department has put in place a governance letter for the 2006/07 shadow year. This is being reviewed in light of decisions on the finalisation of the Strategic Business Plan and a revised governance letter to be agreed between the Shareholder and the Board will be in place by 1 April 2007. The Governance letter will set out the detailed reporting requirements for the company and the arrangements to be followed by the Board to obtain Shareholder approvals when necessary.

46. As part of the monitoring and intervention undertaken by the Department as shareholder, certain matters may be specified in the governance letter as requiring DRD approval, including for example:

- overall financial targets
- annual budgets and business plans;
- the content of financial and operational reporting;
- regular monitoring cycles;
- capital structure and borrowing;
- dividend policy;
- levels of remuneration and key terms and conditions of service.

Reporting Requirements

47. The company will be subject to a variety of reporting requirements in addition to those set out in the draft Order:

- under existing companies legislation (the Companies Order), including in particular in relation to the production and publication of audited annual accounts and annual reports by the directors and auditors;
- by the Licence to the economic regulator;
- under the governance letter, to the Minister as shareholder.

Accountability

48. Collectively, the Board of NIWL will be accountable to the company and to the Minister, as shareholder, for the affairs of the company. The governance letter will include a clear statement on how the shareholding team will monitor the company, and the nature of the monitoring regime will depend on a number of factors including the complexity of the business and the value of capital invested in it.

49. NIWL will also be liable to be called before Parliamentary/Assembly Committees to answer questions and give evidence, in the same way as water and sewerage companies in England & Wales.

Audit Office

50. The Audit and Accountability (Northern Ireland) Order 2003 provides that in the course of a statutory audit or Value For Money study the Comptroller and Auditor General (C&AG) shall have a right of access to documents relating to the accounts of the body, which are held or controlled by the body, certain of its agents, or certain third parties. The C&AG access rights would therefore extend to Northern Ireland Water Ltd on this basis.

Section 3.

Arrangements for the billing and collection of the water charges

Customer Billing and Contacts – Summary of arrangements

51. In order to facilitate the introduction of Domestic Billing in 2007 an extensive appraisal of options was undertaken to determine the most effective way in which Billing & Customer contacts could be accommodated. Following this appraisal, the preferred solution was to outsource the Billing & Contact functions and as a result a procurement process was undertaken in order to find the most suitable outsourcing business partner.

52. As a result of this extensive process Crystal Alliance were named as preferred business partner, and were subsequently awarded the outsourced services contract on 18 January 2006. The contract in itself has allowed for a two phase outsourcing process, with a handover of existing Non Domestic Billing Operations & Operational contact handling in November 2006. The second phase will consist of a full Billing & Customer Contact service from April 2007.

53. The key points relating to the future arrangements regarding customer Billing & Contacts are;

- The contract is with Xansa, Echo Managed Services and AMT Sybex and utilises proven package-based Water Industry billing and contact management solutions.
- The contract is for 7 years:
  - 1 year build/implement;
  - a 2-year Transition Period during which the charges will be phased in;
  - 4 years of live running in “Steady State” ; and
  - Contractor build costs and annual running costs are approx. £10m p.a. (ie Total contractor costs of approx. £70m over the life of contract).
- The contact centre based in Belfast with extended opening hours to service customer enquiries:
  - 08:00 to 20:00 Monday to Friday
  - 08:00 to 18:00 Saturday
  - 12:00 to 18:00 Sunday and non-main bank holidays
- A skeletal out-of-hours service (for fault reporting only) is available outside of the times above and on public holidays.
- Self-service facilities will be available through Water Service’s web-site.

Customer numbers

54. The service provides for the likely growth in customers year-on-year as new builds, etc. take effect.

55. In addition the Minister has announced a domestic metering policy with a gradual introduction of targeted metering of domestic customers from April 2007 (pensioners can opt for a meter

straight away and all new builds will have a mater installed). The Minister also approved a potential move to universal metering in the longer term; a review of metering policy is scheduled for 2008/09. Initial customer numbers are estimated to be of the order of 760,000.

Affordability tariff

56. There are provisions for reduced charges for customers already in receipt of passport benefits (Rates Relief, Housing Benefit) and for children in full-time education or leaving care.

Cash Collection

57. Customers can avail of a wide range of payment methods and options, in line with those offered by other utilities.

The service is targeted, over time, to achieve comparable performance in cash collection and customer service (compared to the OFWAT reported performance of the 10 GB Water companies).

58. The approach to debt recovery will be:

- customer focused;
- based on the view that many customers will pay given the right service;
- focused on building relationships with customers who can't pay and who are genuinely trying to pay;
- in line with accepted good practice in the utilities sector and with the Regulator's requirements for a professional and fair approach.

Letter Dated 15 December 2006 from the Department for Regional Development to the Sub-group

Programme for Government Committee –
Meeting of the Sub Group on Water Reform

Further to the meeting with the Programme for Government Sub-Committee on Wednesday 13th December, I attach responses to a number of issues which were raised by Sub-Committee members during the afternoon session attended by the Chief Executive of the Water Service, Katharine Bryan, the Director of Water Reform, Nigel McCormick and myself.

I would like to take this opportunity to reiterate the point I made to the Committee yesterday, in relation to the 2007 Domestic Valuation Exercise. This assessed the Capital Value of all properties across Northern Ireland as of January 2005 and is used as the basis for the proposed unmeasured water and sewerage charge, as set out in the recently issued leaflet to all households: "Water Charges: Made Clear." While the market value of properties in many parts of Northern Ireland has increased significantly in the last number of years, it is the Capital Value of a property fixed at January 2005 that will be the basis of domestic water and sewerage bills to be issued in April 2007. I hope that this may rectify any misleading information that may have been provided to the Sub Committee to the effect that bills issued will be significantly higher than as set on in the "Water Charges Made Clear" information pack.

I understand that during yesterday's proceedings, the Committee received submissions from opponents of the Water Reform project to the effect that the Reform is essentially "privatisation by the back door." In response, I would like to emphasise that Ministers have said publicly that the new company will remain in Government ownership for the foreseeable future. Article 273 in the draft legislation prevents the Department disposing of shares in GoCo to the extent that ownership of the company would no longer be controlled by the Department unless there is a resolution of the Assembly. The DRD Minister and the Secretary of State have both made clear that privatisation is not on the agenda.

Please let me know if the Committee requires any further information.

Yours sincerely

(Signed)

David Sterling
DAVID STERLING

Annex

Committee on the Preparation for Government Sub Group: Meeting on 13 December 2006 with Department for Regional Development

Issues raised by members of the Sub Group during the course of a question and answer session with officials from the Department for Regional Development on Wednesday, 13 December 2006.

This brief addresses the following issues:

1. Strategic Business Plan
2. Transformation Costs
3. The Rationale for Standing Charges
4. Water Reform Impact Assessments
5. Bad Debt
6. Tariffs and Affordability – beyond 2010
7. Tariffs: General
8. Letter from DRD to Lord Glentoran.

1. Strategic Business Plan

- The Strategic Business Plan (SBP) will enable the Department as Shareholder to manage its interest in the new water and sewerage undertaking and enable the company to deliver its objectives. The Plan will cover the period to 2009/10 in detail but will also include forecasts to 2013/14. It will establish the financial framework within which the company will operate. It is important that the Shareholder and the Company can consider various scenarios in a confidential environment without giving rise to speculation and causing concern amongst staff.
- The Plan will contain commercially sensitive information in respect of a number of aspects of the business. For example, the company's capital works programme will include detailed cost forecasts, which if published may be advantageous to the supplier base and detrimental to effective procurement.
- In considering efficiency strategies for the company the Plan may include a number of different scenarios which may examine the potential for depot closures, staff transfers, reallocation of resources and possible redundancies. It would be inappropriate to make public this information in the context of discussions with the Shareholder which could give rise to needless worry and anxiety amongst staff. The company should be given the space to conduct appropriate negotiations with staff and their representatives and have the ability to develop its communications strategy free from media intrusion and unhelpful speculation.
- The SBP will also include information on remuneration and incentive policies for the management team and staff of the company; again it would be inappropriate for this information to be in the public domain as it would make it difficult for the company to negotiate contracts with existing and potential new employees who would be armed with this sensitive information.
- The business will be undertaking a significant transformation programme and this will require expert advice to assist with delivery again publication of this information may be advantageous to bidders responding to tenders for consultancy advice.
- DRD is seeking to follow the Shareholder Executive model and we understand from colleagues there that it is normal practice that the detailed SBP for Government owned companies is not published. However, given the public interest and the fact that the company is 100% owned by government Water Service will publish a summary of the key elements of the SBP before 1 April 2007.

2. Transformation Costs

- The Invest to Save budget for 2006/07 is £39.5millon. This funds transformation costs including major projects to deliver efficiencies and operational improvements. The transformation budget for the financial year 2007/08 will be defined in the Strategic Business Plan which has not yet been finalised.

3. **Rationale for Standing Charges in an Unmeasured Charging Regime**

- The unmeasured charging regime seeks to reconcile two key considerations, namely 'ability to pay' and 'use of the service'.
- The charging regime is based on setting the lowest charges at around the level of the lowest charges in England and Wales – an ability to pay consideration. The proposal to include an Affordability Tariff goes further than this to ensure that eligible low income households will not need to spend more than 3% of their income on water and sewerage charges.
- The regime also takes account of the fact that there is a limited range of costs associated with providing water and sewerage services to domestic properties. Based on information on the level of domestic metered bills in England and Wales the ratio of the highest charges to the lowest charges in Northern Ireland has been set at around 1:5.
- This ratio is achieved by setting a standing charge at a level which will recover around 35% of the costs and by setting a cap for the most expensive properties. Removing the standing charge and basing charges on capital value alone would mean that a property valued at £1 million would attract water charges 25 times higher than one valued at £40,000.
- The standing charge, therefore, is used as a modifier (as in England and Wales) in the unmeasured regime but it also recognises that there are certain costs of supplying water and sewerage services that are broadly the same irrespective of the actual use of the services.
- The cap on charges ensures that the most expensive properties do not pay charges which are substantially higher than could be justified by their use of the services.

In Summary

- The charging regime is based on setting the lowest charges at around the level of the lowest charges in England and Wales – an ability to pay consideration.
- The regime also seeks to restrict the range of charges to the range of metered bills for properties in England and Wales – in recognition of the fact that there is a fairly limited range of costs associated with providing water and sewerage services to domestic properties. This is achieved through the proposed standing charge.

4. **Water Reform Impact Assessments**

- There have been 2 Equality Impact Assessments carried out in relation to water reform.
- The first was led by DRD and looked at the overall water reform policy proposals including the introduction of charging for domestic customers. The consultation started in November 2004 and the final report issued in December 2005.
- The second was led by Water Service and related to the impact of water reform on the organisation and its staff. The consultation commenced in February 2006 and the final report issued in July 2006.

- There are no outstanding issues from either process. Normal equality procedures continue to be applied by both Water Service and DRD in line with section 75 of the Northern Ireland Act.

Further information relating to the impact assessments can be found by accessing the following links:

http://waterweb.psn-ni.gov.uk/publications-eqiareport260606.doc

http://www.waterreformni.gov.uk/index/consultations/consultations2004.htm

5. **Bad Debt: Management Policy**

- The debt management strategy has been developed as part of the overall customer billing and charging project; it has not been subject to separate screening.
- In managing debt, as a commercial enterprise, GoCo will have the same powers as other companies and utilities to pursue debt through the normal civil processes. Implementation is a matter for the GoCo not for Government. However, the Company will adopt best practice and consult with the customer representative in developing its policies.
- During the initial three year period from April 2007, bad debt has been estimated at 5%. Arrangements for dealing with bad debt above this level are set out at paragraph 4.4 of Condition B of the Draft Instrument of appointment of NIWL (the licence) which is currently the subject of a public consultation exercise due to conclude on 9 February 2007. The draft licence and supporting document may be found at www.waterreformni.gov.uk . Essentially the draft licence provides that significant levels of bad debt above 5%, can be added to the Regulatory Capital Value of the company such that the debt would be recovered from customers in the future over a time period to be determined by the regulator. The treatment of bad debt after 2010 will be determined by the economic regulator.

6. **Tariffs and Affordability – beyond 2010**

- The Affordability Tariff will be in place for the first three years with a commitment to review this in 2009. It is a policy which has been devised with the clear intention to avoid water poverty, particularly amongst the most vulnerable in society. The Government can see very strong arguments for the policy being continued beyond 2010 but considers it would be wrong to commit a future devolved administration to such an obligation. It will represent a substantial financial commitment – perhaps in the region of £40-50 million per year. The Government also believes it is right that the policy should be reviewed after three years to ensure it is targeting resources where the need is greatest.
- However, it is the Government's clear aim that the Affordability Tariff should come into effect during devolution and hence it will be devolved ministers who will be required to conduct the review of the Tariff in 2009. The important point is that there is

nothing in the draft legislation to prevent the extension of the Affordability Tariff beyond 2010 if ministers so decide in the future.

7. **Tariffs: General**

- On this issue Government again has a shared objective of ensuring that tariffs are fair and affordable and not subject to major increases in 2010. To deliver this, a key aim for the Government is that the water company should become commercially accountable to customers through the Regulator notably by it setting prices independently from government. This will make the services more responsive to customers' needs and drive out efficiencies in the running of the business thereby keeping tariffs to the minimum necessary whilst providing for a sustainable long term business.
- The Government is keen to ensure that the water company delivers these benefits as soon as possible and has set the target of 2009/10 by which the company should be fully self-financing.
- Tariffs from 1 April 2010 will be set by the Regulator following its 2009 Price Review. It is right and proper that that review is independent. However, the Government is seeking to set up the company so that there are no major shocks for customers in tariffs in 2010/11. The Department and Water Service are currently working hard to ensure that the underlying cost base of the company is such that the Regulator is in a position to set prices in Northern Ireland that are fair and affordable by comparison with those in England and Wales and as close as possible to average tariffs there, taking account of the challenges ahead for the Water company.
- It would of course be open to a devolved Assembly to give a commitment to peg the tariffs to any particular level by means of a continuing subsidy, should they feel that necessary and appropriate. However, for the reasons set out above, the Government considers it would be unfair to commit a future devolved administration to a given level of tariffs, especially in advance of the 2009 Periodic Review.

Department for Regional Development
December 2006

Letter Dated 8 December from Department for Regional Development to Lord Glentoran

Dear Lord Glentoran

Draft Water and Sewerage Services (N.I.) Order

David Cairns and Lord Rooker were grateful for the opportunity to meet with yourself and Lord Cope on 7 December to discuss the draft Order.

The Minister asked me to write to you setting out the powers of the Regulator on commencement of the legislation (should it be passed), on what Lord Rooker might say on land disposal and on what he might say on the reasons for progressing the legislation at this point. These items are annexed.

On the regulator's powers, I cannot claim to have set out every aspect covered by the legislation in the time available. The Regulator's (the "Authority" to give it its proper legislative reference) role is set out throughout the draft Order's many provisions and detailed in the Licence of appointment for GoCo currently issued for consultation. I hope I have covered the main points and have set out enforcement powers comprehensively as this issue has been the subject of some debate.

On general issues of regulation, it should be noted that the Regulator's remit is supplemented by environmental regulation through the Environment and Heritage Service and, on consumer matters, by the Consumer Council. This is an immeasurably different situation to the current one where the Department for Regional Development is both service provider and responsible for much of the oversight of those services.

The Minister asked me to point out that, should the draft Order not be passed, the arrangements for independent regulation will not take place. We will be left with the existing, unregulated, regime.

The possible comments by Lord Rooker are, I hope, self explanatory but please come back to me or Ministers if anything is unclear or you feel there is a discrepancy with the what you understood from the meeting on 7 December.

Yours sincerely

JOHN MILLS

ANNEX A

Regulator's Powers To Be Exercised On Commencement

The Northern Ireland Authority for Utility Regulation (NIAUR) will regulate the water industry and carry our important appellate, appointment, price setting, charging approval, standard setting, and performance monitoring functions. Government is committed to unfettered regulation of the NI Water industry and to establish, as quickly as feasible, a regulator demonstrably independent of Government.

Enforcement

The draft Order provides for a wide range of statutory duties placed upon GoCo as the Water and Sewerage undertaker to be enforced either by DRD, or by the Authority upon authorisation by DRD.

From 1 April 2007 the Department will issue a general authorisation for the Regulator to carry out enforcement where there is a choice between it and the Department. That is:

Article number	Article	Responsibility
54	**Articles 52 and 53**: supplementary. Duty for undertaker to obey an order by the Authority to provide the Consumer Council with information.	Authority
63.	**Procedure for dealing with complaints**. Duty on undertaker to establish complaints procedure, to obey Authority's directions to review, report on and modify same.	Authority
65.	**General duty to maintain water supply system, etc**. Undertaker to, "develop and maintain an efficient and economical system of water supply - - etc."	DepartmentorDepartment &Authority
68.	**Information to be given to customers about overall performance**.	Authority
75.	**Variation and termination of bulk supply agreements**. Refers to duties between undertakers.	Authority
89.	**Prohibition on connection without adoption**.	Authority
98.	**Supplies for other public purposes**.	Authority
105.	**Duties of undertakers as respects constancy and pressure**.	Authority
117.	**Functions of the Department where piped supplies insufficient or unwholesome**.	Authority
145.	**Duty to promote efficient use of water**.	DepartmentorDepartment &Authority
149.	**General duty to provide sewerage system.**	DepartmentorDepartment &Authority
153.	**Information to be given to customers about overall performance.**	Authority
157.	**Further duty to provide sewers.**	DepartmentorDepartment &Authority
201.	**Charges schemes**. (supplementary to above)	DepartmentorDepartment &Authority
243.	**Complaints with respect to the exercise of works powers on private land.**	Authority
247.	**Duty to move pipe in certain cases**.	Authority
255.	**Trade effluent registers**. Duty to provide this information for public inspection.	Authority
263.	**Exchange of metering information between undertakers**.	Authority
284.	**Provision of information**. (to DOE under Article 28A of the Water (NI) Order 1999 – a general requirement under that Order.	Authority

The Authority will also be authorised to accept undertakings from the undertaker in lieu of enforcement action (Article 31)

Charges Schemes

The Regulator will normally approve the GoCo's charges scheme each year but will not do so in respect of the first charges scheme only because it will not exist in time to do so. It will carry out this power thereafter as set out in Article 201.

Appointment of undertakers

The Regulator will appoint water and sewerage undertakers (by means of a Licence) but will not do so in the first instance as it will not exist in time to do so. The Regulator will be able to make modification to existing Licence arrangements.

Appellate functions etc

The Regulator has numerous appellate roles throughout the Order and these will come into operation on the commencement of the provision to which they relate. The same is true for certain complaints handing, investigative and dispute resolution roles. For example, the Government has committed not to introduce billing dispute regulations, which might be seen as a constraint in this area.

Land disposal

What Lord Rooker proposes to say is at Annex B

Price controls

After the first three years of charging, the Regulator will, be responsible for price controls – as in England and Wales for Example. The independence of this role is effectively limited during the first three years because of the phasing in of water charges and the Government commitment that average charges will be no higher than those in England and Wales. Thus, Government will be heavily subsidising customer's charges during the phasing-in period.

Aside from the benefit to customers, it is worth noting that there was a history of charging in England and service delivery at arms length from central government for a number of years prior to privatisation. In Northern Ireland, water and sewerage services will move from direct central government provision to a newly regulated private company in a mater of three years.

Standards

The Regulator will determine standards of performance and targets for GoCo and will fashion guaranteed standards (involving compensation to customers for failure by GoCo to deliver against targets).

Annex B

Government Position on Land Disposal and Regulation

Land disposal

In one area, land disposal, we've been accused of not allowing independent regulation. I want to make it clear that this is not so.

The draft Order says (Article 217) that land disposal by the company is subject to Departmental control. But it allows us to give a general authorisation on disposal and we will give this authorisation – making decisions on disposal entirely a matter for the independent Regulator. There'll be exceptions to accommodate the role of the Environmental Regulator (Environment and Heritage Service) and for land which was, originally, acquired compulsorily. But the Department will not interfere and there will not be a conflict with its role as shareholder in GoCo.

The proceeds of any disposal will be retained by the GoCo subject only to Regulatory control. The fine detail is contained in the Licence which we are currently consulting upon. But I give a commitment to look very sympathetically at any issues of regulatory independence in regard to disposal, if they are raised.

But just to be clear, Government will be handing decisions on whether to dispose of assets over to the regulators.

General Regulation

This is consistent with the Government's overall approach to ensuring independent regulation. We have already said that the Regulator will exercise all enforcement powers from day one where there is a choice between it and the Department.

Indeed, the only significant departure from the position in England and Wales will concern price controls during the first three years of phasing in charges. Government will be massively subsidising customer's bills in this period. I think people would prefer to pay an average bill of £100 rather than £300 because of this constraint.

Government is committed to independent price regulation after the subsidised phasing-in period.

And we will not be making the same mistakes as the previous Government did with the Northern Ireland electricity industry. We won't be setting up the same sort of long term contracts which have the effect of locking down tariffs in a way which the regulator cannot touch.

Annex C

Government Position on Why Reform Should Proceed

It would be better for the difficult and contentious issues raised by Water Reform to have been addressed by a devolved administration. Indeed, the devolved administration was already grappling with them in 2002.

But even this wasn't the first attempt to deal with the long term issue of sustainable investment. The previous Government tried, but failed, to introduce reform in the 1990's.

Unlike its predecessors, this Government has not failed to tackle these difficult issues. The devolved administration may have tackled them but, sadly, it has taken us three and a half years to get to a position where there is a realistic prospect of devolution.

Now, at the last minute, the parties are telling us to stop and let them deal with it. But by when? Even looking at the procedural timescale – Ministerial proposal, Executive endorsement, Assembly legislation and so on- we are looking at a minimum of two years delay in introducing these vital reforms.

That's a two year hit on other public services, two years lack of investment, two years closer to not meeting GB standards, two years closer to infraction fines. This is why we must proceed now.

And let's look at the political realities. If we have devolved government by March 2007, the Assembly will be able to repeal this legislation. It will have power to amend it. It will have power to make any changes it wants.

But no administration can avoid the inevitable need to invest in these essential services.

By proceeding with this Order, all we will be doing is giving the parties the option of addressing reform now. If this Order is defeated by those who recognise the need for change but fear their unpopularity, that option will be lost. That will be to the long term detriment of Northern Ireland's public finances and services.

Department for Regional Development

1. **Can you define self-financing? Can you identify how a self-financing system will be regulated? Where does funding come from for payment of the affordability tariff and any further pegging subsidy after 2010 within this self-financing model?**

Self-financing arrangements for water and sewerage services will require all customers, domestic and non-domestic, to contribute directly to the cost of the services received. In this context costs include capital and operating costs, as well as tax liabilities and providing an appropriate rate of return to the providers of capital.

The company will be regulated similarly to the OFWAT model for regulation of the water and sewerage industry in England and Wales.

In the three-year period to2010, the subsidies for the affordability tariff and for the pegging of tariffs will be paid for from the Northern Ireland Departmental Expenditure Limit (DEL). There are no plans to extend the pegging subsidy beyond the first three years. The Affordability Tariff will be in place for the first three years with a commitment to review this in 2009. It is a policy which has been devised with the clear intention to avoid water poverty, particularly amongst the most vulnerable in society. The Government can see very strong arguments for the policy being continued beyond 2010 but considers it would be wrong to commit a future devolved administration to such an obligation. It will represent a substantial financial commitment – perhaps in the region of £40-50 million per year. The Government also believes it is right that the policy should be reviewed after three years to ensure it is targeting resources where the need is greatest.

However, it is the Government's clear aim that the Affordability Tariff should come into effect during devolution and hence it will be devolved ministers who will be required to conduct the review of the Tariff in 2009. The important point is that there is nothing in the draft legislation to prevent the extension of the Affordability Tariff beyond 2010 if ministers so decide in the future.

2. **Will the Strategic Business Plan and underlying assumptions be made available for independent review before it is signed off by the Minister? What is the intended consultation and/or engagement process prior to finalisation and approval of the Strategic Business Plan? Can you identify the specific elements of the complete Strategic Business Plan being proposed as Commercial In Confidence and reasons for same?**

The Strategic Business Plan (SBP) will enable the Department as Shareholder to manage its interest in the new water and sewerage undertaking and enable the company to deliver its objectives. The Plan will cover the period to 2009/10 in detail but will also include forecasts to 2013/14. It will establish the financial framework within which the company will operate. It is important that the Shareholder and the Company can consider various scenarios in a confidential environment without giving rise to speculation and causing concern amongst staff.

The Plan will contain commercially sensitive information in respect of a number of aspects of the business. For example, the company's capital works programme will include detailed

cost forecasts, which if published may be advantageous to the supplier base and detrimental to effective procurement.

In considering efficiency strategies for the company the Plan may include a number of different scenarios which may examine the potential for depot closures, staff transfers, reallocation of resources and possible redundancies. It would be inappropriate to make public this information in the context of discussions with the Shareholder which could give rise to needless worry and anxiety amongst staff. The company should be given the space to conduct appropriate negotiations with staff and their representatives and have the ability to develop its communications strategy free from media intrusion and unhelpful speculation.

The SBP will also include information on remuneration and incentive policies for the management team and staff of the company; again it would be inappropriate for this information to be in the public domain as it would make it difficult for the company to negotiate contracts with existing and potential new employees who would be armed with this sensitive information.

The business will be undertaking a significant transformation programme and this will require expert advice to assist with delivery again publication of this information may be advantageous to bidders responding to tenders for consultancy advice.

DRD is seeking to follow the Shareholder Executive model and we understand from colleagues there that it is normal practice that the detailed SBP for Government owned companies is not published. However, given the public interest and the fact that the company is 100% owned by government Water Service will publish a summary of the key elements of the SBP before 1 April 2007.

3. **Is the Strategic Business Plan viable without (a) disposal of land and assets?; (b) further extension of a subsidy from 2010 when the pegging subsidy disappears?**

The Strategic Business Plan is not yet finalised and for this reason alone would be inappropriate to comment at this point.

4. **How much money will be collected from domestic customers each year from 2007 to 2010? How much is the total dividend going back to Treasury from DRD each year from 2007 to 2010?**

Domestic customers will pay around £51m in 2007/08, £111m in 2008/09 and £175m in 2009/10.

HM Treasury has the policy responsibility for the UK public expenditure system and the system requires that the cost of holding assets (or investments) should be transparently reflected in Budgets. The Treasury has determined that Government's investment in the GoCo should be at a rate of 5.8% of the value of the investment which will be a charge to public expenditure in Northern Ireland every year. However any and all amounts paid by way of dividend will be retained within DRD and remain in Northern Ireland thus ensuring that the existing level of public services can be delivered.

5. **Will the Go-Co be in a break-even position by 2010 when it becomes self-financing? Will the Go-Co be required to pay its dividend in full each year up to 2010? What are the current efficiency levels within Water Service, and what efficiency targets have been set for the new Go-Co up to 2010? If these are less than the targets of 35% operating efficiencies and 27% capital efficiencies advised by DRD in March 2006 can you explain why these have been eased and where the shortfalls are being dealt with?**

The Strategic Business Planning process has not yet been finalised. However in the period to 2010 it is Government's intention that the company will recover its costs through the collection of revenue from customers and the provision of subsidy from government will cover its costs, including the full payment of dividend in accordance with Treasury's Consolidated Budgeting Guidance.

Water Service has had a long standing target for cost reductions of £43million by 2009/10 from the base year of 2003/04. Efficiency Targets will be set for NIWL as part of the development work on the Strategic Business Plan.

6. **Why are NI customers having to pay a higher cost of capital at 5.8 per cent than any other UK water customer?**

The cost of capital of 5.8% in Northern Ireland is the same as the average of that set by the Regulator in England & Wales. OfWAT's future water and sewerage charges - final determinations report detailed the outcome of the 2004 Periodic Review including the setting of the cost of capital.

The report detailed how the real post-tax cost of capital was set at 5.1 per cent. However, OfWAT use what is known as the vanilla cost of capital of 5.8 per cent - which reflects the effect of the debt tax shield - when setting the cost of capital to actually be recovered through tariffs. This is the same as the 5.8% referred to in Northern Ireland – that is, the vanilla cost of capital is the same – 5.8%.

7. **Who will pay for (a) infraction costs if the Go-Co fails to comply with EU Water and Sewerage Directives; (b) pension and redundancy costs; (c) bad debt above 5 per cent estimate before and after 2010?**

(a) If the GoCo fails to comply with EU Water and Sewerage Directives and if, as a result of infraction, fines were levied on the UK by the Commission, current government policy is that these would fall to the Northern Ireland DEL;

(b) There will be a transfer value paid to the GoCo scheme in respect of the pension liabilities it takes on if and when the current employees take up the option to transfer their past Principal Civil Service Pension Scheme rights to the new scheme. The Value will be calculated by the Government Actuary Department (GAD) and will be funded by Treasury. Thereafter pension and any redundancy costs arising will form part of the normal costs for the business and will be reflected in the charges to customers;

(c) Arrangements for dealing with bad debt above this level are set out in Condition B of the Draft Instrument of Appointment of NIWL (Licence). Essentially the draft licence

provides that levels of bad debt between 5% and 10% can be added to the subsequent year's revenue requirement and debt above 10% can be added to the Regulatory Capital Value of the company such that the debt would be recovered from customers in future over a time period to be determined by the regulator. The treatment of bad debt after 2010 will be determined by the regulator.

8. **What is being done to satisfy the EC in relation to the Formal Letter of Notice in relation to Urban Waste Water Directive? When did you become aware of this formal letter of notice? Why was no statement been made on this? What are the implications if the EC is not happy with the regulations you put in place?**

The Department of Environment leads on this issue and has provided the following response: The European Commission wrote to the UK Government on 18 October 2006 setting out a series of concerns regarding the approach to the implementation and enforcement in Northern Ireland of the Urban Waste Water Treatment Directive (91/271/EEC). The concerns centred on the need for effective regulatory and effective mechanisms to secure compliance by Water Service with the standards contained in the Directive and the need for effective enforcement. A reply to the Commission from the UK Government issued on 12 December 2006. The receipt of such correspondence marks the beginning of formal legal proceedings by the Commission against the Member State and the policy of the UK Government is not to make any statement on the content of the correspondence from the Commission or its response on the grounds that it might be prejudicial to subsequent proceedings.

In the event that the Commission is not satisfied with the response of the UKGovernment, the case would move to the next stage of the proceedings.

9. **Can you confirm that the draft licence in relation to land disposal will be amended to allow for an unfettered authority being given on the regulator in approval of land disposal from 1 April 2007 as outlined by Lord Rooker on 11 December 2006 in the House of Lords? Can you confirm that any exemptions to his role including paragraph 4.2 of the draft licence will be removed including:**

- Any disposal defined to be £1 million or such greater amount as may be determined by DRD;
- Any disposal which DRD has consented to or authorised under relevant legislation;
- Any disposal which is made as a result of an obligation entered into by Water Service prior to the transfer date.

Can you please advise if any land and asset disposal has been sought by Water Service and/or approved by DRD to be effected after 1 April 2007.

During the debate in the House of Lords on 11 December 2006 Lord Rooker made reference to Article 217 of the Water and Sewerage Services (NI) Order 2006 which states that land disposal by the company is subject to Departmental control. However it also allows the Department to give a general authorisation on disposal and we will give this authorisation – making decisions on disposal entirely a matter for the independent Regulator. There will

be exceptions to accommodate the role of the Environmental Regulator (Environment and Heritage Service) and for land which was, originally, acquired compulsorily.

Government will be handing decisions on whether to dispose of assets over to the regulator.

Any amendments to the Licence which are necessary to give effect to the policy position as set out by Lord Rooker will be made. Departmental policy will be set out in the Authorisation referred to by Lord Rooker.

Under the terms of the Licence Northern Ireland Water Limited will be required to develop an Estate Management Plan by 1 September 2007 to be approved by the Regulator. The Plan will identify land considered surplus to requirements within a 10 year period and set out the company's proposals for disposal or development.

10. **Will the Ministerial Guidance to the Regulator be open to scrutiny, and by whom, before it is signed off?**

In carrying out their regulatory functions the legislation requires the Department and the Authority to have regard to the principles of best regulatory practice (including the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted).

With regard to the issue of guidance on social and environmental matters Article 7 of the Order makes provision for consultation with the Authority; the Consumer Council; relevant undertakers and such other persons as the Department considers appropriate. It also requires the Department to lay a draft of any guidance it proposes to issue before the Assembly and states that guidance shall not be issued until after the statutory period beginning on the day on which the guidance was laid. If during this period the Assembly resolves that the guidance should not be issued the Department shall not issue it.

Water Service Response to Consumer Council Questions

On the overall issue of the Strategic Business Plan, in the hearing held before Christmas, it was explained that, in line with practice both in the GB water industry and other Government owned companies, it is not proposed to set out the details of the Strategic Business Plan for NIW. This recognises the sensitive issues addressed in the plan. However in recognition of the substantial interest in the plan and its 100% Government ownership, a summary of the plan will be produced prior to 1 April 2007.

Taking the detailed questions in groups:

Q 1 **Is your Strategic Business Plan viable without (a) land disposal; (b) further subsidies after 2010? What are efficiency levels and targets set?**

The first two questions in Q1 have been addressed as part of response to DRD question 3. The level of efficiency targets remain under development.

Q 2 **What are your estimated transformation costs each year up to 2010? Can we have a breakdown of these costs?**

Q 3 **What are your estimated reductions in headcount from 2007 and 2010 and how much will this save in numbers and amount?**

Q 4 **What are your estimated performance related pay costs each year up to 2010? Can we have a breakdown of these costs?**

Q 5 **What are the plans for pension and redundancy up to and after 2010?**

The overall position in relation to the availability of the final SBP has already been set out. It is also not proposed to set out the details of draft proposals. However, in a number of areas some supporting information may assist the sub-committee.

Firstly, issues relating to staffing will be subject to the appropriate consultation or negotiation with Trade Unions once the SBP is finalised.

Second, NIW is committed to pursuing increased levels of efficiency including through enhanced ways of working, better use of new technology and better processes. Efficiencies in Water Service have already seen a reduction of around 300 posts and reductions will continue in the 2007-10 period. Under TUPE, after NIW is created on 1 April 2007, staff terms and conditions will transfer. This includes redundancy terms. It is likely that NIW will need to initiate a voluntary redundancy scheme. As before, every effort will be made to avoid compulsory redundancy.

Thirdly, the NIW pension scheme will offer staff the same key benefits and contributions that are provided to them currently through the civil service scheme. A certificate of broad comparability will be sought from the Government Actuary's Department. This is in line with the Government's 'Fair Deal' policy on pensions for staff transferred outside the remit of the Civil Service scheme. The NIWL pension scheme will be run by trustees appointed in accordance with pensions legislation. The trustees will include management and member nominees.

Fourthly, on transformation, NIW will be an organisation which will need to invest to meet in due course the levels of service, efficiency and output which would be directly comparable with equivalent regions in Great Britain. It is likely that investment will be required to introduce new technology, to improve the capture and use of information and to support the development of new ways of working.

Fifthly, a performance pay structure is seen as an important aspect of the overall development of NIW. This is in line with practice in the water industry and in other Government owned companies.

Q 6 **Can you please advise if any land and asset disposal has been sought by Water Service and/or approved by DRD to be effected after 1 April 2007.**

Water Service has not sought approval for land or asset disposal after 1 April 2007. The arrangements for land and asset disposals are addressed in the draft licence currently out for consultation. In addition, the draft licence proposes that Northern Ireland Water should be asked to produce an Estates Management Plan by 1 September 2007. This plan will include the scope for future land or asset disposals. In the meantime, Water Service will continue to identify any surplus land/assets and to dispose of them where appropriate.

Q7 **Please note that responses to the first three questions as part of Question 7 were included in correspondence to the committee before Christmas.**

Can Water Service outline their proposals for consulting fully and meaningfully with the Consumer Council before public consultation on any change in debt management system?

Water Service continues to liaise with Consumer Council on a range of issues, including debt management, in advance of formal statutory requirements to commence from April 2007. Visits were arranged in late 2005 for Consumer Council to see comparable billing and debt management operating in Great Britain. A detailed presentation, (including handover of hard copy) outlining the proposed debt management system was given to Consumer Council in late August 2006.

In continuing discussion, it has been made clear that further consultation on the debt management system will take place in the context of the relevant Code of Practice on debt management which is one of a suite which is currently being shared with Consumer Council on a staged basis as drafts are prepared. It is planned to have all of the Codes of Practice provided to Consumer Council and, where possible, comments received by the beginning of February 2007.

There are no plans to hold public consultation on what will be an internal business policy for Northern Ireland Water.

Can Water Service document to the Committee what the proposed debt management and recovery system is at present and confirm that this has been consulted on and signed off with Consumer Council?

The proposed debt management and recovery system which will be outlined in the relevant draft Code of Practice to be forwarded to Consumer Council for comment by mid January will be developed on the principles set out in the detailed presentation of August 2006. Northern Ireland Water will be responsible to the Regulator (and in the interests of fairness to customers) for developing sensitive but business-like debt management process. As with any other utility, this will, through time, be supported by a range of credit management tools with the objective of existing customers who may have difficulty paying and encouraging those who won't pay. In the process, Northern Ireland Water will build experience of customer payment, patterns and history, alongside working with Consumer Council and Advice Agencies to ensure that a suitable range of payment facilities is available.

Federation of Small Businesses

Introduction

The Federation of Small Businesses welcomes the opportunity to make this submission on our views on the water reform issue in Northern Ireland. The FSB first examined this issue in 2003, producing its 'Double Tap Tax' policy document, and it is an issue consistently raised by concerned members in the period since. The FSB has, as a result, carried out subsequent research and has found views have remained consistent.

The right to access a clean, safe water supply is a basic human right, as is the need for an efficient, safe system to transport sewerage. From a commercial perspective, water and sewerage are key services in the running of successful enterprises, which provide employment and generate prosperity in society.

Research Results

The FSB is firmly opposed to the introduction of water charges in Northern Ireland.

The FSB does not share the view expressed by government on non-domestic water charges that businesses do not pay for water through their rates any longer, and therefore conclude that businesses are being double taxed.

The 2006 FSB Barriers to Growth Survey in Northern Ireland found that less than one-quarter of businesses (23%) have a water meter on their premises. This is the lowest of any UK region (UK average 46%). This survey also indicated that a clear majority believe if separate water charging is to be introduced it must be based on the volume of water used and not on the rateable value of premises (figures supplied overleaf).

Question: Do you have a water meter in your business premises?

	COUNT	%
YES	99	22.7
NO	308	70.6
DO NOT KNOW	15	3.4
NOT ANSWERED	14	3.2
TOTAL	436	100.00

Do you agree that water charges should be based on the volume of water used and not on rateable value as at present?

	COUNT	%
YES	370	84.9
NO	43	9.9
NOT ANSWERED	23	5.3
TOTAL	436	100.00

These results show that while the majority of business owners do not have meters fitted in their premises, they are willing to have one installed if separate charging is imposed.

Comparisons on water charging with the rest of the UK are complicated by different, and largely incomparable, mixes of metering, rateable valuation and other factors. Therefore the FSB concludes that it is invalid to claim that Northern Ireland water customers pay less for this service than consumers in other parts of the United Kingdom.

Although there is a high level of awareness amongst FSB members in Northern Ireland about the current plans for water services, a significant proportion of members are unaware that they are charged for these services already through their Rates payments.

Results from FSB research show that the majority of members do not favour the privatisation of the water service but would prefer that it remain in some form of public ownership.

The proposals for water charging will be a double blow for many businesses. They will lose their current allowance, which covers any domestic consumption from the business supply, as well as having their own domestic costs.

Conclusion

The FSB recognises the need for better water and sewerage services in Northern Ireland, and that to achieve this, there will be a significant cost. However, the FSB believes the Government must face up to the fact that it is responsible for the decades of under-investment'.

The work of the Strategic Investment Board in the water sector is welcome, and it is hoped that it can develop an innovative solution to upgrade the network for the future. However it must take into consideration the concerns of the business community when it is implementing change.

This is not a case that businesses unwilling to pay their way, but genuine concern that with Northern Ireland already having the highest business costs in the United Kingdom, another added cost will increase the burden further and act as a negative at a time when the focus should be upon improving the business environment.

Wilfred Mitchell OBE

Policy Chairman

Friends of the Earth

Submission to the Transitional Assembly's Programme for Government Committee: the arrangements for water reform set out in the draft Water and Sewerage Services (Northern Ireland) Order 2006 from Friends of the Earth.

1. Paragraph 153 of the Explanatory Memorandum to the Water and Sewerage Services (Northern Ireland) Order 2006 expresses the intention of Government to grant a "due diligence defence against prosecution" to the GoCo "in respect of water pollution offences attributable solely to the dilapidation of the waste water infrastructure inherited on 1 April 2007" until 31 December 2008. The Memorandum states that this provision will be "dealt with under regulations made by Department under article 306 of the draft Order".

2. This means that where a pollution offence can be attributed to the 'legacy failures' of the sewage infrastructure, the GoCo cannot be held legally liable. While Friends of the Earth does not believe that the GoCo should be immediately prosecuted for such failures, it should be within the power of EHS to decide when it is appropriate to prosecute and should not have its discretion fettered by Ministers.

3. Friends of the Earth believes this measure is unnecessary; inconsistent; unreliable; unlawful; and reckless.

4. It is unnecessary in that the proper way to approach this problem is through the enforcement policy of the environmental regulator. EHS should simply issue enforcement notices on non-compliant works with dates set in accordance with an agreed capital works programme. If the timetable is not complied with, EHS would then be free to choose to take further action including prosecution.

5. It is inconsistent in that contrary to what is stated in paragraph 153, Water Service has stated that the capital works programme will not be complete by 31 December 2008 and that a number of non-compliant works will fall under a normal regulatory regime after that date. There is therefore no principled need for a due-diligence defence in these circumstances.

6. It is unreliable in that there is nothing to stop Government introducing a further regulation under Article 306 extending the date should it feel so disposed.

7. It is unlawful in that to forbid the enforcement of legally binding standards is in contravention of the Urban Waste Water Treatment Directive as set out in a Letter of Formal Notice from the European Commission to the UK Government dated October 2006 in response to an official complaint by Friends of the Earth. A letter from the Commission to Friends of the Earth dated 18 October 2006 expresses the Commission's clear view that the fact that Water Service is not subject to the Water (Northern Ireland) Order 1999 means that "the national legislation applicable to Northern Ireland is not in conformity with the requirements of the Urban Waste Water Directive" and that "there is evidence to suggest that this is resulting in addition in a failure in practice to secure compliance with the requirements of the Directive".

The Commission was expressing a view on Crown Immunity but the 'due diligence' defence is an extension, albeit a limited one, of such immunity to the GoCo

8. It is reckless in that to defy the expressed concerns of the European Commission as to the lack of enforceability of Community water legislation in Northern Ireland exacerbates the risk of the case reaching the European Court. Furthermore the fact that Government legislated to replace Crown Immunity with 'corporate immunity' is likely to exacerbate any fine the Court may wish to impose.

9. Accordingly this transitional provision should be abandoned.

10. Government's approach to this issue is to prioritise the perceived needs of the GoCo over the protection of the environment and public health. We understand that DRD and Water Service feel that without this provision it will be difficult to attract private sector Directors to the new company but in reality the risk of individual prosecution and imprisonment is minimal and if the latter happened it would be the result of staggering incompetence, begging the question of why Government would want to attract such people in the first place. A greater concern may be that the existence of risk of prosecution for legacy failures may deter the private sector from purchasing significant shareholdings in the GoCo.

John Woods
Director (Northern Ireland)

Friends of the Earth
15 December 2007

Written Submission Dated 15 December 2006 from the Northern Ireland Environment Link (NIEL)

Northern Ireland Environment Link (NIEL) is the networking and forum body for non-statutory organisations concerned with the environment of Northern Ireland. Its 41 Full Members represent over 82,000 individuals, 265 subsidiary groups, have an annual turnover of over £38 million and manage over 230,000 acres of land. Members are involved in environmental issues of all types and at all levels from the local community to the global environment.

The short time allowed for responding to your query means that the information below has not been agreed by Members, but is based on knowledge of their views on these issues canvassed in the past.

Water Reform. We feel that the arrangements as they stand require further work to ensure that the people of Northern Ireland receive the best possible water and sewerage services while safeguarding their interests as customers of the new GoCo. We believe that it is essential that people's charges are directly related to the amount of water that they use in order to incentivise water conservation measures as required by the Water Framework Directive. Current proposals to link water charges to capital value of a home, as well as being likely to cause some people hardship, we feel do not fulfil these requirements. Costs must be directly related to usage, and we see no way to do this without a system of universal metering. We recognise that this is an expensive process and will take some time to institute, but the current arrangements are not specific enough nor targeted enough in this regard. Metering should in no way be seen as a 'first step to privatisation' – rather it is a first step to ensuring that Northern Ireland's people recognise the value of pure water and conserve it accordingly. Having only a small portion of the cost of water being related to the amount used is thus also unacceptable, since this will not encourage conservation. Charging mechanisms need to be developed which ensure that this is so; that is, having a relatively small standing charge and the majority of the charge being directly related to amount consumed. In order to ensure that those in need do not decrease their water usage below hygienic levels the standing charge should include a basic amount of water. Banding of charges for increasing levels of usage should also be considered.

We have concerns about the possibility that the GoCo could at some future date after 2010 be fully privatised, and do not feel that this would be in the interests of the people of Northern Ireland nor of its natural resources. The large and biodiversity rich Water Service Estate has value (biodiversity, tourism, recreation, ecosystem services, etc.) beyond its contribution to water resources and these must be taken into account on any valuation. Selling off such areas should only be contemplated if it could be guaranteed that those buying were not going to compromise any of these additional values, and even then only if the case made is accepted by independent adjudicators to be in the interests of Northern Ireland's people, economy and

environment. Selling off these public assets can in no way be contemplated as a means to 'balance the books' either as a preparation for sell off or to make up for poor financial performance. Similarly, selling off the Water Service as a whole should not be contemplated; it provides an important public service and has been paid for by public funds. Allowing private gain to be made from this public investment, as has happened with other utilities, is not acceptable.

In general we support the Consumer Council in its specific proposals, with the exception of our request for the immediate introduction of universal metering with appropriate safeguards and costings to ensure that it is not seen as a prelude to privatisation.

We are sorry, but your deadline does not allow us an opportunity to provide greater detail. If you have any questions please do contact me.

Yours sincerely

Prof Sue Christie
Director

Written Submission Received from The Strategic Investment Board (SIB)

Water Reform

15. For the last three years SIB has provided support and advice to the Water Service, the Department for Regional Development and other key stakeholders in order to achieve the government's objectives for the water sector in Northern Ireland. SIB is committed to continuing to provide this support in ways that serve the interests of taxpayers and consumers.

Legislation

16. The proposed reform of the water industry in Northern Ireland will, on 1 April 2007, transfer responsibility for the delivery of water and sewerage services from the Department for Regional Development (DRD) to a government owned company ("GoCo") to be known as Northern Ireland Water Limited (NIWL).

17. The GoCo model is the most likely to deliver an outcome that meets the legitimate needs of all stakeholders. The model provides a governance framework that ensures:

- The government, as shareholder, has the rights and levers required to ensure effective the management of the company and to obtain continuous improvement, particularly in adherence to environmental standards;
- Management has the flexibility and autonomy that will enable it to focus on operational priorities;
- Independent economic regulation will deliver value for money for consumers;
- A long term sustainable and flexible framework will be created for the provision of water and waste water services.

The Operating Licence (Instrument of Appointment)

18. The draft Operating Licence is the result of work carried out by SIB in support of DRD. SIB sought to provide advice and support to DRD when developing the draft licence to make it consistent with the following policy positions:

- The Northern Ireland Authority for Utility Regulation (NIAUR) will regulate the water industry and carry out important appellate, enforcement, appointment, price setting, charging approval, standard setting, and performance monitoring functions, as set out under the draft Water and Sewerage Order (NI);
- The template for regulation will be the Office of Water Services (Ofwat), the economic regulator in England & Wales;
- NIAUR will be demonstrably independent of Government; and
- Regulatory powers should be passed to the NIAUR to coincide with the establishment of the GoCo in April 2007.

19. Ofwat's template for regulation has been used for developing the draft licence, though careful consideration has been given to ensuring that the licence properly reflects the differences that will exist between NIWL and water companies in England and Wales; most notably that NIWL will be 100% owned by government.

20. The draft licence improves on the template used in England and Wales in that it provides for greater regulatory controls and oversight without compromising the flexibility of NIWL. The draft takes into full consideration issues of particular relevance to Northern Ireland, is mindful of the lessons learnt from the recent price review in England and Wales and follows regulatory best practice within the sector. It provides a robust and fair balance between taxpayer/shareholder and customer interests, and the need for corporate flexibility and autonomy for NIWL.

Governance

21. A systematic corporate governance system will be adopted that follows best practice. DRD will set out, in a "governance letter", a description of the governance arrangements and a clear and comprehensive description of the powers the shareholder holds and how it intends to use them.

22. The shareholder will have the capability to:

- Implement a robust framework that provides it with the rights and levers it needs;
- Set out company objectives that embody its policy objectives
- Establish a strong and commercially based approach to performance monitoring and intervention;
- Reduce dependence on external advisers and improve internal expertise;
- Ensure the company adheres to best practice in corporate governance; and
- Review the company's compliance with the governance letter.

23. To achieve optimal financial and operational performance of NIWL ahead of the next price review in 2010, the shareholder function within Government will need to operate robustly and transparently from the outset. This will require it to ensure that NIWL starts operations on 1st April 2007 with an agreed strategy and pursues this strategy into the first full price review.

24. This approach should draw on best practice from the private sector tailored to the specific circumstances of NIWL. To achieve this SIB recommends:

- Clarifying the respective roles of the shareholder, board, and management;
- Ensuring that any assessment of the company's overall strategy is based on an understanding of the market structure, the company's business model and the company's capabilities;
- Monitoring company performance through a commercially structured framework;
- Trusting the board to deliver against agreed objectives and in line with the agreed strategy.

Strategic Business Plan

25. SIB is supporting DRD and the Water Service in the development of a Strategic Business Plan (SBP) covering the three year period to 2009/10. The SBP will enable the Department as Shareholder to manage its interest in the new water and sewerage undertaking and will set out how the company plans to deliver its objectives. Water Service will publish a summary of key elements of the Plan before April 2007.

Help the Aged and Age Concern Northern Ireland

15 December 2006

As separate organisations both charities campaign and lobbying on a range of issues such as combating poverty, improving the quality of life of all older people and promoting their rights as active, involved and equal citizens. Older people are directly involved in this work.

We welcome this opportunity to present the views of the two organisations, and those of the wider age sector, on the issue of water reform

General Comments

We reject the current proposals of a system based on the capital value of your home. It is not linked to ability to pay, and will particularly disadvantage those older people in high value homes but with high outgoings and low and fixed incomes. We believe that the reform of water and sewerage services must be taken in the overall context of increased outgoings for older people, including increases in rates bills, and the rising costs of energy.

Arrangements as set out in the Draft Water and Sewerage Services (Northern Ireland) Act

'Affordability Tariff'

We welcome the legislation that will introduce the 'Affordability Tariff' – reducing water bills for 200,000+ vulnerable households. At the time the tariff was announced, the then Minister, Lord Rooker, said 'this subsidy will be funded by the Government and not by the general customer base'

The legislation only guarantees the financial support of Government for the tariff for 3 years, until 2010. There will be a £50 million funding gap, and the options available may be to – reduce other public services, increase bills across the board by about 10%, or removal of the protection. Either of these three options are unacceptable, and we seek guarantees as to the continuation of this vital protection for the most vulnerable groups, and that it will continue to be centrally funded after 2010.

Take up of Tariff by those eligible

The success or not of the Affordability Tariff in alleviating the bills of those least able to pay will depend to a great extent on the level of take up. Given the large number of older people who do not claim the benefits they are entitled (including Pension Credit, which will be a passport onto the Affordability Tariff) we would call for widespread information campaigns

to encourage take up, and for the resourcing of organisations which can help people do so. There are many older people who would be entitled to some element of Pension Credit, but because the amount involved would be very minimal, they do not apply. This must be overcome by making it clear in any literature about the Tariff that any amount of Pension Credit can be a passport, and therefore worth claiming.

Billing and collection

We believe that the debt management scheme for billing is totally unacceptable in that it will treat those it sees as 'high risk' non payers differently. Those deemed at risk of non payment, who are most likely to have other debts are to be targeted first. We would call for the removal of this 'Two-Tier' recovery system and for consultation between the company involved and representatives of those groups likely to be at risk of being unable to pay the bill. We would recommend that organisations such as Advice NI, the CAB, Gingerbread, the Consumer Debt Counselling Service as well as those representing older people should be involved in this process.

Debt management risk in Business Plan

There is also uncertainty as to who will meet the cost of bad debt. The Business Plan for the Go-Co talks about allowing for 5% bad debt, which may be too low. Will this debt (and further debt if the 5% figure does turn out to be too low) be passed on to the customer ? Will all customers, or some be made to pick up the cost of non-payment.

Metering

We welcome the commitment that older people will be the first group to be targeted for the installation of meters which may help reduce their bills. We would seek clarification on whether or not it will be all pensioner households (ie any house with an occupant in receipt of the state pension) in the first instance, or those households that would not be eligible for the Tariff. Consumers availing of a meter must have the information made available to them to allow them to make an informed choice as to whether or not the metering option would actually reduce their bills. There is an opportunity to tie this in with the uptake of the Affordability Tariff, where the occupant may be better off without a meter depending on whether or not they are eligible for the Tariff, and that an assessment of their eligibility for it is tied in to the information they receive about metering.

The future

We believe that the legislation would allow changes to the status of the Go-Co to occur without any further consultation. We strongly believe that should any such changes occur, then a full consultation should take place.

Citizens Advice Bureau

Introduction

Citizens Advice Northern Ireland is grateful for the opportunity to provide evidence to the Sub-Group on the Comprehensive Spending Review and Programme for Government, Rates Charges and Water Reform. Many of our clients are in receipt of low incomes or are benefit dependant and will therefore be affected to a large extent by any increase in their rates bill and by the introduction of water and sewerage charges.

Citizens Advice Northern Ireland is the largest advice charity in Northern Ireland working against poverty, meeting the information and advice needs of some 250,000 people per year. The Citizens Advice Bureau (CAB) network is very finely tuned to the targeting of social need and, with its regional spread, modern integrated IT infrastructure and skilled staff, represents an efficient and cost effective arena for the delivery of information and advice to the most socially vulnerable people in Northern Ireland.

Over 50% of the enquiries to Citizens Advice are benefit related showing the growing complexity of the benefits system and the problems with delivering complex advice to socially vulnerable people in a society with 20% functional literacy. The under claiming of benefits by socially vulnerable people is one of the most important policy issues in Northern Ireland and impacts dramatically on poverty levels and on the economy.

A growing level of enquiry to Citizens Advice is that of debt. Money advice queries accounted for over 46,000 queries in the last year a significant increase of 61% on the previous year. A recent money advice project showed the average amount of debt for a CAB client in Northern Ireland was £13,362.

Water Reform

Benefit Take-up

For the reasons stated previously it is now vital to ensure that take-up of housing benefit, housing benefit for rates and the new rate relief scheme is optimised as these are key benefits for "passporting" to help with water charges. Without entitlement to these benefits there will be no help available to pay for water and sewerage charges.

Northern Ireland Statistics

In the consultation on the charges for connections to the water and sewerage networks David Cairns MP makes reference to the average level of charges being "pegged at the average level of charges in England and Wales". Citizens Advice has concerns that this does not take into account the differences that exist between households in Northern Ireland and GB (see Appendix One). We believe that the model of charging should not simply reproduce England

and Wales levels but should take account of the different circumstances which exist in Northern Ireland.

Affordability Tariff

The existing legislation does not adequately provide a commitment to the Affordability Tariff which is only guaranteed for three years. What this means is that after three years people on low incomes will have no access to help with their rates or the responsibility for this help will fall to full paying customers through higher bills. Citizens Advice would like to see a commitment included in the legislation to the Affordability Tariff for those vulnerable groups that exist in Northern Ireland.

In addition to the vulnerable groups that the Affordability Tariff proposes to assist with water charges Citizens Advice would like to see this list of vulnerable groups widened to include others, for example, those whose weekly income is just above benefit levels.

Governance of the Go-Co

Citizens Advice is opposed to privatisation of the water supply and believes the provision of water and sewerage services should remain a public service delivered by an accountable public authority. The legislation allows for changes to the ownership of water and sewerage services without the need for further legislation. The legislation should be amended to prevent publicly owned assets being sold at any stage in the future. Citizens Advice believes that privatisation would have serious consequences for consumers and have concerns that charges will increase leading to water poverty as has been the experience in England and Wales. Any future changes to the ownership of the new Go-Co must therefore be fully consulted upon.

Further concerns on the stability of the new Go-Co have been called into question by the Consumer Council for Northern Ireland following the Regulator's recent announcement that the Water Service is "a hugely inefficient operation". A firm commitment, enshrined in legislation, that the ownership of water and sewerage services will remain public is now required.

Arrangements for billing and collection of water charges

Citizens Advice is concerned with recent media coverage which outlines the Water Service's approach to debt recovery which labels households as "affluent achievers" or "rock bottom". High risk households will receive reminder notices 14 days after getting their water bill and will find their case reviewed after 49 days of non-payment but low risk households will not get a reminder until 28 days after getting their water bill and will be given 83 days before they will find their case reviewed – a difference of almost five weeks.

Citizens Advice is totally opposed to any such practices and believes that all consumers should be treated equally regardless of what area of Northern Ireland they live in.

Those customers labeled as "rock bottom" are those who have had debt problems in the past and many would be from low income families who struggle to pay their bills. It is these very customers that should receive most help with water charges and a sensitive approach to debt recovery.

Citizens Advice has asked for meetings with the Water Service to discuss the collection of water charges. Citizens Advice has a number of partnerships with other organisations (see Appendix Three) and an understanding of arrears procedures and money advice from a customer perspective and would welcome the opportunity to share this information with the Water Service.

We would like to see detailed information on the customer billing and collection practices as soon as possible before April 2007.

Appendix One – Northern Ireland Statistics

- Approximately half of Northern Ireland's population has incomes less than £300 per week. More than a fifth earn less than £213 which represents half of the UK average income. Earned income is the main source of income generally but not in the poorest 20% of households where benefits and tax credits count for most of the gross income. (Households Below Average Income, Northern Ireland 2004/05)
- Northern Ireland not only has higher poverty rates but considerably higher levels of income inequality than Britain. (Bare Necessities Report OFMDFM, Northern Ireland, 2003)
- Households in Northern Ireland earn on average 20% less than those in the rest of the UK. (HMSO, Regional Trends, 2000)
- In Northern Ireland wages are up to 32% lower than in the US and 25% lower than the EU average. (Invest NI)
- The seasonally adjusted working age economic inactivity rate in NI (26.6%) remains significantly higher than the UK average (21.0%) and is the highest among the UK regions.
- On average 21% of Northern Ireland households exist on key benefits as opposed to 13% in England (Northern Ireland Anti-Poverty Network).
- The 2001 Census revealed that 41% of households have one or more people with a limiting long-term illness or disability – compares with 34% in England and Wales. 8.7% of the total population receive DLA – more than twice the percentage in England (3.8%) (Northern Ireland Anti-Poverty Network)
- Families in Northern Ireland spend £213 more a year on food than the UK average. In Northern Ireland we spend 26% more on bread, rice and cereals and £431.60 more on clothing and footwear. While clothing and footwear cost 37% more than the UK average, children's clothes are even more expensive. The amount spent on clothes for girls (5-15 years old) is 50% higher than the UK average and for boys (5-15) is 87% higher. Footwear is also considerably more expensive – some 51% dearer than the UK average. (The Family Spending Survey 2003-04).
- By the end of the decade Northern Ireland electricity consumers will have paid £1billion more for their electricity than the rest of the UK - overall that equates to around £1,600 per household (Northern Ireland Authority for Energy Regulation, July 2005).
- Phoenix Natural Gas (Phoenix) has recently announced a number of increases in its prices meaning that an average bill will have soared by 52% or £200 in only four months. Phoenix customers will now pay nearly two thirds more than gas customers in Great Britain and more than a fifth more than those in the Republic of Ireland (General Consumer Council, January 2006)
- Some progress has been made in reducing fuel poverty in Northern Ireland between 2001 and 2004 reducing the number of households in fuel poverty from 33% to 24%. However since 2001 fuel prices have increased by around 40% and incomes and benefits have risen in line with or by less than the inflation rate, resulting in many more people at risk of fuel poverty (NEA Website). The Northern Ireland figures for fuel

poverty compare poorly to those for GB which stand at 6% four times lower than in Northern Ireland.

- Northern Ireland has a higher overall prevalence of mental health problems estimated at 25% higher than in England yet spending per head on mental health services in Northern Ireland was 15.6% lower than in England (Counting the Cost, Northern Ireland Association for Mental Health 2003/04). People who suffer from mental health problems are one of the most excluded groups in society.
- Personal insolvencies have hit a record high with a more pronounced increase in Northern Ireland than in other regions – bankruptcies are up by 45% overall with those declaring bankruptcy up no less than two- thirds over the same period in 2003 and the number of people entering into IVAs was up 26% on the same quarter in 2003. The particularly high increase in self-declaration of bankruptcy, together with the increase in IVAs may be explained by the fact that spending in Northern Ireland households tends to exceed disposable income. Credit cards are being used to a greater extent than elsewhere in the UK to finance, for example, weekly food shopping and purchases of clothing and footwear (Grant Thornton, 2006).
- By 2005 the number of repossession judgements passed to the EJO for enforcement had increased almost 130% since 2001 to 973. Households presenting to the Housing Executive citing mortgage arrears as the reason for homelessness showed an increase of 44% on the previous year.
- 9% of people in Northern Ireland were using more than a quarter of their gross monthly income on consumer credit repayments and 11% used more than half of their gross monthly income to service consumer debts and mortgage repayments. 5% were in arrears with at least one credit commitment or domestic bill (OFMDFM Report into Personal Over-indebtedness in Northern Ireland, February 2006).

Appendix Two – SSA Benefit Uptake Project

Tackling poverty is a key issue for government in Northern Ireland. In recognition of this the Social Security Agency (SSA) embarked on a number of proactive programmes to increase the uptake of benefits in four key areas:

- Over 75s not in receipt of Attendance Allowance;
- Disability and Carers;
- Females; and
- Geographical location.

All four exercises were put out to tender and Citizens Advice was successfully awarded three out of the four exercises with the geographical exercise being contracted to Advice NI.

The exercises involved the Social Security Agency writing to a total of 17,000 customers under the categories of: Pensioners over 75 (2,500), Disability and Carers (2,500) and Females (12,000). The letters invited the recipients to contact a dedicated CAB benefit uptake telephone number where clients were registered on a database and referred to their local CAB for a confidential holistic assessment of what additional benefits they may be entitled to, information on the Government's Warm Homes Scheme and entitlement to Housing Benefit for rent or rates.

Although the results of the exercises have not yet been finalised some trends can be observed from the interim data. The initial response by clients in the Attendance Allowance and Disability and Carers exercises was encouraging with over a quarter of all clients requesting a benefits check. For those clients who did not respond to the initial letters, reminder letters or phone calls were sent or made. This follow up work resulted in an increase to almost a half of all clients targeted requesting a benefits check.

Feedback on the project from bureaux staff and clients has been positive. In one case a client (Mrs X) contacted the helpline under the Females exercise. The case was referred to North Down CAB.

Mr and Mrs X were 89 years old and in their words "managing". Mr X was in receipt of Attendance Allowance and both were in receipt of State Pension and a small Occupational Pension. The CAB adviser carried out a comprehensive benefits check and identified entitlement to Attendance Allowance for Mrs X, entitlement to Pension Credit for both including additional amounts because of their disability and caring responsibilities. They will also be entitled to full help with their rates bill. Their weekly income will go up by a substantial amount and arrears of Pension Credit will be payable for 52 weeks. Both clients were delighted that they contacted the CAB for a benefits check.

The above is only one of the many examples of holistic advice and benefits claimed as a result of the project. It is difficult to pinpoint why so many people do not claim the benefits to which they are entitled. However, factors such as ignorance of entitlement to benefits, the stigma around claiming benefits, increased publicity around fraud and benefit cheats and the complexities of the benefits system may all contribute to this issue.

As only initial data is available it is too soon to tell how many benefit claims have made on behalf of clients and more importantly how many claims were successful. However this information will be tracked by DSD statisticians and assessed against the aims and objectives of the project.

If properly developed Citizens Advice believes that this approach has the potential to transform the way that poverty in Northern Ireland is tackled.

Appendix Three – Citizens Advice Projects

Citizens Advice Northern Ireland currently has a number of external contracts with a range of public and private organisations which can and do have a positive impact on poverty.

Money Talks

Money Talks is a partnership initiative involving Citizens Advice, Northern Bank and the Council for the Curriculum Examinations and Assessment (CCEA).

The Money Talks project aims to help young people throughout Northern Ireland develop financial literacy skills which will lead to a better quality of life and prevention of debt related poverty. The project incorporates the development and delivery of key financial capability materials which have supported the introduction of financial literacy into the Northern Ireland GCSE Curriculum.

Money Talks Resources

- Outreach Pack - used by Citizens Advice and Northern Bank staff to deliver a talk in schools on Consumer Rights, Income, Banking, Credit, Debt and Budgeting
- Student Booklet - given to young people at the end of the talk and will highlight key money management advice from the talk
- Teacher Pack - provided as a practical activity based resource, to be used by teachers/ youth workers to build on the information from the talk

Project Statistics

- Citizens Advice and Northern Bank have delivered Outreach talks in schools to almost 3000 pupils across Northern Ireland
- Over 4000 Young people have received the Money Talks Student Booklet
- The Money Talks Teachers Pack has been distributed to every post primary school in Northern Ireland
- There have been over 15,000 downloads of the materials from the Citizens Advice website
- The project has received a NICVA link award for its successful approach of combining expertise from the voluntary advice business and statutory sector

Money Wise Project

Citizens Advice has been successful in securing funding for a 2 year project to develop and deliver an accredited financial capability program for marginalised young people aged 14-25 from across Belfast who are outside of the mainstream education system. Completion of the course will provide young people with increased financial awareness and skills in financial understanding, competence and responsibility as well as providing a formal qualification.

This project will specifically target those young people who are most socially excluded, marginalised and seen to be at risk of financial exclusion, including young parents, young people in and leaving care or the juvenile justice system, young homeless people, non school attendees and young people with special educational needs.

Money Wise builds on the success of the Money Talks partnership initiative with the Northern Bank, which has developed financial literacy resources for schools in consultation with a wide range of stakeholders including young people, bank and finance staff, teachers and money advisers. The Money Talks resources have been incorporated into the GCSE curriculum in Northern Ireland.

Citizens Advice will work with a range of delivery partners who are currently working with at risk or marginalized young people, to support the roll out of the program.

Citizens Advice partnership with FSA

As part of an initiative funded by The FSA (Financial Services Authority), Citizens Advice have developed a range of session packs to support practitioners who work with young adults (aged 16-25), to deliver information sessions on a range of financial issues.

Packs can be delivered as stand alone sessions or as a series of the 'Helping your Clients' programme. Four session packs are available;

- Debt Advice (Helping your clients get debt advice when they need it)
- Banking (Helping your clients get to grips with banking)
- Budgeting (Helping your clients keep track of their money)
- Borrowing (Helping your clients et savvy with credit)

Citizens Advice in Northern Ireland has been engaged by the FSA to review and update the materials for use in Northern Ireland and to deliver training sessions on using the materials to youth practitioners from a wide range of voluntary and statutory organisations. This model will ensure wide spread dissemination of the materials as well as a link for practitioners delivering the materials to seek ongoing advice and support from Citizens Advice on the area of financial capability. A CAB local Money Advice Worker will also attend each training session to provide detailed information on the CAB Money Advice Service to enable the practitioners to make referrals in the future where they feel a young person requires specialist debt support.

DETI Money Advice Project

In the financial year 2005/2006 Citizens Advice Northern Ireland were involved in a pilot project with the DETI and other advice providers for the delivery of money advice across

Northern Ireland. Citizens Advice dealt with 3828 new debts, over £11.5 million of new debt and saw on average 92 new clients per month. This was achieved with 8 full time equivalent advisers.

In March 2006 Citizens Advice was awarded an £800,000 contract by DETI to provide face-to-face money advice in Northern Ireland. The contract will run to March 2008 and was awarded by public tender. It will provide for at least 12 full time equivalent money advice workers and a central research and development post in Citizens Advice.

This is the first time there has been long term, local Government funding for face-to-face money advice in Northern Ireland and it will enable Citizens Advice to provide quality money advice to the people who need it most in the areas of highest social need in Northern Ireland.

Northern Ireland Housing Executive (NIHE)

Citizens Advice is under contract to provide money advice to NIHE tenants across Northern Ireland who are in arrears with rent. The service is offered to Housing Executive tenants who are subject to possession proceedings for non payment of rent. The service is provided by specialist money advisers at CAB local offices throughout Northern Ireland.

The Housing Executive will identify the tenants to be referred for specialist money advice. The service is limited to debtors who have been subject to County Court action, which has resulted in the Housing Executive being awarded an Order for Possession. Cases will not be referred once enforcement proceedings have commenced at EJO.

The Housing Executive will issue a letter to all debtors within one week of the County Court Hearing. The letter will include a leaflet providing details of CAB's service and a referral form. Debtors will be asked to sign the referral form and return it directly to CAB.

The Housing Executive will suspend recovery of possession proceedings once a case has been referred unless:

- Rent/rates payments do not commence within two weeks from the referral date.
- There is a default on the debt repayment arrangement set up by CAB.

A CAB money adviser will interview the debtor. Advisers will inform debtors that the Housing Executive will accept all reasonable repayment arrangements provided the normal weekly rent/rates payments commence within two weeks.

NIE Vulnerable Customer Initiative

Citizens Advice supported by NIE has entered into three partnerships to provide welfare benefit check and take-up services. This service is scheduled to commence at the end of September 2006.

Partnership 1 - Citizens Advice and the Energy Savings Trust Advice Centre (ESTAC)

Citizens Advice and ESTAC will work in partnership to target a pilot sample of 500 customers who contact the ESTAC to deliver benefit take-up advice to these callers.

Upon receipt of the referral the local CAB office will contact the customer by phone and endeavour to undertake a benefit check by phone. If a benefit check can not be undertaken by phone the CAB adviser will arrange an appointment for a welfare benefits check to be undertaken in the local office. Appointments for customers can also be made at CAB outreach centres/clinics and if the customer is housebound the CAB will undertake a home visit.

Partnership 2 - Citizens Advice and Extra Care

CA will also work in partnership with Extra Care to target a pilot sample of 100 clients in the Northern Health and Social Services Board Area and the Sperrin Lakeland Trust area. Extra Care provides a range of care and personal services to clients who are housebound. It is envisaged that the majority of these clients will be visited at home by Citizens Advice to undertake the benefit checks.

Partnership 3 - Citizens Advice and NIE

NIE will contact customers on their customer care registers to promote benefit take-up services and referrals will be made to Citizens Advice to provide this service. It is envisaged that 250 NIE customers will avail of this service on a pilot basis.

Money advice service to NIE keypad customers with debt problems

NIE and Citizens Advice have agreed the following partnership:

1. To provide a dedicated money advice service to keypad customers referred by NIE, with debt problems.
2. To display and advise customers on all aspects of NIE's Codes of Practice.

Keypad Debt

- Following contact made by customers to SX3 in relation to their Keypad debt recovery rate (the debt must be greater than £200), customers of NIE whose debt is between £200 and £2,000 will pay a recovery rate of 40% while the recovery rate will be set at 60% for customers whose keypad debt is greater than £2,000. For customers whose debt is higher than £200 call centre staff at SX3 will be able to set a recovery rate of 25% if the customer is in receipt of Income Support, Income Based Job Seekers Allowance or Tax Credits. Customers will be asked for their date of birth, contact telephone number and national insurance number. A letter will be then issued to the customer asking for confirmation that s/he is in receipt of the qualifying benefit. The customer will be given 10 days to provide proof of the qualifying benefit that s/he is in receipt of. If confirmation of the qualifying benefit is not received by SX3 within this timescale the recovery rate will revert to either 40% or 60% depending on the level of arrears. If the customer is not in receipt of a qualifying benefit when s/he contacts the call centre SX3 will advise that CAB can provide a dedicated money advice service for Keypad customers.
- If requested, SX3 will provide customers with the Citizens Advice Regional Office telephone number for Northern Ireland (02890 231120)

- Following contact for advice from an NIE Keypad customer with debt, Citizens Advice Regional Office will provide them with contact details of their local Citizens Advice Bureau. The customer will be given the option of having their local office contact them to arrange an appointment to avail of the money advice service.
- If the customer agrees to this, their contact details will be recorded by Citizens Advice Regional Office and emailed to the relevant local Citizens Advice Bureau for action and follow-up.
- Upon receipt of this information the local bureau will contact the customer within two working days if a telephone number or email address is provided or within five working days if an address is the only contact information provided by the customer.
- On request CAB can request that NIE reduce the debt recovery rate back to 25%, while assessment is on-going if they feel this is appropriate.
- On completion of their assessment, CAB will advise Sx3 immediately of the outcome and agreed repayment rate by phone and/or e-mail.
- On completion of assessed cases, when contacted by Citizens Advice Bureau, SX3 will amend the customer's Keypad debt recovery rate to the agreed amount.
- On agreement with the customer, CAB will e-mail customer details to the Energy Efficiency Advice Centre for follow-up with regard to possible energy efficiency savings.

Appendix 2

Other Evidence Considered by the Sub-group

Research Briefing **2 January 2007**

COMPREHENSIVE SPENDING REVIEW 2007

Public Finance Research Unit

This paper is presented to the Sub Group on Comprehensive Spending Review 2007, Rates Charges and Water Reform, to support deliberation on the issues set out in part 1 of the Sub Group's terms of reference.

The departmental briefing and background paper of December 2006 to the Sub Group provides comprehensive information on the public expenditure framework together with the issues arising in the Comprehensive Spending Review for Northern Ireland. Therefore, this paper presents an overview of past spending priorities, together with some of the challenging social and economic issues for Northern Ireland going forward.

SUMMARY OF KEY POINTS

1 The second Comprehensive Spending Review (CSR 07) was announed in July 2005, and will report in 2007. The outcome of CSR 07 will set the spending limits for Northern Ireland for the period 2008/09, 2009/10 and 2010/11. These will be reflected in the Northern Ireland Priorities and Budget from 2008/09 onwards.

2 Normally, there would have been another Spending Review in 2006, however the decision to undertake a CSR, meant that allocations for next year 2007-08 will be held to the agreed figures announced in SR 04.

3 In general, the departmental briefings indicate that the CSR 07 period will be a challenging one for Northern Ireland. Slower growth in UK public expenditure will place increased pressures on Northern Ireland.

4 Making resources available for additional spending on priority areas will depend on releasing resources through efficiencies and increased local revenue effort, as illustrated in the department's estimates of future available resources (see tables 2 & 3 of the departmental background paper).

5 One scenario proposed by the department is that the additions from the Chancellor's package to Northern Ireland, plus any additional funding from the CSR will be required to accommodate general pay and prices inflation. This will place increased importance on achieving the proposed efficiency savings of circa £770 million to the period 2010-2011 to fund additional spending on priority areas identified by departments.[1]

6 A review of the Priorities and Budget documents from 2002 to 2006 reveals a shift over time in spending priorities in the period since suspension.

7 Northern Ireland faces some administrative, economic and social challenges for the future. There is increasing pressure for Northern Ireland to demonstrate increased local revenue effort, however evidence received by the Sub Group tends to suggest that this is not wholly unproblematic for households and businesses in Northern Ireland.

8 CSR 07 sets out challenging efficiency targets in the region of £770 million in the period to 2010-2011. The department has indicated that the resources released from efficiencies, which are retained for use in Northern Ireland, may be the only source of additional spending for Northern Ireland over the period 2008-09 to 2010-11.

9 Figures released by DFP in 2006 indicate that there remains some work to be done in relation to managing underspend in Northern Ireland, in particular in capital investment where underspend was in excess of 18% in 2005-06.

10 Although the economy in Northern Ireland has been performing well in recent years, growth and prosperity remain below the UK average. The government's proposals to address this are based on the five drivers model used by the Treasury. Another approach presented here centres on establishing a reduced rate of corporation tax to attract higher performing foreign owned companies.

11 One of the most significant developments in recent years has been the announcement of the RRI borrowing power and the publication of the Investment Strategy for Northern Ireland (ISNI). Several barriers to the successful delivery of the ISNI exist, and a recent report by the Northern Ireland Audit Office (NIAO) identify a series of recommendations to improve the delivery of the ISNI and the transparency and accountability of RRI borrowing.

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[1] DFP Background Paper on the Comprehensive Spending Review 2007, para 30.

12 Overall rates of income poverty in Northern Ireland are similar to those in Great Britain, despite the fact that Northern Ireland has more low pay and below average employment levels, and the proportion of people who are in income poverty (before housing costs) is higher in Northern Ireland than in most regions of Great Britain. Northern Ireland also performs poorly in comparison to GB on a range of measures including numbers without paid employment and dependency on benefits. Rates of income poverty are comparable to those in Britain because at present housing costs are lower in Northern Ireland than in the regions of the United Kingdom[2]. However, it is important to note that in calculating housing costs, a key element in identifying poverty levels, domestic rate charges (NAV or capital value based) and the proposed water charges were not included.

[2] Only the North East of England is higher. *Monitoring poverty and social exclusion in Northern Ireland 2006* p 58.

CONTENTS

1. INTRODUCTION

1. This paper is presented to the Sub Group on the Comprehensive Spending Review 2007, Rates Charges and Water Reform, to support deliberation of the issues set out in part 1 of the Sub Group's terms of reference.

2. The departmental briefing and background paper of December 2006 to the Sub Group provides wide-ranging information on the public expenditure framework together with the issues arising in the Comprehensive Spending Review for Northern Ireland.

3. Due to the tight time constraints and limited resources, it has not been possible to provide an in depth analysis of the many issues raised in the department's papers. This would have required more time and the availability of technical expertise. However, this paper provides an overview of some of the contextual issues around the Comprehensive Spending Review in Northern Ireland, and raises some issues additional to the department's papers for further discussion and consideration.

4. This paper is structured as follows. Section 2 sets out the background to the Comprehensive Spending Review 2007 (CSR 07). Section 3 presents an overview of past spending priorities (2002 to 2006) and identifies some of the issues of concern identified in public consultations on the Priorities and Budget 2006-08. The final section, Section 4, identifies some of the administrative, economic and social challenges facing Northern Ireland going forward.

2. COMPREHENSIVE SPENDING REVIEW 2007

5. This section presents some background on CSR 07, the CSR 07 work to date in Northern Ireland, and the timeline to Budget 2008/09.

ABOUT CSR 07

6. On 19 July 2005, the Chief Secretary to the Treasury announced the second Comprehensive Spending Review (CSR) to report in 2007. CSR 07 aims to identify what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead. The first CSR reported in 1998, and a decade on, the 2007 CSR will represent a long-term and fundamental review of government expenditure.

7. CSR 1998 began a process of two yearly Spending Reviews, which set spending limits for a three year period. The most recent Spending Review, SR04 covered the period 2005/06, 2006/07 and 2007/08. Normally, there would have been another Spending Review in 2006, however the decision to undertake a CSR, has meant that allocations for 2007-08 will be held to the agreed figures announced in SR 04.[3]

8. The Department has included extensive and detailed information on CSR 07 in its briefings to the Sub Group, and further information on CSR 07 can be found on the HM Treasury website, http://www.hm-treasury.gov.uk./spending_review/spend_csr07/spend_csr07_index.cfm

CSR 07 AND NORTHERN IRELAND

9. Work has begun on the Comprehensive Spending Review 2007 (CSR07) in Northern Ireland. In common with CSR07 across the UK, this will include:
   - Examination of key long-term trends;
   - Detailed studies of key areas where cross-cutting policy is required;
   - Building on the efficiency areas developed in the Gershon Review; and
   - Strategic approach to asset management and investment decisions.

[3] HMT Spending Review website http://www.hm-treasury.gov.uk./spending_review/spend_csr07/spend_csr07_index.cfm

10. In the period since Spending Review 2004, Northern Ireland has initiated a range of efficiency, reform and investment initiatives that feed into the themes of CSR07. More specifically, the department's briefings indicate that a series of value for money reviews are ongoing as part of CSR07 in the areas of
    - Health
    - Education
    - Water Service
    - Review of Public Administration
    - Social Housing
    - Employment and Skills Programmes
    - Public Transport
    - Invest NI
    - Internal Efficiencies / Input Costs

11. The areas covered represent in excess of 80% of proposed baseline expenditure for 2007-08, and will be used to inform allocation decisions as part of Budget 2008-09 to 2010-11.

12. In general, the departmental briefings indicate that the CSR 07 period will be a challenging one for Northern Ireland.

13. Northern Ireland has a higher level of baseline spend compared to the UK as a whole (see chart 7 of the departmental background paper). UK public expenditures are expected to grow at a slower rate than has been the case in the past, and this places increased pressures on Northern Ireland. Making resources available for additional spending on priority areas will depend on releasing resources through efficiencies and increased local revenue effort, as illustrated in the department's estimates of future available resources (see tables 2 & 3 of the departmental background paper).

14. One scenario proposed by the department is that the additions from the Chancellor's package to Northern Ireland, plus any additional funding from the CSR will be required to accommodate general pay and prices inflation. This will place increased importance on achieving the proposed efficiency savings of circa £770 million to the period 2010-2011 to fund additional spending on priority areas identified by departments. Even this conservative scenario they feel is an overly optimistic one.[4]

15. The indicative timetable for CSR 07 is:

- Autumn 2006 / Winter 2007– Reviews are to be completed.
- July 2007 – National CSR outcome and NI settlement determined by Barnett formula.
- Sep 2007 - Draft NI Priorities and Budget for 2008-09 to 2010-11
- December 2007 – Final Priorities and Budget 2008-09 to 2010-11

16. As the above timetable illustrates, the outcomes of the CSR07 and the associated reviews in Northern Ireland will feed into the formulation of the Priorities & Budget for the period 2008-09 to 2010-11.

[4] DFP Background Paper on the Comprehensive Spending Review 2007, para 30.

3. PAST PRIORITIES AND FUTURE PRESSURES

17. This section sets out past spending priorities, and highlights some of the issues raised during public consultation about the most recent Northern Ireland Priorities and Budget (2006-08).

CHANGED PRIORITIES SINCE 2002

18. Figure 1 below illustrates the changes to government priorities, as expressed in the Priorities and Budget documents, in the period 2002-2005.

19. The Executive's priorities, as expressed in the Draft Budget and Programme for Government published in September 2002 (just prior to suspension) were reflected in the Budget for 2003-06. Although the Priorities and Budget 2004-06 makes reference to additional themes within the context of the Executive's priorities, there is a clearer break with the Executive's priorities in the publication of Priorities and Budget 2005-08 in December 2004. Since that time, the Priorities and Budget document has reflected more of the Secretary of State's themes and issues as well as those current in the Chancellor's Budget and the Whitehall Departments.

Figure 1: Changes in Spending Priorities 2002-2005

Draft Budget and Programme for Government 2002	Budget and Programme for Government 2003-06	Priorities and Budget 2004-06[5]	Priorities and Budget 2005-08	Priorities and Budget 2006-08
Growing as a Community	• Growing as a Community	• Retains the Executive's Priorities from 2002, but states it concentrates effort around four key themes identified by the Secretary of State in June 2003.	• Economic Competitiveness	• Economic Growth
Working for a Healthier People	• Working for a Healthier People	• Tackling sectarianism, community division and disadvantage	• Building Equality and Community Cohesion	• High Quality Public Services
Investing in Education and Skills	• Investing in Education and Skills	• Equality rights and victims	• Better Public Services	• Public Sector Reform
Securing a Competitive Economy	• Securing a Competitive Economy	• Improving service delivery		• A society based on partnership, equality, inclusion and mutual respect
Developing Relations – on a North / South, East / West and international basis	• Developing Relations – on a North / South, East / West and international basis	• Reinvestment & Reform		

[5] Priorities and Budget 2004-06 was the first year that the Northern Ireland Priorities and Budget were presented as a single integrated document

ISSUES ARISING IN CONSULTATION ON PRIORITIES AND BUDGET 2006-08

20. The material which follows draws on Chapter 6 of the Northern Ireland Priorities and Budget 2006-08 (P&B 06-08), and highlights the issues raised by respondents during public consultation on P&B 06-08.[6] Full text copies of the responses received to P&B 06-08 can be found at http://www.pfgbudgetni.gov.uk/responses0608index.htm

21. **Funding Packages**. There was a desire for more detail on funding packages, that they be long term and accessible to the voluntary and community sector.

22. **Health**. There was concern that NI would not be able to keep pace with future increases in health expenditure in GB, and that most of the increases would be absorbed in staff costs rather than improving front line services. There was a call to increase spending on mental health, and to ensure funding for new drugs (specifically breast cancer drugs).

23. **Education**. There were calls for additional expenditure on special needs education, and more placements and employer involvement in the Jobskills programmes. There were general concerns that staff costs would absorb additional funding, and that the reductions in funding associated with reducing pupil numbers needed to be managed in the short term.

24. **Youth Service**. It was felt that the Youth Service was poorly financed, and more mainstream funding for youth services was needed.

25. **Library Service**. Concern expressed over library closures, especially in rural areas, and desire for increased spending on books.

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[6] See Chapter 6 of the Northern Ireland Priorities and Budget 2006-08, available at http://www.pfgbudgetni.gov.uk/fulldoc0608.pdf

26. **Infrastructure**. There was a general call for increased investment in infrastructure in Northern Ireland. In particular, improvements in roads infrastructure between the East and West, and the importance of maintaining existing roads.

27. **PPPs**. Views on this issue were mixed.

28. **Regional Disparity**. It was felt that there were disparities between levels of funding for the East and the West. There was a call for the publication of more information on a regional level.

29. **Housing**. There were calls for increased capital funding for housing associations, more affordable housing and the need to eradicate fuel poverty.

30. **Planning**. There were concerns over planned cuts to the planning service.

31. **Review of Public Administration (RPA)**. Questions were raised as to the timescale for and transparency of realising efficiency savings from the RPA, and the scale of the costs associated with implementing the proposed changes.

32. **Local Government**. There was concern over the reduction of the waste management funding to local councils, and that no provision was made for Emergency Planning by local councils.

33. **The Economy**. Concern was expressed that the economy was not listed as a top priority. There was general support for measure to improve NI's competitiveness, maintain and create jobs and increased support for R&D.

34. **Tourism Funding**. The reduction in funding to NI Tourist Board and proposed new tourism structures were noted with concern.

35. **Sports and Arts**. It was noted that NI has lowest per capita spend on arts and this needs to be improved. Additional funding needed for sports to capitalise on opportunities of Olympics 2012.

36. In addition to the above, respondents to the P&B 06-08 public consultation also made a number of points in relation to water and rates. These have been omitted as the Sub Group has considered these issues in detail in earlier evidence sessions.

FUTURE PRESSURES

37. The department has provided briefing to the Sub Group on future pressures faced by departments.

4. SOME CHALLENGES FOR NORTHERN IRELAND

38. This section sets out some of the many challenging social, economic and administrative issues faced by Northern Ireland, and provides an overview of some of the contextual issues around the Comprehensive Spending Review 2007 in Northern Ireland. It raises a number of issues additional to the department's papers for further discussion and consideration in identifying future priorities for Northern Ireland.

AFFORDABILITY ISSUES AND GREATER LOCAL REVENUE EFFORT

39. The need for Northern Ireland to make a greater local revenue effort has long been a theme of Northern Ireland's public spending, and is particularly marked since the announcement of the RRI in 2001. It has been said that HM Treasury considers that the domestic Regional Rate in Northern Ireland raises far too little compared to the burden on Council tax payers in the rest of the UK and as a result too much of Northern Ireland public expenditure is having to be financed by transfers from other UK taxpayers.[7] Access to the borrowing powers provided for in the RRI is contingent on closing the gap between average rate bills in Northern Ireland and council tax bills in England and Wales. More recently, the Treasury has indicated that continued access to RRI borrowing would depend on Water Service being placed on a self-financing footing.[8]

40. The following table is usually used to illustrate the gap in revenue effort in Northern Ireland.

[7] ERINI 2005 A Response to Draft Priorities and Budget 2006-08, Belfast; ERINI (pp.4-5)
[8] DRD Consultation Report on Water Charging in Northern Ireland

Table 1: The Revenue Effort Gap

Region	Ave. property charge per household (£)	Average direct water and sewerage charge (£)	Total Average (£)
England & Wales	1043	294	1337
Scotland	958	295	1253
Northern Ireland	668	Nil	668

Source: DRD presentation to the Transitional Assembly Economic Issue Sub Group 7 December 2006

41. As the table above indicates, there would appear to be a large gap in revenue effort between Northern Ireland and other parts of the UK. However, earlier evidence sessions to the Sub Group and recent social research tends to indicate that the generation of greater local revenue effort in the manner currently proposed may not be wholly unproblematic for business and households in Northern Ireland.

FINDING EFFICIENCIES & ADDRESSING UNDERSPEND

42. Briefing from DFP to the Sub Group indicates that the Secretary of State has committed to a target of 3% overall annual efficiency savings for Northern Ireland Departments, including an annual real reduction in administration costs of 5% (2.8% nominal). Briefing also indicates that all resources released by this work will remain within Northern Ireland for reallocation to public services here.

43. The departments background paper makes reference to efficiency savings of approximately £770 million in the period to 2010-11, and the ongoing development of almost 90 Efficiency Delivery Plans (EDPs). The Sub Group might wish to explore this issue further with officials and seek additional information on the ways in which these challenging efficiency targets might be achieved.

Addressing Underspend

44. In July 2002 the Minister for Finance set out an action plan for tackling underspend in the Northern Ireland departments. In an effort to better

manage underspend, it was decided to include an element of over-commitment in Budget 2003-06. Planning an over-commitment of the spending power available means that the allocations to departments exceed the actual spending power which is available. It assumes that the amounts actually spent by departments will be lower than the totals allocated in the budget, so that in the end the DEL will not be exceeded.

45. This approach has continued in Priorities and Budget 2004-06, 2005-08, 2006-08. The most recent budget, Priorities and Budget 2006-08, contains over- commitment of approximately 1.6% of the revenue budget.[9]

46. Despite these measures, the problem of underspend appears to be persisting, especially in Capital Investment. The tables 2 and 3 below, issued by DFP on 20 July 2006, illustrate the scale of underspend in current expenditure (1.9%) and capital investment (18.2%).[10]

Tables 2 & 3 : Departmental Spend and Underspend in 2005-06

DEPARTMENTAL SPEND AND UNDERSPENDS IN 2005-06

Current Expenditure

	Expenditure £ million	Underspend £ million	%
DARD	[illegible]	[illegible]	[illegible]
DCAL	[illegible]	[illegible]	[illegible]
DE	[illegible]	[illegible]	[illegible]
DEL	[illegible]	[illegible]	[illegible]
DETI	[illegible]	[illegible]	[illegible]
DFP	[illegible]	[illegible]	[illegible]
DHSSPS	[illegible]	[illegible]	[illegible]
DOE	[illegible]	[illegible]	[illegible]
DRD	[illegible]	[illegible]	[illegible]
DSD	[illegible]	[illegible]	[illegible]
OFMDFM	[illegible]	[illegible]	[illegible]
FSA	[illegible]	[illegible]	[illegible]
NIA	[illegible]	[illegible]	[illegible]
AOCC	[illegible]	[illegible]	[illegible]
NIAER	[illegible]	[illegible]	[illegible]
NIAO	[illegible]	[illegible]	[illegible]
Total Departments	7,143.1	138.7	1.9

Capital Investment

	Expenditure £ million	Underspend £ million	%
DARD	[illegible]	[illegible]	[illegible]
DCAL	[illegible]	[illegible]	[illegible]
DE	[illegible]	[illegible]	[illegible]
DEL	[illegible]	[illegible]	[illegible]
DETI	[illegible]	[illegible]	[illegible]
DFP	[illegible]	[illegible]	[illegible]
DHSSPS	[illegible]	[illegible]	[illegible]
DOE	[illegible]	[illegible]	[illegible]
DRD	[illegible]	[illegible]	[illegible]
DSD	[illegible]	[illegible]	[illegible]
OFMDFM	[illegible]	[illegible]	[illegible]
FSA	[illegible]	[illegible]	[illegible]
NIA	[illegible]	[illegible]	[illegible]
AOCC	[illegible]	[illegible]	[illegible]
NIAER	[illegible]	[illegible]	[illegible]
NIAO	[illegible]	[illegible]	[illegible]
Total Departments	1,022.8	227.4	18.2

[9] Priorities and Budget 2006-08, p.24

[10] DFP Press Release *Expenditure on Public Services up by £385million says Hanson* 20 July 2006 http://www.dfpni.gov.uk/departmental_spend_and_underspends_in_2005.pdf These figures are based on final plan figures (budget 2004 – classification changes – in-year monitoring) compared against expenditure to give underspend figures.

47. The Minister has announced an external review by consultancy firm PKF into financial forecasting and monitoring by government departments. The results of this review are expected in late 2006.

IMPROVING PRODUCTIVITY AND STIMULATING GROWTH

48. Northern Ireland 's poor productivity is presented as a significant barrier to growth and prosperity, with increased productivity presented as "the key to global competitiveness and faster economic growth"[11]. The Northern Ireland Economic Vision, published in February 2005, identifies the drivers of competitiveness and growth as:

- Innovation
- Enterprise
- Skills, and
- Infrastructure[12]

49. The draft Regional Development Strategy for Northern Ireland has been designed to address the issue of productivity and growth, and is built around these drivers. It is understood that the draft Strategy will issue for consultation early in 2007.[13]

50. Recent research by Iparraguirre D'Elia (2005b) points out the influence of the Treasury agenda on regional development policy across the devolved administrations. The research also indicates that a review of the literature reveals other factors demonstrably relevant to productivity, but which are omitted from consideration on the five drivers approach adopted across the devolved administrations. These factors include social capital, firms' restructuring, innovation absorptive capacity, industrial structure, agglomeration, firm exit or churning, or distance to main economic hub.

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[11] DETI 2005 *Northern Ireland Economic Vision* (February 2005)
[12] These drivers closely mirror the HM Treasury five drivers of productivity: investment, skills, innovation, entrepreneurship and competition.
[13] Personal Communication with DFP, December 2007.

51. The main findings of the research are that, of the five drivers, promoting entrepreneurship (in particular, increasing the density of VAT registrations), spending more on research and development, increasing the capital-worker ratio and the percentage of the workforce with higher qualifications have a significant bearing upon regional labour productivity. In contrast, regulatory barriers to competition do not seem to affect labour productivity at a regional level.

A Differential Rate of Corporation Tax

52. In contrast to approaches focusing on the five drivers, the Industrial Task Force[14] advocates that, rather than developing productivity within the existing manufacturing and service industries base, Northern Ireland should use a reduced rate of corporation tax to attract FDI with higher productivity. This would, in theory, accelerate productivity and GVA in Northern Ireland and kick-start growth here.

53. The research made the following conclusions:

- Based on the assumptions built into the model, halving corporation tax would set in train changes in the economy through new investment and increased activity that would reach the 'break even' point in tax terms in 2013, after incurring an initial cost of £310 million in the first year. Beyond 2013 there would be a net gain to both Northern Ireland and the UK public finances.
- Around 184,000 additional jobs are projected under this scenario by 2030 compared to the base forecasts which assume no change in existing policies, producing an extra £30.1 billion of additional GVA by 2030.
- GVA growth would average 5% per annum over the forecasts. This represents a doubling of the present growth rate and would significantly

[14] The Report, produced by the Economic Research Institute of Northern Ireland in November 2006. Contact ERINI at www.erini.ac.uk for a copy of this report.

reduce the prosperity and productivity gap with the UK. The latter could be eliminated within a decade.

- Realising this potential will require a complete overhaul of existing economic development mechanisms and institutions, and a dedicated focus on opening Northern Ireland to the world economy.[15]

54. This issue was considered by the Preparation for Government Committee Sub Group on the Economic Challenges facing Northern Ireland and favourably received in its Report in the Autumn of 2006. It is again under ongoing consideration by the Economic Issues Sub Group of the Programme for Government Committee.

INVESTING IN PUBLIC INFRASTRUCTURE

55. A key development in the area of infrastructure investment in Northern Ireland was the publication of the Investment Strategy for Northern Ireland in December 2005. The time frame of this paper does not permit full consideration of the detail of the Investment Strategy (ISNI), however the following paragraphs make a number of brief points in relation to future infrastructure investment.

56. The ISNI is a comprehensive 10 year rolling programme setting out priority areas for public sector infrastructure investment in Northern Ireland. The total value of projects identified in the ISNI was £14.4 billion over the period 2005-2015, within a total investment potential of £16 billion.

57. Figure 2 illustrates the spread of priority investment (planned and indicative) in the current ISNI (ISNI 1), with the greatest areas of planned investment being in the areas of education and health.

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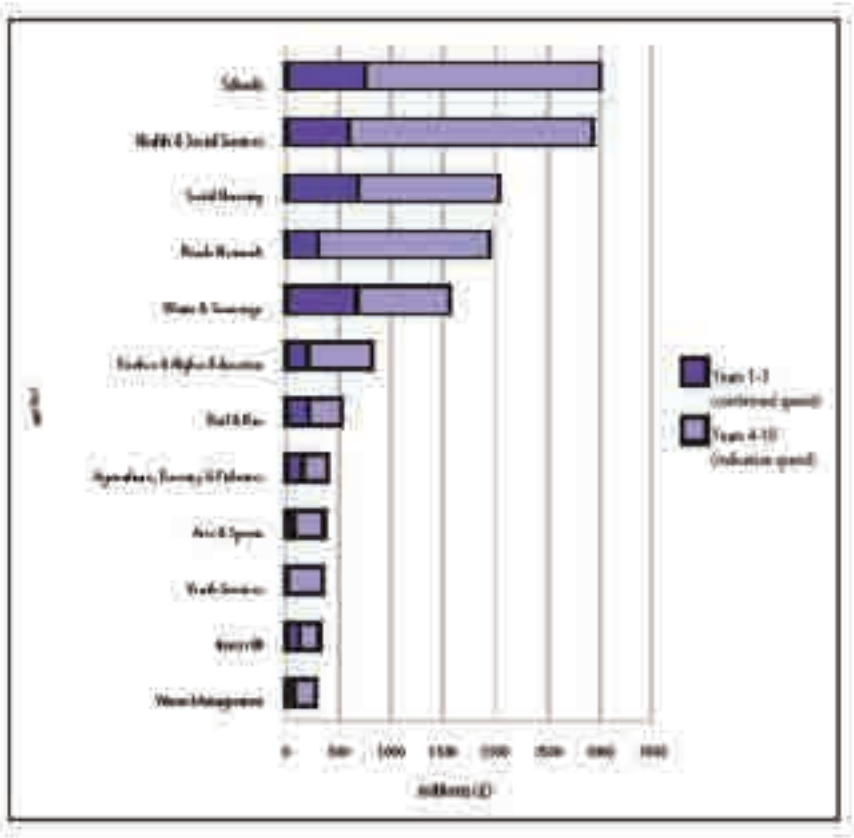
[15] Industrial Taskforce / ERINI et al (2006) *Assessing the case for a differential rate of corporation tax in Northern Ireland* (p.80)

Figure 2: Investment Strategy for Northern Ireland 2005-15



Source: SIB 2005 *Investment Strategy for Northern Ireland* Summary document (p.5)[16]

58. Figure2 also illustrates that Years 1-3 of the ISNI are closely tied with the Priorities and Budget process, with investment beyond the Spending Review period shown as indicative. This arises as the majority of investment included in the ISNI is funded from the Northern Ireland capital DEL, which is subject to periodic review in the UK spending review process.

59. Indications to date are that this will continue to be the case, and CSR 07 will be particularly important as it will set out the public expenditures available for infrastructure investment for the period 2008-09, 2009-10 and 2010-11. It will also set the tone for spending reviews going forward.

[16] http://www.sibni.org/isnisummarydocument141205.pdf

60. The major part of the capital investment will be met largely through conventional government funding. However, it is envisaged that the Department of Finance and Personnel will also make use of new borrowing facilities to access up to £2 billion over the next ten years to fund part of the investment. In addition, the Private Finance Initiative (PFI) could meet up to one quarter of the ISNI investment.[17]

61. In their written submission to the Sub Group, the Strategic Investment Board (SIB) makes the following points.

- A SIB / DFP review of affordability has revealed that capital costs have escalated since the publication of ISNI 1. They indicate that failure to increase planned investment in line with inflation will mean the scaling back, delay or cancellation of infrastructure programmes.
- Concern is also expressed that projects where the maintenance and operating costs associated with planned investment cannot be met it is likely that such projects will proceed.
- Finally, SIB stresses the need to provide for the development of public sector delivery capacity.

THE NORTHERN IRELAND AUDIT OFFICE REPORT ON THE RRI

62. On 7 December 2006, the Northern Ireland Audit Office (NIAO) published a report on the RRI, entitled *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure*. While recognising that the RRI and the Investment Strategy are at a relatively early stage, the report makes a number of recommendations aimed at improving delivery and securing increased transparency through full public awareness as to the application of the available funding.

[17] NIAO 2006 *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure* HC79 Session 2006-07 7 December 2006.
http://www.niauditoffice.gov.uk/pubs/onepress.asp?arc=False&id=176&dm=0&dy=0

63. **On the Reinvestment and Reform Initiative and role of the Strategic Investment Board Limited (SIB) (Part 1 of the Report)** the report found that SIB is adding a professional dimension to planning and delivering government capital programmes and the Investment Strategy, with its focus on outputs, is a good initial approach in trying to secure long-term value for money. However, while SIB has made significant progress in developing its relationship with departments, getting projects to market and in publishing the Investment Strategy, the Audit Office considers that it needs to develop more objective-related performance management systems to enhance its accountability and performance management.[18]

64. **On Investment Plans (Part 2 of the Report)**, the report considers that the planned review of the current Investment Strategy in 2007, offers an opportunity to strengthen infrastructure investment planning and delivery processes across government. Going forward, the Audit Office considers it important that investment plans are developed for each sector to show, as part of the justification for an investment, a clear link between a programme or project and its anticipated contribution to the delivery of priority outputs and outcomes in Public Service Agreements and other strategic documents. The report recommends that departmental investment plans are published and incorporated into the respective departmental business plans to increase clarity and accountability for the delivery of public services.[19]

65. **Delivering the Investment Strategy (Part 3 of the Report)** is dependent on developing capability, increasing competition and improving long-term capacity planning. The report records that a capacity study of the construction industry found the Investment Strategy to be a major challenge for the local construction industry, particularly in relation to the availability of an appropriately skilled workforce, a qualified supply of

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[18] NIAO 2006 *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure* HC79 Session 2006-07 7 December 2006.
[19] NIAO 2006 *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure* HC79 Session 2006-07 7 December 2006.

construction professionals and the availability of skilled and experienced managers to deliver complex projects. To address the private sector's concerns, the report recommends that the development and publication of the Investment Strategy, complemented by more detailed investment plans for each sector, together with longer term (five-year) funding and programme planning, would help create more certainty in the market.

66. The report also notes that the private sector has concerns about the public sector's capacity and ability to implement the Strategy within the required timescale, particularly at the same time as it is experiencing major structural reform, and the constraints associated with the planning process. An internal review of the skills base and capacity within the public sector is currently underway. In addition, the report highlights that user involvement in design will be key to the success of many of the Investment Strategy projects, particularly in the health and education sectors.[20]

67. **On funding the Investment Strategy** (Part 4 of the Report), the Audit Office highlights the scope for improving the information provided to Parliament/Northern Ireland Assembly on the Reinvestment and Reform Initiative, particularly in relation to borrowings and use of PFI. It recommends that commitments arising from the use of PFI and borrowings should be reported together. In addition, the report recommends that undrawn borrowings, currently £114m, should be reported annually to Parliament/Northern Ireland Assembly.

68. The report also highlights the importance of minimising the cost to taxpayers through carefully considering and monitoring borrowing. It notes that, despite a history of significant departmental capital under spending, the Department of Finance and Personnel (DFP) has borrowed £411 million up to the end of 2005-06. The Audit Office concluded that, if more effective Investment Plans and systems for managing and planning capital

[20] NIAO 2006 *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure* HC79 Session 2006-07 7 December 2006.

investment programmes had been in place, a significant proportion of this borrowing under the initiative could have been avoided. Should DFP access the full £2 billion borrowing available, repayments are likely to peak at approximately £137 million a year. Based on a current Northern Ireland population of 1.7 million, this equates to potentially £80 a year per head of population. In addition, the report records that the future cost of meeting commitments arising from signed PFI deals is just over £1.5billion.[21]

69. Without additional technical assistance and within the time frame of this paper, it has not been possible to say anything further on the points raised in the SIB submission and the NIAO Report.

POVERTY AND SOCIAL EXCLUSION IN NORTHERN IRELAND

70. In addition to the economic and administrative issues raised above, Northern Ireland also exhibits poor performance in relation to poverty and social exclusion. This section draws on the recently published Joseph Rowntree Foundation report *Monitoring Poverty and Social Exclusion in Northern Ireland 2006*.[22], and highlights some of the particular problems of social exclusion faced by Northern Ireland.

In comparison with Great Britain:

71. Northern Ireland has a **high number of people receiving out of work** benefits. 19 per cent of working-age people receiving one of the key out-of-work benefits, 13 per cent of working-age people receiving one of the key out-of-work sickness and disability benefits, and the 27 per cent of people aged over 60 receiving the guarantee element of Pension Credit.

72. Northern Ireland has a **high number of disabled people**, especially related to mental health, reflected in the 9 per cent of working-age people

[21] [21] NIAO 2006 *Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure* HC79 Session 2006-07 7 December 2006.
[22] Copies of this report are available at http://www.poverty.org.uk/intro/index.htm

receiving Disability Living Allowance, and the three per cent of the whole adult population receiving that benefit for mental health reasons.

73. Northern Ireland has **widespread low pay** among full-time employees, reflected in the 22 per cent paid less than £6.50 an hour [12A] and the high numbers receiving in-work benefits, that is, the 19 per cent of working-age households receiving working and/or child tax credits. By contrast, the 43 per cent of part-timers who are paid less than £6.50 an hour is below the GB average.

74. Northern Ireland has a **high number of people without paid work**, specifically the 31 per cent of people aged 16 to retirement lacking paid work, alongside the very low proportion (7 per cent) of people in that age group wanting paid work. Nearly 80 per cent of social sector households are headed by someone not in paid work.

75. Northern Ireland has a very **high fuel poverty rate**, with 24 per cent of households unable to afford to heat their home to an adequate standard – although the proportion of homes lacking central heating is actually much lower than in GB.

76. Against this unfavourable background, it is striking that, on all the headline measures of **income poverty**, Northern Ireland is around the GB average.

- At 20 per cent, the ***overall income poverty rate*** **in Northern Ireland** is around the GB average, but with just Scotland and the three southern English regions outside London having lower rates. Around 350,000 people are living in income poverty in Northern Ireland.
- The 25 per cent ***child income poverty rate*** is slightly below the GB average. Again, just Scotland and the three southern English regions outside London have lower rates. Around 100,000 children are living in income poverty in Northern Ireland.
- The 20 per cent ***pensioner income poverty rate*** in Northern Ireland is the same as the GB average. Seven of the eleven GB regions have

lower rates. Around 50,000 pensioners are living in income poverty in Northern Ireland.

- The 27 per cent ***income poverty rate among disabled working-age adults*** is below the GB average of 30 per cent, even though the rate among non-disabled working-age adults (16 per cent) is almost the same as GB.

Trends over time

77. Whereas the comparisons with GB usually show Northern Ireland to have greater problems than elsewhere, the trends over time are much more mixed, with both positive and negative messages, sometimes intertwined. The key points here are:

- While the level is still high, the ***fall in the proportion without paid work*** (five percentage points in a decade) is a bigger improvement than in any GB region.
- The ***continuing rise in the proportion of people receiving Disability Living Allowance for reasons of mental ill-health***, a proportion which was already high by GB standards and which has more than doubled since 1998.
- The ***fall in the proportion of workless, two adult households*** (down nearly a half in a decade) alongside ***no change in the proportion of workless, single adult households***. At the same time, the already high proportion of social rented sector households where the head is not working has continued to drift upwards .
- The ***growth in job numbers*** (20 per cent since 1997), which is bigger than anywhere in GB. Most of the increase has been in private sector services, although the numbers in construction have also grown strongly.
- The ***narrowing pay inequalities between men and women*** since 1998, both between high paid men and high paid women, and between low paid men and low paid women – alongside ***widening pay inequalities between high and low paid workers*** overall.

- The ***rise in the numbers presenting as homeless*** (up 60 per cent since 1999/00), mainly among those without dependent children.
- The ***lack of improvement in the proportion of 16-year-olds failing to reach a basic educational standard***: specifically, the 14 per cent not getting five GCSEs (no change since 1998/99) and the five per cent getting no GCSEs at all (no change for at least a decade). This is against a background of a continuing rise in the proportion getting at least five 'good' GCSEs at grade A to C, up from 53 per cent to 63 per cent in a decade.

The key points regarding inequalities within Northern Ireland are:

78. There is higher proportion of disadvantaged people in western districts, sometimes along with Belfast too. Subjects conforming to the west-east pattern include the proportions in receipt of out-of-work benefits or guarantee part of Pension Credit as well as those with a limiting long-term illness. The risk of low pay is also higher in western districts (Belfast here being 'eastern'). But this west-east pattern does not always apply, with aspects of housing quality and low birthweight babies being two exceptions.

79. In Northern Ireland, 20 per cent of households who lack money-related essentials because they cannot afford them, including the capacity to pay utility bills, or have money for saving or small personal expenditure, or to contribute to a pension, or have money for repairs. Half of the poorest households also lack home contents insurance, compared with just a fifth of homes on average income.

80. The non-monetary disadvantage faced by low income households such as: the nearly 30 per cent of the poorest households who lack a bank account (three times the average); the more than 50 per cent of households in the most deprived areas suffering a poor physical environment (five times the average); or the heightened fear of crimes such as burglary or assault among people in low income households,

whether or not they face an increased likelihood of being a victim of such crime.

81. The additional disadvantage, only partly caused by money, faced by certain groups, such as the reduced mobility of both lone parents and single pensioners, half and two-thirds of whom respectively lack access to a car, compared with just 10 per cent of working-age couples and 20 per cent of pensioner couples.

82. The doubled risk borne by those who have low or no qualifications, compared with those who have A-levels, of lacking but wanting paid work or of being low paid.

83. The two-and-a-half-fold difference in the rate of premature mortality (itself due predominantly to differences in rates of heart disease and cancers) between the managerial and professional class and those in routine or manual occupations. Overall, there are around 3,000 premature deaths per year in Northern Ireland.

84. The other health inequalities that adversely affect low income, or deprived, groups, including: a threefold greater likelihood within the poorest fifth of a girl giving birth by the age of 16, ; five-year-olds in families reliant on means-tested benefit having almost twice as many decayed, missing or filled teeth as other five-year-olds; and an infant mortality rate in the most deprived fifth of local areas which is one third higher than in other local areas.

85. The greater proportion of deprived children with unsatisfactory educational outcomes including: the 35 per cent of 11-year-olds in schools with the highest number of deprived children who do not reach level 4 at Key Stage 2 (compared with 22 per cent on average); the 30 per cent of 16-year-olds receiving free schools meals who do not get five GCSEs (compared with 15 per cent on average); and the 60 per cent of school

leavers in the most deprived wards who do not go on to further or higher education (compared with 40 per cent on average).

APPENDIX A: EXTRACT FROM JRF MONITORING POVERTY AND SOCIAL EXCLUSION IN NORTHERN IRELAND 2006

The following paragraphs are extracts, presented in full, from the recently published Joseph Rowntree Foundation report *Monitoring Poverty and Social Exclusion in Northern Ireland 2006*.[23] The figures in square brackets [ ] refer to figures in the main report.

Resulting questions

This report, in both its approach and its findings, raises many further questions. There is only space here to touch on a few of them. Using the evidence presented here, we try to answer four questions, as follows:

- First, how is it possible that a very high level of benefit recipiency, a still low work rate and a high proportion of low paid full-time workers can yield an income poverty rate that is no worse than the GB average?
- Second, what are the reasons for the high rates of benefit recipiency, especially of sickness and disability benefits, in Northern Ireland?
- Third, while the official GB method of calculating poverty rates focuses on low income, there is more to poverty than that: what does the broader picture show?
- Fourth, why is there such a gap in educational outcomes between deprived children and others and why is there no further progress in the numbers getting at least minimum qualifications?

Why are the rates of income poverty not higher?

The meaning of 'income poverty'

A household is defined as being in income poverty if its income is less than 60 per cent of the GB median household income. 2004/05 is the latest year for

[23] JRF 2006 *Monitoring Poverty and Social Exclusion in Northern Ireland 2006* (pp.13-23)

which data is available. Some examples of what this 60 per cent median was worth in that year are:

- £100 per week for a single adult with no dependent children;
- £183 per week for a couple with no dependent children;
- £186 per week for a single adult with two dependent children;
- £268 per week for a couple with two dependent children.

These sums of money are measured after income tax, rates, and housing costs have been deducted, where housing costs include rents, mortgage interest (but not repayment of the principal), buildings insurance and water charges. The sum of money left over is therefore what is available to pay for food, clothing, travel, heating, lighting and so on.

The Northern Ireland income poverty rates

Although the question is why the income poverty rates are as low as they are, it is right to begin by emphasising that poverty rates of 20 per cent overall [14A], 25 per cent for children [17A] and 20 per cent for pensioners [16A] are *high*, even if they are only average for the GB.4

With just three years of data, there is still too little information to draw reliable conclusions about recent trends in income poverty in Northern Ireland. There is no reason, though, to think that recent reductions in poverty rates for pensioners and children seen in GB should not apply in Northern Ireland as well since both are influenced by the UK-wide tax and benefits system. On that basis, the rates of income poverty reported here come after a good half dozen years during which poverty reduction in general, and child poverty reduction in particular, have been priorities for the UK government.

When looked at in comparative terms, however, these income poverty rates are surprisingly low, given that Northern Ireland has a higher proportion of people than any GB region not in paid work [7A], receiving an out-of-work benefit [1A], receiving the guarantee part of Pension Credit [3A], or, as a full-time worker, being paid less than £6.50 an hour [12A]. So why are the rates not higher?

Our analysis suggests three broad reasons. First, the level of housing costs (chiefly rent, mortgage interest, buildings insurance and water charges) are, at present, much lower in Northern Ireland than in any GB region [15B]. The importance of this can be seen in the fact that, on an alternative measure of income poverty (before housing costs are deducted), the rate in Northern Ireland is equal to that in the North East of England, the GB region with the highest rate [15A].

Second, since in-work tax credits are supposed to help households work their way out of income poverty, there is no reason to suppose that Northern Ireland's high rate of recipiency for tax credits [6A] should be read as a sign of poverty.

Third, for some groups within the population, it is wrong to assume that receipt of out-of-work benefits automatically signals income poverty.

This is certainly not the case for single pensioners. The level of the guarantee part of Pension Credit for single pensioners is set at a level slightly above the income poverty threshold. Thanks to this, the poverty rate for single pensioners across GB is now barely more than half what it was a decade ago and is also now no higher than for pensioner couples. This link between high rates of recipiency of the Guarantee Credit and low pensioner poverty rates is underlined by the fact that the English North East, on many measures the poorest of the English regions, has the lowest pensioner poverty rate in GB [3A and 16A].

The assumption that out-of-work benefits for working age people also signals poverty may also be wrong for many. Certainly, as a sole source of income, Incapacity Benefit, Income Support and Jobseeker's Allowance leave households below the income poverty threshold. As the latter two of these benefits are means-tested, most of the households dependent on them will indeed be in poverty: for example, three-quarters of those households who are unemployed are also in income poverty [19B]. Incapacity Benefit, by contrast, is not means-tested. As a result, a household may have other sources of income – for example, from private insurance, other state benefits, or a partner's earnings – which may be enough to lift it above the income poverty threshold.

Other non-means-tested benefits play a role too, including Disability Living Allowance (DLA). Entitlement to DLA is based on a person's medical condition. As in GB, the number of people receiving DLA has been rising since at least 1998 [4B] but both the level in Northern Ireland and the increase over the period is much higher than that in GB [4A].

The effect of all this is to leave the risk of income poverty among those households who are out of work but not counted as unemployed (that is, the sick and disabled and lone parents) almost one quarter lower in Northern Ireland than in GB [19A]. In turn, the income poverty rate among disabled working-age adults, though higher than among their non-disabled peers (27 per cent compared with 16 per cent), is markedly lower than among disabled adults in GB (30 per cent) [18B].

Why is there a high rate of sickness benefit recipiency?

The first part of the answer to this is simply that the levels of sickness and disability in Northern Ireland are high too. The 2001 Census showed that the proportion of the working-age population describing themselves as suffering from a limiting long-standing illness was higher in Northern Ireland than in all GB regions except Wales and the North East of England [4A]. When adjustment is made for the slightly younger age composition of the working-age population in Northern Ireland, the rate of self-reported limiting long-standing illness becomes equal to that in Wales, the GB region with the highest adjusted rate.

Next, the proportion of disabled people in Northern Ireland who are not in paid work and therefore eligible for out-of-work benefits is, at 70 per cent, much higher than the equivalent proportion in GB (60 per cent). Along with the high number of students, high numbers of disabled people receiving out-of-work benefits account for the entire difference in the proportion of the population in paid work in Northern Ireland compared with GB. [7B]

To what extent this low work rate is a consequence of limited job opportunities is unclear. Since the fall in the proportion of people without paid work over the last decade has been bigger in Northern Ireland than any GB region [7A], thanks in turn to the high rate of jobs growth [10A], the low employment rate

could be seen as a legacy of a very much worse economic situation twenty years ago.

The very high proportion of people receiving Disability Living Allowance (DLA) in Northern Ireland also plays a part. As a recent study confirms, the higher rates of DLA recipiency in Northern Ireland are not simply a reflection of higher overall levels of limiting long-standing illness [4A].5 Because of the way in which it is treated in the statistics, income from DLA does make a significant difference to the rate of income poverty.6

Entitlement to DLA is both tightly defined (being either for those who have difficulties with walking or for those with care needs) and rigorously assessed (with the possibility of an examination by a doctor acting on the government's behalf). Given this, the higher rate of DLA recipiency relative to the underlying level of long-standing illness must reflect one or both of two things, namely: either that social or institutional factors affect the relationship between recipiency and need in Northern Ireland; and/or that the conditions that people are suffering from in Northern Ireland are different from those in GB and perhaps more severe.

On the first point, the emphasis on rights in Northern Ireland, reflected for example in the Belfast Agreement, may mean that people in Northern Ireland are more aware of what they are entitled to than people in GB.7 Better support, for example from either voluntary or community organisations, may reinforce this.8

On the latter point, the obvious question concerns the legacy of the conflict in Northern Ireland. One estimate of its impact is that 7 per cent of the adult population in Northern Ireland were injured themselves, while 36 per cent had a close friend or close relative injured or killed. [38B

The 7 per cent of the population who were personally injured is, on its own, large enough to account for the difference between Northern Ireland and GB in the levels of both sickness and disability benefit receipt in general (three per cent of the working-age population [8B]) and DLA receipt in particular (4½ per cent of the working-age population [4A]).

Research suggests that around a third of people who said they had been affected a lot by the conflict were deemed to show signs of a possible mental health problem.9 Given the 36 per cent who had a close friend or relative injured or killed, this is more than enough to account for the difference between Northern Ireland and GB in receipt of DLA for mental health reasons (2 per cent of the adult population [38A]), which is in turn a large part of the difference in DLA recipiency overall.

In summary, therefore, these findings suggest that the legacy of the conflict may well be a major reason for Northern Ireland's overall high levels of sickness and disability benefit recipiency.

What is it that people in poverty lack?

Material deprivation or services that are unaffordable?

While low income remains at the heart of official poverty measures, the recognition that a lack of income is only one aspect of poverty means that, in future, broader measures of deprivation will also be used. So what is it that poor households in Northern Ireland lack, besides money? Both official data and the Poverty and Social Exclusion Study in Northern Ireland provide a wealth of information about this.10

The first point is that a lack of consumer durables is a relatively small part of the problem. For example, just 2 per cent lack fridges or colour TVs and, more generally, the trends are rapidly downward [21A]. The proportion of low-income households lacking consumer durables is, however, around twice that for middle income households [21B].

Looking at items deemed by the Northern Ireland population to be essential, just 3 per cent lack consumer durables because they cannot afford them, fewer, it would seem, than those who lack either things that are food-related, home-related, clothing-related or activities such as travel or friends to visit (between 3 per cent and 7 per cent) [20A].

By contrast, 20 per cent of households lack items (because they cannot afford them) that may be described as directly money-related, such as the capacity to pay utility bills, having money for savings or small personal (as opposed to family) expenditure, having the money to save for a pension, or having money for repairs [20A].

The picture this presents is rather at odds with the popular perception of poverty as a state whereby a person lacks material goods. A child with no winter coat, or without well-fitting shoes, or eating fewer than three meals a day, is in a condition that few would disagree constitutes severe poverty. But however striking the image, the proportion of children lacking any one of these items is estimated to be very low, just 2 or 3 per cent.

What these figures suggest to us is that, instead of an image marked by a lack of things, modern poverty is marked by real difficulties in paying for essential services, or accumulating small financial assets (pensions, savings, insurance, a bank account) or taking part in activities (like going on holiday once a year) that the rest of society takes for granted.

Higher costs in Northern Ireland

Against this background, it is important to note two areas that may reasonably come under the heading of essential services but where costs in Northern Ireland are markedly higher than in GB.

The first of these is childcare. A proxy measure for the cost of childcare, namely the average amount paid for the childcare element of Working Tax Credit, is 10 per cent higher in Northern Ireland than any region of GB apart from London [24A].

The second of these is the cost of fuel to heat the home. Prices of individual fuels are higher in Northern Ireland than in GB (the most recent UK government estimate showing prices for fuel and light to be 13 per cent higher than the GB average).11 This is then compounded by the fact that many households in Northern Ireland face a restricted choice of fuels and are not therefore able to use the cheapest.12

As a result, the problem of fuel poverty (where a household has to spend more than 10 per cent of its income on fuel to heat its home) is more

widespread in Northern Ireland than in England: in 2004, 24 per cent of homes in Northern Ireland suffering from this condition compared with 9 per cent in the North East of England and Yorkshire, the worst of the English regions [27A].13

Why has educational progress at the bottom stalled?

Deprivation, religion and gender

In most respects, the picture of education painted in this report, where the focus is either on those failing to achieve 'minimum' qualifications or on education outcomes for children from deprived backgrounds, is a negative one. First, there is no sign at secondary level of any reduction in the proportion getting fewer than five GCSEs compared with a decade ago. This lack of progress at the bottom is masked in Northern Ireland, as elsewhere, by the fact that the usual 'headline' indicator, that is, the numbers failing to get five 'good' GCSEs (grades A to C), has continued to improve over the last decade [46A].

Second, there is a marked gap in the outcome for children in deprived backgrounds or circumstances compared with children on average at both age 11 [45A], 16 [46B] and in entry to further or higher education [47B].

The availability of information on education outcomes by religion shows, however, that the relationship between deprivation and education outcomes can depend on other factors. So on average, the main educational statistics for 11- and 16 -year-olds, and for schools leavers, show little difference between children in 'Catholic' schools or areas and children in 'Protestant' ones.14 Once account is taken of deprivation, however, this picture of near-equality changes. For example:

- At the end of primary school, at every level of deprivation, fewer 11-year-olds in Catholic-managed schools fail to reach level 4 at Key Stage 2 than in other primary schools. This difference is greatest (30 per cent compared with 45 per cent) for the most deprived schools [45B].

■ At the end of secondary school, 50 per cent of school leavers in the most deprived wards that are 'Catholic' fail to go on to further or higher education, compared with 70 per cent in the most deprived wards that are 'Protestant' [47B].

■ This pattern, of school leavers in 'Catholic' wards being more likely to go on than those in 'Protestant' ones, holds everywhere except in the least deprived wards. As a result, the difference in the likelihood of going on in 'Catholic' wards between the most and the least deprived is much less than the difference in 'Protestant' ones [47B].

■ Once gender is taken into account, the picture is refined yet further. Among 19- to 24-year-olds, there are more men than women who lack minimum qualifications. And, for both men and women, a bigger proportion of Protestants than Catholics lack minimum qualifications [48A].

Schools, communities and economic opportunities

The education research literature in Northern Ireland offers some explanations for these findings. The factors that others' research has identified as coming into play here fall into three broad groups.

The first group, concerning the way that schools themselves work and including the role that parents have to play, may contribute to why children from deprived backgrounds tend to fare worse than others. The Transfer Test, taken at age 11 (in addition to the Key Stage 2 tests), is a particular focus of criticism from some people.16 The pressure on secondary (non-grammar) schools to compete academically is another.17 But special features of the Northern Ireland education system such as selection and transfer tests can at best be only part of the explanation for phenomena that are also seen across GB; neither can they explain differences in either gender or religion.

A second group of factors concern community and social norms and the way that they can limit horizons. Working class children, boys especially, may often be conditioned to develop a very strong sense of locality, with future aspirations limited to what is known there.18

A third group of factors, overlapping with the other two, concerns the opportunities that children and young adults believe to be available to them in

the labour market. One aspect of this is the research finding that some working class Protestant communities may remain attached to the idea that jobs can be found through informal networks of families and friends – with presumably a consequent downgrading of the idea of the importance of educational qualifications. By contrast, Catholic parents may place a greater emphasis than Protestant ones on the need to enter Higher Education.19

A three-way comparison between Northern Ireland, Ireland and the UK

The EU's Laeken indicators

Ideally, this report would have looked at Northern Ireland in an all-Ireland context as well as a UK one. In our experience, however, it is extremely difficult ever to be sure that statistics that come from different sources are truly comparable. As a result, the idea that the indicators developed in this report for Northern Ireland could be extended to include Ireland is simply not practical.

The EU's Laeken indicators provide a way of getting round this to some extent. As a set of officially sanctioned statistics produced, in principle, for each of the 25 member states, they allow a comparison between the UK and Ireland. Because the UK Laeken statistics come from UK-wide sources, these sources can also, in principle, be used to estimate equivalent figures for Northern Ireland based on the The table below summarises selected Laeken statistics for the UK, Ireland and Northern Ireland. This is done in two ways:

- by showing the position each country occupies within the (at maximum) 25 EU member state 'league', with in all cases 1st being good and 25th being bad;
- by showing the value of the statistic, usually a percentage. This is important because there are indicators where quite large differences in league position actually reflect only small changes in the underlying measure.

These statistics cannot be directly compared with similar statistics in the main report as the definitions are almost always somewhat different. This is particularly the case for the poverty statistics as they use a different source (the British Household Panel Survey rather than the Family Resources Survey) as well as different methods for adjusting for relative household size.

Points of comparison between the UK, Ireland and Northern Ireland

The key points of this comparison between the UK and Ireland are as follows:

- On the poverty statistics, both the UK and Ireland occupy positions in the lower half of the EU league, with the two countries' rankings close to one-another.
- On the work-related statistics, the UK is at the top of the EU league for long-term unemployment (ie has the lowest figure) but at the bottom for the proportion of children who are in jobless households. Ireland is closer to the EU average for both statistics.
- On the proportion of the working-age population with no qualifications, the UK is close to the top of the EU league whilst Ireland is close to the EU average.

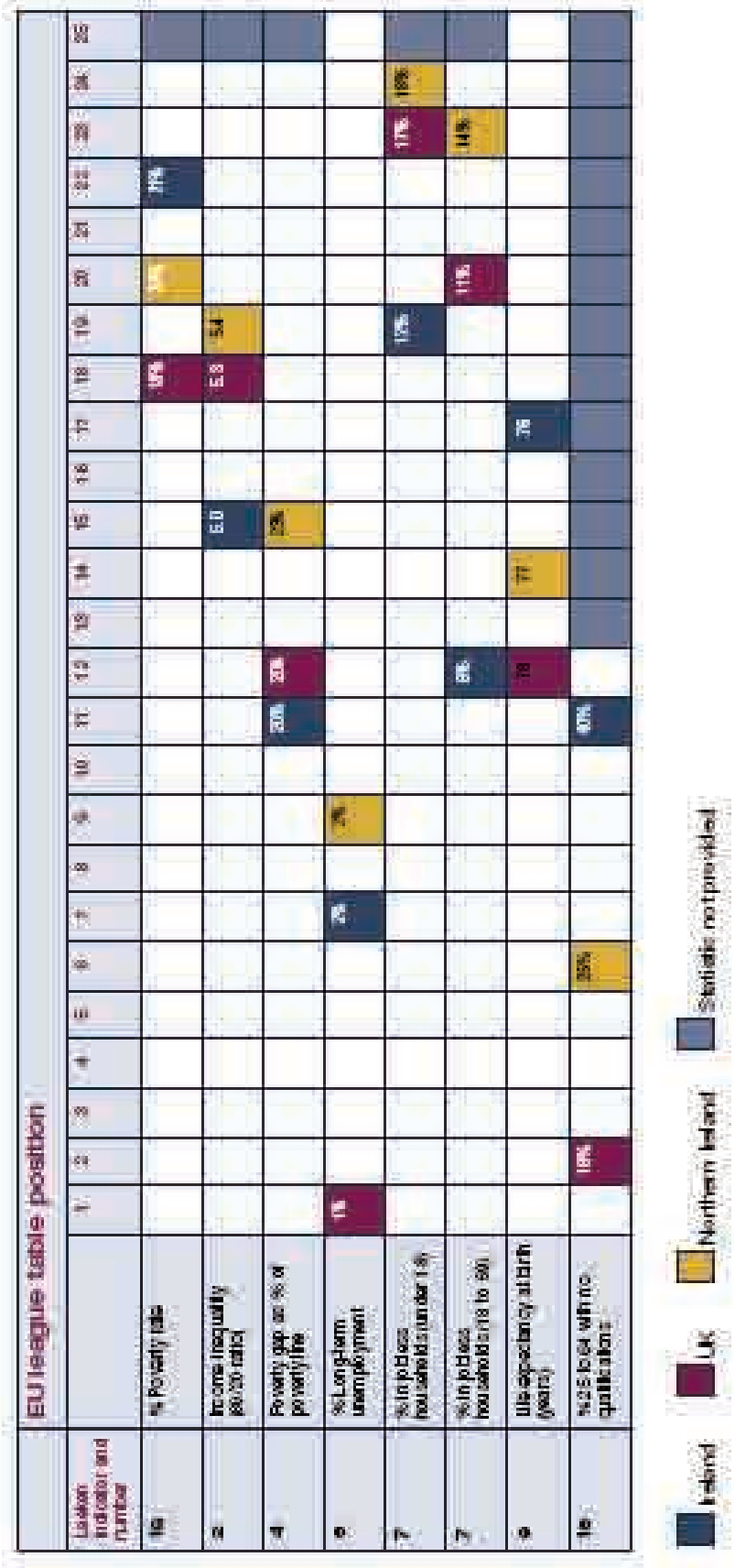
In terms of Northern Ireland's position:

- Northern Ireland is in the lower half of the EU league on the poverty-related statistics, close to both the UK and Ireland.
- Northern Ireland scores less well than either the UK or Ireland on the work-related statistics. For long term unemployment, this places it near the EU average. For jobless households, it places it at the bottom of the EU league.
- On the proportion of the working-age population with no qualifications, Northern Ireland scores worse than the UK but better than Ireland, leaving it somewhat better than the EU average.

Summary table: Laeken Indicators for Ireland and the UK

The table shows both statistic and the rank (out of a maximum of 25) for Ireland and for the UK for a selection of the Laeken Indicators published by

the EU. In all cases, 1st is best and 25th is worst. For example, the UK has the lowest long-term unemployment rate (1 per cent) of any EU country. Figures for Northern Ireland are also shown using the same data sources and definitions as their UK equivalents.20 The poverty statistics for Northern Ireland are from the British Household Panel Survey, use the Northern Ireland median, and are not directly comparable with the other poverty statistics used in this report. Data is for the latest year and varies from one indicator to the next.


EU league table position
Lisbon indicator and number
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
% Poverty rate
Income inequality (80/20 ratio)
Poverty gap as % of poverty line
% Long-term unemployment
% in jobless households (under 16)
% in jobless households (16 to 59)
life expectancy at birth (years)
% 25 to 64 with no qualifications
Ireland
UK
Northern Ireland
Statistic not provided

Letter Dated 18 December 2006 from the Rural Development Council

Your letter of 7 December 2006 refers.

Firstly thank you for the opportunity to respond, via the sub-group, to the Committee on the Programme for Government with particular emphasis on Rates Charges.

We also note in your letter that the sub-group is asked to consider the **Comprehensive Spending Review** and comment on which issues should feature as priorities a draft programme for government. It would be remiss of us not to take this opportunity to stress the important role rural can play in delivering a better future for Northern Ireland. The rural nature of Northern Ireland represents one of its key characteristics and should therefore inform its strategic choices for an economic growth and quality of life unique to the region.

We therefore also enclose our response to the **NI Draft Priorities and Budget 2006-2008** consultation and would ask that this is also shared with the sub-group. Given the very limited amounts of funding likely to be available from the European Agricultural Fund for Rural Development, and despite the lack of a Rural White Paper for Northern Ireland we would urge Government to require Departments to allocate a small slice of their individual budgets to the delivery of those public services for which they have responsibility into rural areas.

We hope you find these comments and attached submissions useful. Should you have any queries please do not hesitate to get in touch.

Yours sincerely,

Martin McDonald
Chief Executive

Northern Ireland Draft Priorities and Budget 2006 - 2008

A Response from the Northern Ireland Rural Development Council

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Introduction

The Northern Ireland Rural Development Council (RDC) was established in 1991 under the DARD Rural Development Programme. As an independent rural organisation, we play a key role in informing rural development policy, supporting Government in rural proofing, developing and delivering practical programmes, sharing information and building effective partnerships.

We thank you for the opportunity to respond to this important consultation, which takes place at a time of considerable challenge and change. We believe that rural areas can play a significant role in delivering a better future for Northern Ireland. The rural nature of Northern Ireland represents one of its key characteristics and should therefore inform its strategic choices for an economic growth and quality of life unique to the region.

The physical infrastructure which underpins sustainable and vibrant rural communities is a key concern. Increasingly, we are being asked to assist in rural proofing new policies and plans, alongside which we try to provide constructive suggestions for solving the challenges of making limited budgets stretch to support more outlying rural areas and communities.

Whilst we agree with the broad thrust of the strategic priorities around which the budget proposals are based, we feel there is a need to comment further on how these can relate to rural Northern Ireland. We look briefly at each priority in turn in making our response.

Priority 1: Economic Growth

Enabling Rural Economic Development and Growth

Investment to support the role of rural areas in the sustainable development of the region must reflect the increasing importance of the knowledge economy as a source of income and jobs. It is vital rural areas achieve the structural adjustments necessary to contribute effectively to the added value and flow of services which is a crucial characteristic of a knowledge economy. In this regard the value of the environment to economic activity (illustrated in annex 1), rapid developments in IT, the role of the 'creative economy'[1] and growth in interest for niche artisanal authentic food products and crafts represent areas where significant innovation is possible beyond mainstream agriculture.

1 *i.e. use of arts, artists and local culture but also, increasingly, IT based creative projects*

We feel that the Economic Vision for Northern Ireland referred to in the consultation document does not sufficiently recognise the potential for a broader use of natural resources beyond mainstream agriculture in making the Northern Ireland economy more self sustaining and competitive. We welcome the key aims and objectives for public sector support for economic growth, particularly around innovation and entrepreneurship and suggest rural resource development is given focused consideration within this framework.

We would query the focus only on agriculture as a key contributor to the rural economy and to the social fibre of rural areas (Para 22) – success in harnessing rural economic potential needs new and effective forms of collaboration and partnership between farmers and non-farmers. Not least, effort should be made to harness the talents of new entrepreneurs moving to live in many rural areas who can contribute to job creation[2], but doing so whilst avoiding the potential for urban out migration to drive a declining capacity for inclusiveness, with a growing separation between place of work and place of residence impacting on "the very concept of community"[3].

Our recommendations are:

That 'environmental factors' should not be considered only in terms of conservation and protection of the environment in the face of economic growth, important though that is, but also recognise the economic potential of the environment within the context of rural development and seek to support realization of this potential through measures to encourage innovation and entrepreneurship.

That DETI and DEL as well as DARD be encouraged to draw up specific rural resource development initiatives which take economic growth across a broader base than competitive agriculture alone.

Priorities 2 and 3.
Public Sector Reform and High Quality Public Services

The dispersed nature of settlement in Northern Ireland, added to lately by the substantial growth in single dwellings in the countryside, creates additional challenges and difficulties in service delivery and support for key services. For example, DFP recently decided not to introduce to Northern Ireland the rural rates relief scheme operating in England, because *"few rural properties in Northern Ireland fitted within the terms of the primary legislation, that is, within an identifiable rural settlement"*, yet rural services must already deal with higher operating costs. The danger is that key services will amalgamate to district towns as part of a cost-driven logic reducing the basis for sustaining a more balanced pattern of settlement and community.

2 *Findlay et al 1999 suggest a self employed migrant to rural areas generates on average 1.7 full time jobs. Quoted in Defra Strategy 2004 Evidence Base*

3 *Buller et al. 2003. A Report to Defra. The Demography of Rural Areas : A Literature Review. CCRU. Pp 42*

Service consolidation is also seen in the pressure for amalgamation of small (and therefore, typically, rural) schools. Driven by declining pupil numbers, a run down capital stock, opportunities for new investment, and the demands of a modern economy and society on the education children need to receive, the argument for amalgamation is very persuasive, but in going down such a route, it will be important not to 'throw the baby out with the bathwater' and loose the connectivity and sense of place and therefore citizenship provided by the school in the community. The RDC will shortly be delivering a detailed study of rural schools to the Department of Education with a number of suggestions about how to achieve the balance between economies of scale and services sustaining the social fabric.

Pursuit of efficiency could also fuel the trend to mobility as a characteristic of the required lifestyles of the socially included, as services are rationalised and re-organised in response to the new administrative landscape and its underlying logic. Two concerns immediately follow

- How can the goal of achieving and sustaining social inclusion, particularly in rural areas, be safeguarded?
- What impacts will this have overall on social cohesion and citizenship? There is a risk mobility also correlates with individualisation and as such, an erosion of social capital. Will we come to realise that in winning better efficiencies we have undermined social sustainability?

A core concern we highlight therefore, is that the priorities and budget are implemented in a manner which achieves a balance between efficiency savings, improved quality of service and maintaining the social fabric which underpins the health and sustainability of the region and its people.

We Recommend Access to Services is given key consideration through enhancement of the resources for rural proofing, drawing on best practice demonstrated in England on service standards for rural areas[4].

Priority 3. Society and Community

The considerable number of dispersed small settlements and communities making up rural Northern Ireland are another important rural asset. Many are still made up of extended families who have lived in the locality for generations. Government policy is needed to protect and build upon this community asset as a basis for social inclusion, local citizenship and positive lifestyle choices in wider society.

Economic growth is one of a number of ingredients contributing to the quality of life and personal welbeing of people[5], which also includes qualities such a trust, security (particularly

4 *Rural Services Standard progresses: second progress report 2002/03 - 14 July 2003, see also http://www.countryside.gov.uk/WhoWeAreAndWhatWeDo/pressCentre/rural_services_progressreport.asp or DEFRA Rural Services Policy Team, 2C Ergon House, London SW1P 3JR, email: rural.services@defra.gsi.gov.uk.*

5 *Redefining Propsperity: Resource Productivity, Economic Growth and Sustainable Development. Sustainable Development Commission April 2004.*

Developing an Index of Sustainable Economic Welfare in Wales. Countryside Council for Wales 2002

for children and older people) neighbourliness, belonging, and a healthy lifestyle[6]. These are qualities which are perceived, and typically also actual, attributes of rural communities, driving many people to make the move to live in them or to retain a desire to stay in them[7].

These qualities are not part of the market (unless reflected in house prices) and their adequate provision is, as such, outside of market influence. Government needs to intervene, in partnership with rural communities, to ensure these qualities are sustained and are equitable, particularly for those whose family roots are already deeply embedded in rural communities.

As such, we highlight the lack of an equivalent form of support for rural villages to the Neighbourhood Renewal Strategy as a vehicle to tackle rural disadvantage. We have begun to pilot an approach to village renewal which could help to address this shortfall under the title ' Vibrant Villages' and would recommend a programme for village renewal form part of the approach to securing social cohesion and improved community relations.

Summary and Key Points

1. Rural Economic Growth is Supported more explicitly within DETI and DEL budgets as well as within DARD, reflecting the wider spread of economic potential beyond mainstream agriculture

2. Rural Proofing is given enhanced status and support to help achieve quality public services within a process of public sector reform and to sustain rural communities

3. Village Renewal is an ingredient of Governments approach to enhancing society and community in Northern Ireland through partnership and inclusion

Given the very limited amounts of funding likely to be available from the European Agricultural Fund for Rural Development, and despite the lack of a rural white paper for Northern Ireland we would urge Government to require Departments to allocate a small slice of their individual budgets to the delivery of those public services for which they have responsibility into rural areas.

6 *The Economist Intelligence Unit, for example, recently published its assessment of the 'best places to live', and placed Ireland at first position. "Although rising incomes and expanded individual choices are highly valued," the report says, "some of the factors associated with modernisation - such as the breakdown of traditional institutions and the erosion of family values - in part offset its positive impact. Ireland wins because it successfully combines the most desirable elements of the new (the fourth highest gross domestic product per head in the world in 2005, low unemployment, political liberties) with the preservation of certain cosy elements of the old, such as stable family and community life."*

7 *Latest population estimate figures from NISRA for 2002 – 2003 for example show a reduction in numbers in Belfast and Derry, attributed primarily to out-migration (2,800 and 500 people respectively). Highest overall growth, over three times the Northern Ireland average, is estimated in Banbridge, Omagh, and Newry and Mourne. In these districts, along with Fermanagh, in-migration contributes significantly to growth. Growth of two and a half times the Northern Ireland average is attributed to Cookstown, Magherafelt and Limavady. Meanwhile the number of new single dwellings approved in the countryside for 2002 / 3 increased by over 170% on the 1990 / 91 figure, and is 23% higher than the year before (2001 / 2). The number of approvals outstrips those for England Scotland and Wales combined. Approvals for replacement dwellings also increased by 130% during the same period. Overall growth continues upward for 2003 / 4*

Annex 1

Illustrating the Economic Potential of the Environment in rural Development

Case Box 1 : East Midlands Development Agency

In 2002 the East Midlands Development Agency investigated the growth of the 'Environmental Economy' of the region. This fast growing and vibrant sector encompassed a wide range of activities including environmental services and technologies, rural resource management and conservation activities and service sectors such as leisure and tourism which are based upon the quality of the regions natural environment. The research showed that the environmental economy of the region supports some 71,000 jobs and generates 3% of regional GDP, making it comparable to sectors such as construction and food and drink.

Case Box 2 : Peak District National Park New Environmental Economy

In the Peak District National Park the Countryside Agency has worked with a wide range of public and private sector partners to support an innovative business support programme called the 'New Environmental Economy'. This programme is aimed at small enterprises that are developing new goods or services which utilise the high quality environment of the national park as a business asset. For those businesses who can show how they contribute to the management of this environment the programme provides easily accessible and integrated business advice and grant support.

Case Box 3 : Estimates of economic value

The Countryside Council for Wales estimates the environment to provide 117,000 direct and 52,000 indirect jobs, representing 17% of all Welsh jobs. It also estimates it to provide outputs and services worth £8.8 billion / annum, 9% of Welsh GDP. Environmental Tourism and Education alone contribute £821 million / annum.

Applied to Mournes Area (figures supplied by Mourne Heritage Trust) this would equate to up to 7,500 jobs within 10 years, additional outputs and services worth 0.5 billion and a potential income over 10 years of £5.0 billion.

Case Box 4: The National Trust in Northern Ireland (March 2004)

The National Trust in Northern Ireland is estimated to have a turnover of 7.4 million in 2002 (around 1.5% of all VAT registered businesses in NI had a turnover greater than 5 million / annum), £4.5 million of income is drawn from outside NI as a net benefit to the local economy, and the trust in turn spends between £4.9 and 6.3 million annually.

Social, market and technological trends add further to the case for taking a fresh look at the role of rural and rural policy in the economic vision of the region. Some key illustrations of this need include:

- Growth in the demand for authentic, local, diverse foods reflecting ethical and health concerns about food and farming[8]
- Growth in interest in outdoor pursuits[9]
- New opportunities presented by enhanced Information technologies for distance working, a greater freedom of choice for the location of new businesses, and greater potential for global marketing of niche products for smaller producers[10]
- Continuing emphasis on sustainable development and sustainable consumption, with clear recognition of the need for wider measures of regional economic progress and social wellbeing which may 're-weight' the significance of different resources[11]

These add up to a range of broader roles and services being sought from rural areas by society which move it beyond traditional associations with agriculture and food. However, EU rural support will not be sufficient to capitalise on this potential, being primarily aimed at adjustments in farming.

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8 *see for example, the growth in membership of the 'Slow Food' movement, growth in the number and turnover of from farmer's markets (currently, £65 million / annum) Rural Regeneration Unit Food Coops, community-supported agriculture, organic farming, fair trade, Soil Association / Countryside Agency local food initiatives*

9 *Households now spend more on leisure than on food, housing or transport and this is predicted to rise to a third or more of household spending (office of National Statistics 1999) The number of horses on farms increased by nearly 60% between 1991 and 2001, and horse riding is a growth area across the UK (ref Off-road Horse Riding in Northern Ireland. TCC International, for Countryside Access and Activity Network (CAAN) Northern Ireland)*

A recent study backed by the Countryside Agency showed that Britain's longest National Trail, the 630-mile South West Coast Path running from Somerset to Dorset, generates £300 million a year for its surrounding economies and supports 7,500 jobs.

10 *DETI project a rise from 6 to 12% in the proportion of people teleworking over the next 4 to 5 years. A GMB Union survey suggests as much as 15% of people work from home in Moyle, and 13% or so in many other western and southern parts, prior to the arrival of broadband across rural Northern Ireland*

Numbers of VAT registered businesses relative to the underlying population are higher in rural areas than urban ones, with a current trend for more business starts and fewer deregistrations in rural areas compared to urban ones. (Hart, M , O'Reilly,M, and Anyadike-Danes,M 'Sustaining Rural Economies: Enterprise Formation in Rural Northern Ireland; in Greer, J and Murray, M 'Rural Planning and Development in Northern Ireland. 2003

11 *Redefining Propsperity: Resource Productivity, Economic Growth and Sustainable Development. Sustainable Development Commission April 2004. Developing an Index of Sustainable Economic Welfare in Wales. Countryside Council for Wales 2002*

Research Briefing **19 December 2006**

RATING REFORM IN NORTHERN IRELAND: KEY ISSUES

Public Finance Research Unit

Since 2002, Northern Ireland has been engaged in an extensive review and reform of the domestic and non domestic rating system. This paper, prepared for the Sub-Group on the Comprehensive Spending Review; Rates Charges and Water Reform, presents information on a range of issues arising from rating reform.

The topics covered in this paper include valuation and revaluation, current rate reliefs and options for further relief, capping, banding and local income tax. Sections on non domestic rating reform in Northern Ireland, together with a brief overview of the reviews of local government finance in Scotland, England and Wales, are also included.

SUMMARY OF KEY POINTS

1 A review of the rating system was initiated by the Northern Ireland Executive in 2000. It was felt that the existing system of rates was outdated and unfair. This had resulted in some households paying more than they should and other paying less.

2 The main changes to the domestic rates system in Northern Ireland include: a revaluation of all properties; the use of a capital value system from April 2007 (as opposed to a rental value system); the introduction of a new rate relief scheme to assist those on low incomes; transitional arrangements over a three year period for those facing large increases as a result of the change to capital values; a standard 25% rate reduction for people with a disability whose property has been modified and regular revaluations of domestic property.

3 The main changes to the non-domestic reliefs include the phased removal of industrial derating, an increase in sport and recreational relief, the derating of community halls and exemptions to benefit rural businesses.

4 The existing NAV based system is regressive in that those on higher incomes pay a smaller percentage of their income in rates than those on lower incomes even when Housing Benefit is taken into account. This is because the system is progressive for some low to middle range discrete capital values, and proportional for property values in excess of this amount.

5 A key benefit of a discrete capital value tax base is that taxpayers with similar discrete capital values can be treated in a similar manner and the rate burden is more fairly distributed amongst ratepayers.

6 The capital value is the amount a property could reasonably have been sold on the open market on 1 January 2005.

7 In the theory and practice of local taxation, discrete capital values have been presumed as a convenient proxy for both income and ability to pay. However the evidence is inconclusive.

8 The approach taken by Government assumes that income is generally correlated with discrete capital values, and those with lower incomes will live in lower value houses, and face lower rates bills. However the Government has accepted that the relationship between capital value and income is not exact. However they contend that by and large those in higher value properties are on higher incomes and can afford to pay more but where there is significant disparity between capital value of a property and ratepayers income, this will be taken account of their the new rate relief scheme.

9 Excluding those on benefit it is estimated that 55% of houses (approximately 385,000 households) will pay more under the system and 45% (315,000 households) will pay less.

10 Given the substantial increases some householders will face and in response to concerns during the final consultation, the Government has indicated its willingness to introduce a maximum cap should devolution be restored and provide enhanced relief to low income pensioners.

11 Transitional relief will be awarded to those most adversely affected by the move to a new capital system.

12 The Government proposed in the 2004 policy paper that the new rate relief scheme (RRS) should be introduced that would sit above the current Housing Benefit system, and provide assistance on the basis of need to those on low incomes.

13 A key concern expressed during the consultation on the Third Order was the difficulties facing the asset rich income poor householders such as pensioners who will struggle to pay their rate bills.

14 Concerns have been raised that the new system, combined with water charges, will push more into the poverty trap. The recent Monitoring Poverty and Social Exclusion in Northern Ireland 2006 report from the Joseph Rowntree Foundation indicated that levels of income poverty here are likely to soar with the introduction water charges and increases in household rates.

15 The Government has no plans to introduce a blanket single person discount relief in Northern Ireland. As ability to pay rather than status was the key premise for reliefs, it believed that this could be best achieved through a targeted rate relief scheme rather than blanket reliefs. However contrary to this principle, a blanket relief for students has been introduced.

16 From April 2007 a standard 25% allowance will be introduced. The Department claims that around 75% of current recipients will be better off than at present.

17 A banded approach was considered, among the options for the future of the domestic rating system as part of the review process. However it did not receive popular support from the public consultation exercises, nor did a banding system perform well in terms of New Targeting Social Need analysis.

18 Scotland, England and Wales have reviewed local government finance mechanisms. Wales went ahead with revaluation in 2005. The Burt Review and the Lyons Review have made a series of different recommendations, however the Governments in Scotland and England do not display a desire to act immediately on the options proposed in Lyons and Burt.

19 More than two million households struggle to pay council tax each year in England; these households predominantly have low incomes and are in low value properties, not high value properties.

20 The Government has decided to peg the phased increase of industrial rates at 30% in the next year, instead of the planned 35%, ahead of the formal review in 2007.

CONTENTS

1. INTRODUCTION

1 This paper has been prepared for the Sub-Group on the Comprehensive Spending Review; Rates Charges and Water Reform. Sections 2 and 3 provide background and an overview of the reform of rating policy in Northern Ireland. Section 4 outlines the legislation, and Section 5 briefly discusses the move from NAV to capital values. Section 6 examines the basis for valuation, including a short discussion of revaluations

2 Sections 7 and 8 explore ability to pay and the winners and losers under the new capital values system. Sections 9 and 10 explore in some detail the proposed rate reliefs and options for further relief. Section 11 presents some issues for consideration in the introduction of a maximum cap. Section 12 focuses on other options for the reform of rating in Northern Ireland including banding and local income tax. Section 13 provides a brief overview of the review of local government finance in Scotland, England and Wales. Finally, Section 14 explores some of the issues around non domestic rating reform.

3 The paper addresses the sub-group's terms of reference for rating reform. However due to the tight time constraints and limited resources, it has not been possible to provide an in depth analysis of the many wide-ranging issues. This would have required more time and the availability of technical expertise. However, the paper provides a basis for discussion and raises some key issues for further consideration.

2. BACKGROUND

4 A review of the rating system was initiated by the Northern Ireland Executive in 2000. It was felt that the existing system of rates was outdated and unfair. The last valuation of domestic property took place in 1976 and was based on rental values dating back to the 1960s. This had resulted in some households paying more than they should and other paying less.

5 The Review of Rating Policy in Northern Ireland (hereafter the Review) addressed both the current system and possible alternatives. Much of the Review was about how the rating burden might be more fairly distributed, and included evaluation of a number of options, drawn from both national and international experience. The Review addressed a number of different elements of Rating Policy in Northern Ireland, including:

- Domestic Rates
- The Non-Domestic Sector (Industrial Derating)
- The Rating of Vacant Properties
- Funding Water and Sewerage Services

6 Consideration was also be given in the Review to the type and scope of rate relief currently available to ratepayers, which was also subject to the New TSN (Targeting Social Need) and equality criteria.

3. THE REVIEW OF RATING POLICY

7 The Review of Rating Policy Consultation Paper was issued in May 2002. This document sought views in relation to the basis of assessment of regional taxation; the range of rate reliefs and exemptions; the system for determining and collecting regional revenue, and its interaction with the financing of District Councils; and the funding of water and sewerage services in both the domestic and non-domestic sector. The Review Consultation Paper also set out some current thinking in relation to local taxation. At the launch of the Public Consultation Report, the Minister announced his intention to proceed with a new domestic rating system based on capital values, on the grounds that it was a fairer system. It also had to take account of the taxpayers' ability to pay.

8 The Review Consultation Paper also set out some current thinking in relation to local taxation.

'For a tax to be acceptable to the local electorate it must achieve a balance between economic efficiency (those who benefit from services, pay) and fairness or equity (those who pay, can pay). For this to be fair and acceptable there is a need for "progressivity" …[that is] an increase in the tax as income or wealth increases. (Review of Rating Policy Consultation Paper, May 2002)

9 Proposals for reform were subsequently published in July 2004 based on the outcome of the consultation exercise in 2002 and independent research. These proposals were the subject to a further consultation exercise in 2004[Reform of the Rating System in Northern Ireland, Policy Paper, Department of Finance and Personnel, 2004) and the publication in March 2005 of the Government's intention to introduce a new system based on individual capital values in April 2007.

4. LEGISLATION

10 Three Orders in Council have been made in Westiminster which give effect to the Government's proposal for the new individual capital value system. The first Order focused on the non-domestic sector and legislated for the rating of vacant non-domestic property from April 2004 and the phasing out of industrial derating from 1 April 2005.

11 The second Order provided for the new domestic property capital valuations to be determined and enabled by the Commissioner of Valuation to publish them in advance of the new system coming into effect in April 2007. The Order also provided for full rate exemption for community halls and an increase from 65% to 80% in sport and recreational relief.

12 The third and final Order(the Rates (Amendment) (Northern Ireland) Order, was made at Privy Council on 14 November 2006. It gives effect to

the main reform of the domestic rating system, that is based on individual capital values from 2007. The Order also provides for

(a) a new rate relief scheme for those on low incomes;
(b) full relief from rates for those in full-time training and education, 16/17 year olds and young people leaving care;
(c) a simplified rate rebate scheme for persons with a disability whose property has been modified; and
(d) transitional relief for those most adversely affected by the move to the new capital value system.

13 The Order also contained a number of non-domestic reliefs and exemptions to benefit rural businesses including farm diversification relief and rate exemption for rural automatic telling machines.

14 The consultation on the third Order received more public and media attention than would normally be expected from a legislative consultation(146 responses were received including 5 from political parties and 2 from MLAs). Reform issues have clearly become increasingly more important to people over recent months as they received their capital valuations. The majority of responses focused on the domestic reforms and tended to reiterate views previously expressed on the wider policies/reforms as opposed to whether the detail of the draft Order gave proper effect to the Government's intentions. The key concerns arising from the consultation were:

- targeted pensioner relief,
- single person discount,
- the introduction of a maximum cap,
- the joint impact of rates and water reforms and
- that landlords would not relay the benefit to student tenants and the impact the policy would have on communities with a high student population.

15 There was also criticism regarding the length of the consultation on the draft Order. This issue was highlighted by the Northern Ireland Fair Rates Campaign during extensive media coverage towards the close of the consultation. The group criticised the length of the consultation and called for the consultation period to be extended beyond the seven-week period. The issue was the subject of a judicial review on the grounds that the period for consultation did not adhere to Cabinet Office Guidelines[insert reference]. However the judicial review ruled that a seven week period of consultation was not unreasonable given that DFP had previously carried out extensive consultation at the policy development stage.

16 The Government was also strongly criticised for rushing through the legislation to make November Privy Council rather than waiting for a restored Assembly to consider the reforms. However the Department contended that the Order was a culmination of a lengthy process and that sufficient time was now needed to get the procedures, processes and systems in place. The Department also argued that reform was long overdue and delay was not an option, given that the Review process had been ongoing since 2000.

5. NAV AND CAPITAL VALUES: THE NEED FOR A CHANGE IN THE TAX BASE

17 In the reform of the domestic rating system for Northern Ireland, the tax base is to be changed from one based on net annual valuation (NAV) to one based on the discrete capital value of property. The arguments for this change, as identified by the Review of Rating Policy Consultation Paper 2002 (p13) relate to the problems associated with the existing NAV based rating system. These may be summarised as follows;

- The existing NAV based system is regressive in that those on higher incomes pay a smaller percentage of their income in rates than those on lower incomes even when Housing Benefit is taken into account. This is because the system is progressive for some low to middle range discrete capital values, and proportional for property values in excess of this amount.
- The domestic element of the valuation list is long out of date, and there are significant anomalies in the way it distributes the rate burden due to the lack of regular revaluations. NAVs have not been revised for over 27 years and the movement in property prices since 1976 has resulted in significant differences between rate liabilities for similar properties.
- A key principle of rating is that there should be a correlation between the rating basis and the predominant form of property tenure in order to ensure that assessed values are supported by a robust body of market based evidence. There have been significant changes in the structure of the housing market in Northern Ireland since the last NAV revaluation. The nature of tenure has changed from one dominated by rentals to one dominated by owner-occupation, which now stands at 71%[1]. As a result, there is a dearth of rental market evidence on which to base a revaluation of the current NAV system.
- The current system does not command widespread understanding among ratepayers.

5.1. THE ADVANTAGES OF A MOVE TO CAPITAL VALUES

18 The move to a discrete capital value tax base has a number of benefits. Taxpayers with similar discrete capital values could be treated in a similar manner. This is referred to as horizontal equity and is a key principle of taxation.

[1] Northern Ireland Housing Executive (2003) The Northern Ireland Housing Market Review and Perspectives 2003-2006 (p.64)

19 In addition, an ongoing and independent body of evidence, in the form of property sales data, will exist on which to base the revaluations required to ensure continued similar treatment for those with properties of similar discrete capital values, thus ensuring fairness in the long term.

20 Discrete capital values have the added advantage of simplicity as owner-occupiers, and others, understand the market value of property.

6. THE BASIS OF VALUATION

21 The capital value is the amount a property could reasonably have been sold on the open market on 1 January 2005 (for more information on the methodology employed, please refer to the DFP Briefing Paper).

6.1. VALUATION OF FARMHOUSES

22 In the case of farmhouses, they have been valued on the same basis as other domestic property except that is has always been assumed that they will be used and occupied as farmhouses. This to ensure that farmers are not adversely affected by their proximity to tourist or urban areas, which may inflate their property value beyond what it would otherwise sell for. The rationale for this policy is that unlike other occupations, farming requires the farmer to live on the land and is therefore tied to it. It also reflects the practice under the current system which is being transferred to the new system.[2]

6.2. REVALUATIONS

23 The Department intends to carryout revaluations initially every 5 years with the next revaluation coming into effect in 2012. The next revaluation will not raise more money in itself. What will happen is the overall rate in the pound will reduce by a corresponding amount. The aim of revaluations

[2] Personal Communication with Rating Policy Division October 2006

is to ensure that capital values accurately reflect current market circumstances. On the one hand this will ensure ratepayers living in areas experiencing lower house price growth than average are not disadvantaged over time. On the other hand, some householders will face further hikes in their rate bills if they live in a buoyant housing market. Therefore what is relevant is not the general increase in property prices but the differences between areas.

7. CAPITAL VALUES AND ABILITY TO PAY

24 In the theory and practice of local taxation, discrete capital values have been presumed as a convenient proxy for both income and ability to pay (Beaumont 1992:169; Oats 2000:1; and Smith and Squire 1987:18). This is based on a number of assumptions.

25 The first of these relates to **the nature of domestic property**. A tax on the value of the property occupied is suggested as a method of introducing some dimension of permanent income or wealth in the overall tax payment made by an individual taxpayer. However domestic rates are an imperfect indicator of wealth as they neglect non-property wealth, and are (at least formally) incident on tenants as well as owner-occupiers. Problems arise, however, as in many cases wealth is related to past, not present, effort (Sandford 1992:19), hence some of those who face domestic rates bills based on discrete capital value will include households with low current incomes, for example, the elderly or others on restricted incomes.

26 The second assumption, relates to **the mechanism through which domestic property is acquired**. It is assumed that domestic property is purchased through a mortgage, and in general, the mortgagable amount of any domestic property is a reflection of the income of the purchaser as the mortgage is some multiple of her/his income at the time of purchase. If we assume the above, then, discrete capital values may *in theory* be considered as a general proxy for income, but only at the point at which

the property is purchased, and only in those cases where property is purchased through the normal mortgage process, and not inherited, gifted, or wholly or substantially purchased with cash obtained through another source such as a one-off payment. In addition, for this relationship between income and discrete capital value to remain constant, it is necessary for incomes to increase in proportion to increases in discrete capital values (or vice versa), and interest rates to remain stable.

27 The rating and taxation literature on this relationship is somewhat inconclusive. Hughes (1983:27) found that the relationship between rate payments and income was rather weak, and that rate payments tended to be regressive, as rates as a proportion of income tended to decline as income increased. Smith and Squire (1987) for the Institute for Fiscal Studies also found rates to be regressive in that the proportion of household income paid in rates fell as income rose. Using data from the 1984 Family Expenditure Survey, they found that while households' gross rate bills tended to be higher in higher income households, but that rate bills tended to rise less rapidly than income. Gross rates were also found to be particularly regressive for the poorest households. Even after rebates, the proportion of income paid in rates remained lower for higher-income households than for lower income households (pp24-26).

28 Rateable values also differed across differently composed households. Rateable value increased with the age of the head of household, peaking at ages 40-55 years, and declined among older households, however this decline was more marked among tenants than owner-occupiers. Rateable value was also higher for households with children. They also found significant differences in gross rate bills by household composition. Pensioners face higher gross rate bills than non-pensioner households of similar size (controlling for income). Two-adult childless households generally face higher gross rate bills than single person childless households, and the rate bills of couples with children were 8% higher than gross rate bills faced by those couples without children (pp21-25).

29 Hughes (1983) also considered a range of alternatives to domestic rates. He found that a switch from domestic rates to a local property tax would be very slightly regressive, whereas the introduction of either a property tax or a poll tax combined with a local income tax would be mildly progressive (pp.27).

8. WINNERS AND LOSERS UNDER THE NEW CAPITAL VALUE SYSTEM

30 Excluding those on benefit it is estimated that 55% of houses (approximately 385,000 households) will pay more under the system and 45% (315,000 households) will pay less[3]. These estimates are based on a comparison of actual bills in 2006/07, under the existing system, with what they would have been this year under a capital value based system. The Department claims that less than 4% of ratepayers will face increases of more than 100% and that the top 3% of properties will face an average increase of £814.

31 Given the substantial increases some house holders will face and in response to concerns during the final consultation, the Government has indicated its willingness to introduce a maximum cap should devolution be restored. This is discussed in Section 11.

9. RATE RELIEF

32 The approach taken by Government assumes that income is generally correlated with discrete capital values, and those with lower incomes will live in lower value houses, and face lower rates bills. However the Government has accepted that the relationship between capital value and income is not exact. However they contend that by and large those in higher value properties are on higher incomes and can afford to pay more but where there is significant disparity between capital value of a property

[3] Personal Communication, Rating Policy Division, October 2006

and ratepayers income, this will be taken account of their the new rate relief scheme.

9.1. TRANSITIONAL RELIEF

33 Transitional relief will be awarded to those most adversely affected by the move to a new capital system. In the first year, rate bill increases will be capped at 33% over and above what bill would otherwise have been. Full rates will become payable from April 2010. The cost of transitional relief is almost £18m in the first year. In year two it will cost £12m and £6m in 2009/2010. The Government has given a commitment to meet the cost of the relief in the first year so as to keep the regional rate at the promised 6%. This will therefore represent a loss of revenue of £18m. The cost in subsequent years 'is likely' to spread amongst all domestic ratepayers(figures on the cost to each ratepayer are not available for this paper). However it is believed to be on average £30-£40 per year. If the relief were to be continued to be funded from the Departmental Expenditure Limit (DEL), this would impact on other public services.

9.2. RELIEF FOR LOW INCOME GROUPS

34 The Government proposed in the 2004 policy paper that the new rate relief scheme (RRS) should be introduced that would sit above the current Housing Benefit system, and provide assistance on the basis of need to those on low incomes. The advantages of using the Housing Benefit System is outlined in the Briefing paper provided to the Sub-Group from DFP. It also provides examples of scenarios, where householders would be eligible for assistance under the rate relief scheme. Lacking from the paper is an explanation as to how the calculations are made and therefore it is difficult to assess the adequacy of the new rate relief system without further information on the methodology employed.

35 A key concern expressed during the consultation on the Third Order was the difficulties facing the asset rich income poor householders such as pensioners who will struggle to pay their rate bills. However help might still be available to those on fixed incomes living in high value houses. For example, a householder living in a £500,000 house, would have to have an income of over £35,000 and savings of more than £16,000 before they would no longer be entitled to help[4]. However what this example does not take account of is that savings of more than £16,000 may well have been put by for nursing costs or other caring costs which will now have to be used to meet a substantially increased rates bill.

36 Despite a relatively comprehensive rate relief system, concerns have been raised that the new system, combined with water charges, will push more households into the poverty trap. The recent Monitoring Poverty and Social Exclusion in Northern Ireland 2006 report from the Joseph Rowntree Foundation indicated that levels of income poverty here are likely to soar with the introduction water charges and increases in household rates. This is because housing costs in Northern Ireland have traditionally been lower than in Britain. Housing costs are deemed to include not only the cost of rent or mortgage but also rates/council tax and water charges. However, with the rapid increase in the cost of buying a house and the imposition of much higher rates, it is claimed that the evidence points to higher level of poverty[5].

37 Given these concerns it is worth noting that, there are no plans to introduce a hardship scheme. This is on the basis that the rate relief scheme is sufficiently comprehensive. In the absence of one, it may be of interest to investigate if the Department is prepared to enter into extended repayment plans, for those ratepayers in financial difficulty, to ensure that no ratepayer is faced with undue hardship.

[4] Ibid

9.3. STUDENT RELIEF

The Departmental Brief outlines the Government's policy on student relief. The Sub Group may wish to note that this is a blanket relief and as such is not based on ability to pay. This would appear to contradict the Governments claim that the relief system is based on ability to pay. Furthermore, although the costs may not be substantial, the Sub Group may wish to inquire from the Department what the cost implications are associated with this relief. Finally, the Department's briefing made no mention of consultation on this issue and the Sub Group may wish to follow this up with officials during the evidence session.

10. OPTIONS FOR FURTHER RELIEF

38 The Government has made provision in the primary legislation to enable the rate relief scheme to be changed and this can be done by legislation.

10.1. ENHANCED RELIEF FOR PENSIONERS

39 As part of the St Andrews agreement, the Government undertook to examine the possibility of further relief for pensioners on lower incomes. The Finance Minister, David Hanson, subsequently announced that the Government was prepared to increase by 50% the help to be provided to pensioners within the rate relief scheme. Clarification is needed, from the Department, as to what is meant by an additional 50%. Furthermore the Department has indicated that a short paper outlining a number of options for the application of the additional money is prepared for consideration by the local parties, incorporating the revenue consequences of the options. The paper has been prepared in cooperation with the working group tasked with looking at this issue and includes representatives from Help the Aged and Age Concern. However without sight of the draft paper, it is not possible to comment further on this issue. For example it is not known

[5] Submission on Water Charges from Northern Ireland Anti Poverty Network to the Transitional Assembly Sub-Group on CSR and Programme for Government, Rate Charges and Water Reform, December 2006

if the working group is considering the issue of a single person discount for pensioners or a deferent. However to aid the Sub-Groups considerations, the Government's position on these issues is briefly summarised below.

Single person discount for pensioners

40 The Government has no plans to introduce a blanket single person discount relief in Northern Ireland. As ability to pay rather than status was the key premise for reliefs, it believed that this could be best achieved through a targeted rate relief scheme rather than blanket reliefs.

41 It should be noted that contrary to belief, there is no yearly discount for senior citizens in other parts of the UK, in relation to council tax. There was a £200 payment made to pensioners in GB in 2005/06 to assist them with their council tax bills and the payment was extended to Northern Ireland ratepayers. However, this was a one-off payment and was not repeated in 2006/07.

Deferment Scheme for Pensioners

42 The Government decided not to introduce a deferent scheme for pensioners at this point in time. However there is provision in the Order for a future Executive to introduce one, should they so wish. There are no details on how such a scheme would operate. However the Department has indicated that were it to be introduced, it is likely to be available to all pensioner owner-occupiers, and is most likely to be of interest to those pensioners on higher incomes that are ineligible for either housing benefit or the new low income rate relief scheme. It is not envisaged that it would be subject to a ratepayer having to be on a low income or in a property of a certain capital value. However, there could be conditions attached relating to the level of equity on the property. It is possible that a deferment agreement could be entered for such period of time as the pensioner may determine or until the sale of the property. In entering into this arrangement consideration would have to be given as to how the deferred sum would be paid at the end of the deferment period, where the

property was not to be sold or the persons left living in the house were not a spouse or civil partner.

10.2. DISABLED PERSONS ALLOWANCE

43 At present the level of assistance provided through DPA is determined by the level of adaptations made to the property. From April 2007 a standard 25% allowance will be introduced. The Department claims that around 75% of current recipients will be better off than at present. Where they currently have a higher percentage allowance they will retain this under the new system, for such period as their circumstances remain the same. The rationale for the relief is to ensure that people who have had to improve their home because of their disability should not be penalised in any way should the adaptations add value to the house. Some respondents to the consultation to the Third Order, expressed the view that all people with disabilities should be included in a discount scheme, or are in receipt of Disability Living Allowance (DLA).

44 The Government argues that to provide a blanket relief to all persons with a disability would fail to take account of ability to pay, which is central to the reforms. In addition, providing such a relief to all those in receipt of DLA, would result in an additional cost of between £15m to £25m (see DFP briefing paper). This would equate to an additional £40 extra per household per year. Alternatively, if not borne by the ratepayer, it would have to be treated as revenue foregone, which could result in a significant decrease in public service provision.

10.3. SINGLE PERSON DISCOUNT

45 The Government has no plans to introduce a single person discount despite criticisms that Northern Ireland is being unfairly treated compared to ratepayers in other parts of the UK, where such a discount operates. However, the council tax system differs from the system of domestic rates

in Northern Ireland, in that it consists of a personal element and a property element. The personal element assumes that there are two adult residents in the property. Where only one adult is resident, a single occupancy discount of 25% normally applies. The discount is targeted at a particular group of taxpayers and does not discriminate between those who are in need of support and those who are not. The rating system in Northern Ireland is based solely on the value of the property, without any personal element. Consequently, there is no single person discount available to ratepayers in Northern Ireland under the current system and none is planned to be introduced in the context of the new capital value system. The rationale for this decision in outlined as follows.

46 Executive's consultation paper of 2002 stated:

"*In GB The Council Tax system includes a single adult discount of 25% and this has proved to be a broadly acceptable measure in the context of moving from a charge on individuals (the Community Charge/Poll Tax) to a hybrid property tax such as the Council Tax. There are serious doubts, however, that such a blanket allowance would effectively target those in most need or be sufficient to fulfil equality obligations.*

"With an increasing trend towards single person households, there is no uniform relationship between those circumstances and ability to pay. It is questionable whether it would be fair to distribute the local taxation burden by favouring all single households in this way particularly given the support afforded by the benefit system for those in need. New TSN impact will need to be considered in detail but it seems unlikely that a single person discount would be a sufficiently discriminating measure to be effective. A broadly applied single person discount inevitably has to be paid for by those who do not qualify for the discount (it could be argued that low income families could end up paying for wealthy individuals)."

11. THE INTRODUCTION OF A MAXIMUM CAP

47 The issue of a maximum or minimum cap was explored in the 2004 consultation exercise (see Annex 1 for summary of responses)[6]. The majority of respondents were opposed to the introduction of a maximum payment. The main concern was that "it would primarily benefit the better off in the highest value properties and redistribute the rate burden onto other ratepayers.[7]"

48 In response to the concern about a maximum cap on other ratepayers, the Government decided not to introduce a maximum or minimum cap. Rather the Order has an enabling power that would allow its introduction at a later date by a future Executive.

49 However the consultation on the draft Order highlighted concerns raised by some of the political parties and the public who supported the introduction of a maximum cap. There was a particular strong lobby from the Fair Rate Campaign on this issue[8].

50 In response to concerns expressed by the political parties regarding a cap, the Government recently announced that, in the context of the St Andrews agreement, it would work closely with the political parties in Northern Ireland towards introducing a capital value system that incorporates a cap and additional help for pensioners. Following an amendment proposed by Lord Glentoran, the Government's agreed to set a cap at £500,000[9]. This would most closely align with the upper threshold in England and would help in the region of 2,700 households.

[6] Reform of the Domestic Rating System in Northern Ireland, A Consultation Report, 2005
[7] Ibid
[8] Analysis from consultation responses to the draft Third Order at www.ratingreviewni.gov.uk

[9] DFP Press Release, 8 November 2006

11.1. ISSUES FOR CONSIDERATION REGARDING THE INTRODUCTION OF A CAP

51 The introduction of a cap will undoubtedly have cost implications for other ratepayers. If a cap is introduced this will increase gross income as a % of the rates liability at the lower end of the system by more and reduce it at the top end of the system.

52 The intention of a discrete capital value system treats taxpayers with properties of the same discrete capital value in the same manner (horizontal equity). A maximum cap will have the effect of introducing a regressive element into the rates systems as evident in the Council Tax system.[10]

53 The Government has indicated its intention to introduce a cap at a capital value of £500,000 subject to restoration of devolution. A future Executive may wish to consider the cost implications including the loss of revenue, the cost to other ratepayers and the number of properties that would benefit from a cap at this level (the Departmental Brief provides a table on the revenue costs of providing the cap at different levels).

54 The cap cost will have to be met within a 6% Regional Rate increase next year, so cost would be a revenue loss of about £1-2m.[11] In subsequent years it will mean that a capital value above £500k will be disregarded. Therefore in effect, other ratepayers will fund it.

55 A returning Executive may also wish to explore the cost implications of setting a cap at other levels, for example, £300,000 as advocated by the Fair Rates Campaign. A cap at this level relates to the capital value threshold of band H in England which is £324 000. However, it should be

[10] Struggling to pay council tax: A new perspective on the debate about local taxation, Michael Orton, Joseph Rowntree Foundation,York Publishing Services Ltd, September 2006

[11] Personal Communication Rating Policy Division November 2006

noted that this threshold is based on a 1991 value. According to the Department[12], the equivalent at the Northern Ireland base year of 2005 would be in the region of £500,000. In England a cap at this level covers approximately ½% households, similar to the number that would be subject to a £500 000 cap in Northern Ireland. More generally, to set a cap at £300 000 in Northern Ireland would benefit just over 2% (15, 400) of all ratepayers and cost in the region of £6m a year. This would have to be funded by other ratepayers having to pay more, on average £8.80 per year per household. Alternatively it would result in a reduction in the level of public service provision to the extent of the revenue foregone.[13]

56 While it is intended that a cap would be funded by other ratepayers, a future Executive may wish to explore the possibility of funding the cap through DEL (Departmental Expenditure Limits). However given the existing pressures on DEL and an upward trend of regional rate increases, this seems unlikely.

57 Any re-examination of the cap issue may need also to be considered carefully within the context of the reviews of Council Tax in GB. The options of extending the Council Tax bands at the upper end or even moving to an individual assessment system have been looked at by both reviews.

12. OTHER OPTIONS

12.1. A BANDED SYSTEM

58 There is a limit to the amount that can be paid in terms of council tax, through the banding system. A banded approach was considered among

[12] Personal communication, DFP, November 2006
[13] DFP Briefing Paper and Personal Communication with Rating Policy Division November 2006

the options for the future of the domestic rating system as part of the review process. This option was not favoured for Northern Ireland, given that it did not receive popular support from the public consultation exercises, nor did a banding system perform well in terms of the New Targeting Social Need analysis that was undertaken to assess the impact on disadvantaged areas. However as outlined above consideration is now being given to the introduction of a maximum cap in response to concerns about the about that householders will have to pay under a individual capital value system.

59 Under banding those in the lowest value properties in Northern Ireland, who are often on the lowest incomes, would pay almost twice what they would otherwise pay under an individual capital value system. Official figures estimate that 65% of householders would pay more compared to an individual capital system.[14]

12.2. "STRUGGLING TO PAY COUNCIL TAX"

60 A study by Michael Orton presents a new perspective on the debate about local taxation.[15] The research and policy context of the research was that firstly Council tax was regressive, meaning that it accounts for a larger proportion of household income for those on low and middle incomes than for those on high incomes and secondly there had been no attempt to identify how many, and which, households were struggling to pay council tax.

61 The four major policy implications, which arose from the report were as follows:

- Within the current debate about local taxation consideration needs to be given to the position of the estimated more than two million households who struggle to pay council tax each year in England;

[14] Personal Communication with Rating Policy Division 2006
[15] Struggling to pay council tax: A new perspective on the debate about local taxation, by Michael Orton, Joseph Rowntree Foundation,York Publishing Services Ltd, September 2006

these households predominantly have low incomes and are in low value properties, not high value properties.

- Consideration should be given to making council tax fairer by revising the ratio between valuation bands: fears that making council tax more progressive would have a negative impact on large numbers of low income households in high value properties are misplaced, because there are few such households. In Britain, there are an estimated 181,000 low income households in bands F–H, but 5.7 million low income households in bands A–C.
- Concern with low income households in high value properties should not lead to a failure to address the position of the far greater numbers of low income households in low value properties who, because of the regressive nature of council tax, currently 'lose' in relative terms.

- The report suggests that a different approach would be to ask how can the current regressive system be justified? And why should council tax not be reformed so as to be fairer for the millions of low income households in low value properties?

62 The report recommends that any discussion of council tax benefit needs to move beyond take-up: greater consideration should be given to the negative impact of council tax on making work pay for people of working age on low incomes.

12.3. A LOCAL INCOME TAX

63 Views were canvassed on alternatives to a property tax such as a local income tax. Some of the political parties indicated a preference to a local income tax base during the most recent consultation on the Third Order. However as outlined in the briefing paper issued by DFP, there are a number of reasons why this approach has not been taken. They can be summarised as follows:

- the Northern Ireland Act 1998 prevents a local income tax, and some other taxation matters, being introduced;

- generally there was little support for such a measure during the consultation exercise;
- it is potentially more evasive, compared to a property tax and costly to administrate;
- evasion might result in a disproportionate impact on those in employment; and
- a property tax ensures that all contribute towards the provision of local and regional services.

13. THE FUTURE OF COUNCIL TAX IN SCOTLAND, ENGLAND AND WALES

64 The Lyons Inquiry in England and Wales and the Burt Review in Scotland both address the question of local government finance. This section provides a brief overview of recent developments in this respect in Scotland, England and Wales.

13.1. THE LYONS INQUIRY

65 The Lyons Inquiry, led by Sir Michael Lyons, was announced in July 2004, with a remit to

- consider, in the light of the report by the Balance of Funding review[16], the detailed case for changes to the present system of local government funding;
- make recommendations on any changes that are necessary and how to implement them; and
- take evidence from stakeholders.
- In particular, the Inquiry was to:
- make recommendations on how best to reform council tax, taking into account the then forthcoming revaluation of domestic property;

[16] See Annex 2 for more information on the Balance of Funding Review.

- assess the case both for providing local authorities with increased flexibility to raise additional revenue and for making a significant shift in the current balance of funding;
- conduct thorough analysis of options other than council tax for local authorities to raise supplementary revenue, including local income tax, reform of non-domestic rates and other possible local taxes and charges, as well as the possible combination of such options; and
- consider the implications for the financing of possible elected regional assemblies.

66 The Inquiry was also to consider, as appropriate, any implications that its recommendations have for other parts of the United Kingdom. It was to report to the Deputy Prime Minister and the Chancellor of the Exchequer by the end of 2005.

67 In September 2005, the government extended the both the reporting timeframe and the remit of the Inquiry to facilitate developments in the role of local government. In addition, the government decided to postpone the council tax revaluation exercise in England, and that decisions about the timing of the revaluation would be taken after the CSR 2007. However, although Sir Michael Lyons has indicated his preference is for a postponement of revaluation for 12 months only,[17] government has indicated that it does not believe that revaluation will occur within the life of this Parliament. Although the revaluation in England was postponed, Welsh revaluation went ahead, and came into effect in April 2005. The result of the Welsh revaluation was that a third moved up one band and 8% moved down.[18]

68 Discussing some of the issues in the Interim report, Sir Michael Lyons said that the Inquiry will explore adding more bands to the existing banding system, and the possibility of charging for "non-core" services. The interim report also stated that, if the existing eight band system was used,

[17] BBC website news article 15/12/2005, Revaluation 'would hit millions'

revaluation would result in four million homes moving into a higher band, with some 3.6 million homes moving down one or more bands and paying less.[19]

69 Concern has been expressed by those in local government that the issues raised in the Lyons Inquiry report will be difficult for government to address.

"The biggest concern we all have is that No 10 or 11 turn round once Lyon's report is finished, flinch at what they see, and then put it under the carpet link so many other reports." Dennis Reed, chief executive of the Local Government Information Unit[20]

70 Sir Jeremy Beecham, Labour vice chair of the Local Government Association stated he could see the sense in delaying the revaluation until the Lyons Inquiry reports, saying:

"Then you have one set of changes instead of two. What I would not be happy with is if the whole issue had been kicked into the long grass."[21]

13.2. THE INDEPENDENT LOCAL GOVERNMENT FINANCE REVIEW COMMITTEE (THE BURT REVIEW)

71 The Partnership Agreement between the Scottish Labour party and the Scottish Liberal Democrats for the current Parliamentary session (2003-07) contained the following commitment:

"following consultation with COSLA, we will establish an independent review into local government finance" (p.48)[22]

[18] BBC website news article 17/09/2005, Council Tax 'climbdown' attacked
[19] BBC website news article 15/12/2005, Revaluation 'would hit millions'
[20] BBC website news article 15/12/2005, Revaluation 'would hit millions'
[21] BBC website news article 17/09/2005, Council Tax 'climbdown' attacked
[22] Source: http://www.scotland.gov.uk/Publications/2003/05/17150/21952

72 The Independent Local Government Finance Review Committee (The Burt Review), chaired by Sir Peter Burt was established in June 2004. The remit of the Review was:

- To review the different forms of local taxation, including reform of the Council Tax, against criteria set by the Scottish Executive;
- To identify the pros and cons of implementing any changes to the local taxation system in Scotland, including the practicalities and the implications for the rest of the local government finance system and any wider economic impact; and
- To make recommendations.

73 At the time of announcement, the Scottish Executive identified the following systems for inclusion in the Review:

- Council Tax (current and reformed)
- Local Income Tax (locally and nationally set)
- Land Value Tax
- Options for local business taxation
- Any other appropriate models

74 Each of these systems was to be examined in light of:

- Effect on the economy /economic growth
- Ability to pay / fairness
- Ease of avoidance / collectability
- Stability / predictability
- The relationship to the Benefits system
- Balance of Funding
- Buoyancy
- Accountability
- The cost of collection
- Who collects the tax
- Shift to a new system: timing and transitional arrangements

75 In addition, consideration was to be given to the following associated issues

- Business rates
- The impact on the current GAE/RSG system
- The mechanism for distributing grant between authorities.
- The relationship to domestic Water and Sewerage charges
- Reserved issues

76 The Review would also look at the impact of any changes, including the implications for the rest of the local government finance system and any wider economic consequences.

77 The LGFRC published their final report in November 2006. Details of the work of the LGFRC and the report can be accessed at: http://www.localgovernmentfinancereview.org/default.aspx

78 The key recommendations made by the LGFRC were as follows:

- That a new form of local taxation be established in Scotland, to replace the council tax, which would be termed a 'Local Property Tax' (LPT). LPT would be charged on properties as a percentage of the capital value of the property concerned. The tax would be payable by households occupying properties (whether as owner occupiers or as tenants) and by the owners of second homes and unoccupied properties. No discount would be available for single occupant households or on second homes.

79 Modelling conducted by the LGFRC suggested that the LPT rate would require to be set at an average of around 1% of current market values in order to produce a yield which would be roughly equivalent to that currently raised by the council tax in Scotland. In other words, a property valued at £100,000 would pay £1,000 in LPT. Regular revaluations of domestic properties would be required to ensure that the LPT remained linked to property values.

- That assistance be considered for households which are 'asset rich, income poor' primarily in order to address the issue of pensioners having difficulty to pay local taxes which are based on property values. The LGFRC set out a deferment scheme that would seek to provide assistance to households in this position.

- That no change be made to the current system of non domestic rates.

- The removal of the statutory requirement placed upon Scottish local authorities that they collect water and sewerage charges as well as council tax. In effect local authorities would only collect LPT or council tax.

80 The Scottish Executive position is that they are currently considering their position on the report[23] and no timescale has been given as to when the view of the Executive will be made public. However the First Minster has stated that he is not minded to support the establishment of a Local Property Tax[24].

14. NON DOMESTIC RATING REFORMS

14.1. INDUSTRIAL DERATING

81 Industrial derating was introduced in the UK as a whole in 1929 mainly as a response to growing competition in markets for manufactured goods from foreign companies. It was abolished in England and Wales in 1963 and phase out in Scotland by 1995.

[23] http://www.scotland.gov.uk/News/Releases/2006/11/09085408
[24] <http://www.scottish.parliament.uk/business/officialReports/meetingsParliament/or-06/sor1214-02.htm#Col30434>

82 In April 2003 the Government announced its decision to remove industrial derating and the legislation to do so was contained in the Rates (Amendment) (Northern Ireland) Order 2004. It is contained in paragraph 4 of Schedule 7 to the Order and sub-paragraph 4(5) allows for changes to be made to the percentage level to be applied each year.

83 It provided for the phasing out of industrial derating from 1st April 2005 and manufacturers would begin to pay rates at the following percentages of full rate liability:

YEAR	% OF FULL RATE LIABILITY	Expected Regional (£m)	Expected Total (£m)
2005/2006	15	6.4	10.7
2006/2007	25	10.8	18.2
2007/2008	35	15.2	26.1
2008/2009	50	22	38.2
2009/2010	75	33.5	58.7
2010/2011	75	33.9	60.1
2011 onwards	100	45.7	82.1

Source: Rating Policy Division, Department of Finance and Personnel

84 In the first year (2005/06), when the percentage liability was 15%, some £10.9m was collected from 4300 businesses. From 1 April 2006 businesses were asked to pay 25% of full liability and were billed for some £20m.

85 This money is additional to the Barnett settlement and it will be reinvested in local public services and infrastructure. All the extra revenue generated from the gradual removal of derating will be available for investment in public services and infrastructure in Northern Ireland.

86 The average rate bill for properties entitled to industrial derating in 2006/2007 is estimated at £3,990. Over the period of phasing out it is

projected to be £5,840 in 2007/2008, £8,710 in 2008/2009, £13,660 in 2009/2010, £14,270 in 2010/2011 and £19, 890 in 2011/2012.

87 However, averages can be misleading and, of the 4,352 businesses that benefit from industrial derating, the top 1,000 businesses account for 80% of the revenue foregone.

88 The decision to remove industrial derating was made for several reasons. It is unlikely that, although accepted in the past, derating would be allowed to continue under EU State Aid regulations. . As a blanket subsidy, the policy is regarded by the Government has having a lot of deadwood, and does not focus aid where it is needed most, making it an effective tool of economic development. It also places a greater burden on other ratepayers, who would be paying for the scheme.

89 Prior to and since the phasing out of industrial derating began in April 2005 there have been widespread allegations that this would lead to some 30,000 job losses with many businesses closing or relocating.

90 Since the re-introduction of rates to the manufacturing sector from 1st April 2005, serious concern has been expressed that the measure is having a detrimental effect on business. In particular, the Northern Manufacturing Focus Group (NIMFG), which represent 300 manufacturing companies in Northern Ireland, has been campaigning against the removal of industrial derating. The group claims that thousands of jobs will be lost and industrial derating will drive the 'biggest and best companies abroad.' They also contend that Northern Ireland companies pay the highest energy charges and the most expensive insurance costs. They fear the removal of industrial derating will make Northern Ireland too expensive a place to do business in and less competitive as a result.

14.2. CAMPAIGN TO CAP INDUSTRIAL DERATING AT 25%

91 NIMFG have campaigned that Government should 'cap' industrial derating at 25%, the percentage level applicable in 2006/2007. The campaign culminated in an Assembly debate on 6th June 2006 to consider the motion:

> *"That this Assembly, pending the restoration of a fully devolved Assembly and power-sharing Executive:*
> *(a) calls on the Secretary of State to freeze the Industrial Rate at 25%;*
> *(b) agrees with the Northern Ireland Manufacturing Focus Group that the introduction of full Industrial Rates as currently planned by the Government will lead to devastation in the manufacturing sector and the loss of thousands of jobs; and*
> *(c) therefore calls on the Secretary of State to deliver on his undertaking to act upon the agreed position of all the political parties, and cap the Industrial Rate at 25% ".*

92 The motion was carried. In addition the matter was considered by the Assembly's Programme for Government Committee and its subgroup on Economic Challenges facing Northern Ireland.

93 It is important to note that there is no statutory provision in the current legislation to allow rate liability for industrial derating to be capped or frozen indefinitely. It is possible under the current legislation to vary the annual incremental percentage increases. However this does not apply to the final year, i.e. 1 April 2011, which is fixed in the Order. Any reduction in percentages would therefore only mean additional increases at a later stage in order to implement full liability in 2011.

94 In terms of revenue implications, if industrial derating was to be frozen at 25% from 2007/08 to the final year, i.e. 2011/12, the total loss of revenue would be £167m. Further

95 Again, if a decision was made to change the legislation to 'cap' or 'freeze' the percentage level of payment, this is likely to be 'notifiable' to the EU under State Aid rules, and anything other than a temporary halt is likely to run into compliance issues, particularly for larger businesses.

14.3. THE WORKING GROUP

96 In September 2006, following approaches from NIMFG and Amicus, the Trade Union, the Secretary of State, agreed to set up a working group to hear their concerns and consider evidence in advance of a formal policy review scheduled for April 2007.

97 A report on the findings of the Industrial Derating Working Group was presented to the Minister on 23rd November 2006. The Government considered the evidence presented by NIMFG and concluded the case to be unproven but agreed that there was a need for further work on the issue. The Government decided to peg the phased increase at 30% in the next financial year, instead of the planned 35%. This equates to £3.7 in lost revenue for 2007-08.

98 While the DFP has stated that they consider the case to be unproven, they have not provided details on the basis of their findings. For example has any assessment being undertaken of the case studies provided by NIMFG on the impact of rating on the companies in question? It would useful to also know if consideration was given to alternatives to the current system of rating manufacturing, and if so on what grounds they were ruled out.

99 The 'Cost of Doing Business[25]' report is quoted frequently by DFP to support their decision on industrial derating. Among the report's conclusions is that Northern Ireland is not at a cost disadvantage when compared to Great Britain and the RoI. The report indicates that although Northern Ireland businesses face future cost increases in a number of areas, (electricity, gas, environmental, transport and compliance costs) these increases are expected to impact on all regions and will not alter

[25] ERINI (2005) Measurement and Benchmarking of Competitiveness - The Cost of Doing Business in Northern Ireland, Belfast: ERINI, December 2005

Northern Ireland's relative cost competitiveness within the United Kingdom. In view of the importance of this report, it would be useful to know if the Working Group considered the report and if so what conclusion they came to.

Annex 1: Reform of the Domestic Rating System in Northern Ireland, A Consultation Report, 2005

Summary of Findings: Minimum / Maximum

The Government acknowledged in the 2004 policy paper that a strictly proportional capital value system might not fully reflect the pattern of use of local and regional services and the benefit derived from them. To address this, the Government proposed that provision should be made for an enabling power that would allow a future Executive to introduce a minimum and/or maximum payment.

A minimum payment would ensure that those in lower value properties, who can afford to pay, make an appropriate contribution towards the cost of providing local and regional services. It would result in those below the threshold experiencing a slight increase in their rate liability while those above the threshold would experience a slight reduction. Those on low incomes would be supported through the housing benefit system and the proposed new rate relief scheme.

The introduction of a maximum payment would recognise that there are limitations to the benefits that can be received by an individual household from the provision of local and regional services. It would result in those above the threshold experiencing a slight decrease in their rate liability and those below the threshold experiencing a slight increase in their rate bill.

The views expressed during the consultation exercise on this proposal are summarised below.

NISRA survey

In relation to the maximum payment, only 26% were in favour of it while 67% were against it. There was very little variation within these results in terms of specific variables such as marital status, gender or area, with any variation generally less than 5%.

In relation to the minimum payment, support was much stronger with 63% of respondents agreeing with this proposal. 29% were against the introduction of such a measure. Within this, support was lowest amongst the 16 - 24 year old age group and the partly skilled with 52% and 54% respectively supporting the proposal.

When asked to rank in order of importance the key issues relating to the reform proposals, only 24% indicated that rate bills should be subject to a minimum or maximum threshold. Interestingly, support for this proposal was highest amongst those in the managerial and skilled socio-economic groups and lowest amongst the unskilled, with only 15% of unskilled manual workers indicating that the introduction of a maximum or minimum payment was important. In terms of first preferences only, 6% of respondents stated that a maximum or a minimum payment was important to them, although at this level there was less variation amongst the socio-economic groupings. There was slightly higher support for the proposal in terms of second and third preferences, being ranked by 9% and 10% of respondents respectively. More generally, there was very little variation within the responses when considered in terms of specific variables such as marital status, gender, area, etc.

Organisational Responses

The views expressed by the organisations that commented on this proposal in their response were fairly mixed, although support for the introduction of the minimum payment was slightly stronger than that for the maximum payment. The majority of the respondents, including NICVA, NILGA, NIPSA and a number of the District Councils, were opposed to the introduction of a maximum payment. The main concern was that it would primarily benefit the

better off living in the highest value properties and redistribute the rate burden onto other ratepayers, in particular the less well off. Fermanagh District Council and NILGA indicated that were a maximum payment to be introduced further research would be needed, with the latter stating that an equality impact assessment should also be undertaken.

There was slightly stronger support for a minimum payment. NICVA, NILGA, Craigavon and Antrim Borough Councils and Cookstown District Council were among those that indicated that all households should contribute towards the provision of local and regional services. NILGA was also of the opinion that before such a measure would be introduced further research should be undertaken on its implications.

A few Councils (Coleraine Borough Council and Moyle District Council) were in favour of both a minimum and a maximum payment, with the latter stating that both measures should be introduced from April 2007 rather than left to a future Executive to decide upon.

NIPSA disagreed with the introduction of both the maximum and minimum payment on the basis that they would increase the tax burden on other ratepayers. Furthermore, it was felt that they were contrary to the aim of introducing a fairer system.

Finally, the ERI anticipated that, given the likely disparity between rate bills at the top and bottom of the property market, there was likely to be considerable pressure for a maximum payment to be introduced.

Political Parties

Few of the political parties expressed views on the possible introduction of a maximum or minimum payment. Sinn Fein did however state that the capping of rate bills was regressive, and if it were introduced those living in expensive

properties would pay less than their fair share toward the provision of local and regional services.

Written Responses from Ratepayers

Only 6 responses from ratepayers commented on the introduction of a maximum or minimum payment, the majority of which were not in favour of either measure. Similar concerns to those expressed by political parties and organisations were raised.

Regional and Themed Seminars

The views expressed at the regional and themed seminars also tended to reflect those expressed in the written responses from organisations, ratepayers and political parties, with the majority against the introduction of a maximum payment. Concern was expressed that other ratepayers would have to pay a little more in order to provide for the reductions given to those at the higher end of the property market. Relatively few views were expressed on the minimum payment. Those at the NICVA and Craigavon seminars stated that were a minimum payment to be introduced it should either be means tested or only apply where the person was able to contribute towards the provision of local and regional services.

Overall summary

The views expressed through the seminars and written consultation responses tended to be more supportive of the introduction of a minimum payment than the maximum payment. Generally there was less support for the introduction of the maximum payment on the basis that it would not take account of ability to pay and would also increase the burden on other ratepayers. While there was significant support for a minimum payment, concerns were also expressed by some that it would increase the tax burden on some ratepayers. The results of the NISRA survey were clearer, with roughly two thirds of respondents in favour of the minimum payment but against the maximum payment.

Annex 2: The Balance of Funding Review

Local authorities fund expenditure on services through a combination of council tax receipts and government grants (including redistributed business rates). The relative amount received from these two sources is known as the balance of funding.

The balance of funding varies hugely between local authorities. Some councils in England and Wales raise about half their revenue through the council tax. At the other end of the spectrum the figure is below 15%. On average the figure for England and Wales is around 25%. This means that 75% comes from central government grant, a major increase from a low point of 41% in 1989/90, prior to the nationalisation of the business rate.

There are concerns in some quarters that the current balance of funding reduces local autonomy and accountability and hence contributes to voter apathy. The review of the Balance of Funding was announced on 20 January 2003, with work to begin in April 2003.

The overall aim was to review all aspects of the balance of funding, review the evidence and look at reform options. This was broken down into two objectives:

(1) Establishing the nature and priority of the issue

The review was to explore and test the range of criticisms that have been levelled at the present balance of funding, in order to establish clearly the key issues and as far as possible to clarify causalities. It also examined the extent of impact on different authorities. A better understanding of the inter-related issues should shed light on the case for change, and influence how potential options for change are appraised.

(2) Identifying and analysing options for change

The review considered a range of short and long term options for changing the current balance of funding. Through a wide-ranging and objective analysis it was to establish the 'pros and cons' of each option. The review was tasked to take a broad look at the full impact of each option so that all the implications might be established.

The Balance of Funding Review was published in July 2004, and is available at http://www.local.odpm.gov.uk/finance/Balance.htm

Letter Dated 18 December 2006 from the Rural Deveiopment Council

Re: RDC response on Rates Charges

Your letter of 7 December 2006 refers.

Firstly thank you for the opportunity to respond, via the sub-group, to the Committee on the Programme for Government with particular emphasis on Rates Charges.

We enclose our most recent response to **The Rates (Amendment) (Northern Ireland) Order 2006**. This is the third in a series of submissions made by the Northern Ireland Rural Development Council relating to the reform of the rating system in Northern Ireland. The views expressed here seek to reiterate and reinforce those previously presented and focus on those Articles of the order that are specifically targeted at rural areas and/or those that are likely to have a significant impact in the rural context.

The RDC in its 'Picture of Rural Change' reports in 2002 and 2003 highlighted that the circumstances and challenges facing those living in Northern Ireland's rural areas differ from one area to another. 'Rural' is not homogenous and we therefore believe that a move to a Discrete Capital Value System could have a serious negative impact in areas where residential property values are very high, e.g. in areas of high scenic value where demand for second homes is driving prices beyond reach. This will have consequences for those who are long time residents of such areas and do not have high income levels. We believe that in such 'lifestyle areas' there may be little correlation between property value and ability to pay. We would advocate, therefore, that close monitoring of the practical implementation of such a system is required.

RDC supports the introduction of the Rate Relief Scheme but again with the proviso that its practical implementation is monitored by DFP and key stakeholders to ensure the relief benefits all those who are in need and only those in need. We believe that relief should be based on individual circumstances and ability to pay. If the system is administered effectively it should reach all of those who are 'asset rich and income poor', ie those who may be living in large houses but on a low income.

We hope you find these comments and attached submissions useful. Should you have any queries please do not hesitate to get in touch.

Martin McDonald

Chief Executive

The Rates (Amendment) (Northern Ireland) Order 2006

A Response from the Northern Ireland Rural Development Council

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The role of the Northern Ireland Rural Development Council (RDC)

The Northern Ireland Rural Development Council (RDC) was established in 1991 under the DARD Rural Development Programme. We summarise our role as being an independent rural organisation, which plays a vital role in influencing rural development policy, developing and delivering practical programmes, sharing information and building effective partnerships.

We believe that rural communities play a vital and significant role in the economic, social and environmental life of the whole region of Northern Ireland and regard them as a valuable regional resource.

We are involved in support (financial and non-financial) to both the rural community not-for-profit sector and to private business through a dedicated Rural Retail Support Programme designed to support the retention and development of retail services in isolated rural communities across Northern Ireland. To date we are working with over 80 rural retailers and by programme closure anticipate working with over 110 sole providers of services including post offices; grocery and general stores; pharmacy; butchers and hardware outlets.

General Comments

1. Reform of the Domestic Sector

- Based on DFP's earlier rural proofing analysis of the Domestic Rating Reform, the RDC welcomes a move to a Discrete Capital Value System if it is to be the most positive in terms of impact of domestic reform on rural areas. This comes with the proviso that its practical implementation must be monitored to ensure that the 'asset rich and cash poor' in rural areas do not become particularly disadvantaged as a result of its implementation. This could have a particularly negative impact in areas where residential property values are very high e.g. in areas of high scenic value where demand for second homes is driving prices beyond reach. This will have consequences for those who are long time residents of such areas and do not have high income levels. We believe that in such 'lifestyle areas' there may be little correlation between property value and ability to pay. The introduction of Draft PPS14 is also likely to have implications in this regard, where restriction on the future supply of housing in rural areas could result in a high inflation in the value of homes in rural areas. We would advocate, therefore, that close monitoring of the practical implementation of such a system is required.
- RDC supports the introduction of the Rate Relief Scheme but again with the proviso that its practical implementation is monitored by DFP and key stakeholders to ensure the relief benefits all those who are in need and only those in need. We believe that relief should be based on individual circumstances and ability to pay. If the system is administered effectively it should reach all of those who are 'asset rich and income

poor', ie those who may be living in large houses but on a low income. (Please cross-reference with notes above relating to the basis of the new system).

- RDC is sympathetic to Government's concern that people should not be deterred from entering or continuing with full-time education, however, we are concerned about the regulations governing full relief from rates for properties solely occupied by those in full-time education and training. It is our view that such a scheme does not relate to real need and has a strong urban bias, favouring those with a portfolio of property investment in such areas.

2. Reform Of The Non-domestic Sector

- RDC welcomes the decision to provide full rate exemption for community halls that are made available for wider community use.
- RDC supports the case for providing relief for small business and welcomes the emphasis on the rural sector as a means to support the rural economy. We remain concerned about the suspension of the implementation of the Rural Rate Relief Scheme and once again call on DFP to re-evaluate the basis upon which this decision was made.
- RDC welcomes the rates relief that will be granted (through subordinate legislation) for quarry operators carrying out environmental improvement works, but with the provisio that such works are monitored to ensure rates relief is channeled into appropriate improvements.
- RDC welcomes the provision of relief for farm diversification businesses and exemptions of rural ATMs from rates liability, however, we have concerns in respect of both. These are set out in detail below.

Farm Diversification

RDC welcomes the introduction of a farm diversification relief scheme and provision within the draft Order in relation to same. We acknowledge that the draft Order gives effect to government's overall intention in this regard, however, we have concerns in relation to the qualifying period stipulated . We believe that this could have an adversely impact and discriminate against many of those who diversified in accordance with earlier government interventions to support agricultural diversification and programmes to foster it. We would suggest that this should be reviewed in consultation with DARD.

ATM Provision

RDC welcomes the introduction of exemption for Automatic Telling Machines (ATM's) that have an individual entry in the valuation list regardless of whether or not a fee is charged for the transaction. However, we are unclear as to whether Article 25 of the draft Order gives full effect to the Government's intention in this regard.

Para 1G defines an automatic telling machine as … 'a machine which provides automatic telling and other services on behalf of a bank or building society'.

As stated in our previous submission to the consultation on Non-Domestic Reforms, it is our understanding that the location of ATM's by major bank/building societies is often based on the level of footfall (customer numbers) and turnover which ultimately means location within larger settlements, villages and towns. In the majority of cases, ATM provision in rural areas is by a third party commercial concern acting on a commission basis on the banks' behalf. We are unclear as to whether they are governed by this exemption and would wish to have the position clarified in this regard to ensure that ALL ATM's in rural areas are granted this exemption.

We trust that you will find these comments useful and should you require clarification on any of the issues raised, please do not hesitate to contact us.

Research and Library Services

Research Briefing **12 December 2006**

WATER REFORM IN NORTHERN IRELAND

Public Finance Research Unit and Legislative Analysis Service

Since its inception, the Reform of the Water Service in Northern Ireland has been a lengthy and, at times, controversial process.

This paper is prepared for the Sub-Group on 1) the Comprehensive Spending Review and Programme for Government; 2) Rates Charges, and 3) Water Reform. It brings together information on the Draft Water and Sewerage Services (NI) Order 2006; the available material on the strategic business plan, governance of the GoCo and the issue of the licence; and the arrangements for the billing and collection of the water charges.

SUMMARY OF KEY POINTS

1 There are strong financial and public service arguments in favour of reforming the Water Service in Northern Ireland. The cost to the Northern Ireland block of retaining Water Service in its current format are high; the environmental and financial costs of failing to meet EU directives on water and waste water quality, and customer payment for water consumption are significant, and the Treasury is taking an interest in Northern Ireland's revenue effort and reform agenda.

2 Broadly speaking, there are four options for consideration in addressing the reform of the Water Service. These are: retaining Water Service as an agency of DRD; whole or part privatisation of Water Service; restructuring Water Service as a GoCo; or restructuring Water Service as a Not-for-Dividend entity. Each has different implications for public expenditures, regulation, business efficiency, and longer-term sustainability on a self-financing footing of a reformed Water Service.

3 The Government's preferred option is for a fully self-financing GoCo, Northern Ireland Water Limited (NIWL), with DRD as the 100% shareholder. Tariffs are set to the average for England & Wales (E&W) for the period until 2009/10, and will be phased on a one-third, two thirds, full charge basis, with support from DRD to Water Service to make-up the phasing revenue shortfall. After the phasing in period, charges will be determined using the Ofwat model, with periodic reviews and annual increases determined using the RPI+K model.

4 The Regulatory Capital Value (RCV) of NIWL is to be written down from circa. £5 billion (the value of Water Service's asset base) to £1 billion. This reduces the return NIWL is required to make, and thus reduces tariffs, but also reduces the potential value that might be realised from any potential future sale of an interest in the GoCo. Adequate RCV is also

required to ensure that the GoCo could remain financially robust in the event of failing to meet planned efficiencies.

5 Average water and sewage bills will vary in line with efficiencies achieved. The *Financial and Strategic Review of Water Service* illustrates that for domestic customers to face tariffs similar to those charged by comparable providers in E&W, NIWL would have to achieve efficiencies in the region of 30% by 2010. Even at 40% efficiencies, the average NIWL domestic customer would face bills higher than the average charge in E&W in 2010.

6 The Economic Research Institute of Northern Ireland express some concerns about the Second Northern Ireland Asset Management Plan (AMP2). The *Financial and Strategic Review of Water Service* makes some adjustments to the figures used in AMP2, and estimate that efficiencies of between 20-40% cumulative are achievable on capital expenditure to 2009/10.

7 It is not possible to make further comment on these issues without sight of the detail contained in the Strategic Business Plan.

8 The role Government as shareholder places particular importance on establishing clarity on governance issues. There is a draft letter of governance, and the departmental briefing discussed this, however it has not been released by the Department.

9 The Water and Sewerage Services (NI) Order extends the powers of the Northern Ireland Energy Regulation (NIAER) to the economic and consumer regulation of the water industry. The key features include new statutory duties and new powers; a new complaints, disputes and appeals team; new relationships with DRD, NIWL, Consumer Council and other regulators and a different Modus Operandi (Ofwat style regulation).

10 Concerns have been raised about the independence of the Regulator as it will not be provided with full authorisation and powers from DRD from

2007. The Consumer Council argue that this will result in the fettering of powers particularly during the critical three year transition period before taking over economic regulation and price control from DRD.

11 In response to concerns that the DRD intended to retain responsibility for the Urban Water Treatment Regulations, DRD has recently agreed in principle with the Economic Regulator that it will be authorised to enforce sewage duties when the GoCo comes into operation.

12 The draft 'Licence' was released for consultation on 4 December. It gives effect to the full range of Government policy through the imposition of conditions on Northern Ireland Water Limited (NIWL) for the delivery of water and sewerage services within the framework set by the draft Water and Sewerage Services (Northern Ireland) Order 2006. The Northern Ireland Authority for Utility Regulation (NIAUR) will regulate the operation of the licence under the Order. The Regulator recently announced that he was content that the gap between policy, as embodied in the draft Order, and the licence had been addressed.

13 Household water and sewerage charges are to be introduced in Northern Ireland with effect from 1 April 2007 on a phased basis. Customers will pay one third of the charge in 2007/08 rising to two thirds in 2008/09 with full charges by 2009/10.

14 The Consumer Council has recommended that the legislation should be amended to ensure that the affordability tariff remain in place as it was in scope, and be underwritten by the Government rather than by consumers post 2010[1].

15 The business sector is facing £40 million in additional costs as a result of water reforms. To address this, business is looking for predictability in

[1] Committee on the Preparation for Government, Third Report on the Economic Challenges Facing Northern Ireland, 15 November 2006

relation to costs and future trends. While accepting that services delivered efficiently need to be paid for, they argue for five year phasing to allow businesses the opportunity to plan for the new charging regime.

16 The Consumer Council are concerned that customer charges will increase significantly beyond 2010 when the Ministerial pledge that domestic charges will be pegged to England and Wales averages will end. They have sought a "Fairness Bond." This is a commitment to peg these charges within a given percentage of English and Welsh average tariff levels.

17 There has been recent controversy in the media over the terms Crystal Alliance propose to use to categorise consumers in Northern Ireland ranging from 'rock bottom' to 'affluent achievers'. It has also been claimed in recent media reports, that Crystal Alliance will pursue low-income households ahead of high-income households and there have been calls for consultation on the draft debt recovery strategy.

18 Public service union NIPSA has advised its members not to pay the new water charges and will be setting up a legal fighting fund to defend non-payers. The We Won't Pay Campaign is also preparing to take on test cases for non-payment of water charges.

CONTENTS

1. INTRODUCTION

1 This paper has been prepared for the Sub-Group on the Comprehensive Spending Review; Rates Charges and Water Reform. Section 1 considers the legislative arrangements for water reform set out in the draft Water and Sewerage Services (Northern Ireland) Act 2006). Section 2 discusses the financial issues and impetus for reform. Section 3 considers the possible options for reform, raising some issues in relation to each. Section 4 considers the Government's preferred option, i.e. a GoCo and Section 5 considers the governance issues in relation to the GoCo. Section 6 explains the role of the Economic Regulator and provides an overview of the recently published draft "Licence" of the Northern Ireland Water Limited. Finally Section 7 provides an overview of the arrangements for the billing and collection of water charges.

2 The paper addresses the sub-group's terms of reference for water reform. However due to the tight time constraints and limited resources, it has not been possible to provide an in depth analysis of the many wide-ranging issues. This would have required more time and the availability of technical expertise. However, the paper provides a basis for discussion and raises some key issues for further consideration.

2. LEGISLATIVE ARRANGEMENTS FOR WATER REFORM

3 This section provides a brief overview of the legislative arrangements for water reform.

2.1. THE SCOPE OF WATER REFORM

4 The proposed reform of the water industry in Northern Ireland will involve the transfer of responsibility for delivery of water and sewerage services from DRD to a government owned company (GoCo) on 01 April 2007. The GoCo will be appointed as (initially the sole) water and sewerage

undertaker for Northern Ireland and will operate on a commercial basis subject to utility regulation. It is intended that water and sewerage services will become 'self-financing'[1]

5 As stated in the explanatory notes to the draft Order, the main elements of the reform package are:

- All households will pay a direct charge for water and sewerage services received, consisting of a standing charge and a variable element based on the discrete capital value of each property; the new household charges will be phased in from April 2007 with one third payable in the first year, two-thirds in the second year and the full amount in 2009-10. There will be special protections for those on low incomes. All new properties and new connections to the water mains will pay a metered charge while pensioner households will be the first group to be offered the choice of a meter;
- 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;
- Northern Ireland's water and sewerage services will be provided by a Government-owned Company (GoCo) which will operate under companies legislation;
- The role of the Northern Ireland Authority for Energy Regulation (NIAER) will be expanded to include the economic and consumer regulation of water and sewerage services; and
- The Consumer Council will become the statutory consumer representative for water and sewerage services in Northern Ireland.

2.2. THE DRAFT WATER AND SEWERAGE SERVICES (NI) ORDER 2006

BACKGROUND TO THE LEGISLATION

6 The draft Water and Sewerage Services (Northern Ireland) Order 2006 (the draft Order) is enacted under the Northern Ireland Act 2000[2] and is subject to affirmative resolution. An explanatory memorandum has been prepared by the DRD. The explanatory memorandum states that the

provisions of the draft Order are compatible with the European Convention on Human Rights.

7 The draft Order was laid on 9 October 2006 and came before the Delegated Legislation Committee of the House of Commons on 28 November 2006 and the House of Lords on 11 December 2006.

8 The draft Order is based on the legislation governing the delivery of water and sewerage services in England and Wales – the Water Industry Act 1991[3]– though it is not identical in all respects. The current Northern Ireland legislation governing water and sewerage services is the Water and Sewerage Services (Northern Ireland) Order 1973 [4] and will be repealed and replaced by the draft Order.

KEY FEATURES OF THE DRAFT ORDER

9 The key features of the draft order are:

- The draft order provides for the appointment of a company to be the water undertaker or the sewerage undertaker (the company will be government owned and known as "Northern Ireland water Limited"). The legislation will provide for the transfer of the rights, properties and liabilities of the Water Service (an agency of the DRD) to the company.

- The duties of the company are outlined in the legislation. The duties will require the company and the regulator to address consumer interests while also extending the role of the General Consumer Council for Northern Ireland to include water and sewerage matters.

- A regulatory regime is provided under which the DRD and the new economic and customer service regulator (the Northern Ireland Authority for Energy Regulation) will act as the principal regulators of undertakers. The Northern Ireland Authority for Energy Regulation will have its role expanded and will become known as the Northern Ireland Authority for Utility Regulation (the Authority).

- The regulatory regime provides regulatory controls relating to; supply obligation; drinking water quality standards; trade effluent and sewage disposal; charges, and; customer levels of service.

- The draft Order provides a framework for making charges but does not provide the nature of the charging regime. A charges scheme will be published separately.

- The draft Order provides a mechanism for dealing with customer complaints.

- Further provisions relate to private water supplies (for which DOE will continue to have regulatory responsibility) and by amendment to the Water (Northern Ireland) Order 1999[5] provision is made to update and expand DOE's functions relating to environmental regulation.

2.3. FRAMEWORK OF THE DRAFT ORDER

10 The draft Order is divided into 12 Parts, containing 309 Articles and 13 Schedules.

11 In summary, Part I is introductory and Parts II and III set out the overall structure of how the water and sewerage services industry is to be governed and establishes the remit of the regulatory bodies.

12 Parts IV to VI set out the duties and functions of the new "undertaker" to deliver water and sewerage services.

13 Part VII deals with charges.

14 Part VIII deals with the undertaker's powers – mainly concerning the carrying out of works.

15 Part IX deals generally with the provision of information and the restrictions on its use.

16 Part X concerns the establishment of the GoCo, which will be appointed as the water and sewerage undertaker.

17 Part XI amends existing environmental legislation governing water to take account of the proposed delivery of water and sewerage services by a company incorporated under Companies Legislation rather than by a Government Agency.[6]

3. FINANCIAL ISSUES AND THE IMPETUS FOR REFORM

18 The proposal to move the Water Service onto a self-financing footing is a central element in the Water Reforms, and there are a number of financial factors driving the reform of the Water Service. These factors include:

COMPLIANCE WITH EU WATER AND WASTE WATER DIRECTIVES

19 There are potential fines associated with failure to met existing EU water and waste water quality directives. In addition, the EU water framework directive makes provision for the use of incentives for efficient consumption of water and consumer contributions to the cost of water and sewerage services. Non compliance or failure to meet the standards and provisions set out in these directives will attract financial penalties for the Member State. HM Treasury guidance[2] indicates that the cost of such fines incurred by Northern Ireland would be offset against the NI block grant.

[2] Consolidated Budgeting Guidance 2006/07 onwards, Statement of Funding Policy for the Devolved Assemblies 2004 (check and insert proper references)

THE CURRENT FUNDING ARRANGEMENTS[3]

20 At present the Water Service is funded through the Northern Ireland block grant. In common with the other devolved administrations of the United Kingdom, the majority of the block grant is determined using a formula based on population based shares of increases in expenditure on comparable services in England (the Barnett Formula). However, as water services in England have been privatised since the 1990s, there are no comparable spending programmes in England on which to generate a consequential for the Northern Ireland block. Therefore, the cost of the Water Service has to be found from the Northern Ireland block grant, where it competes for funding with other spending programmes in areas such as health, education, transport, services to business, and so forth. Funding the Water Service in this manner means that fewer resources are available for services in other areas.

21 Although the devolution settlements in the United Kingdom provide the devolved administrations with spending discretion over the block in devolved matters, the operation of the Barnett Formula and related funding rules, tends to provide an incentive to devolved administrations to mirror the financing arrangements in England as a way of partially managing pressures on their block. Moving the Water Service to a GoCo is one way of doing this, although it is not the only model. This is discussed further below.

THE LEGACY OF UNDER-INVESTMENT

22 There is a legacy of under investment in the water service. Large parts of the watermain network are cast iron, and an estimated 37% of treated water is lost through leaking pipes.[4] The first Asset Management Plan, reflecting the position in April 1992, showed a backlog of water and sewerage investment of £460 million and a need for £3 billion investment

[3] See Appendix A for further information
[4] DSD (2003), The Reform of Water and Sewerage Services in Northern Ireland, A Consultation Document (March 2003: pp2)

over the following 20 years[5]. The estimate of future investment needs remained largely unchanged at the publication of the most recently available document, the Second Asset Management Plan (AMP2). Investment and AMP2 are discussed further below.

THE CURRENT STRUCTURE OF WATER SERVICE

23 As an agency of the Department for Regional Development, the funding of Water Service scores in the capita and resource DEL together with the cost of capital charges, in the DRD departmental DEL. The department identified the public expenditure requirements of Water Service in its current form as in the region of £350 million DEL and £320 million AME for the year 2006-07[6]. Non cash costs are now in AME by arrangement with HM Treasury, but will be moved to DEL if Northern Ireland does not move water service to a self-financing footing.

24 In addition to the accounting issues above, it is understood that continued access to the RRI borrowing facility is also contingent on moving Water Service to a self-financing footing[7].

4. OPTIONS FOR WATER SERVICE REFORM

25 There are a number of broad options for reform of the Water Service.

- Retain the Water Service as an agency of DRD and pursue efficiency savings;
- Privatise the Water Service (wholly or partially);
- Reconstitute Water Service as a GoCo; or
- Reconstitute Water Service as a Not-For-Dividend Entity.

[5] DSD (2003), The Reform of Water and Sewerage Services in Northern Ireland, A Consultation Document (March 2003: pp2-3)
[6] DRD presentation to the Northern Ireland Assembly Economic Sub-Group Meeting 7 December 2006.
[7] ERINI 2005,*The Integrated Impact Assessment (IIA) of the Government's Proposals for the Reform of Water and Sewerage Services in Northern Ireland*, April 2005, Belfast

26 The following paragraphs briefly highlight the financial aspects of these options.

4.1. RETAIN THE WATER SERVICE AS AN AGENCY OF DRD

27 Retaining the Water Service as an agency of DRD would be possible if Northern Ireland chose to accept the financial and other pressures associated with this decision. In addition to the costs to the DEL and AME outlined above (currently in the region of £600m per annum), it has been suggested that continued access to the £200m per annum borrowing under the RRI would be compromised, with the concomitant impact on funding for infrastructure investment in Northern Ireland. Investment in infrastructure is one of the key drivers identified in the Economic Vision, and its impact on productivity and growth in Northern Ireland demonstrated in recently published research.[8]

28 Benchmarking has demonstrated that the Water Service has a unit cost 20% higher than comparable providers in England and Wales (E&W)[9]. It would be possible for the Water Service to seek to drive out inefficiencies thus reducing costs, and the charge on the DEL. However, evidence has demonstrated that the scope for improvements increases with a greater degree of independence from Government, regulatory pressure, and private sector involvement[10]. As an agency of DRD, Water Service exhibits few of these characteristics.

29 Finally, the Treasury has also taken an interest in reform of the Water Service in Northern Ireland, as part of its emphasis on Northern Ireland demonstrating greater revenue effort.

[8] Iparraguirre D'elia, Jose Luis (2006) The Five Drivers of Productivity. How much does each one contribute? A Causal Analysis of Regional Labour Productivity in the UK, ERINI Monographs No. 14, Belfast: ERINI

[9] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD*, May 2005 (p.4 & 13-16)

[10] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD*, May 2005 (p.10)

4.2. WHOLE OR PART PRIVATISATION OF THE WATER SERVICE

30 The former Minister has ruled out complete privatisation of the Water Service for the foreseeable future.[11] The organisation is not in a state that would be attractive to the market at this time. However, there remains the option of Private Sector Participation (PSP), with a minority or majority Government ownership, and the *Financial and Strategic Review of the Water Service* by the external advisers to DRD clearly recommends a move to some form of PSP after the establishment of the GoCo.

31 There are a number of benefits to a PSP model. The likelihood of driving out inefficiencies is highest with this option, as shareholders will seek the best return on their investment; the organisation is distanced from Government, has private sector involvement and is subject to strong regulatory control. An additional benefit lies in the possibility of retaining majority Government ownership with operational control resting in the private sector, thus maximising the drive for efficiencies and potentially securing off balance sheet treatment for the assets of the PSP.

32 The options at 3.1 and 3.2 have been ruled out in a direction from DRD to the consortium of external advisers to Water Service in their preparation of the Financial and Strategic Review of Water Service. This leaves two other options, a GoCo and a Not-for-Profit Mutual. Readers may wish to note that the Not-for-Profit entity option was not identified by the department for in-depth consideration by the external advisers in preparing the *Financial and Strategic Review of the Water Service*.

4.3. ESTABLISH WATER SERVICE AS A GOCO

33 A GoCo is a Government owned undertaking, subject to companies legislation. It has its constitution set out in a Memorandum and Articles of Association. It operates at arms length from central Government. DRD

[11] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD*, May 2005 (p.10)

owns 100% of the shares in the GoCo and the current and future capital needs would be provided in the form of equity of debt capital by DRD. It would be self-financing and would recover its costs (including depreciation, cost of capital and taxation) through a tariff.

34 The existing assets of the GoCo count in the departmental DEL, and therefore attract cost of capital charges in the resource budget of DRD. This has to be recouped from the GoCo, and is reflected in the tariff paid by customers. Future investment in the GoCo from DRD will also score as capital DEL, and therefore will compete with other capital investment projects in DRD (roads etc) for DEL. This may tend to incentivise the use of PPP/ PFI in considering future investment for Water Service.

35 The advantage of a GoCo is that the department would retain certain rights in relation to the board and remuneration, while attracting the benefits of operating at arms length from Government. It would also be possible to introduce competitive outsourcing, which is an important element in driving efficiency savings, and thus reducing tariffs to customers. With adequate financial structures, it would also be possible to attract private sector investment in the future.

4.4. ESTABLISH WATER SERVICE AS A NOT-FOR-DIVIDEND ENTITY

36 There are many structures for a Not-for-Dividend model. In essence, ownership of Water Service would be transferred from the public sector to an entity that did not distribute dividends, but financial surpluses would be used for the benefit of customers, either through a reduction in customer tariffs or used for future investment. Payment is made by the Not-for-Dividend entity to the Government by raising debt capital. The successful performance of this model depends on a high level of competitive out-sourcing, and strong management incentives aligned to efficiency and service output targets. Since the not-for-dividend entity has no shareholders to turn to in adverse market conditions it needs to hold reserves as a shock absorber.

5. GOVERNMENT'S PREFERRED OPTION: GOCO

37 The Government's preferred option is a GoCo, and subject to the passage of legislation, the Water Service is to become a wholly-owned Government company known as Northern Ireland Water Limited (NIWL) in April 2007.

5.1. REVENUE RECOVERY AND TARIFFS

38 To become self-financing NIWL will be required to recover the following costs.

Operating Costs + Current cost depreciation + Infrastructure renewals charge + Return allowed on the Regulatory Capital Value + Tax	=	Total to be recovered through Water Tariff

39 The Government decided to set the tariffs in the period to 2009/10 at the average level for England and Wales. Charges are to be phased in over this period, on a one-third, two-thirds, and full charge basis. During the phasing-in period, the shortfall in revenue recovered through charges and total costs will be made up by a grant from DRD estimated to be in the amount of £164 million in 2007 and £92.7 million in 2008[12]

40 At the end of the phasing-in period, annual increases in charges will be determined using the (RPI) + K formula[13]. The Regulator will conduct periodic reviews of the adjustment factor K, starting in 2009[14]

[12] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD*, May 2005 (Tables 49, 50 and 51)
[13] RPI = Retail Price Inflation. The Adjustment Factor K is the price limit set by the Regulator.
[14] DRD (2005) Explanatory Note to *The Strategic and Financial Review of Water Service*

41 The Regulatory Capital Value (RCV) is a proxy for the value of NIWL assets. As a GoCo, this is subject to a cost of capital charge[15] on the Revenue DEL of DRD. At present the Water Service asset base is valued in the region of £5 billion. This will be written down to £1 billion. The GoCo will be required to make an allowed rate of return on the RCV, equal to the cost of capital charge on DRD, and pay this to DRD in the form of a dividend. This ensures that although the assets of NIWL attract capital charges for DRD, they do not compete with and crowd out other revenue items. The required rate of return will be reviewed by the Regulator during periodic price reviews and will change as the value of the asset base changes.

42 Writing down the asset base from, in the region of, £5 billion to £1 billion reduces the return that NIWL is required to make, and reduces charges to customers. In principle, this should also mean that customers only contribute to the cost of those assets (especially new assets) that provide benefit to them. On the other hand, writing down the asset base reduces the value of the company, and the value that may be realised from any potential future sale of an interest in NIWL.

43 RCV also has an impact on the financability of the GoCo. Although a lower RCV would result in lower customer tariffs, the GoCo would not have the necessary RCV to finance additional debt necessary to compensate for not achieving planned efficiencies, or cost over-runs on capital investment projects (called the stressed banking case scenario).[16]

[15] Cost of capital charges represent the opportunity cost of using capital. This is not a cash payment, but must count in the resource DEL of the DRD. At present, cost of capital charges for Water Service are held in AME by arrangement with HM Treasury, but this will cease of Water Service is not placed on a self-financing footing.

[16] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD*, May 2005 (pp. 44-50)

5.2. ACHIEVING EFFICIENCIES

44 The method of cost recovery set out for NIWL places great emphasis on achieving efficiencies. The table below illustrates that from 2010, average water and sewerage bills will vary in line with efficiencies achieved.

(£ p.a. nominal)	2007	2008	2009	2010	2014	2019	2024	2029	Ave.
Midpoint									
20% eff case	155	273	413	430	490	557	613	672	520
30% eff case	155	273	413	391	461	506	552	601	477
40% eff case	155	273	413	356	422	461	499	541	438
E & W *	292	307	321	334					
E & W comparators **	343	366	381	395					
Lower band									
20% eff case	140	247	372	387	442	502	553	607	471
30% eff case	140	247	372	387	414	456	497	543	429
40% eff case	140	247	372	387	379	414	449	488	393
Upper band									
20% eff case	171	299	454	474	537	612	673	737	572
30% eff case	171	299	454	430	509	557	607	660	525
40% eff case	171	299	454	392	465	508	550	595	481

* Based on Ofwat's final determination for the period 2005-10
** Comprises the most comparable E&W companies - Welsh Water, Wessex, South West Water, Anglian Water.

Source: Table 21: Financial and Strategic Review of Water Service 2005 (p.35)

45 Again drawing on the *Financial and Strategic Review of Water Service*, the average domestic tariff for E&W is £334. For the most comparable companies (Welsh Water, Wessex, South West Water and Anglian Water) the expected tariff is £395. The expected tariff for Northern Ireland in 2010 is £430 at 20% efficiency case. For Northern Ireland domestic customers to face a tariff equal to or less than paid by customers of comparable companies in E&W, Water service would have to achieve efficiencies closer to 30% (p.35).

5.2.1. RISKS TO ACHIEVING EFFICIENCIES

46 The *Financial and Strategic Review of Water Service* present evidence from an international review of efficiency performance, illustrating that the structural and financial model most likely to achieve efficiencies are, in order of performance:

- Fully Privatised
- Partially Privatised
- Not for Dividend

- GoCo
- Statutory Corporations

47 They also highlight the findings of the *Shareholder Executive Review of the Role of Government as Shareholder*, which identified a number of weaknesses as the shareholder level underlying poor performance of companies in Government ownership. In particular:

- Complex social, political and economic objectives which are not always clearly communicated to companies;
- Pressure for ministerial intervention, at the expense of accountability;
- A lack of focus on measurable outcomes in the British civil service;
- Short-tern focus due to changing political objectives;
- A focus on the fiscal position rather than business objectives; and
- Conflicting objectives of different Government departments with an interest in the companies.

48 There are also dangers in cross-subsidisation between customer groups, so that signals for the efficient use of water becomes confused.

49 The evidence presented in the *Financial and Strategic Review of Water Service* suggests that the efficiency elements present in the GoCo model are not as favourable as those for a PSP model, but are better than those present in a statutory corporation or departmental model (pp.69-72). Recent IMF research on fiscal and budgetary discipline would tend to underline these as factors in the case of Northern Ireland[17].

50 It is not possible to comment further on this issue without a detailed financial and strategic business plan. Further information on the status of the strategic business plan and the asset and estate management plan of NIWL is expected in answer to PQ 06/4873 for answer on this point on Tuesday 12 December 2006.[18]

[17] Fabrizio, Stefania and Ashoks Mody (2006) *Can Budget Institutions Counteract Fiscal Indiscipline?* IMF Working Paper WP/06/123

[18] NIGC Oral No. 1 (PQ 06/4873) Mark Durkan (Foyle): To ask the Secretary of State for Northern Ireland, When the (a) strategic business plan, (b) assets and estate management plan and (c) licence for Northern Ireland Water Ltd will be made publicly available.

5.3. ASSET MANAGEMENT AND INVESTMENT NEEDS

51 The most recently available information on Water Service Assets is to be found in the Second Asset Management Plan (AMP2). The Economic Research Institute of Northern Ireland (ERINI) make the following points in relation to the AMP2 and investment need, which are presented in full below.

52 "Recognising that investment is needed to bring water and sewerage services up to standard is not the same thing as accepting the levels of expenditure that have been identified as 'necessary' in the IIA. The fundamental difficulty that any outside body has in assessing whether the projected investment spend is in some sense commensurate with the need for improvements that are known to be required is information and its quality.

53 "In summary the main categories of investment expenditure on water and sewerage are shown in Table 1 below along with the net modern equivalent asset value (MEAV) of existing assets (the cost of an asset of

Table 1			
[illegible]		[illegible]	[illegible]
Water	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	Water Total	**1,229**	**2,299**
Sewerage	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible]	
	Sewerage Total	**1,407**	**2,304**
[illegible]		[illegible]	
Total		**2,910**	**4,542**

equivalent productive capacity to satisfy the remaining service of the asset, less accumulated current cost depreciation) to show the scale of the investment to be undertaken. The scale of the projected investment programme is evident by comparing the spend against the value of the existing assets. Over a 20-year period (a relatively short period for long lived assets) more than half of the asset base by value will be added to or replaced.

54 "An alternative way of viewing the programme is to link expenditure to an underlying purpose or driver. In line with OFWAT practice four drivers are identified:

Quality – expenditure needed to meet quality standards;

Base – expenditure needed to maintain assets in a serviceable condition;

Enhancement – expenditure required to meet target levels of service;

Growth – expenditure needed to meet increased demand for water and sewerage services.

Table 2: Investment by 'Driver', 2003/04 to 2022/23

		2003/4 2007/8	2008/9 2012/13	2013/14 2017/18	2018/19 2022/23	Totals
Water	Quality	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Base	254	201	[illegible]	[illegible]	[illegible]
	Enhancement	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Growth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Total Water	473	342	241	[illegible]	1,245
Sewerage	Quality	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Base	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Enhancement	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Growth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Total Sewerage	473	435	[illegible]	214	[illegible]
Other	Quality	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Base	71	67	72	72	242
	Enhancement	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Growth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Total Other	71	67	72	72	242
Overall Total		1,017	[illegible]	[illegible]	[illegible]	[illegible]

55 "It is clear from these profiles that in the early years of the programme investment is substantially driven by the need to meet quality standards. In essence this is tackling the backlog of investment over the previous

decade and more. It is very difficult to say whether an investment programme of this scale and complexity is optimal or not. Water Service itself is the source of almost all of the information relevant to constructing the plan and there are few credible safeguards against 'gold plating' and excessive risk aversion in the planning process. It is also difficult to benchmark the plan against practice in England and Wales where the water industry has been privatised for more than a decade. Although the Second Asset Management Plan, which is the source of the detail of the investment strategy, broadly follows OFWAT practice there are differences in relation to asset values and lives and the investment philosophy adopted in England and Wales compared to Northern Ireland. It is also a matter for regret that the Second Asset Management Plan was published as late as 6 February 2005 when the consultation process had been underway for some time. It is disappointing that the opportunity was not taken to provide a reasoned explanation of why these figures are appropriate. The following are some general points of concern.

56 "(a) There are some unexplained differences between the assumed asset lives for the industry in England and Wales compared to Northern Ireland. The capital maintenance spend in the former relative to the value of assets suggests an implicit life of 40 years for surface assets and up to 300 years for underground assets compared to 53 years and 195 years in Northern Ireland. We would like to see some explicit justification for these assumptions. Obviously if assets are assumed to have a lower life span this pushes up the required replacement spend which has to be recovered through charges.

57 "(b) If the highest priority of investment is focused on quality improvement (backlogs) then this implies some restraint on base expenditure for capital maintenance if prices to consumers are not to rise excessively. How this equation is to be balanced requires further clarification. In particular the linkage between maintenance expenditure and the risk of deteriorating serviceability needs clarification. If assets deteriorate rapidly because of restraints on maintenance then future prices will rise steeply to fund replacements. It is a worry that Water Service is apparently unable to

correlate deterioration in the condition of an asset with assessments of its serviceability and risk.

58 "(c) We need a clear statement of the investment philosophy that will govern the future of water and sewerage services in Northern Ireland since this clearly impacts on the nature of the investment strategy. For example, a philosophy that adheres to a 'fix on failure' approach to asset management and replacement will produce quite different results and costs to one which seeks a 'no deterioration' or an 'enhancement' approach.

59 "(d) The Second Asset Management Plan was essentially completed in August 2003 and as the authors note did not take into account some policy developments that could have a bearing on the investment strategy. In particular the decision to have full cost recovery for the new water GoCo and the moves to reduce staffing as part of the drive for efficiency savings were not considered. We are, therefore, not clear whether the figures for the investment plan quoted in the IIA (which derive from the Second Asset Management Plan) are authoritative or up to date. We understand that a Strategic Financial Review of Water Service is underway and is considering the issues raised here. ERINI recommends that the results of the Review should be published to shed light on these matters and further inform the public debate." [19]

REVISIONS IN THE FINANCIAL AND STRATEGIC REVIEW OF WATER SERVICE

60 In addressing the question of capital expenditure in the Financial and Strategic Review of Water Service, the external advisers review the AMP2 levels of capital cost projections and scope for efficiencies.

61 Reflecting what they see as departures from investment planning processes in E&W, they reduce the base case to allow for:

- The reallocation of funds to allow for earlier compliance with the Urban Waste Water Treatment Directive (UWWTD)

[19] ERINI 2005,*The Integrated Impact Assessment (IIA) of the Government's Proposals for the Reform of Water and Sewerage Services in Northern Ireland*, April 2005, Belfast (pp. 4-8)

- Exclusion of 75% of pro-active capital maintenance on non-critical sewers (following UK practice); and
- Deferral of 75% of precautionary infrastructure capital maintenance from pre- to post-2008/09.

62 This restatement reduces overall capital expenditure by 6% in real terms, from a total of £2.63[20] billion for AMP2 (excluding PPPs, pre efficiencies) to a new base case of £2.47 billion (excluding PPPs, pre-efficiency)[21]. Note that these figures are based on AMP2, the November 2004 Capital Works Programme and additional information provided by Water Service's Asset Management Planning team in late 2004.

63 Comparing recent figures for E&W and Scottish Water, the external advisers estimate scope for capital expenditure efficiencies to 2009/10 as between 3% and 7% per annum[22], with lower efficiency savings thereafter as catch-up efficiencies are achieved. These figures would yield 20% to 40% cumulative efficiencies, and are similar to those estimated for operational expenditure, and used in the Integrated Financial Modelling.

6. GOVERNANCE OF THE GOCO

64 The external advisers to the DRD, in the *Financial and Strategic Review of Water Service* made the following recommendations in relation to corporate governance.

65 The GoCo's legal and corporate governance structure should aim to:

- Maximise the likelihood that efficiency gains can be realised by
  - Constituting the GoCo's Board in accordance with best practice for UK listed companies, including (where appropriate) the

[20] This figure excludes PPP costs, which are excluded from the external advisers' capital expenditure analysis. (p.17)
[21] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD*, May 2005 (p17).
[22] 3% average for E&W based on 2004 data, and approximately 8.5% for Scotland (but marginal under-performance) based on 2002 data. (p.18)

relevant provisions of the Combined Code of Corporate Governance

- Incentivising management in accordance with the Combined Code of Corporate Governance

- Ensure in GoCo there is accountability to environmental and water quality Regulators as well as to customers for the quality of the service provided
- Clarify the public policy and regulatory relationship between the Government and the GoCo to reduce political and regulatory risk. It recommends that "DRD is practically and emotionally distanced from the GoCo and does not therefore exert any day-to-day control on management to whom executive authority is delegated"[23].

66 It will also be necessary to recruit and retain a strong management team. The presumption is that remuneration policy would be agreed by the shareholder with the Remuneration Committee, having taken advice as to the appropriate market based compensation levels, with close regard to the link between performance and remuneration.[24]

67 It has not been possible within the time frame of this paper, to assess in any detail the recommended governance arrangements set out above, however, it is possible to make the following points.

68 The Water and Sewerage Services (Northern Ireland) Order 2006 makes provision for water and sewerage services in Northern Ireland to be provided by an entity appointed under licence. This legislation also provides for the transfer of responsibility for the provision of water and sewerage services to a Government owned company (GoCo) known as Northern Ireland Water Limited (NIWL).

[23] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD* May 2005 (p. 82)
[24] *Financial and Strategic Review of Water Service: Report of external advisers to the DRD* May 2005 (pp.81-82)

69 NIWL will be a private limited company, with the Department for Regional Development as 100% shareholder. It will be constituted and operate under companies law and will be subject to the same general legislation as other limited companies. The Department in their briefing paper to the Sub-Group have provided copies of the Memorandum and Articles of Association for NIWL.

70 The Articles of Association provide that appointments to the Board of NIWL are the responsibility of the Minister for Regional Development, and come within the remit of the Commissioner for Public Appointments (OCPA) and will follow the Code of Practice for Public Appointments. The Minister will have the power to appoint the Chair and non-executive Directors, and approve the appointment of the Chief Executive and the executive Directors. This process began earlier in 2006, with the establishment of a shadow Board, and the department provides details of progress to date in their briefing to the Sub-Group.

71 Enforcement of environmental legislative requirements will primarily rest with the Department of the Environment (DOE), with a significant role for DRD and in practice, enforcement is carried out by the Environmental Heritage Service and the Drinking Water Inspectorate.

72 Other aspects of governance are contained within the licence. The license, issued for consultation on 4 December 2006, sets out in policy that:

The Northern Ireland Authority for Utility Regulation (NIAUR) will be independent of Government. On transfer of powers to NIAUR in April 2007, regulate the water industry and carry out important appellate, enforcement, appointment, price setting, charging approval, standard setting and performance monitoring functions. See Section X for more detailed information.

73 The department notes in its submission to the Sub-Group that although the regulation template used in developing the licence is based on Ofwat,

it also reflects the differences that will exist between NIML and water companies in England and Wales, and that NIWL is 100% Government owned. It has not been possible within the timeframe of this paper to do detailed comparisons on this point.

74 To discharge its role as shareholder, the department proposes to adopt the Shareholders Executive model, discussed at section X above, through the development of a Shareholder Team and the use of a "Governance Letter". The departmental briefing provides some additional descriptive information on the proposed or potential content of the "Letter of Governance" and related governance issues. There is a draft "Letter of Governance", however the department has not provided it, and states the letter is being reviewed in tandem with the finalisation of the Strategic Business Plan, and propose that the letter would be in place by 1 April 2007.

7. THE ECONOMIC REGULATOR AND THE DRAFT LICENCE

75 This section provides details of the economic regulator and the draft licence. The section reviews some of the issues around the powers and independence of the regulator and the conditions of the licence.

7.1. THE ROLE OF THE ECONOMIC REGULATOR

76 The Water and Sewerage Services (NI) Order extends the powers of the Northern Ireland Energy Regulation (NIAER) to the economic and consumer regulation of the water industry. The key features include new statutory duties and new powers; a new complaints, disputes and appeals team; new relationships with DRD, NIWL, Consumer Council and other regulators and a different Modus Operandi (OWFAT style regulation).

77 To reflect the enhanced role the NIAER will be known as the Northern Ireland Authority for Utility Regulation (NIAUR). Duties will include responsibility for

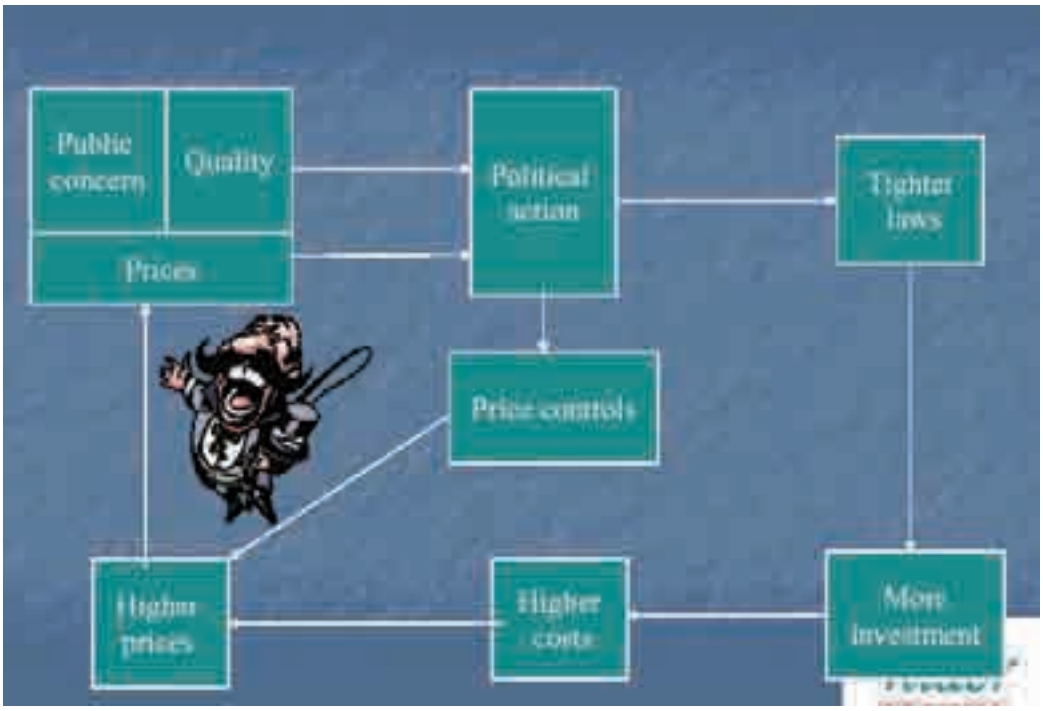
- the appointment of water and sewerage undertakers,
- price setting,
- approval of charges,
- ensuring efficiency,
- facilitating competition,
- resolving disputes,
- enforcement,
- standard setting; and
- performance management.

78 NIAUR will become the single regulatory authority in Northern Ireland for the electricity, gas, water and sewage sectors. It will be under a duty to determine and protect the interests of consumers, ensure that the water and sewage undertaker operates in all areas in Northern Ireland, and that it can properly finance itself.

79 In relation to the consumer, the NIAUR is placed under a statutory duty to look after the consumers' interests and in particular more vulnerable members of society including pensioners and those on low income. The Order for the first time enshrines customers' rights to efficient water and sewage services, creates a rigorous regime to ensure that standards are met and provides for compensation when standards are not met.

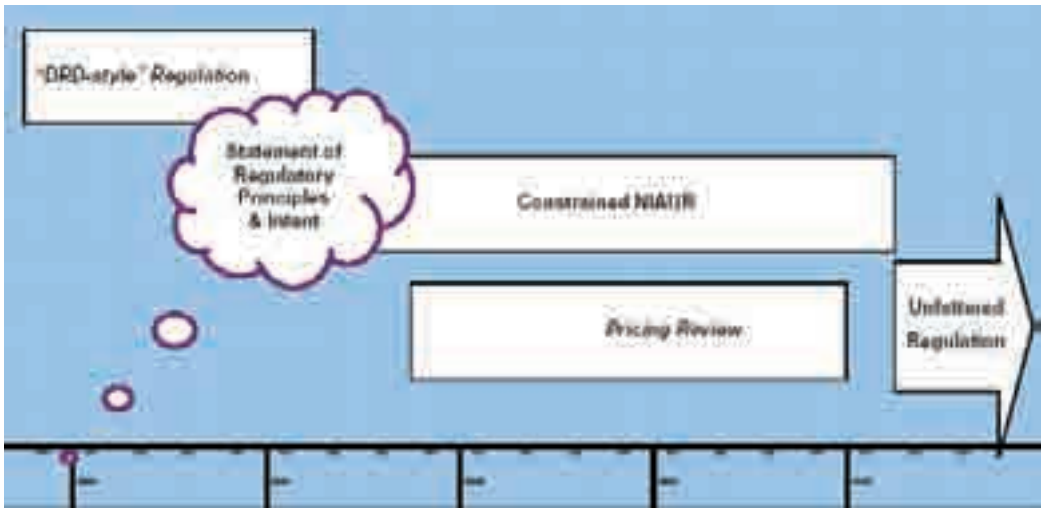
80 The role of the Economic Regulator as been described as the ringmaster holding the ring on what customers demand and can afford, what the environment needs, what shareholders can reasonably take and efficient

operation. The new Economic Regulator regards its role as a surrogate for the pressure of competition, providing a clear framework in which all stakeholders understand their place and role[25].

81 

[25] NIAER presentation, Northern Ireland Water Forum, 7 December 2006

7.2. TIMELINE TO REGULATION



82 As the new Authority will not exist before 1 April 2007 some important initial actions will have to be taken by the Department, including the appointment of GoCo and the approval of the GoCo's first annual charging scheme.

83 The authority will be financed from revenue raised from water and sewage charges to cover payment by the water and sewerage undertaker of their Licence Fee.

84 Detailed regulatory matters are contained within the draft Instrument of Appointment (otherwise known as the 'Licence').

7.3. THE LICENCE

85 The draft Licence, which was released for consultation on 4 December, gives effect to the full range of Government policy through the imposition of conditions on Northern Ireland Water Limited (NIWL) for the delivery of water and sewerage services within the framework set by the draft Water

and Sewerage Services (Northern Ireland) Order 2006. The licence will place a number of conditions on Northern Ireland Water Limited to operate as a water and sewerage undertaker. It is intended that this appointment will be made by the Departmental for Regional Development with effect from 1 April 2007. The Northern Ireland Authority for Utility Regulation (NIAUR) will regulate the operation of the licence under the Order.

86 The overall purpose of the Licence is to detail:

- arrangements for setting price limits for NIWL;
- how these will be incorporated into customers' bills;
- arrangements for ensuring that the supply and quality of service are maintained; and
- that the interests of customers are protected at all times.

87 The draft Licence is accompanied by an initial Statement of Regulatory Principles and Intent from the Chief Executive of the Northern Ireland Authority for Energy Regulation, in advance of its taking on the role of Economic Regulator for Northern Ireland's water industry. The statement does not bind the future regulator but sets out, at a high level, the approach, intent and principles that he expects the Authority to adopt for the independent, economic regulation of NIWL. The statement provides useful context for the regulatory environment in which the final Licence will be managed.

Executive Summary of the ' Draft Licence'

Condition A defines certain terms and expressions used in the draft Instrument of Appointment. Other terms and expressions are defined in the Condition of the draft Instrument to which they relate.

Condition B sets out (a) the initial restriction on NIWL's revenues for the three year period commencing 1 April 2007 and (b) the price cap regime that applies from 1April 2010. Provision is made for the Northern Ireland Authority for Utility Regulation ("the Authority") to conduct a periodic review in order to set the initial price cap (ie, that which applies for the five-year period commencing 1 April 2010) and thereafter at five-yearly intervals.

Condition B requires NIWL to produce an annual Principal Statement so that the Authority can verify that the company's charges reflect its price limits (and the initial revenue restriction).

Condition B also allows the Authority to make, in any year, adjustments to price limits (or the initial revenue restriction) for certain "relevant changes of circumstances" and "notified items" where the material impact exceeds 10% of annual turnover. The Condition allows a two-way process such that a review of price limits can be instigated by the Authority or at the request of NIWL. This provides a mechanism for an increase in price limits where costs increase due to unforeseen circumstances and clawback in the event that costs are significantly lower than anticipated. The Condition provides for a reference to the Competition Commission in the event that NIWL disputes price limits set by the Authority, whether on a periodic review or following an interim adjustment.

Condition C limits the amount that NIWL can charge for the first time provision to any premises of a water supply or sewerage service for domestic purposes. This charge is known as an infrastructure charge.

Condition D requires NIWL to make a charges scheme setting out standard tariffs for supplies of water for domestic purposes and for the drainage of sewage for domestic purposes. The relevant legislation provides that the charges scheme must be approved by the Authority.

Condition E prohibits undue preference to, or undue discrimination against, any class of customer in setting charges.

Condition G requires NIWL to produce a Code of Practice for dealing with customers and requires NIWL to consult with the General Consumer Council.

Condition H requires that NIWL prepares a Code of Practice for dealing with customers who have difficulty paying bills.

Condition I requires NIWL to publish a Code of Practice and Procedure for dealing with metered domestic customers where there is an unidentified leak in a part of the supply pipe that is the customer's responsibility.

Condition J requires NIWL to provide information to the Authority on the levels of service it provides.

Condition K requires NIWL to ensure that it has sufficient rights and assets to enable a special administrator to manage its regulated business. The Condition additionally includes provision intended to ensure that the Appointee receives a reasonable price for any disposal of land.

Condition L requires NIWL to produce long-term plans for the maintenance of, and investment in, its Regulated Assets to enable the Authority to ensure that standards will be maintained.

Condition M requires NIWL to provide the Authority with any information it may reasonably require to carry out its functions.

Condition N gives the Authority power to levy annual fees.

Condition O sets out circumstances in which a replacement appointment can be made.

Condition Q concerns compensation payments to be made to customers in the event of interruptions to water supply because of drought.

88 The draft licence is complex. It is beyond the scope of this paper to provide a detailed analysis of its content within the constraints of the Sub-Group's timeframe. A ten-week consultation has been allowed for informed consideration of the draft licence and its accompanying documentation. Due to the technicalities of these documents, it has only been possible to provide some general comments and highlight some issues that the Committee may wish to explore further in relation to the powers of the Economic Regulator and the draft licence. They are discussed below.

7.4. AN INDEPENDENT REGULATOR

89 The Consumer Council has stressed the importance of consumer regulation and representation. They stress the need for the Regulator to be independent and unfettered. However they argue that as the Regulator is not being provided with full authorisation and power from DRD from 1 April 2007, this will result in the fettering of powers of the Regulator particularly during the critical three years transition period before taking over economic regulation and price control from April 2010.[26] In its

[26] Committee on the Preparation for Government, Third Report on the Economic Challenges Facing Northern Ireland, 15 November 2006

response to the consultation on the draft Order, this concern was shared by the NIAER who described this as "Shareholder Regulation." It claimed that it exposed serious conflicts of interest on the part of the Department for Regional Development which could impact on public confidence[27]. Supporting this view, the Better Regulation Executive, in its report in October 2003 entitled "Independent Regulators", concluded that operational independence and enforcement independence were important aspects of creating an accountable and robust regulatory environment. In particular, it stated: *"An important aspect of independence is the ability of independent regulators to decide for themselves how to enforce their decisions."*

90 Despite pressure to remove numerous Departmental powers to promote greater independence and less interference from Government, a decision by Government was taken, not to remove such controls given the large degree of central Government funding under the new arrangements. However one general power was removed, for the Department to direct the Authority in the exercise of its functions. It was a general power to cover unforeseen instances where the Department might wish to direct the Authority and exists in England. However, it is important to note, specific powers remain intact.

7.5. PRIMARY LEGISLATION

91 The Consumer Council believes that consumers need a strong and independent regulator with full powers to protect their interests enshrined in primary legislation. They do not agree with Ofreg's recent assertion that both regulators will have the necessary protection powers in law, particularly in the three years leading up to 2010. Mr. Osborne, the Chief Executive of NIAER stated in an affidavit to the Judicial Review on the Water Reform Consultation, that the Department had changed its position

[27] Ofreg Response to Consultation on Proposal for a Draft Water and Sewerage Services (Northern Ireland) Order 2006

from mid-September in response to Ofreg's concerns[28]. In view of this change of position, the Committee may wish to enquire how the Department has responded to Ofreg's previous concerns and whether they believe there are sufficient powers afforded to the regulator through subordinate legislation.

7.6. SEWERAGE RELATED ENFORCEMENT

92 The Draft Order provides that the undertaker's statutory duties to provide the sewerage system, shall be enforceable either by DRD, or by the Economic Regulator (NIAUR) with the consent of or in accordance with a general authorisation given by the Department.

93 Ofreg was concerned that DRD intended to retain for itself ultimate responsibility in respect of the Urban Waste Water Treatment Regulations. It claimed that this was at odds with the situation in England and Wales whereby the GB water regulator was given a general authorisation to enforce the equivalent duties contained within the Water Industry Act 1991. Ofreg stated that, given DRD's role as shareholder, for the Department to retain control over sewerage enforcement would appear to create an unacceptable conflict of interest, which could drastically undermine public confidence in the new regime[29].

94 Ofreg argued that giving enforcement powers to the independent regulator would create a more defensible and sustainable position for the undertaker as well as for the government. They argued that the ability to create and enforce sewerage obligations is a core regulatory power, and to retain these powers within DRD would not be consistent with Ministerial commitments. Ofreg called for these powers to be fully commenced and included within a general enforcement authorisation given to the regulator. The Consumer Council also recommended that the legislation and licence

[28] Belfast Telegraph, 7 December 2006
[29] Ofreg Response to Consultation on Proposal for a Draft Water and Sewerage Services (Northern Ireland) Order 2006

should be amended to reflect the full powers of the Regulator from April 2007, particularly in the areas of sewerage and waste water services (and land disposal).

95 DRD has recently agreed in principle with the Economic Regulator, that it should be authorised to enforce the sewerage duties since the Company is set up. However the detail as to how this will operate is still to be worked through. The Committee may wish to enquire, with the Authority, it is content with this development.

7.7. OTHER ENFORCEMENT

96 There are a number of instances within the draft Order where Ofreg's powers lie dormant until they are activated by DRD. Such powers could only be exercised subject to the consent of DRD or under a general authorisation given to Ofreg by DRD. The most important of these is the power to enforce the GoCo's duties in the event of breach. Ofreg welcomed DRD's assurance that "in principle, the Department is content that NIAER should be authorised… from, or as soon as is practically possible to, the Transfer Date; i.e., 1 April 2007". The Committee may wish to enquire if Ofreg believes that the DRD has given sufficient commitment in this regard.

7.8. COHERENCE BETWEEN THE DRAFT ORDER AND THE LICENCE

97 In their response to the consultation on the Order, Ofreg was concerned by a growing gap between Ministerial policy as embodied in the draft Order and other deliverables, notably the licence. They claimed that, arising from the work of the Licence Development Group, there was evidence of an intention to restrict the regulator's freedom to scrutinise the efficiency of the undertaker's business, and to set tariffs that reflect the actual development of the company during 2007-2010. They claimed that

this would be a misuse of the licence as a legal instrument, as well as constituting a failure to manage appropriately DRD's conflict of interest as both shareholder and legislator. The committee may wish to enquire if Orfreg, now believes, that the gap between the Order and the Licence has been addressed.

7.9. PRICE CONTROL

98 The approach, as outlined in Condition B, will be based on the maximum revenue allowed in each year until 2010 that is consistent with the phasing in of tariffs that step-up for domestic customers towards the average England and Wales tariff in 2010. After 2010 an approach consistent with Ofwat's methodology is to be adopted (with a subsidy correction factor). In relation to the independence of the Authority post 2010, the Consumer Council argued that Article 201(8) of the draft Order was removed. Article 201(8) provides that DRD may give guidance to the Authority on the exercise of its approval power and the Authority must have regard to that guidance in the exercise of that power. The Consumer Council is concerned that the Authority, on the one hand has been given a straightforward approval function but at the same time DRD is given power to constrain the Authority's approval role, which, they say, raises issues about the independence of the Authority[30].

99 The Condition also provides for a reference to the Competition Commission in the event the NIWL disputes price limits set by the Authority. The Committee may wish to seek further clarification on the role and power of the Competition Commission in this regard.

[30] Consumer Council Response to Consultation on Proposal for a Draft Water and Sewerage Services (Northern Ireland) Order 2006

7.10. DISPOSAL OF ASSETS AND LAND

100 Condition K of the draft Licence deals with the disposal of assets and lands. This condition includes provision to ensure that the 'appointee' receives a reasonable price for any disposal of land. Absent from the legislation and licence, is agreement on who benefits from the proceeds of land and asset disposal. The approach that is being adopted in the licence is that prior to 2010 all proceeds are retained by NIWL at the the discretion of DRD (in consultation with DFP), and after 2010 the approach adopted by Ofwat will apply i.e. 50:50 sharing of surpluses from land sales between companies and customers.

101 The Consumer Council have argued that there is a need for agreed rules governing the mangement and disposal of land and assets to ensure that decisions are taken independently from the shareholder, i.e. DRD. The Consumer Council, in its evidence to the Preparation for Government Committee, stated that the Regulators' role was clearly fettered in this regard and recommended that the legislation and Order should be amended to provide for this power within the draft Order [31].

102 Furthermore, in a memo to the Strategic Investment Board, dated 13 July 2006 on land bank issues, NIAER raised the issue of the sale of assets. At that time, it was NIAER's view that asset sales should require specific permission from the Authority and that the licence should be restrictive. This was regarded as important to safeguard against the GoCo disposing of the land where efficiency targets were not met[32].

103 However the Licence does contain a requirement for an Estate Management Plan that will have to be submitted to the regulator for its approval. DRD argue that the disposal of land/property and the application of the proceeds reflect a greater degree of control for the regulator than in

[31] Committee on the Preparation for Government, Third Report on the Economic Challenges Facing Northern Ireland, 15 November 2006
[32] Consumer Council Response to Consultation on Proposal for a Draft Water and Sewerage Services (Northern Ireland) Order 2006

England and Wales. In addition the Department claims that the obligations on NIWL are more onerous than those on water and waste water companies in England and Wales[33].

8. ARRANGEMENTS FOR THE BILLING AND COLLECTION OF THE WATER CHARGES

104 This section sets out the arrangements for billing and collecting water charges and reviews some of the issues around affordability for domestic and business customers.

8.1. WATER CHARGES

105 Household water and sewerage charges are to be introduced in Northern Ireland with effect from 1 April 2007 on a phased basis. Customers will pay one third of the charge in 2007/08 rising to two thirds in 2008/09 with full charges by 2009/10.

106 The charges will consist of a standing charge (around £55 each for water and sewerage) and a variable charge which is to be based on the discrete capital value of each property.

107 The charges are likely to range from £143 for a property valued at £20,000 to £769 for a property valued at £450,000 or more (1 January 2005 property calculations). They will be set out in an annual charges scheme produced by the water undertaker and approved by the regulatory Authority.

108 The Committee may wish to note that the Government has given a commitment to long-term transition to metering. In the short-term, the availability of domestic metering will be targeted at those pensioner

[33] An Information paper for the Programme for Government Sub Group on the Comprehensive Spending Review; Rates Charges and Water Reform, Water Reform Unit,

households, which request metering and new properties. A point worth noting is that the charge regime is based on house valuation and not usage, and as such, there is no particular incentive to save water once you are in a particular band. On the other hand, metering would not necessarily be a viable option in terms of water efficiency on the grounds that 70% of costs in the water sector industry are overheads. Therefore simple metering on actual usage would not be sufficient and there would be a need for a standing charge in addition to the metering charge.

109 Finally there will be special measures in the form of an Affordability Tariff to assist those on low incomes and a cap on maximum charges (see next section). Domestic customers will not be disconnected from the service for non-payment or if they are in debt. However there will be a debt recovery programme to pursue non-payment (see Billing and Collection section for more detail).

8.2. THE AFFORDABILITY TARIFF

110 The Affordability Tariff has been designed to guarantee that no one on low income need spend more than 3% of their income on water charges[34]. DRD estimate that the Scheme is likely to benefit up to 200,000 households (out of N.I. total of 650,000). Eligibility for the Scheme will be by means of passport benefits, which include: Housing Benefit, Rate Rebate and the proposed new NI Rate Relief Scheme. Young householders and children leaving care will also be eligible for assistance.

111 The maximum bill for eligible low-income customers in 2007-08 will be £30, £45 or £60, depending on the value of the property.

Department of Regional Development, 11 December 2006

[34] The single person's pension credit guarantee has been used to calculate the Affordability Tariff. In 2007-08 this means that if charges had been fully phased in there would be a maximum bill of around £180 (which is 3% of the estimated pension credit guarantee in that year - around £6000) for those occupying property valued at more than £100,000. Extra protections have been added for those with lower value houses:

112 The Affordability Tariff Scheme is to be paid for from central government expenditure and will be reviewed after 3 years. Article 213 of the Order provides the legislative basis for Government to make grants to pay, inter alia, the Affordability Tariff. (The Order places no constraint upon the duration of the Affordability Tariff or how it is funded). However critics argue that a three-year commitment by Government is insufficient. In its written evidence to the Preparation for Government Committee, the Consumer Council estimated that the cost of paying the affordability tariff in 2010 would be around £50million, which if not centrally funded, would result in the Government having to either increase average bills by 10%; reduce other public services to pay for it, or remove protection for 200,000 vulnerable households. This, they warned, could lead to greater levels of poverty and indebtedness (further research on poverty and ability to pay evidence is presented in the following section).

113 The Council recommended that legislation should be amended to ensure that the affordability tariff would remain in place as it was in scope, and be underwritten by the Government rather than by consumers post 2010[35].

8.3. DOMESTIC CUSTOMERS: INCIDENCE, AFFORDABILITY AND ABILITY TO PAY

114 A recent study of the Water Reform proposals by Paddy Hillyard and Fiona Scullion of Queen's University, Belfast[36] presents evidence in relation to the incidence of the water charges, affordability for domestic customers and the impact of proposed charges on poverty in Northern Ireland.

[35] Committee on the Preparation for Government, Third Report on the Economic Challenges Facing Northern Ireland, 15 November 2006

[36] Paddy Hillyard and Fiona Scullion (2005) *Water Affordability under the Water Reform Proposals* Bulletin No 9, September 2005, Belfast: OFMDFM

115 Using the Poverty and Social Exclusion Northern Ireland dataset, Hillyard and Scullion found:

- Of the estimated £200 million per annum to be raised, some 53% of this will be paid for by households living in houses worth less than £100, 000, and 73% paid for by those in houses worth less than £140,000[37].
- Households are deemed to be in water poverty if water charges represent more then 3% of household income[38] after housing costs. Approximately 80% of households in the bottom income quintile will be spending more than 3% of household income on water and sewerage services. They also estimate that after rebates, a reduced, but still significant, 65% of those in the lowest income quintile will still be in water poverty.[39]
- After rebates, households where one or more member is disabled are twice as likely to experience water poverty than those without.

116 Recently published related research from the Joseph Rowntree Foundation, *Monitoring poverty and social exclusion 2006* found that in England and Wales

- More than half of all low income households[40] are paying full Council Tax, rising from 46% in 1996/97 to 58 % in 2004/05;
- 1.5 million children in England and Wales are living in low-income households where the households are paying full Council Tax.[41]

117 Comparable figures for Rates are not published in the Monitoring poverty and social exclusion in Northern Ireland 2006 report.[42]

118 Overall rates of income poverty in Northern Ireland are similar to those in Great Britain, despite the fact that Northern Ireland has more low pay and below average employment levels, and the proportion of people who are

[37] Hillyard and Scullion 2005:4
[38] Hillyard and Scullion 2005:5
[39] This is calculated by assigning the 25% reduction to all those in poverty (using the consensual definition of poverty), distributing these over the income quintiles and recalculating the percentages of those in water poverty. It should be noted that using the consensual definition of poverty produces a conservative result.
[40] Households with equivalised disposable household income after housing costs below 60% of median household income after housing costs.
[41] Palmer, Guy, Tom MacInnes and Peter Kenway (2006) *Monitoring poverty and social exclusion 2006,* Joseph Rowntree Foundation & New Policy Institute

in income poverty (before housing costs) is higher in Northern Ireland than in most regions of Great Britain. Rates are comparable to those in Britain because at present housing costs are lower in Northern Ireland than in the regions of the United Kingdom[43]. However, it is important to note that in calculating housing costs, domestic rate charges (NAV or capital value based) and the proposed water charges were not included.

8.4. NON DOMESTIC CUSTOMERS: WATER CHARGES AND THE COST OF DOING BUSINESS

119 In a recent presentation, the CBI welcomed the reform agenda and expressed their support for the GoCo model. However, they underline the need for strong focus on delivering an efficient, customer oriented organisation, and reiterate their view that the role of the CEO and senior management team is essential in driving through restructuring and reform. They also call for transparency and visibility in pricing and funding, together with accounting practices to match those in GB. CBI suggests that in the context of a GoCo, operational activities should be competitively tendered.

120 They also stress that the business sector is facing £40 million in additional costs as a result of water reforms. To address this, business is looking for predictability in relation to costs and future trends. While accepting that services delivered efficiently need to be paid for, they argue for five year phasing to allow businesses the opportunity to plan for the new charging regime.

121 CBI highlights a number of outstanding issues for concern.

- They stress that all liabilities prior to 1 April 2007 should rest with the government (pensions, environmental liabilities for past failures and other legacy failures).

[42] Kenway, Peter, Tom MacInnes, Aveen Kelly and Guy Palmer (2006) *Monitoring poverty and social exclusion 2006,* Joseph Rowntree Foundation & New Policy Institute
[43] Only the North East of England is higher. *Monitoring poverty and social exclusion in Northern Ireland 2006* p 58.

- State that Ofreg must have ability to adjust the regulated asset value (RCV) as the key to price control post 2010, however they are concerned that the regulator has the power to pass non-payment by domestic customers into the Asset Base which will add to business costs. They are also concerned that the regulator has no enforcement powers regarding sewerage and sewers.[44]

122 The Federation of Small Business in Northern Ireland express a different view, and urge the government not to proceed any further with legislation and to allow the Assembly, when restored, to look again at the whole policy of Water Charges. They state that the introduction of water charges in April 2007 will add to the problems faced by, in their view, over taxed and heavily burdened small business owners in Northern Ireland.

> "Our members are already paying the highest insurance and energy costs in the United Kingdom, something the NIO seems to overlook. "
>
> "The Government cannot ignore the fact that all the major organisations representing business, voluntary sector, Trade Unionists as well as all the main local political parties are opposed to the introduction of Water Charges. Surely it is time in the light of this to review their policy?"[45]

8.5. CHARGES: POTENTIAL PRICE HIKE IN 2009/10

The Consumer Council has raised concerns that customer charges will increase significantly beyond 2010 when the Ministerial pledge that domestic charges will be pegged to England and Wales averages will end. They have sought a "Fairness Bond." This is a commitment to peg these charges within a given percentage of English and Welsh average tariff levels. Concern has also been raised that bills will escalate following the next revaluation scheduled for 2010.

[44] Declan Billington, Chairman, CBI Northern Ireland, presentation to the Northern Ireland Water Forum Seminar on Water Infrastructure, Investment and Reform. Thursday 7 December 2006, Stormont Hotel, Belfast.
[45] Personal Communication with FSB Northern Ireland. Monday 11 December 2006.

8.6. PAYING FOR RELIEFS: THE "BLOCK" OR THE CUSTOMER

123 The proposed assistance available to low income households is in the form of an affordability tariff, and the facility to opt for the installation of a water meter for pensioner households. Government rather than other customers will fund this assistance for domestic customers.

124 It is important to note that low income households are defined, not as households below 60% of median income after housing costs (the standard Government accepted definition of poverty or low income), but as those households in receipt of a passport benefit, in this case it is Housing Benefit.

125 Housing Benefit is an item in Annually Managed Expenditure (AME), and thus is outside the Northern Ireland Departmental Expenditure Limits (DEL). Although Housing Benefit covers rates, it does not cover water charges.

126 Although not paid for directly by other customers, the cost of reliefs are paid for by the people of Northern Ireland, indirectly, because departmental or block DEL used to pay for reliefs crowds out spending in other areas of public services. There is an argument that says that the opportunity cost associated with funding reliefs from the block in this manner is borne disproportionately by those most dependent on the public provision of services. This is dependent on any charging regime being closely based on ability to pay.

8.7. CUSTOMER BILLING AND COLLECTION

127 Crystal Alliance has been awarded a seven year outsourced contract to collect the water charges. The contract allows for a handover of existing non-domestic billing operations from November 2006 and a full billing and contact service from April 2007.

128 Crystal Alliance's vision with Water Service is

"To set up and operate a customer billing and contact handling service that focuses on the customer experience and enables Water Service to be self financing".

129 Crystal Alliance state they will achieve their mission via[46]:

- A modern, efficient customer relations central in central Belfast;
- A round the clock service
- Using integrated systems already in use in the Water Service
- Providing a single view of the customer
- Offering a range of payment channels

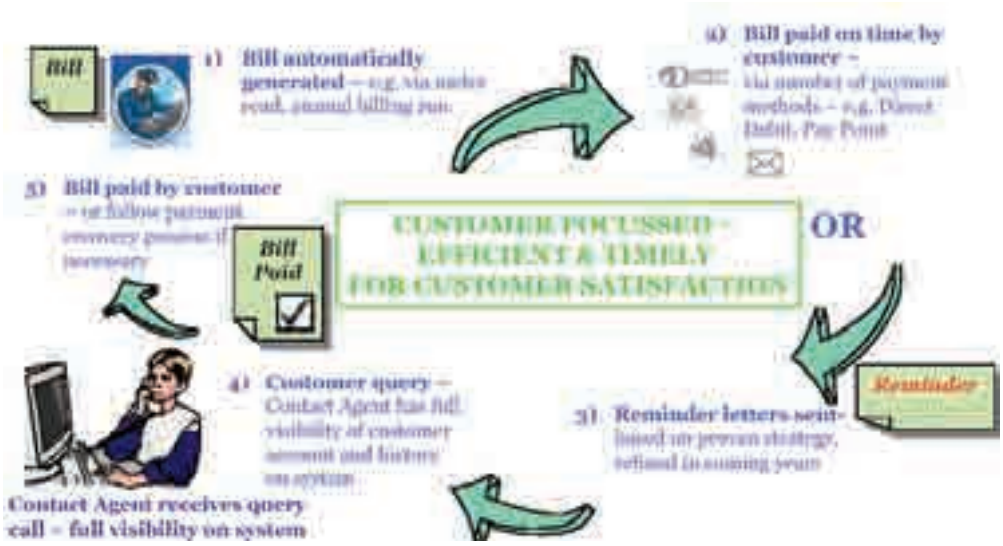
130 The future arrangements regarding customer billing and contacts will be subcontracted to Xansa (customer contact), Echo Managed Services (billing services) and AMT Sybex (mobile management solutions). In terms of greater efficiencies, Katharine Bryan, Chief Executive of the Water Service has estimated that the use of mobile management solutions would reduce staffing requirements by 180[47].

131 The contractor build costs and annual costs will be approximately £10m per annum which equates to £70m over the lifetime of the contract[48].

[46] Crystal Alliance presentation, Water Forum, 7 December 2006
[47] Katharine Byran, Water Service presentation, Water Forum, 7 December 2006
[48] DRD Briefing, An Information paper for the Programme for Government Sub Group on the CSR, Rate Charges and Water Reform, 11 December 2006

8.8. BILLING AND COLLECTION PROCESS

132 The customer will be able to avail of a number of payment methods and options in line with those offered by other utilities. The process of collection is illustrated below[49].



8.9. BAD DEBT – THE RECOVERY PROCESS

133 The Order places liability for domestic charges on owners. It will therefore be up to the GoCo to pursue bad debt by means of civil action. GoCo will be under close scrutiny from the Economic Regulator, and also by the Consumer Council, to ensure that it is being both proactive in facilitating payment of household bills, and rigorous in pursuing bad debt. This process will be managed by Crystal Alliance by way of a debt recovery strategy.

8.10. "AFFLUENT ACHIEVERS AND ROCK BOTTOM"

134 According to Water Service and Crystal Alliance, the debt recovery process is being developed and will evolve overtime. There has been

[49] Crystal Alliance presentation, Water Forum, 7 December 2006

recent controversy in the media over the terms proposed terms that Crystal Alliance intends using to categorise consumers in Northern Ireland. According to recent reports in the media, the Water Service, have grouped the population into categories that range from "affluent achiever" to "rock bottom", on the advice of Crystal Alliance. In August the Water Service informed the Consumer Council that it was planning to implement this system and although it now insisting that it will drop the labels, it is not denying that it will implement the system[50]. It has also been claimed in recent media reports, Crystal Alliance will pursue low-income households ahead of high-income households[51]. Householders could be taken to courts within seven weeks for unpaid bills but some will be given 12 weeks[52]. Concern has been expressed by the We Won't Pay campaign regarding the contract of Crystal Alliance. According to Ciaran Mullholland, of the campaign, Crystal Alliance is known for their hard-line approach and that is why they have been brought in[53]." In the same article, he goes to say that Crystal Alliance is now recruiting and advertising for debt collectors that are "assertive and resilient."

135 Since the meeting between the Consumer Council and Water Service in August, the Consumer Council has written to Water Service to enquire if the Water Service intends consulting on its debt recovery strategy and is awaiting a response[54]. In view of the concerns expressed regarding the intended strategy, the Committee may wish to seek further confirmation on whether the Water Service does intend consulting on its strategy before finalisation.

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[50] "Water charges will hit rock bottom first, Irish News, 30 November 2006
[51] Ibid
[52] "Water sale in 13 months," the Mirror, 29 November 2006
[53] "Hain jeered by protesters over water charges," Irish New, 1 December 2006
[54] Personal communication with the Consumer Council, 7 December 2006

8.11. WE WON'T PAY CAMPAIGN

136 Public service union NIPSA has advised his members not to pay the new water charges and will be setting up a legal fighting fund to defend non-payers. NIPSA solicitors have confirmed that the courts are effectively powerless to enforce water charging on the grounds that non-payment of a civil debt cannot result in imprisonment, a fine or criminal conviction. The We Won't Pay Campaign is also preparing to take on test cases[55]. Finally a phone poll of listeners to the Stephen Nolan show on Radio Ulster (3 December 2006) found that 93% would refuse to pay water charges. While this is not a scientific survey, it provides a flavour of the public mood at present which campaigners claim supports their own research.

[55] "Water charges will hit rock bottom first, Irish News, 30 November 2006

APPENDIX A: WATER CHARGES AND THE REGIONAL RATE

137 To understand how water services have been financed in the past, it is necessary to examine the changes to the nature and treatment of the regional rate. The regional rate is an unhypothecated tax raised on ratepayers in Northern Ireland. It was based on the NAV of domestic and non-domestic property[56] at a rate struck annually by the Department for Finance and Personnel and collected, together with the district rate, by the Rates Collection Agency.

138 Prior to 1991 the regional rate was used to fund public services in Northern Ireland. Between 1991 and 1999 a more complicated mechanism was put in place, whereby HM Treasury agreed that a large part of the regional rate was treated as a contribution towards the payment for water and sewerage services in Northern Ireland. This was beneficial to Northern Ireland as it increased the spending power in Northern Ireland because the Exchequer made a larger contribution to the region than otherwise would be the case. This arrangement changed again in 1999, when HM Treasury agreed that all regional rate revenue could be used to fund public services in Northern Ireland at the discretion of the Assembly. As that time, allocations for funding water and sewerage services became part of general allocation to the Department for Regional Development, and this continues to be the case.[57]

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[1] This information has been extracted from the Explanatory Memorandum to draft Water and Sewerage Services (Northern Ireland) Order 2006]
[2] Northern Ireland Act 2000 (Ch.1)
[3] Water Industry Act 1991 (Ch.56)
[4] Water and Sewerage Services (Northern Ireland) Order 1973 No.70 (NI 2)
[5] Water (Northern Ireland) Order 1999 No. 662 (NI 6)
[6]This information has been extracted from the Explanatory Memorandum to draft Water and Sewerage Services (Northern Ireland) Order 2006]

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[56] From April 2007, the region rate will be calculated on the capital value of a property at January 2005.
[57] ERINI 2005,*The Integrated Impact Assessment (IIA) of the Government's Proposals for the Reform of Water and Sewerage Services in Northern Ireland*, April 2005, Belfast

Appendix 3

Official Report

Wednesday 13 December 2006

Members in attendance for all or part of proceedings:
Mr David McNarry (Chairman)
Mr Leslie Cree
Mr Paul Girvan
Mr Raymond McCartney
Ms Margaret Ritchie
Mr Jim Shannon
Ms Kathy Stanton

Witnesses:

Mr Iain Osborne	Northern Ireland Authority for Energy Regulation
Mr John Corey	Coalition Against Water Reform
Ms Goretti Horgan	Northern Ireland Anti-Poverty Network
Mr Pat Torley	Water Service Trade Union
Mrs Eleanor Gill Mr Steve Costello	Consumer Council
Ms Katharine Bryan	Water Service
Mr Nigel McCormick Mr David Sterling	Department for Regional Development

The subgroup met at 10.30 am.

(The Chairman (Mr McNarry) in the Chair.)

1. **The Chairman (Mr McNarry)**: I welcome Members to this first meeting of the subgroup.

2. A paper from the water regulator is to be tabled. I apologise that Members are receiving it only now; the subgroup staff received it only yesterday.

3. I welcome Mr Iain Osborne, chief executive of the Northern Ireland Authority for Energy Regulation (NIAER). I regret that we are pushed for time; I do not mean to be dismissive, but perhaps you could keep your opening remarks brief. Members will benefit not only from your contribution but from your responses to their questions.

4. **Mr Iain Osborne (Northern Ireland Authority for Energy Regulation)**: Have Members received, and had an opportunity to read, the papers that I sent last night?

5. **The Chairman (Mr McNarry)**: Unfortunately, as a result of the delay in receiving the papers, Members have not had time to digest that material fully. As you speak, they will be reading through it. However, the material is now on record and will be of benefit to them.

6. **Mr Osborne**: I will summarise in one or two minutes what I have written. I apologise that the material arrived late. Events are moving quite fast.

7. I have two prefatory remarks to make. This is the first time that I have spoken to a subgroup of an Assembly Committee, and I am extremely pleased to do so. I wish to record my heartfelt desire that I might be speaking to Committees of the Assembly for years to come.

8. I also wish to clarify the status of my remarks. We are the Northern Ireland Authority for Energy Regulation. We will have no powers over water reform until the new legislation is passed. We have a consultancy contract to advise the Department for Regional Development (DRD), and some of the steps that we have taken over the past six months have been taken under that contract. In addition, I have made a number of statements in my capacity as chief executive about steps that I thought appropriate for the water regulator to take and about positions that I will be putting to my board when we have the powers. It seemed important to get certain statements into the public domain, although we recognise that, until

our powers become effective, we are legally restricted.

9. The paper that I have put before the subgroup essentially says that we have the powers to make the regime work for customers. It may not be the best water rate reform that could have been devised — given another three years, perhaps we could have done better. However, that is not the question. The question is, rather, whether the package will work for customers and whether it will be better than not proceeding with water reform.

10. Our view is that we have strong regulatory powers. Taken together, they are stronger than the powers enjoyed by the Water Services Regulation Authority (OFWAT) in Britain. Indeed, they are stronger than those of any United Kingdom utility regulator. I have previously worked in both energy and telecommunications.

11. In the paper, I have set out a number of areas in which the position has moved on significantly over the autumn. When I was first appointed, only six months ago, DRD's position was that our powers should be quite strictly curtailed, and that we should be in a position that I would not regard as being fully independent. DRD has rarely been given credit in the past few weeks, but it ought to be given credit for listening to the arguments and changing its position. It has come up with quite a robust regulatory regime.

12. We look forward to starting. In my paper I have mentioned three concerns. Two of them are about the transition. I had hoped to have more staff in place. We are now advertising for staff to manage the water aspect. Funding has been agreed, but we have not increased our staff as quickly as we wanted. I am happy to discuss the reasons for that. Our powers commence on 1 April 2007, which makes it harder to prepare.

13. The regulator should consider the issue of metering quite quickly, because we recognise the widespread concerns about capital values as a basis for charging, and, in the absence of meters, it is hard to determine a fair basis for water charges.

14. **The Chairman (Mr McNarry)**: Thank you, Mr Osborne; we are now open to questions from members.

15. **Ms Stanton**: If and when power is transferred, could you lower the regulatory capital value (RCV)?

16. **Mr Osborne**: We could if we thought that it was the right thing to do. The Government are using £1 billion as the basis for charges over the first three years. I have said that I will propose to the board that we use £1 billion as a starting point going into the next price control.

17. However, we must consider two things. The first is the amount of investment in the first three years. That investment will be significant, and it is appropriate that, in any regulatory regime, the capital value reflects the investments that have been made. Secondly, we must look at the sustainability of the financing regime that is put in place. If it appears to us, for example, that sticking to £1 billion would make the water company financially unsustainable, our statutory duties would require us to change that figure.

18. **Ms Stanton**: Is that how you would regulate the self- financing?

19. **Mr Osborne**: It must be financially sustainable, which is to say that we will look at the business as if it were a commercial entity, and we will look at the cost of capital being broadly benchmarked to commercial levels. The fact that this is a Government-owned company is not particularly relevant. We will regulate it as if it were a commercial company, and that means that if the initial cost of capital has been set at the wrong level, for whatever political reasons, we will not necessarily stick with it.

20. **Ms Ritchie**: My question is in three parts. What difficulties do you anticipate in regulating a self-financing system after 2010 when customers, as envisaged in the legislation, will pay for everything? What risks will customers face before 2010? What reporting arrangements will you put in place to advise the Northern Ireland Assembly, and the Consumer Council, about the performance and efficiency of the

new go-co in each year between 2007 and 2010 when you take on your full role?

21. **Mr Osborne**: It would be logical to speak about the first three years first and come to the first of your questions last.

22. Until 2010, the main risks for customers are the problems that are being stored up for after 2010. We ought to be concerned about water poverty and about environmental problems that are part of the backlog. The subsidy regime has been designed by people who know more about this subject than I do to take most of the edge off water poverty. We should ensure that the efficiency of the water service improves as it should. If it does not, and the company has been missing its efficiency targets by 2010, that will give us a problem going into the first price control regime. If the company remains substantially inefficient, water poverty will be all the more acute.

23. The reporting arrangements over the first three years are not set in stone. As a new regulator, we will be open to views on them.

24. The regulator will publish an annual report, which would be laid before the Assembly, and which will give an indication of how all areas of work are progressing. If it is seen that there is would be value in an additional publication, particularly on water, then I would be open to that suggestion. If the Assembly would like to discuss that matter with the regulator during the first three years, I would be happy to facilitate that.

25. The third question referred to the difficulties of regulating a self-financing system. Fundamentally, it is about the bare bones of what the business is doing, and how well it is doing it. If the business is substantially inefficient then it may get to the point at which the regulator is setting price controls on the basis that the company achieves efficiency but is missing its target systematically. In that context, a commercial business would be put under great pressure by its shareholders, and its management be might be expected to change. We will have to wait and see how the Government perform as a shareholder in that situation.

26. The finance package that has been put in place for the company is intended, in some ways, to duplicate the pressures of the commercial world. The rate of return has been set on the basis that it is, in some sense, the opportunity cost of the capital that has gone in — I understand that that is the rationale behind it. It is not completely clear at this point how well that will work in reality, and that will be a real difficulty if we run into the situation where, under the OFWAT regime, a company would be seen to be failing and the capital market would be imposing its own discipline on that company.

27. **Ms Ritchie**: Thank you for that information. Your answers reveal that this is a very unsatisfactory state of affairs. Have you yet received the ministerial guidance under which you will be allowed to regulate, and, if so, is it open to scrutiny?

28. **Mr Osborne**: There is no legal basis for the regulator to receive guidance, as the legal regime has not yet come into force. I have received assurances from the DRD; and Lord Rooker went on record in House of Lords on 11 December 2006 to say that the various authorisations needed to operate as a regulator will be given at the beginning of April 2007.

29. There is more than one set of guidance — there is a whole series. The regulator will expect Ministers to provide guidance about the balance required between environmental needs, social needs and customer prices. The approach in Great Britain has been that guidance has been given in stages, which grow increasingly precise as one works through the price control. I expect that Ministers will be providing the first set of guidance next spring, with the other two sets of guidance following in the following 18 months.

30. **The Chairman (Mr McNarry)**: Following on from what Ms Ritchie said, there is a distinct possibility that government could be provided by the Assembly. You said that you would wait to see how the Government would perform as shareholders, if they were facing a deficit. Please elaborate on that for the benefit for those who might be preparing to take over the reins of government?

10.45 am

31. **Mr Osborne**: This conversation is about the situation post-2010. If price controls are put in place, which will enable an efficient company to make a normal return on capital based on those prices, what will the shareholders' attitude be to the dividend if that company turns out to be inefficient? Will they expect it to be paid? What steps will they take to improve the company's efficiency? There is a range of steps — from giving the company a ticking off, to selling it. In a capital market situation, the shareholders could think about selling the company. This is not within the ambit of the regulator; it is very much a question for direct rule, or Executive, Ministers.

32. It would be helpful if people in Northern Ireland who will have control over the matter would start thinking about what they would do in such scenarios.

33. **The Chairman (Mr McNarry)**: Thank you for clarifying the matter.

34. **Mr Shannon**: Many of us feel that the emphasis is on setting tariffs at the same level as those in England in Wales, and the subgroup will be speaking to other people today who share its views. We feel that the level is being driven in order to keep the tariffs equal, rather than looking at the costs that will be needed to implement the system and the service. What is your view on that issue as it affects us until 2010?

35. After 2011, should water rates be greater here than they are in England and Wales, would you view that as failure?

36. **Mr Osborne**: For the first three years, the DRD will be setting prices, and those prices will be fixed in the licence that will be issued by the direct rule Minister. The regulator will set the prices from 2010. That is logical, because, otherwise, we would just be recycling subsidy if we were shaving prices that were held down by subsidy. Going back to Ms Ritchie's question, it is explicit that prices are being pegged to the levels in England and Wales as part of the effort to remove risks from the customer.

37. After 2010, prices will be set by the regulator through the normal regulatory process, which is cost based. If the company has not improved its efficiency to the point that it is at the same level as those in England and Wales, prices may be higher here than they will be in England and Wales. Prices may be higher here anyway because people in Northern Ireland use more water — for reasons I find quite difficult to understand.

38. I would see failure if the first price control set by the regulator does not allow for the investment that is required. Investment is badly needed to ensure that customer service standards and environmental standards in Northern Ireland are on a par with those everywhere else.

39. Whether direct rule, or Executive, Ministers want prices to rise is a question on which I am neutral. I would be happy to facilitate a continued subsidy regime after 2010 if Ministers choose to put one in place. As the regulator, I will be seeking to balance the long-term interests of customers, which require investment and funding, with their short-term interests, which are that prices should be kept as low as possible and consistent with investment.

40. **Mr Shannon**: I would view it as failure if the prices you set here were higher than those in the rest of the United Kingdom after 2010. That would concern the subgroup.

41. With regard to the tariffs here, are they being set at the level that will provide the service here, or are they being set at a level that is the same as that in England and Wales?

42. **Mr Osborne**: It is ministerial policy, not regulator's policy. I understand that they have been pegged to England and Wales for those three years so as to remove one of the risks from the customers, and that from 2010 onwards, for the first price control, NIAER will do that through a normal regulatory process based on an analysis of costs.

43. **Mr Shannon**: There is pressure on all of us to ensure that, but perhaps more so on the regulator. I have a few more questions to ask, if that is OK.

44. You said that the RCV is likely to be about £1 billion. Have you any views on the accuracy of that figure? Is there a danger that the RCV could be set lower — perhaps at around £600 million in the short term? What impact would that have in the long term?

45. **Mr Osborne**: I take it that by "accurate" you mean if we had done it on a normal commercial basis, looking at historic investments and depreciation?

46. **Mr Shannon**: Yes.

47. **Mr Osborne**: This is not an area that NIAER has looked at directly, but I am led to believe that if a normal commercial approach to setting the capital value of the agency had been taken, it would have been five or six times higher; £1 billion is very much lower than the value that a commercial approach would have arrived at.

48. That said, could it have been £600 million rather than £1 billion? That is a question for Ministers, in that they are setting the initial tariff package and providing the subsidy that covers the gap between prices and costs over the first three years. I have already described the approach that NIAER will take once we are setting prices, which will be a much more normal regulatory approach. There will be a starting point — whatever it is — plus whatever has been spent in the intervening period; then we will have a sanity check to make sure that the business can be financed and sustained on that basis.

49. **The Chairman (Mr McNarry)**: The Members of the Transitional Assembly want to get people like you to give evidence and bring forward your recommendations. The Members are keen to delve into this, and you can assist by giving answers to their probing and some guidance as to how to take these matters forward in the form of a report to the Programme for Government Committee so that it can take it into negotiations. If we pursue that dual purpose we can get a report that we will all find useful.

50. I am asking a lot; these people are used to probing, but this is not a court, so feel as free as you can to answer. We need guidance; we want to hear what you think is best. Some penetrating questions have been asked and your answers have been very useful. Mr Shannon has already picked up on your answer to the first question. We want to know what you think.

51. **Mr Osborne**: As I have already said, I think that the risks for customers in the first three years are quite substantially mitigated by the package that is already on the table. I hesitate to offer advice, but in terms of the amounts of money involved, if the RCV was successfully shaved from £1 billion to £600 million — and assuming that the cost of capital did not change — 40% of £58 million would be saved, which is £20-odd million. That is neither negligible nor an enormous amount of money.

52. It might be worth considering the situation beyond 2010 in more detail. If Northern Ireland Water Ltd (NIWL) does not succeed in reaching the efficiency levels achieved in England and Wales — which is to say that on the economics, prices ought to be rising higher than in England and Wales — will there be an openness to the continuation of a subsidy regime, particularly for vulnerable customers?

53. I hear two fundamental concerns time and again. The first is about water poverty, and a support regime for the poorest is something that we need to worry about for a long time to come — probably until the Northern Ireland economy as a whole is much stronger. The second concern is about fairness, and the regulator will consider, at a very early stage, what we can do to accelerate the move to universal metering. That is another issue that the subgroup may want to consider.

54. I understand why many people do not like using the capital value of properties as a basis for charging. However, in the absence of any data on how much water each household is using, it is difficult to see what would constitute a fair basis for pricing. Therefore, the way to deal with public concern is to introduce universal metering as quickly as possible.

55. If I were in the subgroup's shoes, I would focus on those two issues. I would concentrate

less on the capital-value issue than on the scope for a subsidy for vulnerable customers after 2010. Secondly, I would examine the issue of universal metering.

56. **Mr Shannon**: I am greatly concerned that the burden of costs seems to fall on the householder and domestic user. Everyone on the subgroup is concerned about how that will work. My worry is that if costs are in line with the rest of the UK, then they will be too high, and that there will be real trouble if they are greater than those in the UK by 2011.

57. I do not want to hog the available time for questioning, because I realise that other members must have their chance.

58. **The Chairman (Mr McNarry)**: Everyone is grateful to you for saying so.

59. **Mr Shannon**: Mr Osborne, does the current charging system meet the EU Directive to promote the efficient use of water?

60. **Mr Osborne**: Quite honestly, I am not sure that I have an answer to that question.

61. **Mr Shannon**: I agree that the question was somewhat pointed. Nonetheless, I would like to hear your comments.

62. **Mr Osborne**: We have not carried out any analysis on that topic. I have described our situation: we have limited resources as we are in a shadow regime. I do not know the answer.

63. **Mr Shannon**: The subgroup would be happy if you could come back with an answer at a later date, when you have had time to think about it.

64. **Mr Osborne**: Perhaps when we have the legal powers and resources, but that will be in the spring of 2007. If I promised to write to the subgroup with a quick answer, I would have to go back to the office and write to the DRD and ask for its view — and the subgroup could do that. I do not have the resources or the legal basis to spend a lot of money on water issues at the moment.

65. **The Chairman (Mr McNarry)**: Are you are saying that you will be able to address the question when the position changes?

66. **Mr Osborne**: I will be happy to take a view on that matter when, as regulator, I am in a position to do so.

67. **Mr Cree**: Good morning, Mr Osborne. Thank you for your report, which I have read a couple of times. I have a few questions arising from your submission. You refer to the draft Water and Sewerage Services (Northern Ireland) Order 2006 as being "reasonably robust". In view of the widespread concern about water charging, is the phrase "reasonably robust" good enough? Can you identify any further weaknesses in the draft Order?

68. **Mr Osborne**: Mr Cree, we have been asked to do a job. No one elected me, or any of my board members: we exist because of statute. If I were being asked to do a job in a way that I thought was basically unsustainable, I would be sitting here telling you that.

69. Frankly, the basis on which the job was being scoped last summer was unsustainable, and I warned the Department then that I would not go quietly. When I say that the framework is "reasonably robust" I mean that we now have the powers to move down the track towards bearing down on the company so that it becomes more efficient, because efficiency is at the heart of the issue. If we want to achieve sensible prices for water and sewerage, the company must be made much more efficient.

70. Only time will tell whether there are weaknesses in the draft Order. A piece of legislation cannot be judged to be perfect, because it "glitters" as it is being passed. It can be judged only on whether it does the job.

11.00 am

71. One of the good things about the current debate is that many people now understand the issues relating to utilities, including water, in Northern Ireland. That is not always the case. Utilities tend to be a 'Cinderella' subject. If the regime is failing two or three years down the track, many people will want to revisit it.

72. **Mr Cree**: It may be false to say that the framework is removing all of the risks to the consumer. On the contrary, it may just be

storing them up until 2010. What do you think about that?

73. **Mr Osborne**: That is not terribly different from what I said to Ms Ritchie.

74. **Mr Cree**: You referred to metering, which is an obvious bone of contention. You say that in the absence of universal metering, no charging methodology will be fully fair. I agree with that. You are to consult on metering in the summer of 2007. How do you foresee your findings on that consultation being enacted? What timescale do you see for implementing it, bearing in mind that it is the only way in which we can meet the EU Directive and ensure the efficient use of water?

75. **Mr Osborne**: There is a range of options available to a regulator. If in the second half of next year we decided not only that we wanted universal metering but that we could see a reasonable plan for moving towards it, we could do a great deal simply by having discussions with the company. If, for example, we made it clear to Northern Ireland Water Ltd that anything it spent on metering in the first few years would be covered by the first price control, we would be solving a problem for them as well as for the customers. We might be able to do it on a purely voluntary basis for the first couple of years.

76. We approve the charging scheme each year, and we could intimate that if the charging scheme did not reflect rapid movement towards universal metering, the company would have increasing difficulty in getting its scheme approved.

77. We could propose a licence condition; if the company chose to resist that licence condition, the whole question would have to go to the Competition Commission to be resolved. That would probably take six or nine months, so it is probably not the first option, but it is there as a backstop.

78. Those are all things that we could do in the first few years. In 2010, we will set the price controls. It would be reasonably straightforward to do that on the basis that the company would have relatively little economic option but to go down the metering route. It would not be able to recover its costs otherwise.

79. **Mr Cree**: Do you have a view on the efficiency improvements that you will expect from the company between 2007 and 2010? Have you any views on what might happen to the affordability tariff after 2010? Have you identified a real need among those people just above the benefits level who, because of the implementation of water charges and the review of the rating system, could well be forced into the poverty trap?

80. **Mr Osborne**: I do not have a number to give you regarding the progress we want on efficiency. If we had chosen to be intimately involved in the preparation of the company's strategic business plan, we might have a number in mind. It seemed to us that it would be better if we did not, as it were, give our seal of approval to the business plan, so we have not been involved in that. We have not yet gone through the careful benchmarking process that we will use, as part of the price controls, to get to those numbers. I have seen enough evidence to be convinced that the efficiency gap is very large indeed.

81. The issue regarding the people just above the affordability tariff bracket is primarily for Ministers. It is not a problem that will go away in 2010; in my view it is something that we should all be very concerned about. We would be very happy to facilitate an extension of the subsidy regime beyond 2010.

82. In energy regulation we have experience of a range of ways of dealing with affordability issues. NIE customers pay a levy, most of which is used to help customers who have difficulty paying for electricity. A number of schemes aer being developed. Broadly speaking, the water poverty agenda in Britain is less developed than the fuel poverty agenda, but nevertheless there are a few ideas in Britain. So, on the basis of our experience in energy there are a number of levy ideas that we could play with. The core of this is probably about the affordability subsidy, which is not something that we are in a position to put in place, although we would be very happy to facilitate it being extended.

83. **Mr Cree**: What about the band just immediately above those covered by the affordability subsidy?

84. **Mr Osborne**: In a way it is the same question. Who should have access to this subsidy and how do you structure it? It is not really a question for the regulator.

85. **Ms Stanton**: Is it not true that the people themselves are paying the levy towards the groups on the outside?

86. **Mr Osborne**: Yes, that is true. That is one of the things that limit the overall size of it. If you had a very large levy you would damage the overall competitiveness of Northern Ireland, although you would be able to help the poorest more.

87. **Ms Stanton**: It is not the private company giving anything away; it is the people themselves who are paying for it.

88. **Mr Osborne**: Under the latest network price control that we announced a couple of months ago, NIE — Veridian — has announced a fund for vulnerable customers that it will be funding itself. That is an innovation that is not yet in place.

89. **Ms Stanton**: It is still a reality that it is people themselves who are funding it. We cannot deny that.

90. **Mr Osborne**: The levy that is already operating is a recycling scheme. NIE has proposed something additional, which it will be funding itself.

91. **Ms Stanton**: Jim Shannon asked about the large fixed standing charge. It does not promote efficiency. Do you agree?

92. **Mr Osborne**: Yes, I do. In these issues one is always balancing different factors. It may be that a large fixed standing charge is cost-orientated, because there is a large fixed cost in serving a customer. The reason these questions are not simple and need to be consulted on is that you are balancing off different factors. Certainly a stepped tariff, for example, that did not have a fixed standing charge — if for the first volume you use you pay a relatively low price, and then it becomes more expensive the more you use — would be a much stronger incentive to efficiency. However, that too has impacts on different groups of customers.

93. **Ms Stanton**: It does not promote efficiency. None of the other models have proved that it promotes efficiency.

94. **Mr Osborne**: That is true.

95. **The Chairman (Mr McNarry)**: Thank you. The meter is running on this session.

96. **Mr Raymond McCartney**: Perhaps some of the questions we do not get to ask could be tabled for written replies.

97. I am sure you are aware that the Consumer Council took a judicial review about the consultation process, and the judge found that it was flawed. You submitted an email to the judicial enquiry in which you said you were not happy and suggested that perhaps the Department was deaf and stupid. We are meeting DRD this afternoon, so we would like to know whether the concerns that you had then have been properly addressed.

98. DRD has chosen the Go-co model, which is a commercial model for self-financing, but are there alternatives? I am sure you know that people are not happy with the Go-co model. A future Assembly would have to look at the other models, because Members feel that the decision to choose the Go-co model should be deferred. What implications would deferral have?

99. **Mr Osborne**: In my evidence to the judicial review, I set out the context in which my e mail was written. We did not take a view on the issues that were the subject of the judicial review; we left that to the judge. We intervened only because one side had introduced the e-mail and was co-opting our position. We wanted to make sure that our position was set out clearly.

100. I was hopping mad at that time as regards regulatory independence. The proposals on the table were unclear as to the date when the regulator would be given enforcement powers over water. I was also concerned about the draft licence in circulation at the time because it contained a number of provisions that would

have fettered us as regulator. I was particularly offended by the provision in the licence which stated that the regulator would have to pass through to the customer any costs arising from the PPP, regardless of whether it was efficient or inefficient. There was a whole suite of issues that I was concerned about in addition to that.

101. People may feel that I have had some kind of Damascene conversion since then, but I do think that it is reasonable to give DRD credit for changing its mind on those issues. The licence, as circulated for consultation, gives the regulator a strong and complete suite of powers, and DRD has been clear that the commencement of our enforcement powers will be immediate, in April 2007.

102. What was your second question, Mr McCartney?

103. **Mr Raymond McCartney**: It was in relation to the Go-co model.

104. **Mr Osborne**: I would refer the subgroup to a review carried out by a consortium led by the UBS Investment Bank in 2004-05, which considered the different models that could be used for water reform. I cannot remember whether that review included keeping the status quo as one potential model.

105. However, the consortium considered the options of a Government-owned company; a Government corporation; a partly privately owned company, and a fully privately owned company. Anybody with ten minutes to spare and a blank sheet of paper could figure out the options. They came up with an analysis, which I think is correct, and concluded that the closer you get to a fully privately owned company — such as the GB model — the stronger the pressures for efficiency will be. The consortium recognised that there were a number of other pressures — and I think that the Government opted for the Go-co model on that basis.

106. If the Assembly wants to revisit that question I would suggest that Members read the consortium's report. From the regulator's point of view, it makes relatively little difference who owns the company, because we will regulate it as if it were a commercial company. We will use the same cost-of-capital benchmarks and the same approach to efficiencies.

107. **The Chairman (Mr McNarry)**: Are you saying that as the regulator you would make no difference in how you regulated a Government-owned company and a commercial company, or would your approach to the latter be different, because you would expect inefficiencies from a Go-co?

108. **Mr Osborne**: We would regulate them both the same, more or less. However, the likelihood of encountering the difficulties that I mentioned earlier — failing to hit targets — would probably be higher if the company were Government owned. There have been four price reviews in GB, and the regulator there has set targets that have seemed, at the time, challenging, because the company is under strong pressure from its shareholders. However, the company has not only hit the regulator's targets, it has exceeded them.

11.15 am

109. I want shareholder pressure to come from the Government to the shareholder, and we will have to see how well the Government perform that role.

110. **Mr Raymond McCartney**: Do you believe that it is the best model? Are there alternatives or is the suspicion that the Go-co is the easiest model to privatise?

111. **Mr Osborne**: I am going to duck that question, as it is political. The UBS analysis is right in that the efficiency pressures are stronger the further into the commercial world you go. As a citizen, I recognise that that is not the only criterion, and that the other criteria are essentially political. Therefore I give the question back to you.

112. **Mr Raymond McCartney**: Do you feel that the break-even date of 2010 can be stood over?

113. **Mr Osborne**: In what sense do you mean "stood over"?

114. **Mr Raymond McCartney**: Will the company break even in 2010?

115. **Mr Osborne**: If you are asking whether it will have reached efficiency levels such that the prices can compete with those in England and Wales, I do not know; we will have to wait and see.

116. **Mr Raymond McCartney**: We are to put those claims to DRD this afternoon. The broad question in the first instance was about consultation. People, including the Consumer Council, are saying that it became obvious during the judicial review that the Department was consulting because it was told to do so, but that it did not listen to people. That is why I ask whether this is the best model.

117. **Mr Osborne**: The judge has spoken about that, and I do not have much more to add.

118. **The Chairman (Mr McNarry)**: I need your co-operation, for we have eight minutes.

119. **Ms Ritchie**: Mr Chairman, I have a short question to ask.

120. **The Chairman (Mr McNarry)**: Do you promise to keep your question short, Ms Ritchie? The less we waffle, the more quickly we get the questions asked.

121. **Ms Ritchie**: Mr Chairman, there has been much discussion about how the Water Service intends to collect its debt and how it has impugned people's integrity. Such presumptions should not have been made about anybody's ability to pay or not to pay. Has the regulator any concerns about how the draft licence proposes to deal with bad debt? Would the regulator have any role in relation to lands and assets owned by the Water Service that could be disposed of over the next three years?

122. **Mr Osborne**: It was stupid to call the customers names; it is certainly not a commercial thing to do. We will expect the water company to apply commercial best practice to debt collection with the kind of process that is used across the economy as a whole. You do not hear of banks or companies that sell furniture on hire purchase calling customers rude names; it was a crass thing to do.

123. The licence is quite high-level; it incentivises the company to be commercial as it will have to pick up the first element of bad debt. Five percent of the revenue is quite a lot of money, and if the company fails to collect that money that will be its problem. Recognising that there is potential for widespread non-payment, the proposal is that it be rolled in to the regulatory capital value. The proposal is a compromise. One cannot allow large-scale non-payment to threaten the viability of the business, as it has to operate and provide a vital service to society. That means that most customers would end up paying for non-payment by other customers.

124. Above all, we have to deal with uncertainty. We do not yet know the value of the assets held by the company that are not needed for service delivery. I recall an analogous situation with the electricity company 15 or 20 years ago. We had a nasty shock when the value of the asset turned out to be a lot more than was expected. However, that situation was not managed properly.

125. I am therefore pleased that the water company will have to provide an annual report that details its intentions of what it proposes to sell. The licence allows no scope for sweetheart deals. The company has to show us that it has achieved an appropriate market value on each sale.

126. That will prevent any fire sale, or accelerated selling of land early on, perhaps to avoid payment of the subsidy. Once we have a business-as-usual situation, from 2010, the expectation is that there will be a 50:50 split between shareholders and customers. That approach is used in England and Wales, and it seems acceptable. Broadly speaking, I am comfortable that we have the powers that we need to avoid another Danesfort situation.

127. **Ms Ritchie**: Do you not think that, as the regulator, you are too wedded to the Department?

128. **Mr Osborne**: I do not accept that we are wedded to the Department. My office is a creature of statute: no one has elected me. If, a year from now, the Assembly chooses to change

the regime, I will happily work under a new legal framework. I will not work to counteract the wishes of this Assembly any more than I actively work to subvert the wishes of Ministers at the moment.

129. **The Chairman (Mr McNarry)**: Is your question about licensing, Mr Shannon?

130. **Mr Shannon**: No, it is about metering.

131. **The Chairman (Mr McNarry)**: I understand that the licence provides for reference to the Competition Commission. In the event that Northern Ireland Water Limited (NIWL) disputed a price limit that the authority set, what would be the Competition Commission's role and powers? Are you in a position to clarify that?

132. **Mr Osborne**: I am. Price controls are complicated animals that are made up of many elements. Essentially, the Competition Commission could unpick the whole package and change individual elements, or it could change the whole thing if it wanted to. The commission would essentially substitute its view for that of the regulator; it has quite a broad remit. It also tends to use a straightforward, economics-driven approach, without much sympathy for local factors.

133. **The Chairman (Mr McNarry)**: What about efficiencies?

134. **Mr Osborne**: The Competition Commission's traditional approach has been to pull in evidence from the company and the regulator about why each believes that one level of efficiency as opposed to another is achievable. The commission then takes a view that is based on the expertise of the people with whom it deals. The process is a little unpredictable.

135. **The Chairman (Mr McNarry)**: Everything seems unpredictable at the moment. That is why we are probing the issues, but I hope that we get to the bottom of some of them.

136. **Mr Shannon**: If, at some stage, the Assembly wanted to introduce universaI metering, would legislation be necessary, or could the regulator implement it without having to ask the Assembly?

137. Also, at what percentage of the average would a standing charge be set? Would it be at the level that has been set in Scotland or at that which has been set in England? I am keen to hear your opinion.

138. **Mr Osborne**: In answer to your first question, the Assembly could legislate for universal metering, or we could do it without further legislation. Either would work.

139. **Mr Shannon**: Could you do it without the approval of the Assembly?

140. **Mr Osborne**: We could.

141. **Mr Shannon**: If the Assembly were in place would you not introduce it?

142. **Mr Osborne**: I am not saying that. If the Assembly strongly opposed universal metering, we would have to think carefully before we introduced it.

143. Anything we do must be demonstrably in order to fulfil our statutory duties, and not just because it is something that we think is good to do. If we did think that it was an exercise of our statutory duties, then we should do it. We have the powers to push through universal metering. Sorry, what was your second question?

144. **Mr Shannon**: The metering option — would the starting average be similar to Scotland or similar to England?

145. **Mr Osborne**: I do not have an answer to that. That is a question about what DRD is putting in place, and I do not know. I would be happy to write to you with the answer to that.

146. **The Chairman (Mr McNarry)**: As usual, when we come to the end of something, we wish it were the beginning. I would love to have a long conversation with you about what you just said about metering. We are grateful to you for coming here. Thank you for your openness and frankness. The Members have asked that some information be solicited at a later date in writing, and we are grateful that you have agreed to that. I sense that we will see you again, in some or other guise. Many thanks,

on behalf of the Committee, for coming and making your presentation to us.

147. **Mr Osborne**: I am happy to help, and happy to come again.

148. **The Chairman (Mr McNarry)**: Members, the next evidence is from the Coalition Against Water Charges. I refer you to the written submission received from the coalition, and that of the Northern Ireland Anti-Poverty Network, which is part of the coalition. I assume that you have not had time to digest these either, so perhaps we need a few minutes of speed reading.

149. We will hear what they have to say, and then take questions.

150. You are welcome, and thank you for taking the time to come to the subgroup. The Committee would like to hear a brief introduction, and, without sounding rude, I emphasise the word "brief". We are pushed for time, but we are on schedule, so it will be your fault if we miss lunch, and we have no intention of doing that. If you could open with your brief remarks, the Members are finding that the greatest benefit in these sessions comes from asking questions and listening to your answers.

11.30 am

151. **Mr John Corey (Coalition Against Water Charges)**: I represent the Northern Ireland Committee of the Irish Congress of Trade Unions and the Coalition Against Water Charges. It is in the latter capacity that I speak to the subgroup today.

152. I want to set out the four principal reasons why we have opposed the introduction of household water charges and why we intend to continue to oppose it.

153. First, it is a fundamental human right that every home should be supplied with clean water by the state; it should not become a commodity to be bought and sold like any other. People must have clean drinking water supplied for their public health. Consequently, we do not accept that it is right that the provision of that fundamental service should be on the grounds that a person has to pay for it through an annual bill. That is fundamentally wrong.

154. Secondly, we reject the Minister's recent protests that the people of Northern Ireland are not paying for the current water service. The Minister said in media broadcasts and press articles that people have not been paying for water through the regional rate since 1998, at which point the regional rate element for water was 37% — a figure of £127 was quoted.

155. I do not remember — and I am not sure if anyone else remembers — being consulted at that time about such a fundamental change in our public finance arrangements whereby people no longer contributed towards water services in Northern Ireland. I refer the subgroup, and also the Minister, to a report prepared by the Economic Research Institute of Northern Ireland (ERINI) in response to the Government's public expenditure programme, which highlights and explains that in the 1990s the people of Northern Ireland contributed up to £1 billion towards the cost of investment in their water service, but that money was never invested in the Water Service. We are arguing on two grounds that the introduction of water charges requires people to pay twice: once because they are already paying, and twice because the money that they paid previously was not invested.

156. Thirdly, the trades unions believe passionately that water should remain a public service, and they reject Ministers' statements that say they do not intend to privatise the Water Service. My colleague from the Water Service trade union may explain that privatisation is already taking place within the Water Service. However, why go to all the trouble of bringing in water charges if not for the purpose of introducing privatisation? In response to a recent request under the Freedom of Information Act 2000, we discovered that £18·5 million has been spent on consultants in the water-reform exercise. That must all be for a purpose, and we believe that that purpose is privatisation.

157. A letter dated July 2004 from the then Secretary of State to the Chief Secretary of the

Treasury at that time — referring to a meeting between the Secretary of State and the Chief Secretary of The Treasury — stated:

"At our meeting on 17 June 2004 you said there needed to be an independent assessment of all the financial options for the water industry in Northern Ireland and privatisation must not be ruled out in the medium term."

158. That was the Treasury's view in 2004 and I have seen nothing since then to indicate that its view has changed. We believe that the introduction of water charges is ultimately for the purposes of facilitating privatisation.

159. The fourth point is that water charges are a regressive tax. The introduction of household water charges will negate the positive impact of the change to the domestic rating system, which is a progressive tax inasmuch as, although there are exceptions, those who can afford to pay more will pay more. The positive impacts of the changes to the domestic rating system, with respect to equality and targeting social need, will be negated by the introduction of water charging.

160. Water charges are a regressive tax because those who are well off will not pay proportionately more than the poorest in society. I am sure that my colleague will pick up on that point.

161. Those are the four reasons why we have opposed water charges from the beginning and will continue to oppose them.

162. I would like to make some brief points about the events of the last month or so. First, we are very concerned about the Government's publicity campaign for water charging. Goodness knows how much is being spent on that campaign. There are newspaper advertisements, booklets to every home, television advertisements, billposters etc — the cost must be enormous.

163. We are concerned that the Government is not providing the public with accurate information about water charging. The banner headlines are that the bills for water charges will be £100 and £30. However, what is not being made clear to the public is that those bills are only, in the Government's terms, for the short transitional period of two years.

164. If one takes the trouble to read the Government's leaflet, one will see that, for example, on the basis that published data indicates that the average price of a home in Northern Ireland is now in excess of £162,000, the water charges for a home worth £160,000 will be £390 per annum.

165. Therefore, the truth is that the Government are introducing water charges that will cost householders up to £400 per annum; not £100 or £30 as indicated in the headline figures. We believe that it is wrong for the Government to be publishing a picture to the public that is different from the real picture.

166. I wish to make one last point on current events so that there are no misunderstandings. The trades unions in Northern Ireland intend to campaign against the introduction of water charges, and they intend to take the unprecedented step of urging people not to pay water charges. We recognise that it is a big step for the trades unions, but we believe that we are right and that we are justified in challenging the Government on their proposals to introduce water charges.

167. **The Chairman (Mr McNarry)**: Thank you for your presentation. Our task is to tempt you into giving us some recommendations, proposals and guidance, which you can hopefully address through the questions asked, to help us compile a report that will be sent to the Programme for Government Committee. That is very important to us.

168. I understand the challenge that you have laid down as regards Government propaganda — or perhaps it would be more correct to say Government information. That is something that the subgroup may or may not wish to address.

169. With the subgroup's indulgence, I will steer members away from some particular activities that you may be promoting, because this is a subgroup of the Assembly. What you have said has been duly noted; it is on record, and it could not have been clearer. However, the subgroup must address its remit, and should

members want to explore certain issues with you, I will ask them to steer away from those so that we can get some ideas from you.

170. **Mr Corey**: Would it be possible for my colleagues to make a short contribution? We will be guided by the subgroup.

171. **The Chairman (Mr McNarry)**: I do not wish to deny you that opportunity, but there is the time factor to be considered. If you wish to say something that you feel is new and has not been on record before, then it will be deeply appreciated by the subgroup. Having said that, I know how it is when you have made the effort to come here and have prepared something that you want to say. It would not be right to deny you that opportunity. However, I would ask you to be brief, because it is your time. Our job is to try to get inside your heads. In what order do you wish to speak? How is your first name pronounced, Mrs Horgan?

172. **Mrs Goretti Horgan (Northern Ireland Anti-Poverty Network)**: It is Goretti. Think spaghetti if you are confused.

173. **The Chairman (Mr McNarry)**: It is nearly lunchtime.

174. **Ms Horgan**: I have a couple of quick points. The first concerns the so-called affordability tariff.

175. The Northern Ireland Anti-Poverty Network is very concerned about the basis of the affordability tariff, because we believe it to be very misleading. The explanatory memorandum accompanying the legislation makes it clear that the tariff is based on the single person pension credit guarantee, which is £114 a week at present. Forty per cent of the people who are dependent on state benefits in Northern Ireland are single adults without children. They receive less than half of that amount, which is less than £57 a week. Those people are going to be plunged deeper into poverty, even with the affordability tariff. We really need to put that on record, because it marks a return to the idea of the deserving and the undeserving poor.

176. My second point concerns the dishonesty of the Government's propaganda campaign. Our members live in some of the most disadvantaged parts of Northern Ireland, and yet none of them have been able to find a house that is worth as little as those in the lower three or four bands in Water Service's explanatory leaflet. I defy anyone to find a house worth £20,000, £40,000 or £60,000, even in the most disadvantaged areas.

177. Finally, a recent report entitled 'Monitoring Poverty and Social Exclusion in Northern Ireland 2006', published by the Joseph Rowntree Foundation, a UK-wide organisation, shows that the levels of income poverty here are likely to soar with the introduction of water charges and the rate increases, because our housing costs have traditionally been lower than in other parts of these islands. The report clearly shows that the new charges will greatly deepen poverty levels.

178. For that reason, the Northern Ireland Anti-Poverty Network will be supporting the water charges non-payment campaign. Our members — over 300 voluntary and community groups — have made it clear that they think that the campaign is necessary in order to ensure that a revenue stream attractive to private corporations will not be established. We must not replicate the situation in Britain in which people are paying huge amounts of their income towards water charges.

179. **The Chairman (Mr McNarry)**: Thank you, Goretti, you have done very well, because not only have you got your contribution into Hansard, you also have it in your submission. Pat, can you help us as regards time?

180. **Mr Pat Torley (Water Service Trade Union)**: I will be brief. I speak more from the industrial perspective. We all know that the plan is to convert Water Service into a self-financing Go-co by April 2007. In order to do that the Government must be making some sort of profit to, allegedly, put back into the infrastructure. Of course, they tell us that they do not have the expertise. So how do they go about it? They bring in another bunch of consultants.

181. The consultants that they have brought in this time are the Union Bank of Switzerland (UBS), the Royal Bank of Scotland, National

Economic Research Associates (NERA), Halcrow Water Services (HWS) Ltd and Deloitte. That consortium came up with the financial and strategic review of Water Service.

11.45 am

182. I am sure that no one is surprised that their conclusions pointed to full privatisation. We know, and they know, that there was major opposition to that, so they went about matters in a different way. At present, there are two private finance initiative (PFI) projects being undertaken by the Water Service. The first is the Alpha project, which will put nearly 50% of clean water treatment in Northern Ireland in the hands of a private company. Dalriada Water has told us that out of the 80-odd people who are currently employed in the process of water treatment in Northern Ireland, it will retain around 15. All other requirements will be outsourced.

183. The second PFI project is named Omega. That will privatise around 20% of wastewater treatment in Northern Ireland. We know that there are around 30 people working on that project. The company, Glen Water, still has not told us how many people, if any, it will retain. Owing to those projects alone, upwards of 100 jobs will be lost. They will cost £270 million. Another contract has been issued for outsourcing customer billing and contacts.

184. It is interesting that the Water Service put billing before contacts. In effect, that means that if customers have a burst pipe or a dirty water problem, and phone the Water Service to complain, they will not be speaking to a Water Service employee; they will be speaking to the employee of a private contractor named Crystal Alliance. Further down the line, as part of that contract, a system called mobile work management will be used. Water Service management have told us that, initially, that will cost 182 jobs. We asked them how they came to that conclusion, and they told us that it was an estimate, working out at 22 supervisory staff, 24 administrative support staff and 136 industrial operatives. That seems to be a detailed estimate.

185. Since April 2004, 66 industrial staff have retired from the Water Service on age or medical grounds. None of those people has been replaced. However, the work that those people did still must be done. If you have a burst pipe in your street, and you ring Water Service in order to get it repaired, the likelihood is that a private contractor will repair it.

186. The average age of a Water Service worker is between 50 and 55. Many of those people have in excess of 30 years' service. However, we are told that when the Water Service becomes a Go-co, they will no longer be eligible to remain in the principal Civil Service pension scheme. Therefore, Northern Ireland Water Ltd will set up its own private pension scheme specifically for those people. A company does not have to be floated on the London Stock Exchange in order to privatise it. That can be just as easily done through the back door.

187. **Ms Ritchie**: John, Pat and Goretti, you are welcome to our meeting. I appreciate the fact that access to water is a basic, fundamental right, irrespective of where someone lives or of his or her income. It is an undeniable right. Everyone should have access to water. However, I am sure that you would agree that the £18·5 million that was spent on consultancy and preparation for water charges and reform, and possible privatisation —

188. **Mr Cree**: Margaret, could you speak up a little?

189. **Ms Ritchie**: Sorry; I was not aware that I could not be heard.

190. **The Chairman (Mr McNarry)**: You do not usually have a problem in that department.

191. **Ms Ritchie**: No; not usually.

192. Notwithstanding the position that water is a fundamental basic human right and that we should all have direct access to it, irrespective of our income, would the members of the Coalition Against Water Charges agree that the £18·5 million that was spent on consultants would have been better invested in water services? Can they elaborate on the Economic Research Institute of Northern Ireland (ERINI) report, which demonstrated that funding was provided previously, but was not properly

invested in water services? I take on board that you have stated that the additional cost of the activities of DRD, the regulator and the Consumer Council will be at least £4 million per annum and that that cost will be passed on to consumers.

193. Do you have any concerns that the additional cost of establishing the go-co with separate personnel and finance arrangements as well as the costs of establishing the charging regime and the bad-debt collection service that you mentioned will add considerably to the overall costs and consequently be passed on to customers?

194. **Mr Corey**: I will lead off on the answer, and my colleagues may add points.

195. We absolutely agree that spending £18·5 million on consultants is unacceptable and, in many ways, inexplicable. Expenditure on consultants by the public sector in Northern Ireland requires serious investigation and examination. The revelation that £18·5 million has been expended on this project alone is deeply worrying. That money would have been better spent on water service investment.

196. I do not have a copy of the Economic Research Institute of Northern Ireland's (ERINI) report, but I will provide the Clerk with a reference for it. My recollection is that the ERINI report was prepared in response to the departmental budget plans for Northern Ireland Departments. The report contained an analysis of the public expenditure regime in Northern Ireland, which was quite illuminating in explaining how public finances operate. The author of the report concluded that, during the 1990s, the Northern Ireland public contributed more than £1billion towards water services. However, that money was never invested in water services but was used for other purposes instead.

197. I will emphasise our main point: the people of Northern Ireland have already paid for investment in water services, but that money has not been invested in water services. Establishing the Go-co will involve associated costs and will create an impact, and Ms Ritchie is right to raise the issue of how those costs will be passed on to consumers.

198. Crystal Alliance has been awarded the billing contract for water charging. That company has signed a £70-million contract to provide a billing service and customer-relation service. As Pat Torley explained, it will be Crystal Alliance that customers will have to contact. That is a further privatisation of water services. A few weeks ago, the BBC published Crystal Alliance's views and attitudes on the treatment of customers. If Crystal Alliance maintains those views and attitudes, the impact of water charges will be deeply worrying.

199. Northern Ireland does not need water charges. We believe that it would have been appropriate to continue collecting the public contribution to water charges through regional rates. As I said in my opening remarks, that method at least ensured a progressive system of contribution, unlike the regressive system that separate water charges will entail.

200. **Ms Ritchie**: Is the coalition concerned that the water regulator will not be involved in setting charges until 2010?

201. **The Chairman (Mr McNarry)**: If I may interrupt for a second, can we try to ask questions that will pick the coalition's brains? They have outlined where we are; we know where we are, and we share common concerns. Mr Corey can, by all means, answer the question; but the purpose of this meeting is to get an idea of where we are going and to discover what the coalition can bring to the subgroup. If we accept the coalition's arguments, we can make them right at the top.

202. You have a little latitude, John. I am sure that that will not be difficult for you.

203. Would you like to ask your question, Margaret?

204. **Ms Ritchie**: I am being circumscribed in what I can ask. The aim of my second question was to delve into the coalition's mind to find out whether there were any concerns on the back of the previous submission, which related to the role of the regulator in setting charges.

205. **Mr Corey**: We have not addressed the role of the regulator in detail at this stage, principally because, as the regulator has stated, he has no role until 2010 at least. Therefore it is not feasible for the regulator to contribute to the debate on setting water charges. I ask the subgroup to bear in mind our perspective on this matter.

206. Our perspective remains that the proper course for the Government, and any devolved Administration, is not to proceed with household water charges.

207. **Mr Shannon**: Obviously, the Water Service has many assets. What should those assets be used for? Should they be sold off and the money reinvested in the system? Many assets will be identified over the next two years, and we are keen to know your opinion on what should happen to them.

208. **Mr Corey**: In broad policy terms, trades unions accept that unused Government assets, be they buildings or land, should be used to assist the provision of other public services. We have no fundamental objection to that proposition.

209. There is a danger, however, that the assets owned by the Water Service are becoming part of the argument about the potential privatisation of the service, and whether those assets are attractive, or perceived as being attractive, to any companies or other bodies bidding to take over the Water Service. We are deeply concerned about that. Following that logic through, it almost suggests that that should be avoided and that the Government should sell off all unused assets so that the public purse, and the public in general, can benefit.

210. I do not have details of the exact assets involved, how easily they could be disposed of and whether they could be disposed of quickly. However, that is my instant reaction to the question. Mr Torley may have some points to add.

211. **Mr Torley**: An article in a newspaper a few weeks ago said that a number of Water Service assets were to be sold off, with the money being reinvested to deal with education, hospitals and so on. I have noticed that schools and hospitals are also going down the public finance initiative (PFI) route, so money is not being invested in those sectors either. The Government are taking money from the Water Service, allegedly to reinvest it in health and education. Blatantly, that is not happening; neither is the money being reinvested in the Water Service to try to rebuild the infrastructure. My personal opinion is that we are hearing more spin from Government.

212. **Ms Horgan**: Once the legislation is in force and the Go-co is established, any money that is made from selling off assets will not be public money — it will be private money. Therefore, that money will not be able to be used for further borrowing against further infrastructure development, under the reform and reinvestment initiative (RRI). That is a really important point, which is often lost in this debate. From the moment that the Go-co is established, all money that accrues to the Water Service, from wherever it comes, whether it comes from us as private citizens, or from the sale of assets, will not be able to be used for the greater public good. One reason the coalition is united against the privatisation of the Water Service is that everybody will lose out as a result — except, of course, the shareholders.

213. **Mr Cree**: Can I clarify something for accuracy? Under the licence, any profits made after 2010 will surely be shared, if there is anything left in 2010 after the disposal of assets.

214. **Ms Horgan**: From the legislation, that is unclear. Any profits will certainly be private money, because the Go-co will be a private company. That is made very clear in the legislation and the explanatory memorandum.

215. **The Chairman (Mr McNarry)**: Mr Cree, your remarks have been noted as regards accuracy.

216. Are there any further questions?

12.00 noon

217. **Mr Shannon**: John, you have mentioned your position in the union and the coalition and where you stand on policy. Does the coalition consider that water metering is out of the

question as a possible means of paying water charges? Some people have told us that they would not mind paying for water because they do not use much. Others have said that there is no way that they would pay for water. My point is that there is a diversity of opinion. Given that diversity, I am keen to hear your opinion on metering. Perhaps there must be diversity in the strategy on how to fight it as well.

218. **Mr Corey**: The coalition's opposition to metering is clear and logical: as we are opposed to water charges, neither would we want meters to be installed at a huge cost. I cannot recall the precise cost, but it is significant.

219. Furthermore, the Minister and the Government are playing on the fears of pensioners in relation to the issue of metering. Pensioners worry intensely about having to meet the cost of any household bills. The Government's ploy of announcing that they will install meters for pensioners deliberately plays on those fears. It is disgraceful.

220. In addition to the reasons that I have outlined, the coalition is opposed to metering because of the sheer cost of installing meters: that money would be better spent on investment in water infrastructure.

221. **Ms Horgan**: I have a further point to make against metering, from an anti-poverty point of view. Research in England and Wales has shown that the most disadvantaged people, particularly those with large families or with disability in their families, suffer most as a result of metering. That is the main reason for our opposition to metering. In fact, a report by Save the Children shows the extent to which such families, who need a lot of extra water for washing sheets etc, end up paying an awful lot more because of metering. I can provide that report to the subgroup, if it so wishes.

222. **Mr Shannon**: Do you feel, therefore, that metering will mean that many more people will fall to the poverty level?

223. **Ms Horgan**: Precisely; particularly large families and families with disability, who require extra water.

224. **The Chairman (Mr McNarry)**: A highly significant point is emerging. Iain Osborne appeared to be encouraging a form of universal metering; now we have been given an opposite view. No doubt the subgroup will note that.

225. Ms Horgan, your submission says that:

"We believe that even quite large increases in rate bills — based on ability to pay — in order to meet the investment needs of the Water Service would be acceptable since people would know that their money was not being used to boost private profit."

226. Will you elaborate on that? Can you put a figure on the increase in rates that you propose? Have you done any work to back up the idea that people would accept an increase in rates? That was a surprising statement.

227. **Ms Horgan**: No. The vast majority of people are sensible enough to realise that the water and sewerage infrastructure needs to be improved and that that must be paid for. The public has already paid a lot of money that has not been used for its stated purpose.

228. We consult our members all the time, and their main fear is that water charges will rocket after privatisation, as has happened in other places, such as Britain. Therefore, people would be happy enough to pay a bit extra in their rates bills.

229. We have not carried out any work in that area, but the trades unions have estimates and have commissioned research from England on this matter, so I will hand over to John shortly. Based on those estimates, we believe that it is possible to pay for the additional work that needs to be done without impacting too much on the poorest in society. One advantage of the rates system is that anybody who is poor enough to be on housing benefit has their rates paid through that benefit. Therefore, the poorest in society, be they pensioners or families, are protected. That is why we will continue to support the proposal for payment of water charges through the rates.

230. **Mr Corey**: I am checking my papers to see whether I can give the Committee an exact figure. In 2003, we commissioned research

from David Hall, an academic from the University of Greenwich who specialises in water issues. He calculated at that time that adding £35 to every domestic rates bill would provide, over a period, the extra revenue needed for the estimated infrastructure investment. I am looking at pages 8 of 17 of Dr Hall's document, but that figure has not been updated.

231. However, Goretti's principal point is the same as my earlier point. We do not argue that people should not contribute to the cost of water services through the regional rates system. Using that payment system would not contribute to private shareholders' profits. However, we object to the water charges system because it means that people are paying towards the profits of a private company — and we do believe that the Government intend to privatise the service.

232. **The Chairman (Mr McNarry)**: These proceedings will be completed in a couple of weeks, but I would be grateful, John, if you could provide the Committee with an update on that figure, if possible.

233. **Mr Raymond McCartney**: I want to pick up on the point about privatisation. The opinion seems to be that the Go-co is a launching pad for privatisation. Have similar situations arisen elsewhere?

234. **Mr Corey**: I cannot immediately think of an occasion when a Government have established a Go-co that has eventually become a privatised company. Certainly, it is in my mind that that has happened before, but we are basing that contention on what has already been said and done.

235. For example, Pat referred to the report undertaken by the consultancy group that was organised by the Department, which followed the correspondence to which I referred in my opening submission between the Secretary of State and the Chief Secretary of the Treasury. The Government organised the consultancy group to assess the position. Given the make-up of the group, it was not surprising that its conclusion was that the Water Service should be privatised. The Government's response was that they did not believe that it would be popular or politically acceptable at that stage to privatise the Water Service, but they decreed that that decision would be reviewed in 2008. Based on the Government's statements to date, the plan is to examine the water Go-co again in 2008, with a view to introducing private sector involvement then.

236. **Mr Raymond McCartney**: David has already mentioned the coalition's campaign, which is obviously a "can't pay, won't pay" campaign. An incoming Assembly would have difficulty with that problem. How will you gauge the response to your leaflets in terms of how many people will not pay for their water? Would you need a certain number of people to make the campaign a success?

237. **Mr Corey**: We have not reached the point of working out that figure. However, we are certain of strong public support against the payment of the charges. For example, one of the constituents of the coalition — a campaign group called "We won't pay" — has collected up to 70,000 signatures of people who are pledging that they will not pay. Our soundings indicate very strong community support against the introduction of water charges. The people of Northern Ireland believe, in principle, that water should be supplied to their homes — as it is in many other countries — without it being turned into a commodity that must be paid for annually like other commodities. There is strong support for that. People in Northern Ireland know that they have always paid for their water service. Ministers are wrong in thinking that the people of Northern Ireland will simply accept the charges.

12.15 pm

238. **Ms Stanton**: I welcome you here today. We already know that water charges will have a major detrimental effect on the poorest in society. Statistics show that unemployment alone does not cause relative income poverty — inadequate income causes poverty. These charges will cause further hindrance across the board and will affect not only people on benefits but the working poor. The gap is growing between the rich and poor, and these charges will have a detrimental effect on society

as a whole — not just one section of the community.

239. We have heard evidence about levies. Levies have been used in the past; for example, Northern Ireland Electricity (NIE) used levies to help deprived groups and communities. Is it your view that these levies are collected from the most deprived communities and go back to the most deprived communities, with nobody adding to them other than the people themselves? Do you agree with that?

240. **Ms Horgan**: Yes. The taxi driver on the way up was making the point —

241. **The Chairman (Mr McNarry)**: You are lucky that you can afford a taxi driver. According to your man on the TV they charge £12.50.

242. **Ms Horgan**: It was only a tenner from the bus station. The taxi driver referred to the cap mentioned in the explanatory leaflet. A millionaire who has a swimming pool and three cars that are washed every weekend would have his rates bill capped at £750 each year, whereas the poorest would pay more than half of what the millionaire would pay. It is impossible to find a house worth less than £100,000 these days. It seems that the poorest always end up paying the most.

243. Professor Paddy Hillyard — who will be giving evidence to the Committee — did some work for OFMDFM on water affordability before the affordability tariff was introduced. It is very clear from his updated work that the poorest sections of society will continue to pay the most with these water charges. That is a reason for keeping the Water Service in public hands and paying for it in a more progressive way.

244. I have two points. Mr Corey, you touched on the question of moneys paid in respect of Water Service, and how that money may have found its way to the relevant cost centre. At the time of water privatisation in England and Wales, there was a green dowry, and Northern Ireland received £50 million. I understand that that was meant to be per year, and that it did not go directly to the Water Service. In fact, it went into some other pot. Will you confirm that?

245. **Mr Corey**: I cannot personally confirm that, but I am happy to check whether we have dealt with it in a previous document. We have dealt with the issue of the green dowry. David Hall calculated the equivalent amount using the Barnett formula, assuming that the green dowry were made available now for investment in the Water Service in Northern Ireland. He was then able to extrapolate from that what the additional cost and rates would be. However, I cannot answer because I do not know, precisely, what happened in Northern Ireland.

246. **The Chairman (Mr McNarry)**: Mr Cree, would it be useful to you if we looked at it?

247. **Mr Cree**: Yes, it would. My second point is that much has been made of the potential efficiencies to be achieved by this new company. Will you share your views on that?

248. **Mr Corey**: The trade unions do not have any fundamental objections to the efficient delivery of service by the public Water Service. However — and Mr Torley will be able to comment on this in more detail — we do not share the approach of the programme to date, namely that efficiency is achieved simply by cutting staff numbers in the Water Service.

249. One of the big issues for the Water Service is the level of leakage from the system and how much of that goes untraced. To achieve greater efficiencies, it seems logical that more, rather than less, staff should be employed to address the leakage issue. Therefore, we do not disagree with the principle that services should be efficient. We part company with the Water Service and the Government on their view that this is achieved simply by having less staff. Mr Torley may wish to add to that.

250. **Mr Torley**: Very much so. I will also pick up on Ms Ritchie's earlier point about £18 million being spent on consultants.

251. The majority of my members are industrial staff. They are the guys you see in the blue suits, with the white vans, digging up the

roads. I am sick and tired of phone calls from my members to say that they went out to a breach in the road and spent most of the day digging it up, only to be told when they asked for materials to repair it that there were no materials in the store, and that they were to backfill the hole. When this happens, a contractor is sent out the following day.

252. Our people know that the materials are not in the store, yet they are told to go out and do these things anyway. The guys on the ground are actually being more efficient than senior management in Water Service. Any God's amount of money can be found to throw at consultants, towards privatisation, but none to do the basic jobs that are supposed to be done.

253. Our people want to be efficient. They want to do the job and keep their jobs, and they are out in all weather — 24 hours a day, seven days a week, and 365 days of the year. They do not mind doing the job, but inefficient senior management hinders them.

254. So yes, the trade union has no problem with efficiency, but efficiency does not, necessarily, mean job cuts or that 'public' is bad and 'private' is good. That seems to be the direction that the Minister and directors of the Water Service are pushing for.

255. **Mr Cree**: Are there no existing systems to measure efficiency in the Service?

256. **Mr Torley**: I would draw your attention to an interesting article in 'AgendaNI' Issue 2, November 2006. Katharine Bryan, the Chief Executive of the Water Service in Northern Ireland, states that the private companies in England and Wales are achieving efficiencies of, on average, 20%. In Northern Ireland, we are on track to achieve 22%. If we are achieving 22% efficiencies, when we do not even have materials in the stores, what sort of comparison is she giving us? One she makes is with Welsh Water. Welsh Water used to have 4,000 employees —they are now down to 200. Those 200 employees are writing contracts with, and signing cheques to, private companies. That seems to be their idea of efficiencies.

257. **The Chairman (Mr McNarry)**: Thanks for that, Mr Torley. Ms Ritchie, you asked the first question, so you will be honoured with asking the last question. That is the last time it will happen. *[Laughter.]*

258. **Ms Ritchie**: This question is specifically for Mr Torley. When you are managing your staff, from a trade union perspective, do you think that the management of the Water Service have any idea of the assets that it currently owns? Have they carried out an inventory, and is that inventory available for public use and to the staff when they go out to look? It has been my experience that they cannot locate a water main in a rural area because the maps are not available. We want to know what preparations the Water Service has in place. Even under public ownership such information is required. It is my opinion that the Water Service is not ready.

259. **Mr Torley**: I do not disagree. They are on their third asset management plan, whereby they are able to tell everything they have. However, the problem — as you say — is that they cannot find a water main on a rural road, because they are not using our people to put the water in. I know that this sounds like I am supporting our Water Service guys, but they are no longer allowed to do it. Instead, contractors are using what is known as MDPE (medium density polyethylene) — a plastic pipe that is put down the roads.

260. When our people do it they put in what is known as a tracing wire. It is an awkward, time-consuming job, but the guys do it. If a main needs to be traced then the guys can come out with the detection equipment and trace it. Because it is so time-consuming, private contractors do not bother doing it, and so when our people go out looking for a main they cannot find it. That is basically the long and short of it.

261. **The Chairman (Mr McNarry)**: Thank you. This has been most interesting. Thank you also for your promise to come back to us in answer to a few things. I do not think that this issue is going away.

262. **Mr Corey**: Absolutely not. I have noted and will check the reference to the ERINI report in relation to the expenditure position. I will also follow up Mr Cree's point about the parallel increase — if any — in the Northern Ireland block grant at the time of the green dowry. I will also take on board your own point that you want us to tell you what we think you should be recommending.

263. **The Chairman (Mr McNarry)**: I wish that you had told us that during this past hour.

264. **Mr Corey**: We would like to consider the point in those terms and come back to you.

265. **Mr Raymond McCartney**: Will you include the update of David Hall's figure?

266. **Mr Corey**: Yes.

267. **Ms Horgan**: I will send you the Save the Children Report on the impact of metering in England.

The evidence session was suspended at 12.22 pm.

On resuming —

1.26 pm

268. **The Chairman (Mr McNarry)**: Mrs Gill and Mr Costello, I noticed that you were observing this morning's evidence sessions, so perhaps you learnt as much as we did; I hope that you did. That is a good sign of your interest, and that is creditable. I hate to labour this —

269. **Mr Steve Costello (Consumer Council)**: I know the point that you are going to make.

270. **The Chairman (Mr McNarry)**: I will make it, anyway, for the record. I would be grateful if your contribution could be brief; five minutes would be sufficient. As usual, we have received an excellent presentation from the Consumer Council, but we do not have time for it — as the Committee Clerk has explained to you. Therefore, please confine your contribution to five minutes or so. The meeting will benefit more from a question-and-answer session today.

271. Depending on how well we get on, and if there is time, we can return to any subject matter that you feel has been missed. The instructions from the Committee on the Programme for Government are that reports should be short and concise with action points, targets and recommendations, so your help in that regard would be appreciated. The report will only benefit everyone if it meets those criteria, and the recommendations will be particularly helpful. You are welcome; please proceed.

272. **Mr Costello**: I will say a few words on the principles behind the water reform agenda, and Eleanor Gill will speak for a couple of minutes on what we consider to be the way ahead.

273. All of us should understand the complexities of what we are embarking on. We are moving to a position where the Department for Regional Development (DRD) will be in charge of policy and be a stakeholder, and in which there will be a new company responsible for our water and an independent regulator. The key to the success of those changes will be in the scrutiny, openness, transparency and

accountability of the water company. To date, those qualities have been lacking. The reason for the present discomfort is that lack of openness and transparency.

274. The strategic business plan will be key to the transparency of the new system. A Go-co is different from any other business. It must have a value system, because the shareholder is the Government, which is owned by the people. Therefore, what could be confidential or secretive about that business plan? Why can it not be put out into the open? It is our plan and our business, and we have rights.

275. There is a need for an independent regulator, and that will be a difficult job. This morning, someone asked how a self-financing system could be regulated. I do not think that anybody knows how to regulate a self-financing system for which customers have to pay. That has to be worked out, and we have a right to understand the policies that accompany it.

276. The draft Water and Sewerage Services (Northern Ireland) Order 2006 went through the House of Lords on Monday. That legislation went through, but its passage was difficult. The Consumer Council believes that side deals were made. A letter was certainly sent from DRD to Lord Glentoran, and Lord Rooker appeared to change the policy as he talked about the affordability tariff and re-examining the dividend and its rate. His comments on how the regulator deals with land were different from what the regulator said this morning, so DRD must give clarity on those side deals, secret deals or letter deals. Do members agree?

277. **The Chairman (Mr McNarry)**: How do you think an Assembly might have differed from our direct rulers in its approach to this?

1.30 pm

278. **Mrs Eleanor Gill (Consumer Council)**: I think that the answer came first and then everything else came in behind it. It was about how much money was required. That was agreed at £3 billion, and then they worked back to how it would be put it in place. That was done without starting from the premise that public services must be paid for. We must find a fair, affordable and sustainable way of doing that and building around it.

279. If the Assembly had been in place and providing proper scrutiny, we would not be where we are today. We would still have a method for paying for water, but it would be one that would be owned. It might be uncomfortable for water to be owned and paid for, but there would have been a sense of confidence that it was out in the open and that the principles underlying it were that the service was owned by the people as a Government-owned company and not something that could be masked as something commercial, and in the business sector, when it is not. It is a Government-owned company, and therefore it must work in the people's best interests.

280. We were clear throughout about amendments to the water reform legislation that would have made it fairer, more affordable and more sustainable, though conscious that they were sticking plasters on something that had started from the wrong place. The Assembly would have come up with legislation, but it would have been legislation that had been scrutinised and had integrity.

281. **Mr Costello**: Also, the secret Treasury deal with the Secretary of State would not have been a secret if the Assembly had been up and running.

282. **Mrs Gill**: Our objective today is to set out the principles as we see them, but also to help you to examine what needs to be done from now on. We are conscious of and respect the fact that the water reform legislation is being passed. That is the reality, and our statutory remit requires us to work within that reality and to come up with something better. The three-year phasing-in period provides time for the Assembly to put in place a project that works towards a defined end point, providing fairness, openness and scrutiny for consumers with regard to what they are paying for.

283. There are six points on which the Assembly could immediately work and make recommendations. First is the need to have a completely independent scrutiny and review of the entirety of water reform by the Assembly —

even in its transitional form — starting today. That review should examine everything, from the business plan to the Secretary of State's deal with the Treasury through to the whole area of ownership and whether there are alternative business models through to fair prices.

284. Secondly, there is a need to examine price protection in particular and the stability of the Go-co. If the subgroup achieves anything in our eyes today, it will be to give a straight answer to one very important question: will this Go-co be in break-even position by 2010? We do not want an aspirational answer; that is what we hope. Has the required position of the Go-co in 2010 been defined? If not, contrary to what the regulator is saying — that consumer risk is covered for three years — we will be building consumer risk for three years, and we are storing up a pretty uncomfortable picture from there on in.

285. There are unfair elements within the price, such as the capital investment backlog of £1·4 billion. I would press you as an Executive in waiting to negotiate with the Treasury to get it to contribute, at least in part if not full, to that backlog of cost.

286. In the House of Lords on 8 December Lord Rooker said that central Government and not consumers would pay for the affordability tariff. That must be clarified, because the cost to the Assembly in 2010 will be more than £50 million, and it will rise year on year. Incidentally, once that happens and central funding comes in, it is not a self-financing system. A definition of self-financing would be a good question for the Department for Regional Development. It is a crazy way of doing things.

287. On land disposal, the Consumer Council is absolutely adamant that the Assembly must ensure that no land — our silver — is sold off to cover for the inefficiencies of an unstable Go-co.

288. **The Chairman (Mr McNarry)**: I sense that perhaps you are answering questions that have not been put.

289. With regard to the Minister's assessment, is it fair of me to ask you whether the situation is heading towards privatisation?

290. **Mr Costello**: We believe that the agenda is for privatisation. We have possibly stalled that process, but it is driven by the Treasury. That is or firm belief from discoveries that we made in the judicial review, etc. Our surveys have always showed that 90% of the consumers do not favour privatisation, and that is why we asked for a consultation on that point.

291. **Mr Raymond McCartney**: We have some indication of models, other than the Go-co, that are available. We particularly need some elaboration on reference to self-financing not being a fair system.

292. Finally, we need some pointers on the results of the judicial inquiry and its findings on the consultation process with regard to what would constitute a better process of consultation for the future.

293. **Mrs Gill**: We recommend that the Assembly review business models and explore the advantages of other models that are available, or indeed hybrids, that would meet the particular circumstances of Northern Ireland.

294. I was disappointed to hear that your point of reference for looking at business models should be the Union Bank of Switzerland (UBS) strategic financial review. Our comments at the time on that matter was that it was overwhelmingly oriented towards a privatisation agenda and that there was not sufficient evidence in that document to show why that premise would be so, as opposed to any other model.

295. In saying that, I have to be clear that what consumers are looking for, in particular, is an efficient, effective and accountable system. Therefore, we are not taking an anti-privatisation view, but rather saying that there are other models that should be considered and proper analysis openly conducted. On Friday, one of the commissioners from the ScottishPower model was with us and was able to tell us that, when they took this on the

company, it was worth less than £500 million; in 2010, it will be valued at £3 billion. That company did not have to go into private ownership in order to be competitive and efficient.

296. A total of 40% efficiencies were achieved in four years by Scottish Water. When we asked that commissioner what was the secret to turning things around, he put it down to the clear matching of cash to the outcome of the public service delivery organisation, and to the ensuring that efficiencies were driven. Thus, it is not rocket science to see that there are different models. We implore a full study of those models and a recommendation that is open and acceptable.

297. If the Go-co, or privatisation, turns out to be the right option, I think that we can only fairly rest with that. However, we believe that other options have not been explored fully and with an open mind or properly documented. Therefore, at this point, we believe that the Go-co has not been proven to be the right option because, as we heard this morning, there is not even an understanding of how one would regulate such a beast, and that leaves us fearing great risk for the consumer.

298. **Mr Costello**: On the matter of self-financing, I think that we have a right to know how the regulator — whose job is to try to create conditions similar to competition — would regulate inefficiencies. This morning, Iain Osborne said that prices would go up to cover Go-co inefficiencies and bad debt. That cannot be right because, in a normal regulation competition, the price would stay level until efficiencies are achieved, and the company would bear the risk of inefficiency.

299. Who will pay for bad debt and non-payment? Will the consumers pay for that? In our fair model of regulation, the shareholders pay for inefficiency, not the consumer.

300. **Mrs Gill**: There were several outcomes to the judicial review. I shall explain our motivation in taking that case. Under our statutory remit, we felt that we would be failing in our duty had we not questioned the development of the finalised draft legislation because we had clear evidence that the consumer had not been taken into account. Therefore, we took the case on the process itself. That was not a negotiation tactic to either stop water charges or to force changes to the legislation, but purely to show that the legislation was not drawn up in the right way. That feeds back to the issue of the consequences of lack of scrutiny, openness and transparency, which are a lack of trust and confidence in the outcome, and that is a poor outcome compared to what could have been achieved.

301. Another outcome to the review was our discovery of the Government's main argument to the court. We were horrified to hear them say that there was no legal duty on them to consult and, therefore, no requirement for them to answer on the issues. That is not a good place to be because we are dealing with a £3 billion project that will be paid for over 20 years out of all of our pockets. The Government should have a duty to answer on those particular issues.

302. Furthermore, we were able to unearth helpful evidence in trying to get to the bottom of where the parameters and principles lie and to begin to ask the vital questions that we are now putting.

303. **Ms Ritchie**: I want to ask about the role of the regulator. I am mindful that we must look forward, and we probably are looking for recommendations from you in respect of that matter. I am also mindful that you were present this morning when Mr Osborne gave evidence.

304. What does the Consumer Council believe should and could be done by an incoming Executive and Assembly to strengthen the role of the regulator to ensure that he is not a supervisor, but a regulator in the proper sense of the word? What can we do to ensure that his word is stronger, more robust and is there to defend the rights of consumers as opposed to the duties of the Department?

305. **Mrs Gill**: The subgroup and an Assembly could push for greater powers for the regulator. Earlier, Mr Osborne described how the situation has developed from the point where he was hopping mad to the point where he now feels that he has the full powers he requires. However

members must appreciate that no legislative changes have occurred as a result of the interaction between Mr Osborne and the Department. Changes are being supplied through secondary legislation. The regulator faces such challenges that he needs our support in calling for the measures that are required, even if he is not demanding them right now.

306. It is the Assembly's duty to provide input into ministerial guidance, to examine it and ensure that it does not fetter the role of the regulator. At the moment, it looks as though there will be an unfettered monopoly, and the Consumer Council will not be satisfied that that is not the case until we know — and have written evidence of — the enforcement and authorisation powers the regulator is to be given and from what date.

307. Lord Rooker said that the regulatory powers would become effective on 1 April 2007, whether that day fell on a Saturday or a Monday. Yet we have heard today that the regulator himself is unclear as to which date is correct. It would be useful for members to ask that question.

308. Members should also ask what reporting arrangements the regulator will have, in order to ensure that he will be reporting to the Assembly and the Consumer Council, as the statutory body involved, as opposed to reporting to the shareholder Department. That distinction must be clearly drawn.

309. As regards the licence, the issue of land disposal is very important. The Consumer Council is concerned about the issue because the water company could use the sale of land as a get-out-of-jail-free card — the company could be inefficient and its shortcomings could be masked by the sale of land, and, therefore, yet more of the family silver would be sold off.

310. Certain exemptions must be removed from the draft licence because they tie the hands of the regulator. The regulator receiving an annual report of land disposal is different from his approving those disposals. If the authorisation for land disposal is not with the regulator then there will be no independent force involved in that process. If nothing is done until 2010, we may find that the land disposal issue will have been taken care of because the land and assets will have been disposed of and used in ways that are contrary to the best interests of the consumer. The Consumer Council will advise the subgroup on how the licence can be strengthened to support the role of the regulator and avoid any lack of clarity.

311. As an example of the problems we face, on Monday, a letter was written from the Department for Regional Development to Lord Glentoran. The Consumer Council has not seen that letter, and we do not know whether it clarifies the situation or obscures it. What we heard from the regulator today differs from what we heard from Lord Rooker on Monday. We need more time to consider those matters.

312. **Mr Costello**: The basic principle of how self-financing schemes are regulated needs to be analysed.

313. **Mr Shannon**: What does the Consumer Council consider to be the best method of levying water charges? Is there a more appropriate system? Would you advocate metering? Earlier this morning, and together with other members, I drew attention to the point made by the Coalition Against Water Charges that pensioners are being encouraged to consider water metering, and indeed were being directed towards that option whether or not they liked the idea. I am anxious to hear your opinion about that. Some people are saying that a small charge is not too bad; others are saying that charges must be scrapped.

1.45 pm

314. **Mrs Gill**: Before we talk about how to pay the water charges, whether through metering, rates, or anything else, we should talk about whether there is a fair price on the table to begin with. As I said earlier, our concern is whether there is in place a viable, stable, sustainable Go-co that can achieve a lower price for the provision of water services, as opposed to keeping to an artificial pegged price into the future.

315. The Consumer Council is really concerned about this issue for a number of reasons. The Consumer Council has not been privy to the strategic business plan since September 2006. However, on receipt of the second draft of the plan at that time, the Consumer Council sent it to an independent expert in London for review and scrutiny. The findings of that review are extremely concerning. It concluded that that version of the business plan did not set out a sustainable future and could not be sustained without significant price increases in the future.

316. We must first ask whether the premise of this plan is fair and affordable for consumers. Only then can we ask about the best way in which to meet that need. Is it necessary to install meters? Is it fair that those who can afford meters can get them when others cannot, or should the universal metering approach that the regulator mentioned be adopted?

317. This issue raises many questions, but the problem is that there has been no public debate about the best way of meeting the costs — and we are all agreed that the costs have to be met. In early 2007, the Consumer Council hopes to hold a symposium at which people can give evidence about the pros and cons of every proposed method of payment — whether that be via the rates, some sort of income-tax link, metering or whatever.

318. The Consumer Council's belief is that if there are to be water charges, and if we really are to be pushed by the EU Water Framework Directive, a metering system would be the best option, because it reflects the amount of water that the consumer actually uses.

319. We have failed to think outside the box. For example, one of the issues that was raised by the Coalition Against Water Charges was that metering would be harmful to bigger families who use more water. However, Belgium uses a universal metering system, and it has in place an allowance per person in the household. Consumers who exceed that allowance are charged for the excess water that they use. That keeps health and hygiene at the top of the list and causes no hardship to the family. If consumers use water inefficiently, they pick up the rest of the bill. Thus, there are many options to be considered, and many pieces of contrary evidence. We would like to assist the Assembly by gathering evidence that presents the pros and cons of every different payment method.

320. **Mr Shannon**: We would all appreciate that. We are aware of all the problems that can occur as a result of extra charges, and those charges will multiply with the increased rates next year and the new water charges. What are your feelings about bad debt management? I am keen to get your ideas on how debt can be managed.

321. **Mr Costello**: The target for bad debt that has been set in the business plan is 5%, and we believe that that is far too low. If that 5% is added to the "no pay" campaign, the bad debt figure could rise to 15% or 20%. I would have thought that good business practice is to have certainty in a business plan, not assumptions about best possible achievement.

322. We also take issue with the strategy for collecting bad debt. We fundamentally believe that all people should be treated equally. A strategy for the collection of bad debt cannot be based on location and people being categorised.

323. **Mr Shannon**: Have you been involved in any discussions with DRD on some sort of strategy? Has the Department asked for the Consumer Council's opinion at any stage?

324. **Mrs Gill**: We have advised the Subgroup on the Economic Challenges Facing Northern Ireland. We have been very frustrated by our lack of involvement in helping to shape the policies and procedures that are being proposed. Members will know that we have a strong track record in representing electricity, gas and transport consumers, and in positively building up and consumer proofing polices so that they are in the consumers' best interests. However, with the water proposals, we are finding time and time again that we are being informed after the event, as opposed to consulted before the event.

325. Taking the recent issues concerning debt recovery as an example, it was only after a year of pushing that we got a presentation on the contractual agreement that had been made with Crystal Alliance and learned how issues such as customer complaint handling, billing and debt management were to be taken forward.

326. It was during that presentation that information was shared with us on the use of the Experian database, which is a private-sector-owned database that identifies people by location and by labels, such as "affluent achiever" or "rock bottom". We would like an assurance that this subgroup will push for the use of that database to be stopped — it should not be the basis of a debt management strategy in a Government-owned company. The Consumer Council feels that the values of the database are wrong.

327. It is proposed, without there having been any consultation, that the ability of people to pay will be profiled and there is also the suggestion that there might be a two-tier system for debt management. The Consumer Council is pleased to hear that the Chief Executive of the Water Service has now said that this proposal is up for discussion. Her organisation made us very clear of its intention to proceed without consultation. We wrote in September and said that we are absolutely and fundamentally opposed to any system that is not open to consultation — particularly with the consumer representative body.

328. There are equality issues involved. Those who cannot pay, for whatever reason, be it because of their location, income or credit history, will be chased down twice as quickly. We do not think that is acceptable.

329. Further, the way this proposal will work is that if it is self-financing and the bad debt is undercalculated, then that will be passed on to consumers' bills. The more that a bill increases, the more people come into the poverty band. How does one square such a self-financing system with the anti-poverty strategy that is in place? Such a system will add to the problem as opposed to take it away.

330. **Mr Costello**: Yes. There is cycle of debt — prices go up and there will be more debt.

331. **Mr Shannon**: My perception is that the figure is closer to 20%. I have a concern about who will have to pay the debt — will that burden be placed on those who are able to pay?

332. **Mrs Gill**: We met with John Spellar in January 2005 and raised the point that a figure of 5% was an underestimation. The fact that everything is uncertain after 2010 does not help to give us any confidence or assurance that things will be OK by then. There is an onus to recalculate that bad debt estimate, rather than sit idly by knowing that it might be different – surely there is a requirement to increase the figure so that it is at the level that might be expected? This matter is causing us great concern.

333. **Mr Costello**: We need the regulator to articulate, in policy terms, how he intends to manage bad debt.

334. **The Chairman (Mr McNarry)**: Arising from that and previous lines of questioning, there is an important thread coming across. The difficulty that you appear to have had regarding consultation concerns us. Why have you been blocked — if that is the correct word — in this process? Do you have any redress? It is unfortunate that a body such as yours, which survives on information gathered through consultation, is arriving after the horse has bolted in many cases. How can that be redressed? That is an important handling issue that contributes to public confusion on issues, because there no champion out there until either we or the Consumer Council arrive on the scene. Is that a major problem for you? It seems to me that it is one that you are grappling with.

335. **Mr Costello**: It has certainly become a major problem in the last three months, especially in the lead up to the passage of the legislation. If the legislation goes through on Thursday we have a statutory place and we can and will be more demanding to have information and consultation available to us. The Judge said in our recent court case that the Minister of the Department failed the legal test of fairness by failing to show conscientious

consideration for consumers as a body. We do remain concerned about it — relationships have to be worked on.

336. We have been very intense in our questioning of the Minister and the Department; at times they found we were too intense and too demanding of them.

337. **The Chairman (Mr McNarry)**: That is tough luck for them.

338. **Mr Costello**: Yes, it is tough, and that is the way we view it.

339. **Mrs Gill**: The Consumer Council recommends that the Assembly require the Department and the Regulator to ensure that the water company consults the Consumer Council on all issues that affect consumers rather than merely informing the Consumer Council about matters or asking its advice after policies have been drafted. The Consumer Council has demonstrated that it can engage positively on electricity, gas and transport issues in order to build policies that will last, as opposed to marking homework after the event.

340. It is around three months before water bills go into people's homes. At present, the Consumer Council has only the front page of the Bill in its possession, yet there are 140 different types and iterations of that. We do not know what the Bill looks like, front to back. The Consumer Council knows what recommendations it made. However, it does not know what will happen, despite the fact that 85% of the complaints that it receives are on billing. The Consumer Council has not seen the debt management strategy, nor does it have a copy of the code of practice

341. The Consumer Council found out, through its diligence and persistence, which annoyed different people, that the Crystal Alliance contract that was signed outlines performance indicators for Crystal Alliance. In the contract, a complaint is defined as one that is put in writing. The Consumer Council has communicated many times to the Water Service that complaints in writing constitute about 5% to 7% of all the complaints that we receive. Despite that, because of the Crystal Alliance contract, the Water Service and Crystal Alliance will only count complaints that they receive in writing. The Consumer Council had to draw them back from that and get an agreement that complaints would include any expression of dissatisfaction by consumers.

342. The problem is, however, that that was set in a contract that was signed last year. The Consumer Council had to get the contract changed in order to reflect the fact that consumers must have their complaints recorded whether they write them, sing them, or phone them. Every expression of dissatisfaction must count. That has only unearthed one element of a sophisticated contract of which the Consumer Council knows nothing. We recommend that the subgroup examine the Crystal Alliance contract and how it came to be signed off with key performance indicators without the statutory consumer voice being taken into account.

343. **The Chairman (Mr McNarry)**: I want to interrupt proceedings for a moment to welcome Mr Paul Girvan, who is deputising for Mr Peter Weir. Just to let you know, Paul — the subgroup is working till nine o'clock tonight.

344. **Mr Girvan**: Thank you. You have made me feel at great ease.

345. **The Chairman (Mr McNarry)**: Take your time, Paul, to bed your way in.

346. Finally, before I call Mr Cree, I want to know how the equality impact assessment affected that. You have left me a bit behind. What did it reveal?

347. **Mrs Gill**: The Consumer Council does not have a copy of an equality impact assessment that was done on the bad debt management strategy. The Consumer Council has asked what the consultation and line-up will be with regard to proposals to put in place any type of debt management system; what the consultation processes will be; and what equality impact assessments will be done to it. It has received no answer. It has now been told that there will be another system. The Consumer Council does not know what that other system is. That is an unsatisfactory situation. The system must put people first. The

Consumer Council is there to protect people's interests. However, it does not know what debt management system is being put in place. It does not know what the Bill looks like or what the customer complaints procedures and codes of practice are just three months before the introduction of the Go-co.

348. **The Chairman (Mr McNarry)**: Do members' wish to find out more about the equality impact assessment? I believe that there is agreement on that.

349. **Mr Cree**: Welcome, folk. I want to thank the Consumer Council for its continuing hard work. It has been helpful. It is fair to say that the Department has been less that forthright throughout the whole exercise.

350. I have three questions. The first arises from your last point about the debt recovery system. How does the Consumer Council characterise the proposed debt recovery system? How do you refer to it?

351. **Mrs Gill**: Do you mean the current system?

352. **Mr Cree**: I mean the proposed system.

353. **Mrs Gill**: The Consumer Council understands that if there is a bill to be paid, it should be paid. There is a duty on the company, whether it is Government-owned or not, to recover that money because revenue is required to keep the company going. That is moving into the area of best practice: how, in a sensitive and proper way, to collect debt or identify those who are in difficulty and need help. We want to get back to the first-base principles of debt recovery with the new Go-co before it starts its work.

2.00 pm

354. In relation to the information that we have seen to date and what was presented to us in August, the subgroup can have access to the emails that we have sent to the Water Service since then. In them we pleaded with the Water Service to say when it would consult on the debt management system so that our views could be taken into account. On 27 September 2006, that culminated in our being advised that there were no plans to change the proposed system at that point.

355. We understand from what the chief executive has since said publicly that that system is now off the table. However, we are unsure what system is now on the table and what consultation will take place with us before any further amendments are made.

356. **Mr Costello**: The Water Service said that that system was never on the table — it was.

357. **Mrs Gill**: The proposed system was odious. Even if the system came from the database of a private-sector organisation, Experian, it should not be the basis on which to proceed. Rather than help people to manage their household bills, it targets and labels them.

358. **Mr Cree**: You have been helpful in identifying a possible way ahead. To what extent do the Consumer Council's proposals ensure that the water company's infrastructure costs are what it requires and that it would get the necessary investment? Do you see any difficulty with that?

359. **Mrs Gill**: Yes. When we examined the independent analysis of the second iteration of the business plan, it became clear that there was a lack of clarity in the capital work programme. Since then, we have not seen any further scenarios or iterations of the business plan. Therefore we cannot comment on whether the issues that were identified in September have been addressed in the short period since to give the Consumer Council any confidence that the anticipated capital work programme is not gold-plated but realistic and achievable.

360. We must be careful because, in a self-financing system, an underestimate or overestimate of the capital investment programme will have implications for the price. The excuse that has been given for our not seeing the full business plan is that it is commercial in confidence. We ask the subgroup to recommend that that excuse be removed. It is the public's business plan, and we need to see it. Nothing should be identified as commercial in confidence — certainly not to either the Consumer Council or the regulator. On behalf

of consumers, we should be able to see the complete business plan in order to be assured that the issues that we have identified have been addressed. Today, under privilege, we offer to provide the subgroup with a copy of the analysis of the September 2006 business plan that we received. The analysis shows that, contrary to what the Minister said about our being scaremongers, real risks have been identified. Those risks must be addressed.

361. **Mr Costello**: The return on the dividend being set at 5·8% also determines the cost of borrowing, which is above commercial rates. It is higher than any other water consumer in the UK would have to pay and, therefore, automatically builds cost into the system, which makes the situation more difficult.

362. **Mrs Gill**: The cost of capital in the Scottish public service-owned model is only 4·1%. We are paying 5·8%.

363. **Mr Costello**: Lord Rooker said that the figure of 5·8% would be reviewed as part of a side-deal on Monday, I think. We must ensure that it is.

364. **Mr Cree**: I am sure that everyone agrees that fairness for consumers is vital. What impact would your proposals have on the water bill for the average Northern Ireland family that is in the band just above the poverty threshold?

365. **Mrs Gill**: There are a couple of problems about what is a fair price. At present, there is an artificial price that is pegged to the UK average. We do not know, as we would were it a gas or electricity price, whether that is cost-reflective. It could be too high or too low. We simply do not know because we have been unable to see the business plan to find out whether the point at which the Go-co will break even has been calculated, at which stage the costs will begin to decrease.

366. **The Chairman (Mr McNarry)**: May I interrupt for a moment? We are most grateful that you are prepared to talk to us in extensive detail, but parliamentary privilege does not extend to you. Indeed, it does not fully extend to us. I am not cautioning you, but just pointing out that it may be prudent to be a little careful with some of your replies. You have not strayed too far.

367. **Mr Costello**: The power of truth.

368. **Mrs Gill**: We are quite comfortable that the information that we have outlined is in the public domain. We take full responsibility for what we say.

369. **The Chairman (Mr McNarry)**: While you are here, I am totally responsible for you, but not for what you say.

370. **Mrs Gill**: Thank you. We do not know whether the price is cost-reflective. We must get to a point where that break-even point will be reached. We are concerned that that will not occur in 2010. Aspirations or hopes that that will be the case are not good enough when one is carrying the risk.

371. We believe that, within the cost, there are unfair elements that need to be stripped out. I have talked about the cost of underinvestment, which perhaps could form part of the recommendations for a financial deal so that the infrastructure costs of the past are not picked up, as well as those of the future.

372. **Mr Cree**: Is that the £1·4 billion?

373. **Mrs Gill**: Yes.

374. As for the affordability tariff, the Coalition Against Water Charges is quite right. The affordability tariff does not reach everyone and does not help everyone, but it is a lot better than it was. We were presented with a 25% discount on the price. That is a guarantee that those who are in particular circumstances will not pay more than 3% of their income.

375. We pushed in the legislation for a provision to allow the Assembly to look at that scheme in the future and extend it — if there is the money — to other groups who may need help. Time and again, the near-benefits group is excluded. There are other elements that we have identified that could be taken out of water bills. Why, for example, are consumers paying for road drainage via their water bills? Our concern is that even if that were removed, it would not result in lower bills, but would be used to pay

off some more of the subsidies. Savings never actually come back to the people.

376. **Mr Cree**: Did that not happen with the new developers?

377. **Mrs Gill**: It did.

378. **Mr Costello**: That is the system because the price is not associated with cost; the price is just set by an artificial mechanism based on the price in England and Wales. Therefore, the inefficiencies are at one level, the price is at another level, and the job is to try and squash them both down.

379. We believe that until the point at which the Go-co breaks even and the efficiencies are at the appropriate level, there should be price capping in the system. If that means that capping must continue until 2015, so be it. That is the only way to ensure that the customer gets fairness in this model.

380. **Mrs Gill**: Another matter that concerned us this morning was the repeated assertion that we may need to continue to give pegging subsidies to the company, which is just feeding an inefficient model. If it is known that the model is inefficient, we need to know that now so that if that break-even point is perhaps eight years from now, we know that what we are signing up to is shovelling ever more money into a model that we know is unstable.

381. The answer that we have received to date is that this is still work in progress. We implore the subgroup, when you speak to DRD and the Water Service today, to ignore the work in progress and ask, "What do you know today — three months from the establishment of this Go-co? From your calculations today, can you tell us when the break-even point will be reached?"

382. If that is in three years, we will be happy, and I will go home for Christmas and forget about much of this. Our concern in the meantime is that other taxpayers' money will be brought in to what is supposed to be a self-financing system to help the Go-co to remain stable so that the business turns over — or that the land is actually disposed of.

383. One of the exemptions within the licence that is out for consultation at the moment is that the regulator need not even be told about the land disposal. As I understand it, although I have not examined this matter in great detail, there are certain exemptions in the land disposal measures. The Go-co can dispose of land if, for example, its asset value is £1 million or less, or a greater amount, if DRD is satisfied.

384. A second provision is that the Go-co can dispose of land if DRD gives authorisation under legislation, and a third is when the Go-co has already made an obligation to dispose of land before the transfer date of 1 April 2007. I would like to know whether the Go-co has already sought or been given approval to dispose of land ahead of that date. If so, what is that land, and how much is it worth? This is the family silver, and we may be going to lose the assets.

385. **The Chairman (Mr McNarry)**: Because of the lack of consultation, you are throwing questions in our direction at the same time as we are throwing questions in your direction. We intend to put these questions to the next set of witnesses, but I suspect that they have been put before and ended up at the same roadblocks.

386. There is talk of efficiencies. However, there is concern that we would be giving the OK be start up a business that would be inefficient. No bank manager would be receptive to that kind of business plan. I am concerned that the general consensus would view this as inefficiency. How, through time, do you think that that will be reflected on charges?

387. **Mr Costello**: The regulator said last week on the radio, and again this morning, that there are gross inefficiencies — between 20 and 50 per cent. We know that the Minister has set efficiency targets, but we believe that they will not be met. The only way that the regulator sees that he can sort this out is by putting the price up or by putting it into longer-term debt, where you put the price up but not by so much, because you are borrowing to pay for the inefficiencies. Neither of those scenarios is fair for the customer. Essentially, we would be making the customer pay for an inefficient

business from day one. The Government should be responsible for sorting out the efficiency of the business before the consumer starts paying.

388. **Mrs Gill**: If we were a private enterprise wishing to buy this service then there would be proper due diligence given to us. The books would be opened and there would be no talk of "commercial-in-confidence" or not being able to see the full business plan. We would see it all to make sure that what we were buying had a fair chance of working. We used this analogy during the week: we have been asked to buy a car and our mechanic is not allowed to look at it before we take it out. We do not know how roadworthy it is. It is unacceptable that consumers should have to take this on in such a blind way. When the Assembly is restored, as I hope it will, this will become your problem and these your questions.

389. **The Chairman (Mr McNarry)**: This is real politics and real action: we are sitting here as consumers. It is one of those situations where we can say, "Hang on a second, that is going to happen to me".

390. **Mrs Gill**: It may appear that we are asking more questions than we have answers for —

391. **The Chairman (Mr McNarry)**: It makes a pleasant change.

392. **Mrs Gill**: There are five or six fundamental areas that we feel the Assembly needs to concentrate on. A three-year period to 2010 would allow the Assembly to take ownership and get a better model and a better outcome than we have at the moment. We would be more than happy to work through any of those issues with you. We do not want to come across as having nothing but issues; we have solutions to offer along with everyone else.

393. **The Chairman (Mr McNarry)**: I appreciate that.

394. **Ms Stanton**: I want to ask Mrs Gill for a copy of the strategic business plan that was commissioned. We were told that it would be delivered.

395. **Mr Costello**: The independent review of it?

396. **Mrs Gill**: It would not be the strategic business plan because, that is "commercial-in-confidence" to the Water Service. You could ask the Water Service for it.

397. **Ms Stanton**: We have made mistakes in the past. It would be madness to do exactly the same thing again and have the consumer paying through the nose. I have listened to your contribution, and it seems that the same mistakes are happening all over again.

398. **Mrs Gill**: There are five questions. Is capital value the best premise upon which to charge for water; is the financial agreement between the Secretary of State and the Treasury the fairest deal; is the Go-co the fairest model; is self-financing the fairest system; and is the average of England and Wales the fairest charge? The Assembly should ask those questions. It should conduct reviews and commission views on those questions, so that answers can be found. People would then have the confidence to say that paying is painful but it has to be done, and this is the way that we will do it.

399. **Ms Stanton**: Is it correct to say that if the water legislation goes ahead in its current form, it will severely hamper an incoming Assembly financially?

2.15 pm

400. **Mrs Gill**: The legislation sets a premise upon which the other instruments will sit. The Consumer Council was concerned that it was being asked to sign off legislation without having first seen the business plan, the governance letter, the licence, and so forth. Why bother sending the licence out for consultation three weeks before the Go-co begins on 1 January unless there is a chance that comments will be listened to and recommended changes will be acknowledged?

401. The events that took place during the judicial review made us ask whether there was any point in asking for such a review, because the Minister was correct in what he said: the judge did not see any problem with the

consultation up until it closed. The most important issue following consultation is how people's comments are considered. We need to make sure that that is taken into account and not dressed up as a technical point of procedure.

402. We must also be assured that when looking at the whole picture, we can return to the five questions that I mentioned earlier about ensuring that we are receiving the fairest deal possible. The Consumer Council will not be found wanting in its support for the Assembly, the Department and the regulator once the decisions are openly and properly made. At that stage, we will be content to tell consumers — as we have done regarding gas and electricity — that the water charges may be expensive, but they are fair, cost-reflective and reasonable and, therefore, must be paid.

403. **Mr Girvan**: I apologise for arriving in the middle, or probably near the end, of the proceedings. I thank the Consumer Council for its work, and I do not think that it is out of order to do so. It raised many questions to which members will seeks answers. I do not know whether we will receive them; we can but try.

404. In other parts of the United Kingdom billions of pounds were invested in the water services before their privatisation, but that has not happened in Northern Ireland; we did not have that benefit. As someone said earlier, we will be taking over with a millstone around our necks. That shortfall must be addressed, and proper clarification should be given on what mechanism will be put in place to redress that shortfall.

405. Ultimately, there will be a shortfall, and the charges have caused me major concern. The first-year charges may be achievable for most people, but I am concerned that the charges in the third year will be a major problem and that people will have to make a judgment call on whether to pay a water bill or put food on the table.

406. We need to make serious judgments, because the proper methodology was not used in completing the table. Water charges per household should not have been based on the property value.

407. The Consumer Council's presentation provided guidelines on what questions political representatives should be asking. Chairman, what mechanism will the subgroup be given in order to deal with those questions? Will they be dealt with solely in the Assembly or could the subgroup make some input before that? It would be difficult to make changes in March when the bills start hitting people's tables.

408. What mechanisms are in place to deal with those questions? Does the subgroup have any place in the overall plan and can we make an input? Are we merely taking part in a window-dressing exercise that will achieve nothing due to the mechanisms? We must also consider that we are dealing with a Secretary of State who will not listen to what we say.

409. **The Chairman (Mr McNarry)**: Mr Girvan, I have to interrupt you. I have been waiting a long time for a question, and in the last thirty seconds you have actually asked me questions. *[Laughter.]*

410. **Mr Girvan**: I am looking for guidance.

411. **The Chairman (Mr McNarry)**: I appreciate that. I also appreciate that our role is an issue foremost in everybody's mind. I intend to address that question and have it recorded at the end of this session, because it is your subgroup. I am only here to service it and to serve you.

412. **Mr Girvan**: Thank you.

413. **Ms Ritchie**: The Department for Regional Development has a general oversight role; DOE and the EHS are environmental regulators and overseers of private water matters; and DCAL and DARD also have oversight roles, as has the regulator and the Consumer Council.

414. Are you satisfied that the roles of all those bodies are clear, adequate and well defined? Are workable provisions in place to facilitate co-ordination? If not, what can an Assembly and incoming Executive do to ensure better co-ordination?

415. **Mrs Gill**: It is an extremely complex piece of legislation, and I do not envy the

officials' task in drafting it. It ran to some 300 pages and is potentially based on matters that have been ill defined or ill thought out as regards the self-financing premises and the financial deals that underpin the legislation. It is an unenviable task.

416. We are very much of the view that those issues were not fully thought through in respect of not only our role, but the roles of others in relation to the Consumer Council and vice versa. For example, given that the company will be Government-owned, we felt that a duty should have been enshrined in the primary legislation for the water company to consult with the Consumer Council on all matters relating to consumers.

417. We now have the opportunity to strengthen the licence to ensure that the water company absolutely must consult with the Consumer Council on all matters impacting on consumers. The Programme for Government Committee may also have that opportunity, and we are happy to give direction on that.

418. There is a similar opportunity in respect of relationships with the regulators to ensure that we will have the proper relationships to aid information sharing, not only with the economic regulator but the environmental regulator. As it stands, the legislation does not place a duty on the environmental regulator to consult us. Again, there are certain areas where protocols can be put in place to make sure that all partners give proper consideration to what we are trying to achieve. The sad thing is that we could really get it right, if we addressed the issue correctly.

419. For example, the energy regulator and the Consumer Council as the consumer representative in energy work very well together. We have wonderful relationships and memorandums of understanding, and clear and progressive legislation is in place that allows everybody to understand each other's roles and not overstep those roles. In this instance, however, we are left trying to make something work that we feel is imperfect in its formation.

420. We have accepted the fact that the legislation is progressing through Parliament. However, we could still strengthen the licence to make sure those fundamental issues are in place. Everything is not past the post, and we could certainly do more. After its three-year project of answering all those questions, the Assembly may decide to make certain amendments to the legislation in order to strengthen the various roles. However, rather than doing that quickly, the Assembly will probably need time to consider what is a very complex issue.

421. I reiterate that it has not been easy for anyone. The rush to get things done and to get things right has taken a heavy toll on everybody in the system.

422. **Ms Ritchie**: Thank you, Chairman.

423. **The Chairman (Mr McNarry)**: You are very welcome. Are you any warmer yet?

424. **Ms Ritchie**: I am much warmer; thank you.

425. **Mrs Gill**: I am roasting.

426. **The Chairman (Mr McNarry)**: I was concerned about you, so I am glad to hear that.

427. **Ms Ritchie**: I began to get worried when I saw that Eleanor was wearing short sleeves.

428. **The Chairman (Mr McNarry)**: We shall take questions, with quick answers, from Mr Shannon and Mr McCartney. I ask members to be accommodating in respect of the time available.

429. **Mr Shannon**: It was suggested this morning that a high, fixed standing charge does encourage efficiency. Is it your opinion that the same answer applies to charges based on the capital value of property?

430. **Mrs Gill**: In Northern Ireland, we led the way in removing standard charges from electricity bills and moving to a tariff-meter charge. We have the opportunity to do the same in respect of water charges to ensure that charges are realistic and that a payment system can be established. That is why I suggested that the Consumer Council facilitate a symposium to examine all those issues to determine the most progressive system that will also reflect the need for usage.

431. If meter tariffs that properly reflect water usage are installed, it is true that that will involve a huge infrastructural cost. However, that is the same for all utilities. We need consider models used elsewhere, which we have already done.

432. **The Chairman (Mr McNarry)**: Have you ever heard of a slow foxtrot?

433. **Mrs Gill**: Strictly come dancing. *[Laughter.]*

434. **Mr Raymond McCartney**: I have a point of information. The subgroup heard from Goretti Horgan from the Anti-Poverty Network about the fact that more people are falling below the poverty line. Do you have any assessment of that in real terms, as opposed to the general terms of rising numbers? You could perhaps give us any information that you have on that.

435. **Mrs Gill**: We have research papers on business models on poverty and metering. We will send them all to the subgroup.

436. **Mr Cree**: I asked this question of the witnesses that appeared before the subgroup this morning, and I am interested in your response to the same question. Will the regulatory framework remove all risks to consumers or are those risks merely being stored up until 2010?

437. **Mrs Gill**: We do not know; we have not been given access to the strategic business plan and the governance letter. If openness and scrutiny existed, we would be happy to be told that we were scaremongers, as opposed to people who identified real risks.

438. **The Chairman (Mr McNarry)**: Thank you very much for coming.

439. **Mr Girvan**: Mr Chairman, we should commend the Consumer Council for the work that it has done and for what it is doing on this particular challenge.

440. **The Chairman (Mr McNarry)**: Steady on; we have done that now.

441. **Mrs Gill**: We posed questions in our presentation that we would like to pass over to you, Mr Chairman, so that you can ask them on our behalf as well.

442. **The Chairman (Mr McNarry)**: I think that we can receive those.

443. The subgroup thanks you for your efforts, and that thanks applies to anyone who appears before a subgroup. Your contribution is valuable to us because your brief — consumer care — is similar to that of elected representatives. Our brief is care for the electorate and the voter, but those groups comprise the same people.

444. I wish you a good Christmas, and I hope that we will see you some time in the new year. Thank you.

The evidence session was suspended at 2.26 pm.

On resuming —

2.38 pm

445. **The Chairman (Mr McNarry)**: Members, the submission received from the Department for Regional Development is at tab 13 of your pack.

446. Ladies and gentlemen, you are most welcome. Please turn your nameplates around, so that we can identify you.

447. **The Chairman (Mr McNarry)**: I invite you to give a brief introduction, and to outline the portfolio you hold at present. Are you leading the delegation, David? Please introduce yourself and your colleagues.

448. **Mr David Sterling (Department for Regional Development)**: I am Deputy Secretary in the Department for Regional Development (DRD) and I have overall responsibility for the development of the water reform programme within the Department. I am accompanied by Katharine Bryan, who is the chief executive of the Water Service, and Nigel McCormick, one of the two directors in the water reform unit in DRD.

449. I do not plan to make any opening statement. I understand that the subgroup wants the maximum amount of time to ask questions, and I am happy for you to begin without further ado.

450. **Mr Cree**: It is good to see you. To set the scene, will you explain what DRD means by its use of the term "self-financing"? Will Northern Ireland Water Ltd (NIWL) break even by 2010?

451. **Mr Sterling**: A self-financing company is one that recovers its costs, and the NIWL's costs will be paid for through its customers' tariffs. I assume that by "break even" you mean whether or not the company will operate at a loss. It is our plan that the company will begin on a cost-neutral basis and continue as such.

452. **Mr Cree**: Does that mean that the company will be self-sufficient by 2010?

453. **Mr Sterling**: That is the Government's intention. To avoid confusion, I remind members that the company will break even in the first three years so long as the Government subsidises it during that time.

454. **Mr Cree**: Will you describe the subsidy?

455. **Mr Sterling**: There will be three forms of subsidy during the first three years. As the subgroup will be aware, the Government are phasing in the new tariffs for domestic customers and non-domestic customers whereby they will pay one third in the first year, two thirds in the second year and the full amount in the third year. To ease the transition and reduce the burden on people in Northern Ireland, the Government have also agreed that they will peg the domestic tariffs, during the first three years, to the English and Welsh averages projected for 2009-10.

456. The Government have a third policy in place to provide protection to those on low incomes. It is a capped tariff and is sometimes referred to as the affordability or reduced tariff.

457. There will be three forms of subsidy to address those issues: one to cover the cost of the affordability tariff; one to cover the cost of phasing in the charges; and one to cover the cost of pegging the tariffs to the English and Welsh averages. However, it is the Government's intention that there will be no need for subsidies beyond 2009-10.

458. **The Chairman (Mr McNarry)**: During the process that led to Northern Ireland Water Limited being set up as a Go-co, did the Department consider any other models? How did you arrive at Go-co as the preferred option?

459. **Mr Sterling**: The Government followed two processes. In spring 2003, the Government launched a consultation to identify options for a variety of aspects of what is now known as the water reform programme. One important issue on which the people of Northern Ireland were asked for their views was the future business model for the company. Five options were put forward in a continuum, with privatisation at one end, followed by a not-for-dividend model, a public-private partnership, a Go-co or a statutory corporation.

460. The responses to that consultation made it clear that the people of Northern Ireland and the

political parties — a wide range of interests — were opposed to privatisation. In October 2003, John Spellar MP, the Minister responsible at that time, announced that privatisation was being ruled out for the foreseeable future. He also said that they would rule out the not-for-dividend model as well and that there would be further analysis of the Go-co/statutory corporation model. A decision was taken later, and it was announced that the Government's preference would be for the Government-owned company.

2.45 pm

461. In 2005, the Government decided to conduct further analysis of their options, and they began what is now known as a strategic financial review. A consortium led by the Union Bank of Switzerland (UBS) Investment Bank conducted that review, and it re-examined a range of options. Its brief, in a sense, was to identify the most appropriate model for Northern Ireland and to examine the implications of the different models with regard to their ability to deliver high quality, efficient services.

462. The consortium's report looked at a variety of options, including a statutory corporation; a Government-owned company; privatisation; and a mutualised model. The Government-owned company model was subjected to detailed examination. The consortium did not look in detail at the privatisation model or at the mutualised not-for-profit model. The consortium's report produced evidence to suggest that the greater the private-sector involvement in water and sewerage companies, the greater the likelihood of higher levels of efficiency. The Government published their response to the consortium's report in February 2006 and announced that they were proceeding with the Government-owned company model.

463. **The Chairman (Mr McNarry)**: Now that the Go-co has been established, is it fair to even dare to think that privatisation is inevitable?

464. **Mr Sterling**: No. I do not believe that it is inevitable. I would point to the Secretary of State's statement that it was not likely in the foreseeable future — I think those were his exact words. NIO Minister David Cairns has said that he thinks it unthinkable that it could occur in the next five years. It is worth recognising that the current Labour Administration's term of office will end in three year' time. If there is no devolution at that stage, it will be open to whatever Government come in to do what they see fit. Indeed, you will recognise that there is nothing that could be done legislatively now to prevent a future Government doing something different in the future. Nevertheless, I am clear where I am. I am acting under clear ministerial instructions that privatisation is not on the agenda. It is not being looked at.

465. **The Chairman (Mr McNarry)**: If it was not fair to suggest that, would it be unfair to suggest that implicit in your answer of "No" is a case built on the fact that the operation is highly inefficient and, therefore, of no interest to the commercial world?

466. **Mr Sterling**: The simple answer is that the commercial world will put a price on something, depending on what it regards it as being worth. There are no plans to privatise, but I will say that the Government have set up the Government-owned company on the basis that it could evolve in the future, subject to whatever future Ministers might decide in a variety of ways.

467. The Government's clear intention was not to lock us into a model that would not be capable of evolution. I know and have heard local discussions about what might be desirable in the future. One of the reasons we went for the Government-owned company solution was that it was capable of evolution in different ways.

468. **The Chairman (Mr McNarry)**: I am sure that we will return to the question of inefficiency. It has been a major issue in the evidence that we have heard.

469. I must ask about the strong representations that we have had from the unions. They are concerned about employment. Their concerns were, of course, addressed to

you. Are you able to allay the fears of the unions about job losses?

470. **Ms Katharine Bryan (Water Service)**: It is clear to unions, staff and stakeholders that to raise the Water Service to the level of performance and efficiency of other water undertakings and companies in the rest of the UK, we must lose substantial numbers of staff. That is the path that has been taken in England, Wales and Scotland.

471. **The Chairman (Mr McNarry)**: May I interrupt?

472. **Ms Bryan**: Yes.

473. **The Chairman (Mr McNarry)**: The suggestion is that jobs may be lost by the Water Service either through efficiencies in the service or as a result of the employment of private contractors. Could you put the two together for us?

474. **Ms Bryan**: Thank you for the clarification. As chief executive I have no fixed agenda on whether to in-source or outsource services. We must do what is best for the business in cost and risk terms. As David Sterling explained earlier, the company could potentially be of interest to a commercial operator in the future; however, an inefficient one would come at high risk and therefore at high price.

475. To return to your question, I want to increase the efficiency and performance of the organisation over the next three years, delivering to the customer good and improving standards of service while protecting the environment. At the same time, we need to meet appropriately stringent efficiency targets, both on our operating costs and on our capital costs. Losing numbers of staff will be one way in which the Water Service will become more efficient. However, an important part of that — for me as the leader of the organisation, for the trades unions and for the staff — is the way in which people depart from the organisation. I hope that, as of April 2007, we will have a means of voluntary severance that will enable people to depart from the organisation with dignity.

476. I turn now to the balance between contracted services and in-house services. At the moment about 25% of our services are contracted out. This is not a new issue for the Water Service. We expect that by 2010 that may have grown to about 40%. However, our PPP packages, Alpha and Omega, will come online between now and then, and these will outsource, for the contract term, some waste water and water treatment works.

477. **The Chairman (Mr McNarry)**: Within the package that you are heading towards, if I may put it that way, how might a devolved Executive work with you on prioritising between standard-type employees and private contractors as regards efficiencies?

478. **Ms Bryan**: I am sorry; I honestly do not know how to answer that question.

479. **Mr Sterling**: Could I pick up that? The intention behind setting up a Government company is to allow the utility greater commercial freedom than it would have in the Northern Ireland Civil Service.

480. The idea is that a company has a greater chance of being efficient if it is set up outside Government. That is based on a considerable volume of evidence. The intention behind setting up the Government company is that it should be given a clear remit as to what it is required to deliver in terms of quality of service, the tariffs which it is allowed to collect and the capital investment which it is permitted to deliver. However, once that is all established within the framework set by the Department and the regulator etc, the company should be left to judge how best it should deliver its business. Therefore, decisions about whether to in-source or out-source should be left to the company.

481. **The Chairman (Mr McNarry)**: That is clear. Thank you.

482. **Mr Raymond McCartney**: Thank you for coming.

483. First, was the non-profit company given any consideration, and why was it the view of the Department that the Go-co was the better model?

484. Secondly, it has been suggested that on Monday in the House of Lords, Lord Glentoran was given some sort of assurance in relation to the position going into the House of Lords. I would like you to comment on that, if the information can be shared.

485. Thirdly, Lord Glentoran is on record as saying that in 2010, the £50 million affordability tariff would be paid by central Government. That would not be self-financing; that would amount to consumers paying for it themselves.

486. **Mr Sterling**: I will go in reverse order. The affordability tariff, which was announced by Shaun Woodward on 8 December 2005 when he was Minister for Regional Development, was to be reviewed in 2009 after three years of operation. I know there has been concern about this issue, so I will attempt to clarify the points. There is nothing in the legislation, which has now gone through both Houses of Parliament, to prevent the tariff being paid beyond 2009-10. During those first three years it would be paid for out of Northern Ireland public expenditure. Our current estimate is that by 2009-10 it is likely to cost in the region of £40 million, which will come out of Northern Ireland's budget. It is a policy that Ministers have said they are proud of. However, they would not wish to commit a future Administration to the payment of the tariff beyond 2009-10, although of course it would be open to whatever ministerial team is in place at that time to decide whether to continue it.

487. The review is necessary in any event, because while Ministers are proud of the intention of this tariff and the protection it will give, it has been constructed in the absence of really good knowledge about the customers it is seeking to protect. In Northern Ireland, we do not have reliable information about the circumstances of people on low incomes and the properties that they live in. The available data is not good enough to tell us the incomes of people in low-value properties. In 2009, when we will have much better information than this, it will be important that we look at whether the protections are really working and whether the people who need them most are getting them.

488. On the Lord Glentoran point, you may have seen the Hansard report of that debate. Within that, Lord Glentoran referred to a letter he had received from the Department last Friday. I will ensure that the Committee receives a copy of that letter. Other than that, the discussion is detailed in the Hansard report.

3.00 pm

489. **Mr Raymond McCartney**: There was the issue of non-profit companies.

490. **Mr Sterling**: That option was considered. There are a number of ways that one could have a non-profit company: it could be a mutual company — a bit like a building society — or a not-for-dividend company such as Welsh Water.

491. The Government felt that there were attractions in the option, although there was no consensus about it in the consultations. The trades unions were quite strongly against the Welsh Water model — I hope I am not misrepresenting them — on the basis that they saw it as just another form of privatisation. Welsh Water employs about 100 people and relies heavily on outsourcing.

492. There was no consensus on the not-for-profit model. The Go-co model that we have adopted would be capable of evolving into a company limited by guarantee, or into a mutual-type company, if that was what Ministers wanted to do at a later date.

493. **Ms Ritchie**: Thank you, Mr Chairman. I welcome Mr Sterling and his team. I wish to ask a three-part question. The first part concerns the affordability tariff. Article 213 of the draft The Water and Sewerage Services (Northern Ireland) Order 2006 provides the legislative basis for the Government to make grants to pay for the affordability tariff. A few moments ago Mr Sterling said that the legislation places no constraint on the durability of the tariff and that the Government are giving a commitment to review it in three years. Surely, that review would be subject to public expenditure constraints and, therefore, would be

meaningless. Would you agree with that statement?

494. Secondly, in relation to privatisation, could the Treasury pressurise the Department to look at privatisation, as was noted in the email from Mr Taylor, which was shown as part of discovery of documents in the judicial review?

495. Thirdly, and this is a question for Ms Bryan, could she give us a guarantee that Water Service and Crystal Alliance have withdrawn the Experian database, which labels people as rock bottom? Can she guarantee that location does not, and will not, play a part in debt management and recovery? Those are important questions that require answers, and we have to address those issues if there is going to be a future here.

496. **Mr Sterling**: I will answer the question on the affordability tariff. As I said to Mr McCartney, it is expected that the affordability tariff will cost in the region of £40 million of Northern Ireland public expenditure in 2009. As with all things, Ministers will have to make choices, and I am assuming that we are speaking in the context of a devolved administration here. It would be open to devolved Ministers at that stage to do what they thought was best given the consequences for public expenditure. By that stage, the affordability tariff will be in the baselines of the Northern Ireland Budget, and, in that sense, will be entrenched.

497. However, if we are under direct rule at that point, the situation might be slightly different because the affordability tariff is unique to Northern Ireland. Direct rule Ministers would need to take account of the implications that extending the tariff here would have for other parts of the UK. I do not want to leave the subgroup with the impression that that would not be an issue.

498. As to whether the Treasury could pressurise for privatisation, I am not sure how the Treasury could apply such pressure. I am not aware of any legislation that the Treasury could enforce to make Northern Ireland privatise the company. I cannot see how they might do so, other than by applying political pressure, but I have no reason to believe that they would do that.

499. The straight answer is that I am not aware of any means that they could use to force Northern Ireland to privatise if it did not wish to do so.

500. **Ms Ritchie**: Does that mean that the review that was suggested for 2008 has now been ruled out?

501. **Mr Sterling**: No. When the strategic and financial review was published in February 2006, it was announced that there would be a review in 2008 to identify whether greater private sector participation in the company would be beneficial. Even if you disagree with the strategic and financial review's recommendations, it produced evidence to show that the greater the private sector participation in a utility, the greater the chance of that company operating efficiently and effectively. It would actually be remiss of the Government to set that type of evidence aside. Therefore some value will be gained from having that review, and as things stand, I expect that it will take place. If, as we all hope, devolution returns next year, I question whether the devolved Administration would be required to hold the review.

502. **Ms Bryan**: I assure you categorically that the Experian term to which you referred has not and will not be used by the Water Service or Northern Ireland water in the future. It is a term, indeed, that Experian itself dropped a year or two after it was used in 2003.

503. Similar to any other responsible utility, Northern Ireland water will have to have debt management processes. For that, it will need databases and credit management tools that will enable it to protect the interests of those business and domestic customers who pay responsibly. Therefore we will probably continue to use Experian — and a range of other databases — because it provides information to all utilities, to many businesses and to public sector bodies.

504. Turning to the second part of your question, location is absolutely irrelevant. We

are interested in building up a history of payment in the domestic and non-domestic customer base in Northern Ireland. However, we have not yet formulated our debt management policy; we are still doing that. We hope to involve the Consumer Council for Northern Ireland (CCNI) and other customer representatives before we finalise it. That policy will then be educated by the picture of debt that will build up over the first year or two of billing.

505. **Ms Ritchie**: Will you assure the subgroup that the consultation exercise that will be carried out with the Consumer Council will be full and adequate? Will you also assure the subgroup that the regulator will be involved? We have heard evidence today from the regulator, and we are not satisfied that his role is robust enough. Do the Water Service and the Department have any comment on that?

506. **Ms Bryan**: It is the Water Service's stated aim, and, hopefully our practice, to involve a number of stakeholders in many areas of our work. This matter is of interest to everybody at the moment, and we continue to work with CCNI in particular on a range of aspects of billing and debt management. Therefore I hope that we will continue that discussion with the Consumer Council over the next few weeks.

507. I do not know whether David has any comments to make on your other question or about the Department.

508. **Ms Ritchie**: I asked about the role of the regulator.

509. **Mr Sterling**: I am sorry; I was unable to listen to all of what was said earlier. I have had some feedback, but I am not quite sure in what respect you are saying that the authority will not have sufficiently robust powers.

510. **Ms Ritchie**: We got the distinct impression today that the role of the regulator will be not as robust as it should be. I think the evidence is there to show that. There are various areas. The regulator will not be able to undertake his water powers until 1 April 2007. The preparation of guaranteed standards cannot begin until then, and that will delay the coming into force of those standards probably until January 2008. Although the Department has agreed funding arrangements, insufficient staff are allocated to the regulator to enable him to do his work. What will be done in that respect to ensure that he has the resources and the commitment from the Department to carry out his work in a fair and balanced manner?

511. **Mr Sterling**: Unfortunately it is not practicable to have the regulator established before 1 April 2007, much as we would like to do so. The timetable does not permit us to do that. However, it is the clear intention — and Lord Rooker made this clear in the House of Lords — that where there are powers of enforcement or general authorisations to be given to the regulator, these will be given from day one, or as close as possible to day one. Do not take from that that I am talking about a delay; there might be a few days in some cases, but the intention is to give the regulator general authorisations, where possible, from day one.

512. Indeed, where there is a choice to be made between whether a general authorisation lies with the Department or with the regulator, we will be giving the general authorisation to the regulator. This is a point that is explained in the letter that was sent from the Department to Lord Glentoran. I will let the Committee have a copy of that, and I hope that it will provide some assurances in that regard.

513. The resourcing of the authority is a matter, at this stage, primarily for the Department of Finance and Personnel. I am happy to take that point back to that Department and, indeed, to take any representations from the authority as well.

514. **Ms Ritchie**: Thank you.

515. **Mr Raymond McCartney**: Will an equality impact assessment be carried out in relation to debt recovery management?

516. **Ms Bryan**: I understand that an equality impact assessment was done for water reform as a whole and, within that, for charging. I was not aware that we needed to do an equality impact assessment on sub-sectors of charging, and I do not know that one has been delivered.

517. **Mr Raymond McCartney**: In the Crystal Alliance documents there seems to be a two-tier system. Irrespective of the terminology — and we accept that people may now have removed some of the terms like "high risk", "rock bottom", "low risk" and "affluent" — there seems to be a two-tier system of pursuing people who are in debt, and that does not meet the standard of equality.

518. **Ms Bryan**: Thank you for giving me the opportunity to clarify this very important issue. Obviously, many of us are aware of the media attention on this point. Let me state categorically there will be no two-tier approach to debt management. We will be doing our best to build up a clear picture of debt as it occurs in Northern Ireland. Our aim will be to get to people supportively as soon as we can, knowing that a number of people will have difficulties. Processes, procedures and strategy will follow only when we have a much better set of data to build up a good, sustainable and fair policy.

3.15 pm

519. **The Chairman (Mr McNarry)**: I am pleased that the room is getting warmer; some members were complaining that they were cold. The session is probably heading in the direction that we want.

520. As part of the subgroup's remit, we must shortly present a report, including detailed action points and recommendations, to the Committee on the Programme for Government. There is nothing personal in any of our questions; their aim is to extract something that perhaps others have failed to. If we do better, we will be very pleased.

521. Our ultimate aim is to be in some form of government in Northern Ireland; we will then be more accountable than your present masters. That would let you off the hook. We want to be in good government, and we want to address the concerns of the consumer. The consumers are our electorate, and we must listen to them. Many of the comments and questions will be based on the perspective of a concerned electorate who are also consumers.

522. I was concerned by Mr Sterling's earlier comment that there should be much better joined-up government between his colleagues in the Department of Finance and Personnel and the Department for Regional Development. Last week, Mr Sterling appeared before the subgroup on the economy, which I also attended. According to the Hansard report, a DFP official said:

"Our interpretation is that the Treasury has accepted the phasing as currently structured. Treasury officials would see anything beyond that as a step backwards, away from the current agreement to move to self-financing status within a defined period."

523. Bearing in mind what you said in evidence 15 minutes ago, are you both on the same wavelength on that issue?

524. **Mr Sterling**: Yes. I was talking to Ms Ritchie about the affordability tariff; the quotation from Hansard refers to the phasing-in of tariffs. At present, a three-year phasing-in period has been agreed, with consumers paying one third of their water bills in the first year, two thirds in the second, and the full total in the third year. I do not consider there to be any difference between what I said about the affordability tariff and what my DFP colleague said about the phasing-in of tariffs.

525. **The Chairman (Mr McNarry)**: Therefore there is no difference between DRD and DFP on the tariff issue.

526. **Mr Sterling**: No. The Departments work closely together. I said that I would raise the issue of OFREG funding with DFP to make sure that we, in central government, ensure that the part of central government responsible knows about the issue.

527. **The Chairman (Mr McNarry)**: I want to take that point into another area. At its meeting with DFP officials last week, the subgroup tried to establish whether responsibility for water services is a devolved matter. It would be useful for this subgroup to have some awareness of that query as well. Do you recall that conversation? Bearing in mind

the quotation from Hansard that I read a moment ago, the same colleague said that:

"If an Executive were to lower the valuation from £1 billion to, say, £500 million, the loss of £500 million would be a hit against the resources available to the Executive."

528. He went on to say that:

"The Executive could decide on a lower valuation. However, the decision to reduce the valuation from £1 billion to, say, £600 million could affect resources available."

529. We are concerned about efficiency in that area. One concern is that you have structured something. We have heard evidence to the effect that there has been very little consultation in the weeks and months before announcements being made. No doubt, members will raise that issue with you.

530. We are concerned about what the inheritance of a devolved Executive would be in terms of efficiency and inefficiency. We need to be able to clarify for the PFG Committee that you are not, for want of a better phrase, sending the Executive a bum steer that is not going to work because of its inefficiencies.

531. It may be that the Executive will be hamstrung in working out different finances, with the same Finance Department serving different masters on a reduced scale. Can you allay fears that any interference, in terms of lowering the valuation, on the part of an Executive would seriously damage the company that is coming forward and, in turn, would then punish consumers, because resources would have to be found from charges?

532. **Mr Sterling**: I will try to address those points, although some would be better addressed to the Department of Finance and Personnel (DFP).

533. **The Chairman (Mr McNarry)**: You are saying that you work closely together; you are bound to have worked this out.

534. **Mr Sterling**: Indeed. In anything that I now say where I feel that I need to add a caveat that DFP should take a position, I will do so.

535. **The Chairman (Mr McNarry)**: I understand.

536. **Mr Sterling**: On that point, first of all, I think the Hansard report records that DFP has agreed to write to the Committee to clarify where the boundary between reserved and transferred matters actually lies.

537. **The Chairman (Mr McNarry)**: Your colleague from DFP said that he would need to confirm that definitively. He was not resiling from the view he was putting to the subgroup in that he felt that this was a fiscal matter and that Treasury would retain an interest, even in a devolved Government structure. That is basically what he said, but it will be interesting to see what he confirms.

538. **Mr Sterling**: My understanding is that the fiscal rules are a reserved matter and apply across the UK. To be clear on the rules affecting the Go-co —

539. **The Chairman (Mr McNarry)**: But we own the water.

540. **Mr Sterling**: Indeed. In public expenditure terms the Government company will be a self-financing public corporation, and the rules governing the public expenditure treatment of self-financing public corporations are set out in the 'Consolidated Resource Accounting and Budgeting Guidance' — not an easy read.

541. **The Chairman (Mr McNarry)**: I am glad that you remembered that.

542. **Mr Sterling**: That is where those rules are set out. My understanding, subject to any clarification that DFP might wish to make, is that those rules are part of the fiscal framework within which we operate and that that is a reserved matter. However, the structure and governance of the company in Northern Ireland is a transferred matter, and the Executive and the Assembly will have discretion over that. Indeed, they will have a wide discretion to amend and develop policy as they see fit.

543. On the specific issue of what would happen if there was to be a write-down in the asset valuation, I think I am right in saying that

it will be for the regulator in the first instance to determine — in a periodic review, or perhaps at some other stage — whether he feels that the regulatory capital value is the right value for the company. However, in such circumstances where he might decide to reduce the regulatory capital value, the amount of that reduction might be an impairment in the accounts of the Department for Regional Development. I think it would be best for DFP to clarify this issue once and for all.

544. **The Chairman (Mr McNarry)**: For clarification purposes, would it be in order for us to pursue the matter on that basis?

545. **Mr Sterling**: Absolutely.

546. **Mr Nigel McCormick (Department for Regional Development)**: I have nothing more to add; David's understanding is also my understanding.

547. **The Chairman (Mr McNarry)**: Thank you for that clarification.

548. **Mr Girvan**: I thank the officials for coming to the subgroup this afternoon. Some questions could be answered if the business plan were made available to those who wish to peruse it. Much of the fear in the community has arisen due to a lack of information or, I should say, due to a lack of will to make information available. I am concerned about that. Now is the time to make the business plan public.

549. The present policy does not encourage people to conserve water if they do not have a meter. What will the split be between the metered amount and the standing charge on the proposed scheme? Would legislation be required if metering were made universal?

550. From your earlier comments, I am also concerned about the Go-co's evolving into something different, because it could operate slightly differently from an ordinary publicly owned company. How will the Go-co be open and transparent? It is like suspending standing orders in a meeting in order to allow something to be facilitated, and I am always concerned when that happens.

551. **Mr Sterling**: I understand concerns about the apparent lack of transparency in the strategic business plan. However, the strategic business plan will be a contract between the Department, as the shareholder, and the company. The plan will contain many commercially sensitive issues, so it is not, and has never been, the Government's intention to publish it. However, in the House of Lords on Monday, Lord Rooker said that Ministers would make an announcement early in the new year containing the key assumptions underlying the creation of tariffs. In other words, it will include some key elements in the strategic business plan.

552. **The Chairman (Mr McNarry)**: Perhaps you would be interested if a devolved Executive had a copy of this secretive business plan.

553. **Mr Girvan**: From what I hear, I do not think that we will be.

554. **Mr Sterling**: The Minister for Regional Development — whoever that may be — will have the strategic business plan

555. **The Chairman (Mr McNarry)**: Will that plan have been carried forward from the present business plan?

556. **Mr Sterling**: Absolutely. The current business plan is a three-year one up to 2009-10 and beyond.

557. **The Chairman (Mr McNarry)**: Could a scrutiny Committee of the Assembly pursue information pertaining to the business plan?

558. **Mr Sterling**: If it so chose.

559. **Mr Girvan**: By then, however, it would be too late. The business plan will have to be published before it is signed off; not publishing it would create problems. The media are having a field day because of the lack of transparency throughout the entire process. This is yet another issue that the media will pursue and, to be honest, they would be quite right to do so. Unless the plan contains an issue that is of such a commercial value that it should remain secret, there is no reason for not making the business plan available to the public.

3.30 pm

560. **Mr Sterling**: The strategic business plan, when it is concluded, will be a long and detailed document, and DRD considers that much of the detail will be inappropriate for the public domain.

561. Lord Rooker announced that the Water Service will publish a business plan before April 2007, which will set out the key elements of the strategic business plan before control is vested in Northern Ireland Water Limited (NIWL) on 1 April 2007. Members may not consider that to be sufficient assurance, but I hope that the statement early in the new year, which will set out the key assumptions underlining the tariffs, and the subsequent publication of a business plan — but not the full strategic business plan — should address any concerns.

562. **Mr Girvan**: Without that information, how will the regulator become involved in the process?

563. **Mr Sterling**: Before the strategic business plan is finalised, DRD intends to have further discussions with the Consumer Council and the economic and quality regulators, from the Environment and Heritage Service (EHS) and the Drinking Water Inspectorate (DWI) respectively.

564. **Mr Girvan**: Will those discussions take place before the strategic business plan is signed off?

565. **Mr Sterling**: Yes, they will take place before the plan is finalised.

566. **The Chairman (Mr McNarry)**: Will there be room in those discussions for comments that may seek to alter the Department's plans or will the consultation be a question of either taking it or leaving it?

567. **Mr Sterling**: I would not characterise the discussions in those terms, nor would I consider them to be a full-blooded consultation.

568. **The Chairman (Mr McNarry)**: Now that I am giving you the opportunity, do you want to characterise it?

569. **Mr Sterling**: There will be further discussions.

570. **Mr Girvan**: Are you in a position to discuss the disparity in relation to charging between the metered amount and the standing charge? Is that also privy information?

571. **Mr Sterling**: No. I am hesitant to give you the figures on how the metered tariff will be calculated. However, I am happy to write to the subgroup to explain how that works. The policy for tariffs for domestic customers has, in a sense, been determined.

572. **Mr Girvan**: Please send us that information.

573. **Mr Sterling**: We will send the information to the subgroup tomorrow.

574. **Mr Girvan**: Should there be universal metering? Would legislation be required for that to happen?

575. **Mr Sterling**: No. Mr McCormick may correct me if I am wrong, but universal metering may require an amendment to regulations but not to primary legislation that has already been passed by Parliament.

576. **Mr Girvan**: Moving on to water efficiencies policy, what is being done to encourage customers who will not have water meters to conserve water?

577. **Mr Sterling**: That is a good point. It would be good if we could wave a magic wand and install a meter in every house in Northern Ireland now, because it would give us many more options. However, to do that could cost in excess of £100 million. The Government's stated policy is to work as quickly as possible towards widespread metering. Metering may never be universal; there may always be some properties in which it is simply impossible or inappropriate to install meters. However, the aim is to have almost universal metering.

578. Government have listened to a variety of views on metering and taken on board the concerns of those who say that free-for-all metering could lead to unfortunate social consequences. Small middle-class families that are better off may rush to get a meter, but that

would inflict a cost burden on larger low-income families. To avoid that, and yet still make steady and fast progress towards more widespread metering, the Government have decided to install meters in every new property and at all new connections from April 2007.

579. The Government will also offer pensioners — that is, anyone who is over 60 years old — the option of having a meter, if that suits their purposes. The Government have stated that further consultation will take place within the first two years of charging to determine how best metering should be progressed. Indeed, Ministers have gone further and have said that it should be for devolved Ministers to develop policies that are right for the people of Northern Ireland.

580. **Mr Girvan**: I would like to ask a supplementary question.

581. **The Chairman (Mr McNarry)**: Listen here, I know that you arrived late — *[Laughter.]*

582. **Mr Girvan**: I want to make up for it, Chairman.

583. Is there any indication that the Water Service's current assets will be disposed of, or has permission been sought to dispose of assets before privatisation — well, it is not called privatisation —

584. **Mr Sterling**: Are you trying to trick me?

585. **Mr Girvan**: I use that term because I believe that that is what it is.

586. Has any mechanism been put in place to allow for the disposal of assets?

587. **Mr Sterling**: We are acutely conscious of the concerns about asset disposal. People have formed views about this issue based on what has happened in the past in Northern Ireland. In a speech in the House of Lords on Monday, Lord Rooker made it clear that the Government do not want to make the mistakes of the past and that they have learnt from what they regard as the mistakes of previous Administrations.

588. Lord Rooker referred to asset disposal and, to help improve confidence, he said that that the Government will exercise a power within the legislation whereby, from day one, authorisation will be given to the regulator to determine whether or not assets should be disposed of. If assets are disposed of during the first three years, the proceeds will be retained within the company at the discretion of DRD.

589. Beyond 2010, the position will be as it is in England and Wales whereby the proceeds of any sale of assets will be shared between the company and customers — and, again, the regulator will decide whether or not assets are to disposed of.

590. **Mr Girvan**: Have any approvals been sought from DRD for the sale of assets before 1 April 2007?

591. **Mr Sterling**: It is important to point out that it is firm Government policy that assets that are no longer needed should be disposed of because they are an unnecessary cost to the taxpayer.

592. **Mr Girvan**: I appreciate that, but has approval been given for the sale of any assets?

593. **Mr Sterling**: Within the strategic business planning process, we are looking to identify all assets that are no longer needed for the purposes of the business. Such assets would be disposed of.

594. **Mr Girvan**: Before 1 April 2007?

595. **Mr Sterling**: Even if we had any, I do not think it would be possible to dispose of them between now and then.

596. **Mr Girvan**: Does the money go back to the Go-co or the Exchequer?

597. **Mr Sterling**: The proceeds of the disposal of any assets in the first three years will remain in the company, and, of course, any disposal will have to be approved by the regulator. It will be at the Department's discretion to determine what happens to those proceeds.

598. **The Chairman (Mr McNarry)**: Mr Sterling, you have been very good as you have been sitting here for an hour. We could discuss this issue for quite some time, but are we all comfortable to give it another fifteen or twenty minutes? I am in everyone's hands. Mr Sterling,

are you happy enough to continue a little longer?

599. **Mr Sterling**: Yes.

600. **The Chairman (Mr McNarry)**: Are members happy enough with that, bearing in mind that that we have other business to attend to afterwards?

Members indicated assent.

601. **The Chairman (Mr McNarry)**: Before Kathy Stanton speaks, I would like to follow up on Mr Girvan's line of questioning. Is there any way that you could help the Committee on the commercially sensitive issues that you talked about?

602. I do not want to write to the Department only to receive a refusal to answer. I therefore ask you now whether you would respond to an inquiry from the subgroup as to the nature of these sensitivities?

603. **Mr Sterling**: I would be happy to do so.

604. **The Chairman (Mr McNarry)**: Are Members happy with that? I think that might yield something. We are grateful, David. You have been very patient and it is all his fault so — *[Laughter.]*

605. It is all part of DUP/Sinn Féin bonding. We keep that going all the time. *[Laughter.]*

606. **Ms Stanton**: I would have asked about approval of land disposal in advance of the 2007 transfer date, but that has been answered.

607. **The Chairman (Mr McNarry)**: Were you anxious about him stealing your thunder then? *[Laughter.]*

608. **Ms Stanton**: Oh yes, definitely.

609. I must also ask about equality impact assessment. What policies have been assessed? I have seen none to date. You referred earlier to water reform, but could you give the subgroup a list of exactly what policies have been so assessed?

610. **Ms Bryan**: I cannot give you a list of what has been screened out, what assessments have been carried out, or what are planned. I can only reiterate that the whole of water reform activity was assessed and certain areas, such as charging, were also assessed. It is a matter of judgement for experts in that area as to what should be equality impact assessed and what should not. I will be in communication with you.

611. **Ms Stanton**: Could we have information on those areas of water reform that you say were assessed?

612. **Mr Sterling**: We will let the subgroup know what has been impact assessed, what has not, what has been screened and what has not.

613. **The Chairman (Mr McNarry)**: We are grateful to you for undertaking this considerable amount of work; but we need the material within days. We have not got time to wait.

614. Furthermore, if the equality impact assessment material is incomplete, you might consider what aspects may have been omitted. Would you agree, Ms Stanton?

615. **Ms Stanton**: I do. Furthermore, the Northern Ireland anti-poverty strategy was launched last month, initiating what is supposed to be a co-ordinated approach across all Departments. You claim to have addressed poverty through a range of tariffs. However, we heard from the Northern Ireland Anti-Poverty Network earlier, and, as they pointed out, tariffs do not match house values. There are now no £20,000 houses in the Six Counties. So tariffs do not match the latest figures that were provided through the rules and guidelines to customers.

616. As I said to that delegation, we now have the working poor as well, in addition to other vulnerable groups. Water charges will hit everyone; but not everyone will have an adequate income.

617. **Mr Sterling**: I understand. May I pick up on what you have said about house values? I do not know how many £20,000 properties there are, but I know that there have been misleading comments about that in the press that had to be corrected. It is important that people understand that the values that will be used to determine water charges are the capital values which the Valuation and Lands Agency (VLA) published in the summer. Those valuations were

conducted in January 2005. Reference was made earlier to the fact that the average property value in Northern Ireland is now £160,000. That may well be right for the average market value, but the average capital value in the VLA database is around £115,000. Some 420,000 properties in Northern Ireland out of the total 650,000 are valued at less than £115,000.

618. There is also a significant number of properties valued at below £70,000 within the VLA database. It is important that the distinction, between current market values and VLA capital values used for water charging, is understood.

619. **Ms Stanton**: Will there also be an equality impact assessment on the VLA valuation process? Will that be incorporated throughout all the policies and strategies dependent upon it?

3.45 pm

620. **Mr Sterling**: I will need to check with Department of Finance and Personnel, which is responsible for the valuation process and for the rating policy reforms. I am fairly sure that they were impact assessed. I will confirm that to the subgroup.

621. I have said that I will supply information to the subgroup tomorrow; but would the Committee be content if all the information promised is provided by Friday 15 December? We have undertaken to provide a considerable volume of information.

622. **The Chairman (Mr McNarry)**: That is reasonable.

623. **Mr Cree**: Thank you for your contribution, which has been very useful so far. Your responses have been fairly good but some, however, have been a little unclear.

624. Some of my colleagues have raised issues that could have been developed a little more. For example, many of us wish to know whether Northern Ireland Water Ltd will be a viable company, and we can know that only from the information supplied. My colleague mentioned the strategic business plan, which is fundamental to the viability of the company. However, there are other issues. For example, we have not seen an asset management plan, even though we have begun to talk about assets.

625. We know that there was an agreement between Treasury and the Secretary of State, but we have received no detail on that. We have no information in respect of governance of the company. In addition, why is there a need for a standing charge at all? Why bring up this nonsense about capital value, which is not linked to ability to pay or, indeed, to sustainability? That is my first question. *[Laughter.]*

626. **Mr Sterling**: I see a strong link between those three elements.

627. **The Chairman (Mr McNarry)**: Do you want to answer, Mr Sterling? That was a heck of a one.

628. **Mr Sterling**: In 2002, the company conducted a major asset management planning process. The regulator will conduct a further asset management planning process. That will begin as early as summer 2007 and will be an essential prerequisite for the periodic review in 2009.

629. The current strategic business plan is being constructed on the basis of previous asset management planning, with the advice of consulting engineers. However, in the time available, it would have been impossible to complete a full asset management planning process. Nevertheless, that will form part of the periodic review process and will be completed in the same way as similar processes in England and Wales are completed through OFWAT. There is a considerable degree of transparency with that.

630. **Ms Bryan**: There may be some confusion. The company produces the asset management plan, not the regulator. However, the regulator will avail himself of independent reporters, who will check our costs and assumptions so that the regulator has an independent basis for the asset management plan on which to fix prices for the coming regulatory review, as David Sterling said.

631. **Mr Cree**: Will the company not develop the plan?

632. **Ms Bryan**: It will be our responsibility to do that. We are thinking about the plan now, and will start work on it in 2007. It is a long process, but a very important one for the company, the regulator and the customers.

633. **Mr Cree**: We have already touched on the issue of land disposal. We know that there are 130 pieces of silver — the going rate used to be 30 pieces of silver.

634. **The Chairman (Mr McNarry)**: That is because of inflation.

635. **Mr Cree**: The land in question has been declared as surplus and could be disposed of. I am led to believe that some of those declarations go back 16 years; I wonder why someone would wait 16 years before disposing of land.

636. You almost answered the question about the disposal of any land prior the transfer date of 1 April 2007, but I am not quite sure that you have answered it completely. I shall ask you the question in an unambiguous manner: has any disposal been agreed prior to the transfer date?

637. **Mr Sterling**: Katharine will answer that question, and I will answer the questions on governance and standing charges.

638. **Ms Bryan**: I shall answer in two parts. There may be some confusion as to what an asset management plan is — forgive me if I am making assumptions. An asset management plan has nothing to do with sales of land.

639. **Mr Cree**: No. I am moving on from that.

640. **Ms Bryan**: Sorry, I was referring to your previous question. I am glad that there is no misunderstanding on the asset management plan.

641. You asked about asset sales ahead of 1 April 2007. We regularly review our surplus lands and disposal.

642. We are not planning to make sudden sales, or proposals for sales, ahead of April 2007. As any responsible company would, we intend to develop an estates-management plan. That sounds grandiose, but the assets may be small parcels of land or disused pumping stations. They are assets that most people may not perhaps recognise as such. The regulator, the shareholder and Water Service will identify a responsible use for them.

643. The organisation may not have used an asset such as a length of pipeline for some years, but its water-resource strategy may dictate that it will eventually need that pipeline. Even though an unused asset may have been on an organisation's books for some time, it will still need to be cautious about disposing of it suddenly. That is why we need a good, 10-year estates-management plan. There are no plans to suddenly present the Department or anyone else with a list of asset sales.

644. The plan that has been mentioned already allows for proceeds from disposal of assets to be shared between the customer and the company after 2010. That is the norm in England and Wales, and I believe that it is a fair approach.

645. **The Chairman (Mr McNarry)**: Will your accountancy procedures over the next 10 years involve writing down in the normal way the value of the assets that will be listed?

646. **Mr Cree**: Assuming, of course, that the values of those assets had not fully depreciated.

647. **Ms Bryan**: I will defer to David on that point.

648. **Mr Sterling**: There are a couple of issues there, so I shall defer to the accountant.

649. **Mr McCormick**: Normal accounting procedures will apply. Impairments in assets must be accounted for as they arise. However, there is nothing special about the process.

650. **The Chairman (Mr McNarry)**: The company's definition of usage may be significant. It may declare that it does not need the asset but that it could be valuable to someone else. In that case, the company could write down the value of the asset, rather than declare its real value. Therefore that asset becomes more valuable on disposal. That would normally happen. How can one see the list of

assets and the current valuations and how they are proofed?

651. **Mr McCormick**: The current list of surplus assets, which is quite long, was published recently with a press release. There are no valuations with that, because I understand that, at present, we do not have valuations that could be published with them.

652. **Mr Sterling**: That means market valuations.

653. **Mr Cree**: Is a residual value stated on the balance sheet?

654. **Ms Bryan**: Yes.

655. **Mr Cree**: Is that based on current cost accounting?

656. **Mr McCormick**: The valuation of the company's opening assets will be determined by the transfer scheme to set up the company. Therefore all its assets will be transferred through that scheme.

657. **Mr Cree**: How do you decide the value of the assets?

658. **Mr Sterling**: For what purpose?

659. **Mr Cree**: For balance sheet purposes.

660. **Mr Sterling**: Through the relevant accounting standard.

661. **The Chairman (Mr McNarry)**: From what I am hearing, a sharp accounting cookie who is a businessman would run rings around you and would love to go after those assets. You need to be clearer. Forgive me for this — and it is not a reflection on you — but your answers may give rise to the interpretation or the suspicion that you really could not care less because you are heading to something much brighter and that the way down the road is to get rid of the assets. We have seen it many times before: the Government dispose of assets and properties that they had underwritten or undervalued, and all of a sudden the lottery comes home to whoever picks them up.

662. **Mr Raymond McCartney**: If no assets are disposed of between now and 2010, is the strategic business plan viable? Or does it rely on some disposals?

663. **Mr Sterling**: Again, that has not been finalised.

664. Returning to the procedure for disposal of assets, the company will be required to produce an estates-management plan and provide it to the regulator by September 2007. As I explained earlier, the company will be able to dispose of an asset only with the approval of the regulator. Therefore the company cannot, in some willy-nilly fashion, dispose of assets. The regulator has a clear role to play in that.

665. When it comes to disposing of an asset there will be procedures in place to determine the value of that in such a way that the company gets value for money and, indeed, taxpayers and customers get value for money, depending on how the proceeds are actually to be used.

666. **The Chairman (Mr McNarry)**: I hope that the procedure is not the same as that which the Department of Education is using to dispose of its schools' assets and estate? I would not recommend it.

667. **Mr Sterling**: Forgive me if I do not comment on education.

668. **Ms Bryan**: I am a little concerned that we have inadvertently given you the wrong impression about that. The disposal of assets is an important issue.

669. **The Chairman (Mr McNarry)**: Do not take full blame for it. It has not just happened today. It is a combination of matters.

670. **Ms Bryan**: I want to reassure you that the disposal of assets in 2006-07 is, of course, in the normal course of business subject to the Government Accounting Northern Ireland (GANI) policy. Any assets on the surplus list will have a market value in order to give such assets a value in the open balance sheet. There will, therefore, be openness.

671. **The Chairman (Mr McNarry)**: On the market value?

672. **Ms Bryan**: Yes, on the market value. The VLA will also give them an independent value. Please reassure people that, for this year, the processes will be carried out via GANI and the VLA.

673. As Chief Executive, I will have responsibility to examine asset disposals with the Regulator and the shareholders. That will be an entirely proper process. It will be in the interest of the customers, which, after all, is our raison d'être. I want to reassure you of that.

674. **The Chairman (Mr McNarry)**: The subgroup is grateful for that. You understand that criticism will come from the Public Accounts Committee across the water if you do not get those issues right. If a Public Accounts Committee is installed in the Assembly, and the same questions and issues arise, the criticism from those elected representatives and from those who put them in position will be intolerable. I appreciate what you said. Thank you.

675. **Mr Cree**: We have had clarification on that. I want to know how to get rid of the standing charge. I want to leave that aside, however, and try to get some logic on the matter. Surely the Regulator's involvement from 1 April, or whenever he appears on the scene, will mean a change to the draft licence?

676. **Mr Sterling**: Yes, it could mean a change.

677. **Mr Cree**: Can you comment on the standing charge? It seems to me to be a bit of an anachronism now.

678. **Mr Sterling**: With regard to electricity, all costs are covered through the unitary charge. Obviously, there is an argument that a significant proportion of the costs of the water and sewerage business is actually involved in providing the infrastructure. The variable element, the actual —

679. **Mr Cree**: The product?

680. **Mr Sterling**: Indeed. The product is a disproportionately small percentage of that, and the standing charge recognises that. That is my view on that.

681. **Mr Cree**: That is interesting. Chairman, I will move on quickly to my other eight questions. *[Laughter.]* Some of them have been touched on. In the current situation, what transformation costs have you allowed for this year and for the first year of the new Go-co?

682. **Mr Sterling**: That has been addressed in the strategic business plan.

683. **Mr Cree**: Will the subgroup get that information? I would not have thought that that would be too confidential. The current year is a reality, I hope.

684. **Mr Sterling**: Indeed. May I reflect on that?

685. **Mr Cree**: Would you, please? I look forward to that.

686. **The Chairman (Mr McNarry)**: You have had 48 hours to reflect on it, David, judging by your previous promise.

687. **Mr Sterling**: I have got used to responding quickly in recent times.

688. **The Chairman (Mr McNarry)**: We appreciate that very much.

689. **Mr Cree**: We have known David of old. He did not tell you that he actually came from DFP, I believe. Did you spend time there, David?

690. **The Chairman (Mr McNarry)**: We do not have time to go into all of that.

691. **Mr Cree**: Efficiency targets? What efficiency targets have actually been set?

4.00 pm

692. **Mr Sterling**: It is for a matter of public record that, at the start of the strategic planning process in February this year, the Department set provisional targets of 35% for operational expenditure and 27% for capital expenditure. Those targets were the products of a mechanistic process whereby the Department examined relative efficiency analysis and were designed to create a benchmark against which the Department could work within the strategic planning process. The targets were set at a time when it was clear that our knowledge of the business, and of the underlying costs, were not as good as it could have been. We knew that there was a likelihood that those targets may need to change. The Department has not yet finalised the targets in the strategic business plan.

693. **Mr Cree**: But the Department is not far from finalising that?

694. **Mr Sterling**: No, we are not far from doing that.

695. **Mr Cree**: When will the final targets be known?

696. **Mr Sterling**: The Minister will set out the assumptions that underpin the tariffs in the new year. The Department aims to be as transparent as possible, subject to commercial and confidential issues.

697. **Mr Cree**: From your projections, what will the bad-debt target be by 2010?

698. **Mr McCormick**: I do not have that figure to hand.

699. **Mr Cree**: Perhaps Mr McCormick can supply that to the subgroup later, if it is not a secret.

700. What is the Department's position on the potential recommendation to part-privatise the Water Service, following the review that is planned for 2008-2009?

701. **Mr Sterling**: The Government have announced that a review of the process will be conducted in 2008.

702. **Mr Cree**: You mentioned the appointment of undertakers in the sewerage side of the business and others in the Water Service. That suggests a split in the company.

703. **Mr Sterling**: No. The legislation has been drafted to refer to "undertakers" in the plural. That may give rise to suggestions that there are plans for appointment of more than one undertaker. However, I can assure the subgroup that the Government's intention is to award a licence to a single undertaker for Northern Ireland's water and sewerage services from 1 April 2007. The legislation was framed in that way to comply with European competition legislation, which prevents Governments from forming or enshrining monopolies in statute. That is why flexibility was built into the legislation and why it was drafted in those terms.

704. **Mr Cree**: Will the licence run for a significant period?

705. **Mr Sterling**: It will.

706. **Mr McCormick**: The legislation provides for an open-ended licence. An undertaker will be appointed, and the licence can only come to an end by way of a period of notice, which will be a long time.

707. **The Chairman (Mr McNarry)**: I shall indulge Mr McCartney and Ms Ritchie, if they will indulge me with succinct questions.

708. **Mr McCartney**: My question is short and to the point. The delegation has perhaps been hiding behind the business plan. It is important that members have further insight into the process in the future. Many questions have been evaded with answers that refer to work in progress.

709. The subgroup is tasked with helping to frame a Programme for Government for an incoming Executive. Considering the process of water reform to date, if that process had to be undertaken again, what recommendations would you make? Is there anything that you would change or do differently, if you could?

710. **Mr Sterling**: Is there anything that I would change? Where shall I start? *[Laughter.]* I hope that my response does not sound facetious, but should a similar process ever have to be undertaken again, I hope that I am not the one who has to do it.

711. To be serious, however, when the Department reaches the end of the process it will consider what lessons may be learnt, as it does any major reform programme. That will form part of the Department's programme management practice when it nears the end of the process.

712. This is one of the biggest local reform initiatives that has been contemplated. It was extremely controversial and contentious, and has been extremely difficult to manage and progress. There is a lot that we can learn.

713. **Ms Ritchie**: What are the implications for Water Service staff from April 2007, and what are the plans for pension and redundancy up to

2010? How will water charges be adjusted after the revaluation of capital values in 2010, and will the cap on rating valuations be adjusted?

714. **Mr Sterling**: On the final point, I cannot say whether the cap will be adjusted because the revaluation exercise is a matter for the Department of Finance and Personnel and the Valuations and Land Agency.

715. **Ms Bryan**: Pensions are a big concern for staff, of whom I am one. The plan is to have a new pension scheme because staff will no longer be civil servants. A mirror-image pension scheme is in the final stages of development, and we have worked with the trades unions and staff on that over the past 18 months or so.

716. As I have already said, there will be fewer staff in the future, and we hope that there will be a good voluntary severance scheme to enable people to leave with dignity. On the positive side, I can promise the staff of Northern Ireland Water Ltd an exciting time, greater job potential, greater job satisfaction and involvement in a very important service in Northern Ireland.

717. **Ms Ritchie**: Will those staff enjoy the same conditions as civil servants, and will the new company treat them as if they were civil servants as regards salaries, conditions of work and pension arrangements?

718. **Ms Bryan**: All staff will come under The Transfer of Undertakings (Protection of Employment) Regulations 1981 when transferring to the new organisation. However, if the company is to operate as a business, and if it is to deliver the same standards of service and efficiency as England and Wales, it cannot operate under the same grading structure and other systems as the Civil Service. We will take the opportunity, with unions and staff, to develop a business-like approach that suits the utility.

719. **The Chairman (Mr McNarry)**: Thank you very much. It has been an endurance for you as well as us. We are delighted you came. Thank you for your frankness, where possible. You will get back to the subgroup with the missing elements. Have a good Christmas and a good New Year.

720. **Mr Sterling**: Chairman, it would be helpful if the Committee Clerk could let us know quickly the list of things that we have committed to. We have taken notes, but it would be useful if we could agree the points that need to be followed up.

721. **The Chairman (Mr McNarry)**: I am going to miss Chelsea's kick off if we keep going at this rate — and it is not until 7.45 pm.

722. **Mr Sterling**: Thank you very much.

723. **The Chairman (Mr McNarry)**: Thank you.

Adjourned at 4.08 pm.

Wednesday 20 December 2006

Members in attendance for all or part of proceedings:
Dr Esmond Birnie (Chairman)
Mr Wilson Clyde
Mr Leslie Cree
Mr Paul Girvan
Mr Raymond McCartney
Ms Margaret Ritchie
Mr Jim Shannon
Ms Kathy Stanton
Mr Peter Weir

Witnesses:

Mr Jim Donaghy	Amicus
Mr Patsy Forbes Mr Basil McCrea	Northern Ireland Manufacturing Focus Group
Ms Michelle Bagnall Mr Duane Farrell	Help the Aged
Ms Elaine Campbell Ms Pam Tilson	Age Concern
Mr Stanley Blayney Mr Raymond Farley Mr Michael Kelly Ms Anne Monaghan	Northern Ireland Fair Rates Campaign
Mr Brian McClure Mr Leo O'Reilly	Department of Finance and Personnel

The subgroup met at 10.30 am.

(The Chairman (Dr Birnie) in the Chair.)

724. **The Chairman (Dr Birnie)**: Members, the witnesses are from the Northern Ireland Manufacturing Focus Group (NIMFG) and Amicus. Basil McCrea is the chief executive of the NIMFG, Jim Donaghy represents Amicus, and Mr Forbes is the chairman of the NIMFG and a director of Forbes Furniture.

725. Good morning, gentlemen. I welcome you to this meeting of the subgroup. Thank you very much for attending.

726. I thank you for your submission, which has been very helpful. The subgroup's prime focus is to take questions, but if you would like to make a short introductory presentation, that would be helpful.

727. **Mr Basil McCrea (Northern Ireland Manufacturing Focus Group)**: Thank you very much, Chairman. We are grateful for the opportunity that has been afforded us. I have circulated copies of an opening statement, so people may have already read it in addition to our submission, but I will read through it for completeness.

728. The major issue that we want to talk to the subgroup about is the competitiveness of Northern Ireland plc. A study by the Economic Research Institute of Northern Ireland (ERINI), which was published in January 2006, suggested that Northern Ireland plc was, on balance, competitive. Although the study accepted that we had higher energy, freight, fuel and insurance costs, it also noted that we had loawer property and labour costs. One might say that what you lose on the swings, you gain on the roundabouts.

729. If one goes into the report in detail, however, it paints a picture of manufacturing as an economic subsector. The report identified labour as being cheaper in the Republic of Ireland for manufacturing, and industrial property as being cheaper in six regions of the United Kingdom. Therefore the manufacturing sector must grapple with all the disadvantages without having any of the offsetting advantages. We are at a competitive disadvantage on every conceivable measure. Industrial derating was the one and only saving grace that we had. Without it, even our best and most profitable companies are moving out of Northern Ireland, and they are moving out at a certain rate. We want to bring that fact to people's attention.

730. Some commentators have pointed out that rising employment levels show that the phasing-out of industrial derating is not a big issue. The general problem is, however, that we are losing high-value — high gross value added (GVA) — manufacturing jobs and replacing them with part-time and low GVA jobs. Productivity — the key measure of economic success — is falling rather than rising. That is what we should be considering.

731. Manufacturing is not doomed; it is not a lost cause. That is one issue on which we want to be strong. Some people have suggested that the textiles industry is a lost cause. Actually, we have some very good companies that are doing very well. They can compete and they will compete in the world market; however, they will not do so from Northern Ireland. Our problem is that, instead of putting the investment back into Northern Ireland, we are putting it elsewhere.

732. Manufacturing currently employs 90,000 people.

733. The recent report by Pricewaterhouse-Coopers, commissioned by the Department of Enterprise, Trade and Industry, contained the scenario that Northern Ireland would lose 40,000 jobs if the manufacturing sector were to lose foreign direct investment (FDI) and local investment. That represents 40,000 jobs out of a total of 90,000 jobs, because for every job lost in the manufacturing sector another would go in services as well.

734. There is a wealth of academic information supporting our case. The subgroup will also be aware of the recent employment figures, which show that while employment is rising manufacturing is falling. That is happening now.

735. We would also like to point out to the subgroup that phasing out industrial derating is a short-sighted and counterproductive policy. The Government will not raise the £80 million predicted because the manufacturing sector will react to that cost pressure. It will relocate, reorganise or close down. The £80 million will not come in, and it is not a question of the manufacturing sector not paying it; the money will have to be found from somewhere else.

736. If one loses a workforce, one also loses VAT, income tax, national insurance and corporation tax. We have asked for industrial rating to be frozen at the current level of 25% — and we know that the Assembly has debated the issue. We are not saying that the manufacturing sector will not pay its way. We are more than happy to do so — but perhaps "happy" is overstressing it a bit. We are prepared to make our contribution, and we already make a big contribution. However, if that contribution goes much higher, manufacturers will not be able to compete here, and they will leave.

737. We have also identified, through the ministerial working party that some of you will be aware of, that unlike other economic issues that Members might be faced with, industrial derating does not have any state aid issues. That is an important point, because it means that the issue is something that Members are in a position to deal with.

738. We have a very broad church of support, in particular, our good friends from Amicus, and we have discussed how we might address the very serious skills shortage in Northern Ireland. It is easier for businesses to bring people from Lithuania, or Latvia, because when people here are trained, they leave as soon as they are trained. There must be a way to address that issue, and we would like to put a proposal on the table for discussion. It is something we have not fully worked out yet. However, if we were to see a positive engagement over the rating issue then we might engage in a private sector led retraining initiative. The details have been mentioned in our submission.

739. Finally, Northern Ireland has the lowest rates of economic activity in the UK. A stated requirement of Government is to reduce dependence on public sector employment. However, one of the big questions we have to ask is: where we are going to find real jobs for those people? The manufacturing sector, with its breadth of opportunities, has a real role to play here. We are prepared to step up to the mark and work with Members, but we need a clear signal from our elected representatives

that they are prepared to act decisively on an issue for which they have responsibility. We would very much like to work with you, and we will answer any questions that you may have.

740. **The Chairman (Dr Birnie)**: Thank you very much. Could we start with Sinn Féin?

741. **Mr Raymond McCartney**: Thank you, Basil, and your colleagues, for coming. You have made a presentation to Sinn Féin before, so I am familiar with some of the issues.

742. What is the relationship between industrial rating and job losses? Do you have any figures for job losses? What impact would capping at 25%, 30%, 35% or 50% make on job losses?

743. **Mr B McCrea**: We predicted that there would be 30,000 job losses within the next three to four years. Subsequently, that figure was backed up, although we did not know it at the time, by the PricewaterhouseCoopers report, which suggested that the loss would be 40,000 jobs. The real issue is one of confidence. The manufacturing sector feels that there is no point in trying to do anything at the moment. If we had a signal that we were going to be listened to that might change.

744. When we were engaging with the working party, we did not say that the rate had to be set at 25%; we said that between 0% and 100% there must be an optimum level. We were prepared to have research carried out to determine the figure. We have asked, however, for a freeze at the current level until we get the research. We will accept whatever figure the research comes up with.

745. Twenty-five per cent is probably the level at which we can say that we are being listened to and the rate can be set. We are not being definitive, but we are using 25% as a working assumption.

746. **Mr Raymond McCartney**: If the economic base strengthens over time, do you envisage that the rate could increase?

747. **Mr B McCrea**: We would be happy with that. There are several issues; it is about competitiveness. If we can address the cost issues, such as electricity, we can accept an increase in the rate. The workforce must be properly rewarded. The average wage here stands at about 80% of what it is in other areas. NIMFG would like to see an increase in manufacturing pay across the board so that a decent wage can be earned for a decent day's work, and we want to contribute to the building of a better manufacturing base.

748. **Mr Raymond McCartney**: You may or may not be aware of a current document, which is a study of reinvestment in the Twenty-six Counties. There is a suggestion that tax revenue cuts are not properly reinvested; they are seen as an incentive. Has NIMFG examined that? What is the relationship between the benefit of derating and reinvestment?

749. **Mr B McCrea**: There is a concern that big government spends a lot of money, but not in the right direction. Part of it is the private sector's responsibility in that it cannot just carry on complaining; it has to get involved. When we examined our skills initiative, we wanted to refocus some of that money and deal with some issues. NIMFG strongly believes in a partnership between local government, the trades unions and the business owners.

750. It is worth saying that typically, our members are indigenous people, though we do have some very large manufacturing concerns as well. Those people tend not to interact very well with Government agencies that come in and tell them how to run their business. However, like anyone in Northern Ireland, if you know how to talk to them in the right way, they will respond positively. There is an issue about a better-focused attempt at getting resources into that area. The current initiatives are not working; though we can see them, we cannot get them. NIMFG would be happy to work with you and take lessons from anyone else, whether in the Twenty-six Counties or Scotland or Wales. The question is whether we can get best practice, and we are a forum for that type of work.

751. **Ms Ritchie**: I shall concentrate on the small business relief scheme, because the subgroup has to make proposals that look

forward to what an incoming Executive could do upon restoration of the Assembly. What is NIMFG's view of the small business relief scheme, which applies in Scotland and England, but has not been applied in Northern Ireland? Were the scheme to be applied here, would it bring a benefit to the manufacturing sector?

752. **Mr B McCrea**: We are not against rate relief for anybody. Small business schemes have a different dynamic. We have the highest proportion of employment in large companies of any UK region, so the people who are really facing a problem are those will have a bill of between £50,000 and £60,000 and up to £1 million. Those types of numbers really affect the decision-making process.

753. When rates are being set, they are subject to the old 80:20 rule; that 80% of the rates are lifted from the top 20% in the sector. If you were to argue whether it is worthwhile collecting rates from people who only pay £2,000 or £3,000, it could also be argued that it costs £2,000 to £3,000 to collect it — and it is not helping.

754. The matter of how to get employment growth and competitiveness, which you will want to address, concerns activity slightly above the level of small business areas.

755. How much impact would a saving of £2,000 a year have? Nobody wants to pay £2,000, but it is the scale of things that is important. Most of our members will lose £30,000 to £40,000, which is effectively the managing director's salary. I am sorry if that is prevaricating a little, but the bigger issue is with the next tier up. However, we understand why the small business sector will take any assistance that can be given.

756. **Ms Ritchie**: I know that you have already been involved in the subgroup with the Minister and that you got some amelioration as a result. What outcome would you want to see from the planned review of industrial rating, in April 2007, for the next financial year?

10.45 am

757. **Mr B McCrea**: We want to see an ongoing cap at 25%. We are prepared, if the evidence is there, to negotiate around that. The unions would like it to be set at zero, and they have made their position quite clear. When you look at the wider issues, such as corporation tax and various other matters, the one big advantage of industrial derating is that it is doable, and doable now — although it is not particularly easy to get your head around that. Other issues, however welcome and good, come with more baggage. This is something that can be done immediately, and the manufacturing industry would respond very warmly to all of the other social issues that need to be addressed.

758. **Ms Ritchie**: Does that mean that you would view the 25% as your upper limit, or your cap?

759. **Mr B McCrea**: We said that we were prepared to consider an additional 5%, provided that it was ring-fenced. We have spoken to colleagues in further education colleges, in Amicus, in Belfast City Council and many other councils about this subject. There is an opportunity to do something different, but it may cut across other issues that the Department for Employment and Learning (DEL) is doing, so we cannot say anything yet. However, the simple answer is that 25% is the upper limit that we can afford to pay, but we would engage to see if there were something extra that we could do for other issues. The two are separate, but we are not saying no to the second.

760. **Mr Cree**: You mentioned in your report the competitive disadvantage that manufacturing would have as result of industrial rating. Can you summarise why that would be the case? What other problems do manufacturers face in Northern Ireland that are not faced in other parts of the UK?

761. **Mr B McCrea**: Our most significant problem is the geographic distance from our markets. We have to freight in most of our raw material, do something with it, and then freight it back out again. Northern Ireland manufacturers are also faced with higher insurance and electricity costs. It was suggested that we might get some relief from higher electricity costs, but, unfortunately, that £30 million a year fell foul of state aids. We also

have higher manufacturing and labour costs, plus 5%, compared with the Republic of Ireland. Although office costs are cheaper here than anywhere else in the British Isles, industrial premises are more expensive.

762. There is hardly any area in which we have a competitive advantage — even with regard to skilled labour, we are bumping along at the bottom. It is hard to get labour as we have relatively low levels of unemployment now, but high levels of economic inactivity. We cannot get in the people that we need.

763. When everything is stacked up, even established indigenous companies are saying that Northern Ireland is no place to do business. Since I have the opportunity, I will say that, as regards corporation tax, the typical industrial rates bill would be four times whatever the saving might be if corporation tax were at the Republic of Ireland level. For example, if you paid £40,000 in corporation tax, you would save £20,000, whereas your rates bill would be £100,000 to £120,000.

764. There is a huge disparity about which factors are significant.

765. **Mr Cree**: The Government have told us that not introducing industrial rating will cost a future Executive millions of pounds. What is your response to that? Furthermore, would the training levy to which you refer in your evidence be voluntary or statutory? Would it be similar to that operated by the Construction Industry Training Board (CITB)?

766. **Mr B McCrea**: We made it clear to the Minister that the issue was not about having the money anyway: the Government will not raise £80 million. Moy Park Ltd has moved from having three plants in Northern Ireland to one, and Harland and Wolff, which had made up almost 10% of the entire rateable value, revalued and reduced its bill from £10 million to £1 million. Factories in Strabane are closing down, flattening sites and building houses. If industrial rating is introduced, the gap in the budget will still be there, and the money will have to be found somewhere else. We are saying that if the rate is capped, some money will be produced and industry will work with the Government. However, the gap is already there regardless of what will, or will not, be done.

767. The skills levy should be compulsory — a statutory requirement that will require primary legislation. We are content to go along with that, provided that other Government issues such as the European Regional Development Fund (ERDF) and the European Social Fund (ESF) are brought together so that it can be done properly. The difference that that will make — and we will all appreciate this as we are all from Northern Ireland — is that spending our own money will give us a powerful incentive to ensure that it is spent correctly. That is why what we are trying to do is similar in concept to the CITB levy. It will be a question of bringing to the fore people who know what skills they want, rather than saying that we have a good scheme and that people can have it if they want it. Assuming that the other issues were resolved, we would accept the skills levy as a compulsory, statutory obligation.

768. **Mr Weir**: Thank you for your presentation; you have made a very compelling case.

769. Mr Cree talked about skills and the potential difference in revenue. The levy would have to be compulsory because no business would put itself at a competitive disadvantage by paying a levy voluntarily. I appreciate your point that it is not possible to extrapolate what would happen based on the level of current payments were we to move towards 100% industrial rating because the best companies will reduce in size accordingly.

770. What would a 5% levy yield for a skills fund?

771. **Mr B McCrea**: The predicted tax take is £80 million. If the cap were placed at 25%, £20 million would be raised. An additional 5% of £80 million, which is about £4 million, could be raised.

772. Forgive me if those numbers are not completely accurate — the calculation depends on the base figure — but it is approximately £4 million or £5 million. We would like that to be

private sector funding so that it could be matched with European money or other skills that might be brought in. A pot of money — perhaps £10 million — might be accumulated.

773. **Mr Weir**: Further along the line, towards 100% saturation, the situation could reach a tipping point. That gives us a useful indication. The subgroup needs to consider whether there should be a cap, and where exactly it should be set. Marginal costs will be important to that decision.

774. The Subgroup on the Economic Challenges facing Northern Ireland discussed a related topic when hearing evidence from Willie Wright of Wrightbus Ltd. Does your group have a view on the calculation of rate liability? For example, due to the nature of the Wrightbus Ltd enterprise, it is obliged to operate extensive premises: one does not sit at a desk to make a bus. No matter how it is organised, such an enterprise will occupy a large area of land. On the other hand, more intensive businesses will occupy a lot less space. Irrespective of what percentage the rate is pegged at, does your group have a view on how it should be calculated? Can NIMFG offer the subgroup any advice or highlight particular recommendations that the subgroup should make?

775. **Mr B McCrea**: How to calculate the percentage at which the rate should be pegged is at the core of the problem. For example, various uses can be made of a slab of concrete. One company might use the slab to manufacture concrete blocks — or as Government would call them "non-ferrous mineral products" — of which Northern Ireland companies sell a lot, apparently. That company would put the blocks in the sun to dry. In that way, it could make a certain amount of profit from that concrete slab. However, if another company were to situate that concrete slab on the Boucher Road, with cars parked on it, that company might derive a more substantial profit. Equally, the concrete slab could be used, for example, to provide office accommodation for the computer industry. As I mentioned, Northern Ireland has the cheapest office accommodation in the British Isles. Therefore, the amount of profit that might be derived from using the concrete slab to provide office accommodation would differ to what could be generated were it to be used by a manufacturing enterprise.

776. Industrial derating has been around for a long time. Northern Ireland's industrial development has thrived in spite of the Troubles of the past 30 or 40 years. Even for the manufacture of high-volume, high-weight, marginal products, Northern Ireland was not a bad place to do business, because companies did not have to pay rates. Pull away that advantage, and all the enterprises that have been encouraged to develop here will be jeopardised. Mr Weir mentioned Wrightbus Ltd, but other companies would be affected. Food processing, which is Northern Ireland's biggest single industry, is in the same category. Although hen houses demand a big space requirement, they operate on relatively tight margins. With the end of industrial derating, food-processing firms may be wiped out.

777. To cope with that, we would like the subgroup to state that this process should stop now and to invite manufacturers to engage in a way forward. We have agreed with the Department of Finance and Personnel that proper research can be carried out, namely a sector-by-sector analysis to discover the right way forward. At the moment, manufacturers feel that no one really cares any longer. They feel that they have been written off. Were Government to engage with Northern Ireland's manufacturers, they would contribute where there are opportunities to do so. Where there are problems, NIMFG would do what it could. We do not want our biggest and best companies to leave Northern Ireland because of an oversight.

778. Mr Weir identified correctly the nub of the problem, and Willie Wright did well to highlight it. Northern Ireland has good companies, such as Wrightbus Ltd, and we must keep them in the Province, rather than them relocate to America.

779. **Mr Weir**: I presume that the companies involved — whether in food processing or in manufacturing, such as Wrightbus Ltd — will be hit hardest because of the physical size of

their premises. At the outset, they are likely to be rated at a higher percentage than other businesses.

780. Furthermore, it is important to address concerns that the additional burden of rates will force some companies to physically downscale, get rid of plants, and so on.

11.00 am

781. For those companies, the option of closing down a particular plant and selling it on to be converted into houses is potentially more profitable than a more work-intensive alternative.

782. Therefore greater research needs to be done into the impact that rating would have on various sectors and into the general signal that it would send out.

783. **Mr B McCrea**: There is no linear relationship between the physical size of buildings and the profit that is made, even though the rates assume that there is.

784. My colleagues will be able to provide more anecdotal evidence, but I can tell you that a large employer of around 800 or 900 people in Belfast has already sold its land to housing developers because it can make much bigger profits and can use those to relocate to a country such as Bulgaria. That is happening everywhere. The economics are such that they deter anyone from getting involved in manufacturing here: it would not be the right thing to do. That cannot be helpful.

785. **The Chairman (Dr Birnie)**: Before there are any further questions, I want some clarification on your response to Margaret Ritchie's question. I understand that derating is not bound up with state-aid and EU restrictions; we have had it for many years, and it was in place before the UK joined the then EEC. However, I have been advised that DFP's view — the subgroup will be able to question its officials directly later — is that a cap at 25% or, indeed, at any other level that is ultimately chosen, is likely to be "notifiable" to the Commission. Is DFP correct, or is it being overzealous in its interpretation of European rulings?

786. **Mr B McCrea**: I am slightly surprised that you say that. Our understanding is that DFP's legal opinion is that there are no state-aid issues with regard to industrial derating, in the sense that if it is frozen at 25% and there are no complaints, there is no issue. Even if a complaint is made that is subsequently upheld, all that needs to happen is that one starts the escalator from wherever one has got off. Therefore no penalties or anything else are associated with it. It is a reasonable chance to take. One cannot say that there are no issues, because who knows whether there will be legal concerns? However, DFP's communication with us indicates that state-aid issues are not a significant factor. We must, therefore, have clarification on that point from DFP.

787. **The Chairman (Dr Birnie)**: Does the subgroup have any further questions?

788. **Mr Girvan**: I want to thank the NIMFG for attending. What impact has the current introductory system had on job numbers?

789. **Mr B McCrea**: Obviously, there is a lag between a decision being made not to invest any more and a company chuntering on for a couple of years until its wheels fall off. We want to emphasise that people say that there will be no movement —

790. **Mr Girvan**: Are you saying that the problem will not occur this year?

791. **Mr B McCrea**: The problem is approximately two years down the line, but we started two years ago.

792. One issue with this campaign is that, although consultation exercises have taken place, it will only be when people receive their first bill that they will say, "This is terrible — I can't pay it." They will then see with clarity that, although they are paying 15% now, in seven years' time they will be paying 100% — they will not need to be fortune-tellers to work out what their bills will be then, and they will immediately look for alternatives.

793. Statistics published this week show a downturn in the number of manufacturing jobs. There will be high-profile job losses such as those in FarmFed; however, none of those

losses are specifically due to the change in industrial derating. It cannot be said that that is the single factor involved. The issue is about overall competitiveness, with employers saying, "This is not working for us".

794. The biggest problem that we face, and my colleagues will confirm it, is that many investment projects are on hold, with companies waiting on the decision on industrial rating. If the answer is positive, people will invest more; if it is negative, they will leave. We are on the brink. In our campaign, we said that there needed to be a decision by Christmas; otherwise it would be too late. We have reached that point now.

795. There will be thousands of job losses over the next two or three years. Jim Donaghy is the chief shop steward of Amicus and has an overarching role throughout Northern Ireland. What is the job situation, Jim?

796. **Mr Jim Donaghy (Amicus)**: The impact of the loss of industrial derating will not take place two years down the line — it is happening now. Over the past few months, there have been around 200 job losses in the Lisburn area alone. That level of job losses cannot be sustained.

797. Over the past three years, I have participated in six sets of redundancy negotiations. I have had to sit in offices and see grown men almost in tears because they are losing their jobs. I am not prepared to witness that any longer. The loss of industrial derating is having an impact now. Companies are selling off their land, compacting their manufacturing, getting rid of people — putting them on the scrap heap — and using a smaller workforce, which is working harder to achieve the same production levels. The job that is lost through legislation introduced by the Government is one job too many, and it is unfair to the people who voted for that Government.

798. **Mr B McCrea**: None of us has a problem with increasing productivity — that is the right path to go down. However, there are health and safety issues involved when a company becomes too small.

799. The process starts with consolidation, followed by the building of a factory elsewhere, and then the company moves away. As Jimmy said, the impact is happening now, and we know that many redundancies are in the pipeline.

800. **Mr Girvan**: What is your view on the small-business rate-relief scheme that operates in Scotland and England? Would that be of help, or is it a waste of time?

801. **Mr B McCrea**: There are 5,107 companies that will be affected by the loss of industrial derating, and, of those, 3,000 will have a rates bill of less than £3,000 per annum.

802. That has an impact if you are a smallish firm, for which much of that is not significant, but it is not where the bulk of the money is coming in from, so we are not convinced that they could not be helped in other ways. We are not trying to put anyone's good ideas down; however, there is a problem with the bigger manufacturing firms where there is lots of space, but relatively small profits per square foot. That is the area that is hit the hardest and where we need the most help.

803. **Mr Raymond McCartney**: This is a follow-on question from Peter's. Which type of company comes under the most pressure if derating is removed?

804. **Mr B McCrea**: Food-processing companies. It can be done in various metrics, but if you take the number of employees as one bit, people who employ between, say, 25 and 400 employees tend to have large overheads but not a huge turnover.

805. There are 5,000 companies affected; we have said that 3,000 are small so that is a separate issue. However, of the 2,000-plus companies that we think are the issue, the top couple of hundred are big and profitable and able to do OK — they probably have grants and supports. They certainly have the resources to tackle those things. Therefore there is an issue with them as a body as well.

806. However, it is the unsung heroes — the people who are just making cow gates, for instance, or very important things that are going on in the local economy — who are the ones

who are taking all the pressure. A lot of them, as Patsy will say, are on the periphery or in mid-Ulster. Those people are the backbone of our economy, and they are the ones that have a big problem.

807. Even for the very big ones, the problem is not about affordability — some people cannot afford this, others can. However, the most rational question is this: we are Fintech in Dungannon, owned by Mexicans, so what are we doing on this side of the border, or even in Ireland?

808. At the top end are hard-nosed accountants looking at you crossly and saying that this is not the right place to be. On the next tier down are the home-grown, indigenous people, the fast-growing economies, the growth-people coming up and struggling because they cannot afford it. The range is a wide one.

809. **Mr Raymond McCartney**: Therefore, in your view, a graduated, or different, approach for a different type of company is not the way out of this?

810. **Mr B McCrea**: You can analyse the sector and determine what happens in food processing. Consider Lakeland Dairies, which has a big plant in Newtownards and Cavan. Where is the next set of investment going? If only one plant is continually invested in, the other will eventually be closed down.

811. Therefore, I am saying that all of the food-processing, steel, furniture and concrete block manufacturers are on the wrong side of the weight-to-volume- to-profit ratio. As we said earlier, the whole of our economic development has gone down that road. We wanted a simple solution. The beauty of having the cap at 25% is that it would allow a genuinely level playing field, and the economy would then take over. That would be a good first step.

812. However, if a really profitable sector that ought to be paying something is discovered in a future analysis, it might be looked at. The one reason we have not gone down that route, which you can check with DFP, is that it is our understanding that we are not a state-aid issue, provided that we do not change the existing formulation in any way.

813. If we said that we do not think that the cold stores that were built for beef intervention are manufacturing, and if they are taken out of the loop, the scheme changes and becomes "notifiable", and I am quite sure that those people who were receiving relief but are not longer getting it, will make a complaint.

814. The issue is that you must stick exactly to what you have got; the benefit is that it is doable now and produces maximum good. It is the 80:20 rule in reverse, in that most of the people that you are dealing with are the big manufacturers.

815. I am sorry if that was a complicated answer.

11.15 am

816. **Mr Raymond McCartney**: It was fine. My next question is for Mr Donaghy. Was the loss of 200 jobs in the Lisburn area solely due to the end of derating, or were other factors involved?

817. **Mr Donaghy**: Yes, it is down to the end of derating. The company that made those redundancies is selling off land.

818. **Mr B McCrea**: Will you explain the numbers for Montupet?

819. **Mr Donaghy**: In the past three years, employment at Montupet has gone down from over 1,000 workers to just over 500. The company has sold off quite a bit of land and moved its wheel-production operation to France. We tried to stop that move but could not because it is not economically viable to make wheels here. As a result of that move, the company has made redundancies and half of the factory is being cleared out and will be put up for sale.

820. **Mr B McCrea**: What is Montupet's rates bill?

821. **Mr Donaghy**: It is between £800,000 and £1 million. That may not sound much for a company in that industry, but, in fact, it is. However, companies will not pay such rates bills. Instead, they will restructure, which is a

polite way of saying that they will get rid of 60 people in order to pay the rates.

822. I reiterate the point that the end to derating will cost jobs. It may not cost any MLAs their job, but it will certainly cost my members' jobs, or even mine. We cannot keep going down that road.

823. Manufacturing in Northern Ireland is in deep trouble. In the past, 180,000 people were employed in manufacturing jobs; today, that figure is 90,000. Basil mentioned 30,000 jobs. That figure is wrong, and I will tell you why: for every two jobs lost in the manufacturing industry, one will be lost in the service industry, because the money will not be going into the Treasury to pay for it. Basil is wrong, as there could be a total of 60,000 job losses, depending on how many manufacturing jobs are lost.

824. Please let me explain the situation, as it is a very serious issue for trades unions. We did not take the decision to join the NIMFG lightly, because being trades unionists — I do not want to use the word "bosses", but I am sure that you know what I mean —

825. **Mr Raymond McCartney**: Go ahead; use it. *[Laughter.]*

826. **Mr Donaghy**: We seriously considered joining the NIMFG and thought about whether the group was aimed at employers trying to get a fast buck and get more money in their back pockets. However, it must be said that we are in complete agreement that the introduction of industrial rating will cost a massive amount of jobs. We need to stop it. We believe that the NIMFG has been too polite in saying that it will negotiate from 0% to 100%. It should have said that negotiations would start and end at 0% because, as I said, the loss of one job is too many.

827. **Mr Raymond McCartney**: That is the flexible approach.

828. **Mr Donaghy**: It is called negotiating.

829. For us, it is important to keep manufacturing at its current level. It is also important that we maintain a sensible head and realise that there are people who may be able to pay industrial rates and those who may not. Only the people who can pay rates should have to pay rates, but how can they do that without getting rid of jobs to pay them? It must be across the board. If the corporation-tax rate is stuck at 25%, that is it. We are totally against it.

830. **Mr B McCrea**: I am sorry to interrupt, but Patsy Forbes has been sitting here for a while and has not had a chance to speak.

831. **Mr Raymond McCartney**: We must hear from the bosses.

832. **Mr Patsy Forbes (Northern Ireland Manufacturing Focus Group)**: I am indeed sitting here, and I am extremely cross. My company employs 65 people in a place on the shores of Lough Neagh that always used to be called the asshole of nowhere. It supplies furniture to schools in Northern Ireland, England and down South. I am proud to have started the company 40 years ago, and I am now trying to get my son into the business. If I were to do the right thing, I would knock the whole thing down to build houses, because the land is in the building zone.

833. We sit here, however, and try to convince people like you. You should be ashamed of yourselves, because you live in Northern Ireland, and you know the position. Why are you not giving us your full support, instead of adding pressure to our margins? Our margins cannot take it: they are getting tighter and tighter, and you are allowing that to happen. We have come here to put our case before you — as we have been doing for some time — and, as far as I am concerned, we are not getting very far.

834. As chairman of the Northern Ireland Manufacturing Focus Group, I talk to people who are concerned about the matter. I am simply stating facts that the subgroup needs to know. Members of many different parties are around the table today; however, their supporters are not at all happy with some of the things that are being said. Do not forget that I defend MLAs at all times, but I am fighting for the people who speak to me. Perhaps something can be done for the good of manufacturing in Northern Ireland to create more jobs, or at least,

to maintain existing jobs. However, a lot of companies have told me that they have new buildings to construct but that they are holding off doing so. They ask me what is happening and what they should do, and I advise them to hold off, because something will happen. I can name those companies, and I can even name companies that are prepared to leave mid-Ulster and go down South. That is the real situation.

835. **Mr B McCrea**: I am far too polite for this game. *[Laughter.]*

836. Given that people have genuine concerns and frustrations, I brought my two colleagues with me today. People feel that the situation is not sensible and is counterproductive. They want to do the right thing, and they have tried, at every juncture, to approach people in the right way. The point has been made that when water charges are imposed, employees will have to pay; when rates are increased, employees will have to pay; and when industrial rates are increased, employees will have to pay. That is because businesses operate within certain margins.

837. I will describe what happens when a company wants to sell chickens to Tesco. Tesco tells the company that it insists on an annual 5% reduction in the price. To achieve that, the company must invest. If the company then goes back to Tesco and asks whether it can increase its prices because of an increase in rates, Tesco will simply say that it is sorry for the company's trouble but that it will buy its chickens from Brazil.

838. Our margins are being squeezed from the top and bottom. The only way to deal with that — because the situation is not hopeless — is to invest. However, if companies are considering investment in automation, skills, product development and all the good areas in which they are supposed to invest, they simply ask themselves whether it would it be better to do it here or in Limerick, in Poland or wherever.

839. NIMFG is grateful for the opportunity to explain to the subgroup what is happening. Had we a representative body with which we could work and to which we could explain the issues, it would transpire that everyone wants the same things: decent jobs, decent wages, decent skills and enough money coming in from the corporate sector to enable development in other areas.

840. Frankly, people are leaving in their droves, and those who come here are the ones who care. The rest simply leave, saying that it is not their job to run the country.

841. I hope that the polite side of NIMFG has also made a useful contribution.

842. **Mr Forbes**: I have one question, Mr Chairman. As chairman of the Northern Ireland Manufacturing Focus Group, what am I supposed to tell my members? When I tell them that I was at Stormont, they will say, "What are the views there? What way are things going?" Can anyone tell me what I should be saying to those people?

843. **The Chairman (Dr Birnie)**: That is a fair question, and it is a hard one to answer. Until devolution returns, the role of this subgroup is to produce recommendations in the hope that the direct-rule Administration will listen. Sadly, there is no guarantee of that. You talked about telling it the way that it is. Unfortunately, that is the way that it is from our point of view.

844. Time is moving on. Margaret has the final question.

845. **Ms Ritchie**: If I may be so bold, I wish to say that the members of the subgroup sympathise. However, control of those matters is not in our hands as yet, and, if it were, things might be different.

846. I have a two-part question. How many jobs have already been lost due to industrial rating? Apart from the 25% cap, what other policies would you like to see a devolved Administration introduce to assist the manufacturing sector and job creation here?

847. **Mr B McCrea**: If I were to put a figure on that, I would say that about 5,000 jobs are affected. That is quantification. There are 5,000 jobs that are at risk or that could have come into being but did not. A lot of money is spent addressing the problem — people understand the problem with lack of skills. However, the

majority of the money does not get to where it supposed to go. That may be because people will not apply for it.

848. Everyone says that R&D is the way forward. Northern Ireland gets £20 million from the European regional development fund (ERDF). What do we do with that money? F G Wilson is given £1·2 million. The same amount is given to Seagate. We give money to the same people — to companies that are already getting a package of £45 million. We do not engage properly.

849. I can give an example of a man in Ballymena who built a mushroom-picking machine that is now in use around the world. He did not get one grant for it. If he had gone to the various agencies and tried to explain that he thought that there was a market for mushroom-picking machines, they would have laughed at the idea.

850. Local representatives know people like Patsy and Jimmy in their own constituencies; they know that they are the people who make things happen. You must talk to them and find out what they would like to do and find a way to get the resources that they need to go and do it. Then they will rebuild the economy. Talk to people in the further education colleges and tell them that we need welders and plumbers. None of us can afford to train one person. The minute that people are trained, they are snaffled by someone else.

851. There is market failure. We need a collective in which each member trains one welder, for example. Then there will be a pool.

852. That is the form of integrated government that we would like from local representatives. We would like to see better management of resources and a closer relationship with the wealth creators, and with the employees, who also create the wealth, while working together with our social partners in the unions and the local councils. That is the best that you can do for us. You have the opportunity to divert resources in the right way.

853. We recognise that, in the past, manufacturing kept its head down. I do not wish to make too strong a political point, but if manufacturers put their head above the parapet, one of two people came to see them: either the income-tax inspector or someone even worse. *[Laughter.]*

11.30 am

854. Let us simply say that it was not a good idea. However, now all sorts of legislation that may seem good — on the environment or other matters — is being passed without any understanding of the impact that it will have on the economy. Therefore we are now saying that we will engage with politicians.

855. **The Chairman (Dr Birnie)**: Gentlemen, thank you very much for attending, for your written submission, and for answering all those questions. We will certainly reflect carefully on your comments, particularly as they come from the coalface of the manufacturing sector. We wish you well in all your work. Have a happy Christmas and a good holiday.

856. **Mr Forbes**: Thank you.

857. **Mr B McCrea**: Thank you, Chairman. I wish to put on record that, although we have demonstrated some passion while talking to you, we are aware of the support and engagement that we have had from the political parties and from members of the subgroup. We are very grateful for that and we are more than happy to talk in other places and at other times. We appreciate your help.

858. **The Chairman (Dr Birnie)**: Members, we shall now hear joint evidence from representatives of Help the Aged and Age Concern.

859. I shall introduce our witnesses. They are: Elaine Campbell, head of policy for Age Concern; Pam Tilson, political affairs officer for Age Concern; Duane Farrell, head of policy research and communication for Help the Aged; and Michelle Bagnall, policy officer for Help the Aged.

860. You are all extremely welcome. Thank you for your written submission, which members have already had sight of.

861. Time is short, but we would certainly welcome any brief introductory remarks. Then, with your agreement, we will move to questions.

862. **Mr Duane Farrell (Help the Aged)**: We would like to make a brief opening statement. I welcome the opportunity to speak to locally elected politicians. It is the view of both of our organisations that devolution delivered results for older people when we had a local Assembly. We look forward to a time when a devolved Assembly can again look after our older population.

863. Help the Aged and Age Concern support the principle of rating reform, because it will lead to the redistribution of the rating burden. Those who can afford to pay more should do so, and those who cannot afford to should be protected. The debate should be viewed in the context of poverty. Poverty in Northern Ireland's older population is a serious issue, with 20% of older people living on or around the poverty line. A local academic, Prof Eileen Evason, has claimed that we underestimate the seriousness of pensioner poverty in Northern Ireland and that disabled older people are having their disability benefits included as a means of income, when they are actually required for meeting their extra living costs.

864. Lady Hermon recently asked a question in the House of Commons on the levels of pensioner poverty. She was told that between 2002-03 and 2003-04 there was a 2·8% increase in the number of older people living in poverty. That equates to approximately 8,200 pensioners. We, therefore, view the debate on rating reform in the context of poverty. Help the Aged and Age Concern are committed to addressing the issue of pensioner poverty, and both organisations recognise that new rates bills together with water charges and energy price increases are due next year. Those costs will have considerable adverse impact on older people who are living in poverty and on low incomes.

865. There are many priorities, but the key priority, pension reform, is outside of the auspices of this subgroup. Pensioners must have a decent, liveable income, and I urge the Assembly, direct rule Ministers and MPs to lead the charge in Westminster. In the interim, we do not want to see any older person being pushed further into poverty.

866. We have identified some priorities that do fall within the remit of the subgroup.

867. We must ensure that older people are not pushed further into poverty, and additional rate relief should be provided to mitigate the impact of the introduction of new rates bills. There also needs to be ongoing monitoring of the introduction of the new rating system, and we will be working with all parties in that regard. Benefit take-up is key to the additional rate-relief element, and a benefit take-up strategy is inherently important. There must also be effective communication to older people about any changes in the rates bills. Those priorities must be addressed.

868. **The Chairman (Dr Birnie)**: Thank you. Mr Weir will begin the questions.

869. **Mr Weir**: Your submission made a strong case for the reduction of 25% for single occupancy that would put us into line with what happens elsewhere, and there is merit in that. Considering that the Minister said that he intended to receive submissions from parties and others so that he could reduce any potential relief quickly, have you any other ideas on rate-relief schemes for pensioners and what they would cost?

870. **Ms Elaine Campbell (Age Concern)**: Help the Aged and Age Concern have been working with the DFP on a scheme, and the Department has laid out a number of options. I know that its officials will be speaking to you later today. One option that has been agreed in principle is an increase of the personal allowance, and there are several ways in which that could be done. Single-pensioner households are worse off than pensioners who are part of a couple, so the personal allowance could be increased from 10% to 15%.

871. **Mr Weir**: What do you mean by the personal allowance?

872. **Ms E Campbell**: That is income per week. An increased personal allowance that is allocated per person would have a greater impact on lower income pensioners, particularly those who are at the near benefit level. The Department has informed us that that would cost between £3 million and £4 million per year.

873. The proposals are not finalised, but Help the Aged and Age Concern feel that, in principle, that is possibly the best way forward. However, we include the proviso that the first year or two of the scheme should be monitored and evaluated to check whether it is the most effective use of money and whether it is capturing the pensioners most at risk of poverty. If that is not the case, the scheme must be reviewed to see what more can be done.

874. **Mr Weir**: I appreciate that this is a work in progress and that you may be reluctant to be too definitive about the matter. However, it would be helpful if you could pass that information on to the subgroup as soon as you receive it. It would also help us, as politicians, to argue the case for pensioners.

875. I want to mention communication and the need to ensure that there is widespread take-up of whatever reliefs happen to be available. I presume that, like me, you have concerns about the fact that there appears to be proposals to cut the number of pension credit advisers throughout Northern Ireland. That would have a detrimental impact on pensioners. Depending on what rates relief system is eventually agreed, that could lead to take-up being reduced.

876. **Ms Pam Tilson (Age Concern)**: Absolutely. Both Age Concern and Help the Aged have grave concerns about that. We are particularly concerned that the Department for Social Development's advice strategy of last year, 'A strategy for supporting delivery of voluntary advice services to the community', tends to move away from specialist advice, focusing instead on the provision of advice centres in geographical areas. Organisations like ours provide specialist advice on a regional basis, including advice on benefit take-up, and we have particular expertise in benefits for older people. The local advice centres may not necessarily have that kind of expertise, and often they refer a person with a particularly complicated benefits query to the Help the Aged "Senior Line" or the Age Concern advice line. The whole advice strategy is focused on geographically based advice hubs, and it does not recognise the value of, and need for, specialist advice.

877. Benefit take-up will affect eligibility for the affordability tariff scheme for water charges — people who are entitled to social security benefits will also automatically be entitled to the affordability tariff. A strategy must be implemented to ensure that people are aware of that and that they take up benefits, and the agencies involved must be properly resourced.

878. **Ms E Campbell**: Despite the fact that the rates bills will not be payable until next April, our advisers are telling us that there is already a huge increase in the number of callers worried about rates bills, and, of course, water charges. That is a very pressing concern at present. The advisers expect that, after January, the number of calls will increase even more sharply.

879. **The Chairman (Dr Birnie)**: Thank you. That was very interesting.

880. **Mr Cree**: Both organisations propose a 25% discount on rates for single-pensioner households rather than a universal discount. Can you explain the rationale behind that proposal? It seems a bit unfair on households with two pensioners, neither of whom may have savings or private pension funds, and one of whom may be a carer.

881. **Mr Farrell**: Again, I return to an earlier point that poverty is experienced most acutely by single pensioners, primarily female single pensioners. They are most likely to have broken National Insurance contribution records, and, if their partner or spouse died, they would have only a reduced, rather than full, entitlement to their occupational pension. That is the rationale behind our proposal.

882. I can give the subgroup figures from the extensive research carried out by Prof Eileen Evason, who has produced some alternative lines on poverty, which take into account

disability and disability benefits. According to those alternative lines, 75% of single female pensioners are living below the poverty line. Any strategy must clearly target resources at those who are in most need of them.

883. **Mr Cree**: In identifying that particular vulnerable group, do you not accept that you are, to an extent, sacrificing the other one, which also has a great need?

11.45 am

884. **Mr Farrell**: Part of our understanding is the fixed costs that are faced by any household, whether it has one income or two. I will try to find figures on the disparity between single pensioners' incomes. It is the equivalent of around £70 each week on average. Although I acknowledge the point that the member makes, and in a utopian universe we would be able to provide protection for all, we must work in the context of a £4 million pot. We have worked with DFP to examine how that can be targeted most effectively. Therefore, that is the basis of our view.

885. **Ms Ritchie**: At present, the Government do not have any provision for a hardship scheme. I suppose that they have based that on the assertion that the relief scheme that they want the subgroup to concentrate on will be sufficiently comprehensive. However, there are already people in the poverty trap who are just above the eligibility threshold for benefits. Duane has already referred to those people. How would you envisage the development of such a hardship scheme if one were to be introduced?

886. **Ms E Campbell**: Those who are worst off will benefit from the new scheme, in any case. We hope that amending the personal allowance will catch those people who are just on the line or slightly above the benefits threshold. That is why it is so important to ensure that monitoring and review is carried out within a year to two years of the scheme's introduction. If, by that point, it were decided that a significant number of pensioners had not been captured by the scheme, we would consider how to rectify that.

887. **Ms Ritchie**: On the issue of capping, I noted that the aim is that it will have minimal impact on the rates bills that are issued to low-income families. Can that aim be elaborated on?

888. **Mr Farrell**: We acknowledge that we support the redistribution of the rates burden, and we believe that those who can afford it should pay more. Any introduction of a capping arrangement should have a negligible impact on lower-income households. The figures show that £1 million would be lost in any new capping arrangement. Low-income households should not be forced to pay extra in order to meet the burden of that redistribution.

889. **Ms Ritchie**: What is the estimated uptake of any relief schemes of which pensioners can currently avail?

890. **Ms E Campbell**: We have attempted to get statistics from several sources. Unfortunately, comprehensive statistics on benefit uptake are not available. It is particularly difficult to get statistics on those issues, particularly in the owner-occupier sector for housing benefit. We have examined that area in our work with DFP. We have had considerable difficulty.

891. **Mr Farrell**: With regard to housing benefit, we have a small amount of information. If we use pension credit uptake as a proxy to the attitude of older people towards claiming the benefits to which they are entitled, between 39,000 and 74,000 pensioners in Northern Ireland are entitled to pension credit, but are not claiming it. That is equivalent to between £95 million and £221 million.

892. We recognise that means-tested benefits do not work for older people. We also acknowledge that the Government are investing in uptake strategies. Our top line is that it is about providing a decent pension for everyone. For older people, there are issues of dignity and of accessibility to the benefits to which they are entitled. Older people continue to live in poverty. That tells us that means-tested benefits do not work. Although that does not indicate how older people feel about the rates rebate in particular, it tells us how they feel about other benefits.

893. **Mr Raymond McCartney**: For our information, do you have any figures on how many older people are paying rates?

894. **Mr Farrell**: If you bear with me, I am sure that we have something here.

895. **Mr Raymond McCartney**: Perhaps we could return to that.

896. **Ms E Campbell**: I will address a point that Leslie raised. We were asked what the average income was. The information that we have is that the average single pensioner's median income is £146 after housing costs. The average pensioner couple's equivalent is £274. That is the net median.

897. **Mr Cree**: They are averages, though?

898. **Ms E Campbell**: Yes, they are averages.

899. **Ms Michelle Bagnall (Help the Aged)**: That is the median figure, which is different from an average.

900. **Mr Cree**: There are exceptions in each of the groups. I am concerned that those falling below the average would be missed. Pensioners as a whole are a needy group, but it would be wrong to focus solely on the average or median figures.

901. **Ms Tilson**: May I return to what Margaret said about benefit up take? It is worth remembering that both rates relief and housing benefit are tapered benefits. One might qualify for as little as a 10p per week rate rebate or housing benefit, but each is a "passport benefit", providing access to the affordability tariff for water charges or to a new rate-relief scheme. The problem is that a lot of people think that their rebate will be for only a very small sum, and that it is not therefore worthwhile filling out a complicated form to claim it. They do not realise that a 20p per week rate rebate would qualify them for other benefits.

902. **Ms Ritchie**: Thank you.

903. **Mr Farrell**: Raymond, to return to your question, I am sorry that we do not have that information to hand, but it is something that I can send to you subsequently.

904. **Mr Raymond McCartney**: Do you sense or have any analysis to show that this becomes a greater burden as people get older?

905. **Mr Farrell**: Yes, indeed. We know that as people get older, they tend more to live on a fixed income. Age discrimination means that older people cannot find employment when they want it. A significant proportion of older people rely exclusively on the state pension and means-tested benefits as their sole means of income. An important statistic, from memory, is that over 50% of pensioners live on less than £10,000 per annum. I hope that Michelle will be able to confirm that figure. The logical conclusion is that people living on a fixed income have less disposable income as they get older, and, therefore, water charges and energy price increases become more of a burden to them.

906. **Mr Raymond McCartney**: That is related to Leslie's point. Where there is a needy group, there should be relief. Part of the subgroup's task is to make recommendations. We need to consider relief for people as they get older. I should declare an interest — both of my parents are in their eighties.

907. **Mr Cree**: I thought your declaration of interest was for yourself. *[Laughter.]*

908. **Mr Raymond McCartney**: Relief for older people, perhaps at age 60 or 65, is an excellent idea.

909. **Ms E Campbell**: As we pointed out, when a household becomes a single-pensioner household, there is a sharp decline in money available. A number of the fixed costs do not change, but when there is only one person, rather than two, attempting to meet those costs, he or she will find it difficult.

910. **Mr Raymond McCartney**: Margaret touched on capping. Have Age Concern and Help the Aged explored the alternatives?

911. **Mr Farrell**: To be frank, we have been concerned with the low-income aspect of the rates debate. We have not researched the options available with capping. Our priority is to ensure that older people living on low incomes are protected.

912. **Mr Shannon**: Chairman, I apologise for my absence this morning. I had a disability living allowance appeal to attend and I missed the first session. My question follows on from Mr Raymond McCartney's comments about those who are already in receipt of benefit. I hope that you will send us the promised figures quickly. They will give us an idea of how many will not benefit from a rates rebate.

913. You have spoken about the 25% discount in relation to single-occupancy pensioner households. Do you consider that that discount is sufficient to help those who are not in receipt of income support and are therefore excluded from other benefits?

914. If the figures are correct, how much will a reduction of 25% really mean to people who are trying to deal with the potential added costs?

915. In addition to that, and further to Leslie Cree's point, in my position as an elected representative I have come across, on numerous occasions, people with tiny pensions — perhaps between £11 and £15 a month — that, to be truthful, are absolutely crap. Those sums are meaningless and keep those people outside the benefit circle, so that they are ineligible for income support. There will be some people who fall outside of your figures, and I wish to ensure that we get to them. People who are close to but not yet in the poverty trap will fall into it, and there will be no relief system for them. There are several questions that arise from those points, and I am keen to hear your opinion.

916. Finally, is there any system, other than the 25% single-occupancy discount scheme, that might be better?

917. **Mr Farrell**: Help the Aged and Age Concern are national charities that operate throughout the United Kingdom, and we are looking to learn lessons from our colleagues in Scotland, Wales and England where a 25% single-occupancy discount scheme already exists.

918. For us, the rationale behind the 25% scheme is that, where there is a fixed set of costs to be met, fewer services will be used by the single-occupancy household with one income than by the one next door where perhaps four or five people live and there are multiple incomes. That is common sense. We are aware that, for those people, there is a near-benefits threshold. That is a steep shelf for those who are £1 over the capital or allowance limits, and, in the end, they may pay a significant amount towards their rates bill and lose the support that those schemes are designed to give. The rate-relief scheme that was part of rating reform captures those people who are near to benefit thresholds and makes the shelf less steep. Developments that have taken place between the previous rating system and the new reforms will ably cater for that near-benefit group.

919. **Ms E Campbell**: We try to be pragmatic. We realise that there is a limited pot of money available and that the new rate-relief scheme will act as a passport to reduced water charges when the affordability tariff is applied. Therefore, we take the view that there must be a system in place that is adequately funded and sustainable over the coming years.

920. **Ms Bagnall**: Mr Shannon, you asked about the impact of the 25% discount. When different methods are used to calculate a person's eligibility to benefits, the difficulty lies in assessing and applying that across the population. In the pensioner rate-relief working group, we asked what the effect would be when the discount was applied to all pensioners in Northern Ireland — would it affect 10% or 60%? We hold the view that a 25% discount, if it were an addition, would, of course, help. However, an impact assessment is difficult because there is a limited amount of data to link an individual in a household to the capital value of that house, and to the income and benefits that the household receives. That is the challenge.

921. **Mr Shannon**: Over the past few weeks, it has come to my attention that the number of pension advisers is about to be reduced.

922. **Mr Weir**: I asked that question about 10 minutes ago. Obviously, the Member was not listening.

923. **Ms E Campbell**: We are aware of that problem, and it is a concern.

924. **Mr Shannon**: My apologies; I was reading my notes.

12.00 noon

925. **Mr Farrell**: Help the Aged and Age Concern are involved in a benefits take-up pilot scheme called A to B — access to benefits — and through that we have researched older people's attitudes to benefits. That point builds on what I discussed with Margaret. Older people prefer speaking to independent advisers; they do not necessarily trust giving Government advisers details of their savings.

926. **Mr Cree**: I wonder why that is.

927. **Mr Shannon**: I have information to the contrary. You could not get better people than the pensions advisers in Downpatrick and Newtownards. They are there to assist pensioners, and they are open and helpful. It is unfair to say that there is a lack of trust. The two pensions advisers that I know have been very good.

928. **Ms Ritchie**: They work for the Social Security Agency (SSA).

929. **Mr Farrell**: Let me clarify my point. I was not slighting pensions advisers; I am reporting the perception that older people have about feeling more confident and comfortable speaking to independent advisers. Help the Aged has just participated in several focus groups in Newry, Larne, Belfast and Enniskillen. When the subsequent report from those meetings is signed off, I will have no problems in sharing it with the subgroup.

930. The feedback from that work indicates that older people perceive that trust is an issue. That is no slight on Government pensions advisers. However, older people do not feel entirely comfortable giving Government advisers information about their incomes and savings. They feel that speaking to such people would upset any benefits that they already receive.

931. I can forward the subgroup the report, which is in the process of being signed off.

932. **Mr Shannon**: I would appreciate having those figures. Most of the people who come to me need help with money, so they are happy to discuss what they have, which, quite simply, is nothing.

933. **Ms E Campbell**: Age Concern and Help the Aged prefer that people get as much advice as possible. Some clients who use our services telephone with a query on one issue, but other issues emerge in the conversation. Once they have one sympathetic telephone call, they tend to telephone back with other concerns. It is not that one organisation is necessarily better than the other: they both fulfil a very important role for older people. Therefore we would not be happy if any advice lines were cut.

934. **The Chairman (Dr Birnie)**: Thank you. What is your view on the £16,000-savings threshold?

935. **Ms E Campbell**: Research indicates that not many pensioners have savings of over £16,000. The DFP working group explored that issue and considered different options, and it found that not many people have savings of that amount.

936. **Mr Cree**: Michelle Bagnall referred to research undertaken by Help the Aged. What impact will the new rating system have on pensioner households? When considering such matters, do you take on board other issues, such as the incoming water charges?

937. **Ms Bagnall**: When a new rates bill and water charges are applied, the assumption is that they will have a negative impact on existing poverty levels. However, given the limited data that is available for households in which capital value is linked to income, statistics and specific research cannot say conclusively what that impact will be. Therefore that conclusion is based on the assumption that the householder already has a limited income. A certain percentage of households are already below or near the poverty line. An added bill would therefore have a negative impact.

938. **Mr Cree**: Those comments can be made in the abstract.

939. I have been involved in several cases in which people have been desperate.

940. **Mr Farrell**: Absolutely.

941. **Mr Cree**: I cannot see how they can manage. How many specific examples of those types of cases do you have?

942. **Mr Farrell**: We have anecdotal evidence, not a research document.

943. Older people we talk to tell us constantly that they have to choose between heating and eating: they have to choose whether to put food on their plates or turn on their heating systems in the winter months. Help the Aged conducted a perception study of elderly people and excess winter deaths. That found that during the cold winter months, they turn off their heating, they stay in bed longer, and they wear outdoor clothes inside to avoid turning on the heat. Therefore people are forced to make the choice between heating and eating.

944. My research on the new targeting social need (New TSN) strategy and the subsequent 'Lifetime Opportunities' document revealed other problems. In one case, one woman's husband had a continence problem, and providing fresh underwear for him was a difficulty. Problems such as being able to afford underwear for a partner who is incontinent is a real issue, and they need to be understood. That is the kind of everyday issue that we take for granted.

945. Older people are faced with very real lifestyle choices. Anecdotally, we know that the £200 winter-fuel allowance is not spent on fuel at all but on Christmas presents for the kids or grandchildren.

946. Again, those issues have arisen in our dialogue throughout the year with elderly people. However, that anecdotal evidence is not robust enough to be presented as research.

947. **Mr Cree**: Do you have any information about illnesses, for example, that may be attributed to people's low-income and high-cost situations?

948. **Mr Farrell**: Statistics from the Office for National Statistics (ONS) and the Northern Ireland Statistics and Research Agency (NISRA) show that there have been 1,994 excess winter deaths of older people in the five years since the start of 2000. This year has been the worst, with 456 such deaths. Cold exacerbates existing conditions; therefore, there is difficulty comparing winter to summer deaths.

949. **Ms Tilson**: Moreover, Age Concern has done quite a bit of UK-wide research on the minimum income that is required for healthy living. As well as incorporating the ability to keep one's home warm, in proper repair and affordable, healthy living addresses being able to afford a healthy diet and having access to transport.

950. **Mr Farrell**: We can leave some of that information with you.

951. There is not a huge amount of data on pensioners' savings. However, the family resources survey reveals that the proportion of single pensioners who hold savings of more than £16,000 is very small.

952. **Mr Raymond McCartney**: We are meeting with representatives from the Department of Finance and Personnel this afternoon, and I know that you are on the working group with those people. Hansard is also recording this dialogue, so you have to be careful about what you say. How do you find the relationship with those departmental officials? Is it a good group? Do you feel that you are being listened to?

953. **Ms E Campbell**: Working on it has been very productive.

954. **Mr Farrell**: We found that the departmental officials were willing to listen to the issues. The people involved have been really committed to our view, which is that rates should not push people further into poverty.

955. **Mr Raymond McCartney**: Are you invited to their Christmas party? *[Laughter.]*

956. **Mr Farrell**: Tell them to put the money into rate relief — do not invite us to the party. *[Laughter.]*

957. **Ms Tilson**: Our relationship with them has been markedly different to the dealings that others have had with some of those who have been involved in the water debate.

958. **Ms Ritchie**: We note that you are doing this work with the Department, which has said that a short paper outlining a number of options is being prepared. Is that draft paper nearing conclusion?

959. Is the working group considering a single person's discount scheme for pensioners or a deferment scheme?

960. **Mr Farrell**: Deferment has not been on the table during this process. Indeed, there is a lack of information about deferment. Legislative provision has been made for it, and Help the Aged is keen to be part of that debate.

961. At the start of our work with DFP, we were instructed that our discussions would be based on the existing housing-benefit infrastructure, and, as such, the 25% single-occupancy discount could not be considered. However, we remain quite committed to such a measure. The evidence shows that poverty is disproportionately experienced by single people. On that basis, we still advocate a 25% single-occupancy discount.

962. The paper is very near completion.

963. **Ms Bagnall**: The paper will go before the Minister either today or tomorrow. We signed off a final draft at the beginning of this week. I am not sure when it will be available to the subgroup, but DFP was to sign it off during the week.

964. **Mr Farrell**: It is important to consider the question of the proposed enhanced pensioner relief of £4 million a year. That relief needs to be a long-term commitment; it should not be a one-year or two-year commitment over the next few years to mitigate the impact of the new rating system.

965. **Ms Ritchie**: Therefore it should be a long-term commitment of £4 million.

966. **Mr Farrell**: Yes, on an annual basis.

967. **Mr Cree**: We have grave reservations about means testing, which you obviously share. Are there any fair alternatives to means testing that would allow people to get a little more?

968. **Mr Farrell**: Help the Aged is of the view that a citizen's pension, based on residency as opposed to contributions, should be introduced. That would acknowledge the impact on those people — specifically women — who have broken contributions records. A citizen's pension should be set at a decent standard of living so that it would obviate the need for means-tested benefits. Money that goes towards means-tested benefits would be put into the pensions pot and, as a matter of right, people would be given a decent standard of living.

969. As an aside to that, research published by the Joseph Rowntree Foundation in 2005 states:

"the minimum income that people over 65 … would need in order to live in a healthy way was £123 a week for a single person and £193 a week for a couple. These figures, which exclude rent or mortgage and rates, are therefore after deducting housing costs."

970. The average single pensioner's income falls short of this by £23, and pensioner couple's by £7.

971. That reinforces the point that means testing is not working. The money that goes towards means-tested benefits should be put into the pensions pot. People should not get a pension of £83 that is topped up by benefits but, as a matter of right, a pension provision of a minimum of £115 a week. However, I recognise that the ability to do that falls outside the auspices of the subgroup.

972. **Mr Cree**: You have stated that there is little evidence of single-person millionaires.

973. **Ms E Campbell**: Yes, very little evidence.

974. **Mr Shannon**: Just Peter Weir. *[Laughter.]*

975. **Ms Ritchie**: You said that with a certain level of confidence.

976. **Mr Weir**: It is much more likely to be you than anybody else, Jim.

977. **Mr Cree**: The fact that there are not many single-person millionaires may not come as a surprise to the Minister, as one of the reasons that the Minister gave was that the single-person's discount scheme could perhaps create many such people.

978. **Ms Stanton**: This question may have been asked already. Through your meetings with the Department, has it been made clear that bids made under the comprehensive spending review 2007 will cover the sum that Margaret mentioned?

979. **Ms E Campbell**: Yes, as far as we were aware. When the group began convening, we were told that there was a pot of money of approximately £4 million. We need to devise a scheme that meets the greatest need and covers the greatest number of people but that falls within that monetary range.

980. **Ms Stanton**: Then again, you will fall short of that task because there is not a high uptake of benefits among older people.

12.15 pm

981. **Ms E Campbell**: Yes. I am not sure that you were here when this was discussed earlier. It will be important that monitoring and review mechanisms are built into the process from the beginning. Those mechanisms should also be funded to ensure that, if only £2 million appears to have been spent, the reasons for that could be found. For instance, it will be possible to review questions such as why only £2 million was spent; whether the scheme captured the correct number of people; and whether fewer people were entitled to the scheme than was originally envisaged.

982. It is hoped that those mechanisms will be built into the process. Any necessary changes can be made in the first year or two of the scheme's operation.

983. **Ms Bagnall**: Help the Aged's submission strongly recommended communicating information to pensioners about their entitlement to rate relief or to enhanced measures. It is important that that information is properly targeted. We must examine innovative ways to send information to pensioner households.

984. The Pension Service sends a pack to all householders approaching pension age that contains specific information and an invitation to claim. That is a good opportunity to insert other information to help claimants to determine whether they are entitled to additional rate relief and, indeed, other benefits. As Mr Farrell mentioned earlier, many people are entitled to pension credit but do not claim it. Our paper suggests that there are new ways to communicate those entitlements and enhanced measures to pensioners.

985. **Ms E Campbell**: Age Concern is committed to the advice line, so that when callers ask about rate relief, our advisers can use that opportunity to inform callers of additional benefits that they may be entitled to, such as the water rates affordability tariff. We must ensure that our organisations are sufficiently well informed to pass on information as soon as it becomes available.

986. **The Chairman (Dr Birnie)**: Help the Aged and Age Concern are both represented on the working group. Do you feel that that group is sufficiently representative?

987. **Mr Farrell**: As well as Help the Aged and Age Concern, Prof Eileen Evason, who is a professor of social administration, sits on the group. Inasmuch as any small, focused working group that is trying to complete a month's work to deliver £4 million can be, it is representative.

988. **The Chairman (Dr Birnie)**: Thank you all very much for appearing before the subgroup at relatively short notice, and for providing written submissions and answering all our questions. The subgroup will have much to reflect on and include in its report. I hope that the report will be ready in a couple of weeks — we are also working to a short timescale. We wish you well for the holiday — when it comes.

989. **Mr Farrell**: The same to yourselves. Thank you very much.

The subgroup was suspended at 12.18 pm.

On resuming —

1.21 pm

990. **The Chairman (Dr Birnie)**: Good afternoon. I welcome the Northern Ireland Fair Rates Campaign. Thank you for your written submission. Would you be happy to make a relatively short opening statement and then take questions from the subgroup?

991. **Ms Anne Monaghan (Northern Ireland Fair Rates Campaign)**: Yes. Thank you for inviting us. The fair rates campaign was established in September 2006 as rates bills came through people's doors. As you know, there was public outcry. The general public are not expert at reading draft legislation or consultation documents and were fairly ignorant about the new system and its implications.

992. The system had to be reviewed and amended as it was 25 to 30 years old.

993. However, the shock to most people came from finding that the system was markedly different from that which exists in other parts of the UK. I will go through five or six points and then we will be happy to take questions. My colleagues are experts in other areas.

994. Ratepayers are confused about what happened recently in the House of Lords and the position taken by Lord Glentoran. Minister Hanson insists that the cap of £500,000 — and we disagree with that level — and the additional relief for pensioners are dependent on the Assembly. That is not the Conservative Party's understanding of the situation, nor is it our understanding of the House of Lords debate, and we have copies of the relevant Hansard reports. Indeed, we have copies of correspondence from the Minister to the Conservative Party, which is markedly different from that which he sent to local politicians.

995. We thank the parties for the help that they have given to the campaign. We understand that all parties are, in some shape or form, broadly in agreement that the system is out of line with the rest of the UK in a number of areas.

996. There is a cap of £212,000 in Scotland, £425,000 in Wales and £320,000 in England. Our gross domestic product (GDP) is 85% of that of the rest of the UK, and our salaries are markedly lower. We cannot understand why there is no cap in the discrete capital value system for Northern Ireland. Indeed, if the Government continue to argue that they cannot treat regions differently in respect of corporation tax, why is Northern Ireland being treated differently as regards rates?

997. That is one argument. We are arguing for a cap at £300,000. A cap at £500,000 only benefits approximately 2,400 ratepayers — those at the top end of the spectrum.

998. We believe that a cap at around £300,000 would be more reflective of the Northern Ireland economy, and would cost ratepayers — at the top, rather than at the bottom end of the income spectrum — only a few pounds extra.

999. We oppose the lack of single-household relief, which exists in the rest of the UK. If that were introduced in Northern Ireland, it would affect 13% of households.

1000. We oppose the lack of a second-adult rebate in the proposed Northern Ireland system. Such a rebate operates in England, Wales and Scotland. For example, if a widow has a son or daughter at university, she can claim a second-adult rebate because there is no second adult financially contributing to the household.

1001. We are concerned about the position in the legislation regarding disability relief and relief for students. We believe that the relief measures for students would actually benefit landlords. Having worked with students for four and a half years, I know that students do not generally claim relief measures such as rates relief. They are more likely to claim student loans, whereby money will go into their accounts quite quickly.

1002. In the Holyland area of Belfast alone, £2 million will be lost to the economy, and that will not be to the benefit of students. I spoke to National Union of Students/Union of Students in Ireland (NUS/USI) officials yesterday. They said that they had received no indication of how the system might benefit students. Landlords are supposed to write to students to alert them to any benefits. I question how many landlords will actually do that.

1003. The 25% relief for those who are disabled applies only to people who have had their homes modified. That is a glaring discrepancy. We have questions on the grounds of section 75 of the Northern Ireland Act 1998 on how the new system will operate for protected groups. In the last consultation, which took place over the summer period, the consultation paper recognised that the information on how the system will affect section 75 groups is not available. That information is not available because the new system is not yet in place, and that information is to be provided through the continuous household survey after one year.

1004. We are asking the Assembly to seek clarity from the Government on what should happen if the Assembly is not restored on 26 March; to seek clarity on the points I have outlined about the cap, single-person household relief, second-adult rebate, etc; and to address our concerns on the section 75 implications of the proposed measures.

1005. If the system comes into effect this year, we nevertheless believe that it should be reviewed after a year, and that the review must be based on the data gathered in the continuous household survey, which will by then be available.

1006. **The Chairman (Dr Birnie)**: Thank you. We move to questions.

1007. **Mr Raymond McCartney**: Do you have any information about how the caps set in Scotland and in England were determined? Was it an arbitrary figure?

1008. **Mr Cree**: Have you provided the exact figures?

1009. **Ms Monaghan**: Yes; those are the exact figures. I do not know how those caps were determined. That is the problem; we cannot find out how they were calculated. We understand that the cap at £500,000 in Northern Ireland has been determined on the grounds that no one will pay more than £3,000 per annum. No one pays more than that in the rest of the UK. To strike that balance, they set the cap at £3,000. That does not take into account incomes, rising house prices and other economic factors in Northern Ireland.

1010. **Mr Raymond McCartney**: If a house belongs to an investor, is it classed as a single-person household, or is that determined by occupancy?

1011. **Ms Monaghan**: It is determined by occupancy.

1012. **Mr Raymond McCartney**: This morning, we heard from Age Concern and Help the Aged. They pointed out that, in their experience, few pensioners had savings of over £16,000. What is your view on the issue of savings?

1.30 pm

1013. **Mr Michael Kelly (Northern Ireland Fair Rates Campaign)**: I spoke to Eileen Evason about that matter. Eileen has been dealing with people on benefits for most of her life. However, I do not think that she has any concept of the number of people living in south Belfast or parts of Derry whose houses have rocketed in price or of the amount of savings that they have as a result. We spoke to several people as part of a small survey and found that the £16,000 savings threshold is always queried. If the Government want all old-age pensioners to benefit from the 50% extra relief, raising the savings threshold to £32,000 would be one way of doing that.

1014. **Ms Monaghan**: We have concerns in that regard. The Government said that they would set aside an extra £4 million for relief if an Assembly were up and running. However, the Conservative Party would argue that something different happened in the House of Lords.

1015. We are concerned about benefit uptake among older people, completing forms and other issues. The Government are not reducing the taper so that everyone benefits automatically. They are, however, setting aside £4 million for extra relief, of which perhaps only £2 million will be availed of. Our concerns are why £4 million is being set aside on top of £7 million — which again, is dependent on the Assembly being in existence — instead of

reducing the taper, which can be done at the touch of a button.

1016. **Mr M Kelly**: The Government reduced the amount deducted from excess income from 20% to 12% to help all housing benefit applicants. If the Government want to help pensioners and maintain a 50% increase in rates relief, that 12% deduction from excess income should be reduced to 6% for pensioners. That would really make a big difference.

1017. It is up to the people with the computers to determine the total impact. However, Raymond has worked out a rough idea of what the spreads would be if the cap were reduced, the minimum cap in the examples being £300,000. That information is in our submission. The submission also outlines the cost per household for the rest of Northern Ireland and other important information.

1018. **Mr Raymond Farley (Northern Ireland Fair Rates Campaign)**: My information is from the Northern Ireland housing statistics for 2004 -2005. As Anne said, the average weekly wage in Northern Ireland is around £477 per person; the average UK weekly wage is £601. That means that UK wages are 26% above our wages. That is a vast difference.

1019. Table 6.9 in the Northern Ireland housing statistics for 2004 and 2005 gives the average weekly spend per Northern Ireland household as £377. In the UK, the average weekly spend is £434 — people in UK are obviously earning more money. The difference of £57 is not too vast. However, there is a difference between what is being spent and what is being earned; that is, disposable income. Weekly disposable income in Northern Ireland is £99, and the UK average is £166; that means that people in the UK have 68% more disposable income than people in Northern Ireland.

1020. If rates increase, people in Northern Ireland will not have as much money as those in the rest of the UK. Therefore, Northern Ireland should be considered a special case. Ministers are always being quoted as saying that Northern Ireland rates are lower. The figure of £670, which is the average rates bill in Northern Ireland, is always bandied about, as is the figure of £1,200, which is the average rates bill in the rest of the UK. The inference is that the Government want to raise rates in Northern Ireland to a similar level.

1021. If rates in Northern Ireland are raised, it will account for an extra £11 from everyone's weekly income, which will reduce the average weekly disposable income to £88. The average weekly disposable income in the UK is 89%. In other words, people in the UK will have almost twice as much free income as people in Northern Ireland, if rates here are raised to the UK level.

1022. **Ms Monaghan**: We can leave that issue with the subgroup because there is a great deal of information to take in.

1023. **Ms Ritchie**: Welcome to the subgroup. Your submission stated that, if deferring the Order were not considered, local politicians must review the legislation in a year's time. Your submission states:

"as we believe among other things, the Equality Impact Assessment was not properly carried out."

1024. Can you explain how and why the equality impact assessment was not properly carried out and, more importantly, what is required?

1025. **Ms Monaghan**: The continuous household survey data are not available, as the system would have had to be operational for a year. Once the continuous household survey has been done for a year, the data will be available to reflect the differential between key groups. The consultation flagged up that there may be a differential impact upon Protestants, disabled people and older people. Members will be aware that there is concern about how that will affect the asset-rich, cash-poor elderly.

1026. Another of our concerns — and why we are asking for a deferral — is the Government's claim that the changes are revenue-neutral. If they are revenue-neutral, why not defer the implementation of the Rates (Amendment) (Northern Ireland) Order 2006 for a year so that the Assembly can debate and vote on it. We

could do a "mock-up" to see how the Order would affect certain sections of society.

1027. **Mr M Kelly**: The equality impact assessment said that the continuous household survey was available to assist in the analysis of the existing system; however, it was not available to assist in the analysis of the new capital value system. The Northern Ireland Fair Rates Campaign wrote to Brian McClure, who is in the policy division of the Department of Finance and Personnel, to ask him to take another look at the issue. We also asked him to consider not just the continuous household survey, but the family resources survey of the Department for Social Development. The Department should consider income and tenure and then decide how many people would benefit as a result of the rate reform — that was a constant cry of Mr Hanson. If the Department employed the family resources and continuous household surveys to analyse the new system, we would find a great many flaws in the figures that have been bandied about.

1028. **Ms Monaghan**: We are also concerned that the system will maintain ghettoes and benefit dependency. Rather than encouraging people to become homeowners, the system will deter people, because they will not receive rates and water relief. On 7 December 2006, the 'Belfast Telegraph' reported on Government underspend and borrowing in 2005-06. We understand that the underspend came about because Departments had not expected the 19% regional rate increase of 2005-06 and that consequently they had no clue about how to spend the money.

1029. **Mr M Kelly**: *"The fact that the continuous household survey was not available for the various capital-value models"* — four were considered, but only one was picked — *"may explain why a differential impact is not detected"*. The survey was available when analysing the old system but not the new one, so a differential cannot be assessed for the section 75 groups — except religion. It is important that that be picked up on.

1030. **Ms Ritchie**: In point 12 of your submission you ask that the cap should be for a specific time and not increased at the next revaluation. Why is that necessary? Why should an incoming Executive adopt such a position?

1031. **Ms Monaghan**: It creates confidence and security in the market and for home buyers. We are concerned that when a new revaluation comes into effect in 2012, rising house prices will continue to push bills up. England and Wales have had their systems in place since 1993 and Scotland since 1991. Why should there be a revaluation for Northern Ireland in five years' time?

1032. **Mr M Kelly**: The Government have given themselves two options for increasing the rates. If they get into difficulty with the percentage of the district and regional rates that they apply every year, all they have to do is raise the cap so that they can hit us both ways.

1033. **Ms Ritchie**: Can you provide us with details on relief for students rather than landlords, disabled people, regardless of their home modifications, pensioners and single persons?

1034. **Ms Monaghan**: To be effective, relief for students — and for pensioners — must be automatic. A system has been put in place for students so that they automatically receive cash in hand to go some way towards paying their rates bill. However, the system must be automatic. Landlords will not apply rates relief for students, because rates and rent are not separated in the bills that students receive.

1035. Why should being classified as disabled be dependent on one's home being modified? People whose disability is blindness may not need their homes modified, as they do not have to be in a wheelchair. We in the Northern Ireland Fair Rates Campaign are concerned that the Government are already targeting recipients of disability living allowance to weed out those who should not receive it. The rates relief system could work in tandem with that, so that only genuine cases would receive it.

1036. Rates relief is set at only 25%: it is not full relief. The system for receiving rates relief should be automatic, but the Government put the onus on the ordinary person to claim.

Although there may be a perception in Northern Ireland that everyone claims, we in the Northern Ireland Fair Rates Campaign are concerned that the elderly, the disabled, etc are less able to claim through the system than are others.

1037. **Mr M Kelly**: In his preamble to the amendment to the Rates (Amendment) (Northern Ireland) Order 2006, David Hanson said that "targeted consultation" on landlord liability was being carried out. He made that statement on 3 July 2006, but we have yet to see the results. If the subgroup wants more information on landlord liability, it should look at the targeted consultations on standardisation in the social rented sector and on landlord liability.

1038. **Ms Ritchie**: Thank you.

1039. **Mr Cree**: Mr Kelly, you referred to the Northern Ireland Fair Rates Campaign's proposed affordability cap for pensioners. Will you give the subgroup details about how that would work and whether you envisage that being means-tested?

1040. **Mr M Kelly**: It should follow the water-reform affordability tariff. The Northern Ireland Fair Rates Campaign proposes a 3% cap for those pensioners on very low incomes. In other words, they would not pay more than 3% of their income on water charges and rates. I do not know the extrapolated figures or how much that would cost, but it would affect about 150,000 pensioners in Northern Ireland, unless I am mistaken.

1041. Why not apply the 3% cap? The Government will not adjust the three tapers, which are savings, the percentage of accessible income and the tariff on savings. For someone with savings, the tariff on income is set at £1 in every £500. We propose halving that to 50 pence per £500. If the Government want to maintain the 50% relief for pensioners, they could adopt that proposal.

1042. If they reduced the taper from 12% to 6%, the Government would not need an affordability tariff. When we asks David Hanson for information, he always responds by citing examples, so I will do the same. There are two pensioners living in identical houses, one in the country and the other in Belfast. The house in Belfast is in a property hot spot and has a rateable value of £300,000. The house in the country is not in a property hot spot and has a rateable value of £150,000.

1043. If the person in the country has an income of £14,000 and the person in Belfast has an income of £9,000, the person in Belfast will pay £104 more in rates than the person in the country.

1.45 pm

1044. That situation would not apply only to pensioners. Consider young executives, some of whom live in the Belfast area, and some of whom live beyond Omagh. If members do the calculations, as we have, on the available information, they will see that if someone has a £14,000 income in the country and another person has a £9,000 income in Belfast, the person with the £9,000 income will pay £104 more, assuming the same set of circumstances.

1045. **Ms Monaghan**: There is an additional concern about those who fall just outside the benefits system. The rates burden is not based on ability to pay; it is based on the capital value of one's home, which could have been an inheritance, or could have been bought 40 years ago. We have heard people from Newry and other places on the radio, saying that they were given a plot of land on which to build a big house. The capital-value system does not reflect ability to pay.

1046. **Mr Farley**: Further to Anne's argument, if one considers social housing, people may not wish to move out of their comfort zone. For example, people who live in social housing pay rates at 19% of their rent. If one looks at the Housing Executive's website, one can quite easily work out the level of rates that will be paid. Occupants of all Housing Executive homes, no matter where they are in Northern Ireland, always pay the same amount for the same house. Therefore those who live in a three-bedroom detached Housing Executive house with a garage, no matter where it is, will pay about £570 a year in rates, because their bill is calculated as a proportion of their rent.

1047. John Semple's review of affordable housing noted that some social-housing homes have been sold for something in the region of £250,000. That means that if occupants moved out of Housing Executive status and owned their houses, they would move from paying £570 in rates to nearly three times that amount.

1048. **Ms Monaghan**: That takes us back to the point about maintaining ghettos and the situation whereby people stay in the benefits system, when we should be trying to help them to get out of the benefits system.

1049. **Mr Cree**: You mentioned your preference for a rateable value cap at £300,000. Research suggests that that would benefit about 2% of households. On the figures that you have provided, that cap would cost about £14·60 per household. Do you not think that that replicates the regressive aspects of the council-tax system?

1050. **Ms Monaghan**: Do not get me wrong. Although we agree that the system had to be reviewed, we do not like the new scheme at all. However, if the Government are intent on pursuing it, which they are, we disagree with the cap at £500,000. If there is to be a cap, it should be at £300,000 or thereabouts, and it should be in place for at least a generation. Although the cap may affect only 14,000 households now, by 2010, as house prices rise, it will affect a higher proportion of the population.

1051. **Mr Farley**: If you extrapolate the current trend in house prices, which have gone up by 45% since 1 January 2005, they will approximately double by 2010, and the cap would therefore affect about 136,000 households by then.

1052. One moderately simple way to deal with the cap is to consider the multiplier that is used to calculate one's rates from the capital value of one's home. That multiplier is currently set at 0·0059. If that multiplier were changed to 0·006030, it would generate exactly the same amount of money, with a cap at £300,000, and people at the lower end would not be penalised. The Government's documentation claims that 55,000 houses fall into the bottom band of £0 to £50,000. The rates bills for those homes would change from an average of £148 to an average of £151 under the system that I have described. Therefore the bunch at the bottom end would be protected by the mechanism of simply adjusting the multiplier, and the people at the top end would pay more.

1053. **Mr Blayney**: I wish to address the point that Anne made about the prospect of maintaining a ghetto mentality.

1054. We must offer folk the opportunity to develop in the community and to invest in society. They should be able to watch their kids go to school, and to hope that their hospitals will be better and their streets will be clean. They must have the opportunity to develop their homes, and that is why we suggest a £300,000 cap. People who are suffering in the community must be given the opportunity to grow out of it, and they should be allowed to aspire to making an investment in the community. That is crucial.

1055. **Mr Weir**: Thank you for your presentation. We strongly support a cap on the rates. I would like a good deal of financial information, so you may have to get back to me on some questions.

1056. First, you have provided figures that show the impact on each household in Northern Ireland of setting the cap at different levels. I am not looking for a direct response to this question, but I would be grateful if you could provide us with figures for the total net income for the full system across all of Northern Ireland rather than simply per household.

1057. **Ms Monaghan**: The Government say that it will be the same — about £450 million a year. They say that they are simply redistributing the burden.

1058. **Mr Weir**: I appreciate that, but we have been told that the "cost" in lost revenue would be £500,000 or £1 million, be that through redistribution or whatever.

1059. **Ms Monaghan**: The suggested figure is about £1 million.

1060. **Mr Weir**: Presumably there are corresponding figures that would give a total

figure for all the households in Northern Ireland were the cap to be set at £300,000. I suspect that you cannot tell us those figures now, but I would be grateful if you would send them to us in writing.

1061. You mentioned revenue streams and the idea of fixing a £300,000 cap for a generation. What impact would that have year on year? You have already told us that, by 2010, you reckon that about 136,000 homes will be affected by the £500,000 cap.

1062. You also proposed several additional relief measures, some of which are reasonable enough and some of which will bring us into parity with other parts of the UK. What would be the cost of a 25% rebate for single-person households? Are there any estimates of the potential costs of a 25% rebate for all disabled people, not simply those who require home modifications? Furthermore, what is your assessment of the cost of providing a second-adult rebate?

1063. You also mentioned the different capped levels in the other three jurisdictions of the UK. We are told that the reason that the cap has been set at £500,000 is that the maximum bill will be about £3,000. Like you, we get that thrown back in our faces. I appreciate your point about the cost of living and average incomes in Northern Ireland, but do you have figures to show the maximum charges in each of the other three jurisdictions? For example, if the cap in Scotland is fixed at £212,000, I suspect that the maximum charge there would be a good deal less than £3,000. It would be helpful if you could give the subgroup that information.

1064. I will play devil's advocate on my next point. You mention the concern that revaluation would lead to increased bills. If revaluation were to be carried out on a cost-neutral basis, surely there would not be increased bills across the board. It would, in fact, result in a further redistribution of bills. Thus bills would increase disproportionately only in areas in which the price index of houses had grown quickly. Homeowners in areas in which the price index has increased at a rate lower than the Northern Ireland average would find that their bills would reduce. I would like you to deal with that point.

1065. Finally, what is your view on the proposed transitional-relief period? Although it is better to have some form of transitional relief, many of us feel that a period of three years will provide for a sharp rise and that a longer period may be more appropriate. Perhaps you could deal with the final two points now and provide information on the others later.

1066. **Mr M Kelly**: Transitional relief is a con; it is just softening the blow. Many people who have not really looked at their rates bills are thinking that they will not be as bad as others are making out. In the second year, they will be saying, "Hold on a minute", and when they receive their full bills, there will be war.

1067. **Ms Monaghan**: There may not be a war. *[Laughter.]*

1068. We will come back to the subgroup on the questions asked. A key issue is about redistribution, which is available via the maximum cap set at £500,000. Raymond has already explained how that would impact on people at the upper end; namely, £3·46 for every house in Northern Ireland.

1069. Rates raise about £450 million. The Government have set aside £7 million for pensioners, and that will not be means tested or based on ability to pay, and another £4 million if the Assembly is restored. That sum of £11 million, as a proportion of £450 million, is not a huge amount to be giving back to those who need it most.

1070. Essentially, rates pay for services, and the single-person discount was introduced in the rest of the UK because single people like me, who live alone, do not use the same services as a family comprising 12 or 14 people. This is not a personal issue, because my rates bill has reduced slightly. The principle of the system is wrong.

1071. **Mr Weir**: A spurious argument was thrown back at us regarding the single-occupancy rebate: the Minister suggested that such a rebate would benefit millionaires who live alone.

1072. **Ms Monaghan**: I am not one of those.

1073. **Mr Weir**: I appreciate that. However, you mentioned those on low income, so, to kill off the argument that the rebate would benefit people on high income who live alone, would you envisage a situation where someone on a very large income who lives alone would not benefit from the single-occupancy rebate?

1074. **Ms Monaghan**: That is why we are saying that there should be means testing. We are prepared to negotiate around the figure of 25% rebate for single-person households. People earning more should pay more than those who earn less. However, this is also about services, and we are worried that it is connected to the review of public administration (RPA), that is, paying for those services that will fall under the control of the super-councils.

1075. Thus far, the system has not reflected the regional rate or the district rate. The district rate has not been struck for 2006-07 yet. People are receiving estimated bills, and some are shouting: "Whoopee, this ain't that bad." However, they have not received their final rates bills yet.

1076. We have been told by those responsible for rating policy that a single-person discount set at 25% would cost £14 million. If the discount were means tested, people like me would not receive it, and the cost would not be as great. However, some single people living alone are struggling to pay their bills. Means testing would ensure that the cost would be redistributed among those who can afford to pay. At the moment, the system does not take ability to pay into account.

1077. **Mr Farley**: Your other point was in respect of the revaluation of houses in 2010. Last year, there was an out-of-the-blue 19% increase in the regional rate.

1078. **Mr Weir**: That was nothing to do with revaluation.

1079. **Mr Farley**: That is correct.

1080. **Mr Weir**: It was an attempt by the Government to place a greater burden on taxpayers.

1081. **Mr Farley**: Unless we are instructed in solid-gold-plated writing that the regional rate will not be affected, we will not know what will happen. No one has been told what will happen. We are assuming that the regional rate will not be affected, and that there will be a redistribution of wealth in the 2010 revaluation.

2.00 pm

1082. **Mr Weir**: Any Government can try to get something in by the back door by raising the regional rate. However, if that is achieved purely through revaluation of property, although the overall rates bill for most people will increase, the rates base will also increase, and the rate to be struck by councils would reduce correspondingly. It would be a multiplier of sorts on one side of the equation.

1083. **Mr Farley**: Income tax was introduced to pay for the Napoleonic wars. Those wars were won long ago, however, income tax has kept on going in order to raise revenue.

1084. **The Chairman (Dr Birnie)**: Yes, it was meant to be temporary.

1085. **Mr Farley**: There are other issues that have to be paid for. Stan will know about them.

1086. **Mr Blayney**: One crucial matter has not yet been mentioned. There were 35 years of troubles during which direct-rule Ministers made all the spending decisions. None of the normal taxes that we have talked about — income tax and VAT— was spent appropriately on our infrastructure. Three years ago, the Chancellor gave us a gift of £200 million to make a start on a 10-year investment plan. That plan has a significant impact on the rates bill, and we estimate that it will cost each ratepayer approximately £110 a year. Had that money been spent appropriately, as capital out of national taxes, we would not be bearing the current burden, because we would have good infrastructure.

1087. We are now having to address 35 years of neglect by direct-rule Ministers, and local taxpayers are paying for that. That did not happen in England; investment there was paid for by national taxes. We are being asked to take out large loans that we have to service and

repay, and that will amount to 14% of the capital costs. A further 23% of those costs will come from private finance initiatives (PFIs), and only 63% will come from national tax funding. We estimate that that will be at a cost of £110 a year on each taxpayer's rates bill as we reach the end of the 10-year cycle. I do not understand why we should be treated differently from England.

1088. **Mr Farley**: The costs are ongoing, because it seems as though the capital is not being repaid and the loan is constantly rolling on. Is that correct?

1089. **Mr Blayney**: There is a suggestion that the loans will be for 25 years and the PFI schemes will be for 35 years, and there will have to be a modicum of return of capital as we get close to the end of those cycles. The Northern Ireland Audit Office (NIAO) report of 7 December 2006 identified that point — that the reinvestment and reform initiative (RRI) has been mismanaged by the national Ministers' and local Departments' ability to take forward the projects. We are concerned that loans are being drawn down and that no appropriate management is being put in place to deal with them.

1090. **The Chairman (Dr Birnie)**: What are the implications of the Burt Report and the forth-coming report from Michael Lyons? What is the implication of the way the authorities are reacting to them?

1091. **Mr Blayney**: The Burt Report suggested applying a 1% multiplier to capital values: Northern Ireland's is 0·59% plus the water rate addition, which is almost the same as applying 1% to capital values. Therefore, it almost seems as though Burt was emulating the mechanism being offered to us.

1092. **Ms Monaghan**: It would not surprise us if Sir Michael Lyons suggests a similar system for England and Wales. We are arguing that if the system is to be revenue-neutral during the first year, it should be deferred for a year so that appropriate models could be put in place to analyse the effects that it will have on the groups listed in section 75 of the Northern Ireland Act 1998.

1093. **Mr Blayney**: It is only because of the cynical 19% increase last year that cover has been given to keep year one static. The Burt Report was tossed out within two hours of being brought to the Scottish Parliament.

1094. **Ms Monaghan**: Jack McConnell, the Labour Scottish First Minister, was having none of it.

1095. **Mr Blayney**: It was quite clear that the folk there did, surprisingly enough, understand very rapidly what 1% meant. The difficulty is that our population has never had a chance to comprehend the composition of rates and water tax — both as a property tax coming out to almost the same multiplier.

1096. **Mr Shannon**: You refer in one of your presentations to raising the savings threshold to £32,000. Do you have an idea of how many more people that would bring into the system for rates relief? The theme running through your presentation is that you do not want to see the rates system based on house valuations. Is there a more suitable alternative? You have also referred to a banding system, which is similar to that in the rest of the UK, and a lot of your other suggestions are along the lines of what is happening in the rest of the UK. Perhaps that is the way you wish to see us go.

1097. **Ms Monaghan**: The way in which we are going is the way that the direct-rule Ministers dictate. We have not had a say in the matter. We are basing our campaign around a similar system in the rest of the UK, and we do not think that that system is great. There should be a system based on ability to pay and not on the capital value of a home. However, that might require an additional means-tested local tax. I know that the Assembly does not have those powers, and, interestingly enough, the Scots have them but choose not to use them. If this is the system that we are going to have, it should be deferred for a year until we see how it works out.

1098. If capital value is to be used, it should be means tested; however, we do not think that capital value should be used. What a person pays should be based on earnings. The other system is another way of introducing means

testing into the system. It is the Government's crude attempt to raise revenue, and revenue should be raised through what a person earns and ability to pay.

1099. **Mr Shannon**: You mentioned the threshold being raised.

1100. **Ms Monaghan**: The people who carried out the review of rating policy would have those figures.

1101. **Mr M Kelly**: Yes, it would have to come from people with the statistics.

1102. I have the application form here. There is no way of determining how many people have lifted the application form and thrown it to one side because of the £16,000 bar. I know a lot of people who would have around £20,000 to £25,000 in savings, which is not a fortune these days. Those people would not be entitled to a great whack of relief, but they would be entitled to some.

1103. **Mr Shannon**: Some people would qualify.

1104. **Mr Blayney**: The crucial thing is that if they have only £25,000 and are suddenly hit with an extra £1,000 in charges each year, they will soon be down to £16,000. It is, essentially, a Labour Government savings tax, where people are instantly drawn down to £16,000 before they can get relief.

1105. **Ms Monaghan**: If the taper were reduced from 12% to 6%, pensioners would qualify automatically, regardless of their income.

1106. **Mr M Kelly**: Some pensioners would qualify — not all of them, but most would.

1107. **Ms Monaghan**: Yes, most of them would. A lot of people in Northern Ireland — particularly pensioners — use the space under the bed as their bank, and that has been reflected in robberies. Confidence in the system would increase if the taper were reduced. We have to base our campaign and our arguments around the system proposed by the Government, because there is no other ball game. That is why we are asking the Assembly to take it away, defer it for a year and then look at it. That could not happen between 2002-06, because the Assembly was not in place. The Assembly must take this issue on board.

1108. We have not moved into the area of water rates. Previously, £134 per annum of every rates bill went on water. Other people are fighting those battles. The Assembly needs to start afresh and look at the whole issue.

1109. **Mr M Kelly**: Mr Chairman, I want to make one last point on the option of deferment for pensioners.

1110. In the written submission, I have listed many of the questions about equity release. The Government intend to operate an equity release scheme. If they decide to go down that route, they will probably introduce regulations. Deferment would be a good idea for people who do not have a next of kin. The equity would come from their estates, but it would need to be decided whether the accumulated rate arrears would come out before the Chancellor of the Exchequer had deducted capital-gains tax, or inheritance tax had been taken. There would be a big difference between the two possibilities.

1111. If the Chancellor were to take his 40% of the excess, and arrears were to be deducted from the remainder, it might not be possible to recover the arrears in full. The question would arise as to whether the person to whom the estate had been bequeathed would be liable to pay the difference. That is an issue that would need to be considered. However, deferment is an option that might be appreciated by people who inherit high-equity houses.

1112. **The Chairman (Dr Birnie)**: This will have to be the last question.

1113. **Mr Cree**: Mr Blayney, is £1·5 billion the total amount?

1114. **Mr Blayney**: If the capital investment amounts to £6 billion, it would be at least £1.5 billion. However, a significant proportion of that — 63% — will be funded from national tax. The rest will be funded by a combination of PFI and loans. The £1.5 billion is purely national-loan-fund money. It is a direct loan from the Treasury, and it will have to be serviced through the 25-year cycle. It is a direct loan.

1115. **Mr Cree**: That is interesting. It almost mirrors the backlog in capital investment in the Water Service.

1116. **The Chairman (Dr Birnie)**: That is true.

1117. **Mr M Kelly**: Will the subgroup provide us with a list of questions to answer in writing?

1118. **Mr Weir**: We could provide a list of questions. Several of them will relate to the statistics. Part of the subgroup's remit is to evaluate rate relief and to decide whether the subgroup backs all the proposals, some of them or none, and to what extent. Any decisions need to be taken on the basis of having a reasonable level of information as to net costs, and so on. I have asked several of the relevant questions reports.

1119. **The Chairman (Dr Birnie)**: Could you repeat the costing requests?

1120. **Mr Weir**: That would be useful. Perhaps someone could take a note of them.

1121. **Ms Monaghan**: They are second-adult rebate; single persons; the net revaluation; whether it is cost-neutral or further redistribution —

1122. **Mr Weir**: I would not worry too much about the cost-neutral aspect.

1123. **Ms Monaghan**: Single person; single adult —

1124. **Mr Weir**: Single person; single adult; the extension of the disabled persons' element; the cost of the £300,000 cap; and the long-term projected costs, in that the measures could be frozen for a generation. It was mentioned that an income stream over £136,000 would probably be the upper limit. I appreciate that there are other measures that could be introduced to counterbalance those. I am simply seeking an idea of what each measure would cost.

1125. **Mr M Kelly**: Lord Rooker said in Parliament that the Rate Collection Agency (RCA) was introducing a new range of measures to make it easier to claim housing benefit. We would like to know what they are.

1126. My second question is for David Hanson. A 25% single person's tax reduction was introduced in England. Why, therefore, will he not introduce such a measure in Northern Ireland?

1127. **Mr Blayney**: 'Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure: Report to the House of Commons by the Comptroller and Auditor General for Northern Ireland' was published on 7 December. We received a copy too late to include our comments on it in our submission. However, I have a one-page summary of it, which I will leave with the subgroup.

1128. **Ms Monaghan**: The Government claim that the system is revenue neutral; the current rates system raises £450 million, and the new rates system raises the same sum — so why should there be any objection to a fresh reconsideration of a means-tested rates system for Northern Ireland that is based on ability to pay?

2.15 pm

1129. **Mr M Kelly**: With regard to systems, we may not have to worry about that. I have it on fairly good authority that the system might not be operational for 1 April and that unpaid bills for which warning letters and threats of court action should have been delivered by September have not yet been issued despite the fact that it is almost Christmas. There should be an examination of the Rate Collection Agency's new computer system at Airport Road. It is not doing its job.

1130. **The Chairman (Dr Birnie)**: On that note, I want to thank you on behalf of my colleagues for your attendance and submission and in anticipation of the written answers on particular financial matters that you will provide. The subgroup wishes you well. Happy Christmas.

1131. **Ms Monaghan**: Thank you. Same to you.

1132. **Mr M Kelly**: Is there a time limit on the written answers? Do you need them quickly?

Mr Shannon: Before Christmas day or next week sometime. *[Laughter.]*

1133. **The Chairman (Dr Birnie)**: The subgroup needs the written answers by the first week of January, because it must publish its report by 18 January.

1134. **Ms Monaghan**: What is the procedure? Does the subgroup present the report to the Assembly when it has been published?

1135. **The Chairman (Dr Birnie)**: The subgroup presents its report to the Programme for Government Committee first. If the Committee is content with the report, which it probably will be — unless it wants to amend it to some extent — past practice was for the Assembly to debate the report. Although that happened in the past, it may not be the case in the future. However, that is the procedure.

1136. **The Committee Clerk**: I imagine that the practical matter of dissolution on 31 January will be as significant as any other, as reports are being published by six or seven different subgroups. There may not an opportunity to debate all of them.

1137. **The Chairman (Dr Birnie)**: That is true.

1138. **Mr Weir**: It might be that debates will be truncated such as they were this week when there were two two-hour debates on Monday and Tuesday and five days of meetings. I assume that the Programme for Government Committee will not want a report to sit gathering dust.

1139. **The Committee Clerk**: The Programme for Government Committee must consider subgroups' reports so that it can inform a new Executive and make recommendations for the Programme for Government. The witnesses, in their written answers, should endeavour to focus their points and costings on that.

1140. **The Chairman (Dr Birnie)**: That is a fair point. Thank you very much.

1141. I welcome our next witnesses to the meeting. They are Mr Brian McClure, head of the Rating Policy Division, and Mr Leo O'Reilly, the budget director of the Central Finance Group, both representing the Department of Finance and Personnel (DFP). Good afternoon, gentlemen.

1142. Thank you for coming, and for your written submission, which members will find in their information packs.

1143. We have been allowing witnesses the opportunity to make some brief opening remarks before answering questions.

1144. **Mr Leo O'Reilly (Department of Finance and Personnel)**: I shall make a short contextual statement. The reform of the rating system was predicated on the understanding that the existing arrangements contained anomalies and depended on an outdated system of valuation based on rental values.

1145. Having completed a lengthy period of research that had begun in 2000, the Government concluded that they would introduce a new rating system from April 2007, which would be not only more transparent, but easier to understand than the existing arrangements.

1146. The reform programme is aimed at introducing a rating system that distributes the burden among Northern Ireland householders in a way that the Government feel is fairer; it is not a new tax. Around 25% of households in Northern Ireland currently receive assistance with their rates bills, and 20% of households pay no rates at all due to low income. Under the new arrangements, the Government intend not only to maintain those levels of relief but, for the first time, to introduce new systems of relief for ratepayers.

1147. The final piece of legislation to give effect to those reforms was made at Privy Council on 14 November. The new system introduces capital valuation of domestic properties and a new range of reliefs for ratepayers, including a new low-income-related relief scheme, transitional relief for people whose bills will increase by more than 33%, full relief for those in full-time education and training, and a more generous and simpler relief scheme for people who have had to modify their homes because of a disability. The new relief scheme will provide assistance over and above that which is currently awarded under the statutory housing benefit scheme, which, of course, applies across the UK.

1148. Several powers have been included in the legislation to allow relief to be directed to particular groups and to adjust the level of required assistance. That is an important legislative mechanism, which allows a restored Assembly to adjust and tailor the system as it sees fit, without the need to introduce new primary legislation. In other words, adjustments to the existing arrangements can be made under subordinate legislation.

1149. Under the terms of the St Andrews Agreement, and in advance of restoration, the Government made a commitment to work with the political parties and key stakeholders to introduce a maximum cap on rates, and to examine the possibility of further relief for pensioners on low incomes. Work on that matter is in progress, and I understand that the subgroup has already heard today from Help the Aged on that issue.

1150. The Minister of Finance and Personnel, David Hanson, will write to the main political parties shortly, outlining his proposals for delivery of those additional reliefs, including about £4 million per annum in additional relief for pensioners. The Government have also agreed to arrangements for a valuation cap on the new relief scheme.

1151. Finally, a new independent valuation tribunal will be established to provide a new and additional appeal mechanism for those who wish to challenge the assessments of their property valuations.

1152. Although there has been a small but vigorous campaign of opposition to the proposed changes, the Government firmly believe that the new system will be fairer for the people of Northern Ireland, will benefit more people — particularly those on lower incomes and in vulnerable groups — and will provide greater reliefs than are available under the present arrangements.

1153. **The Chairman (Dr Birnie)**: Thank you. We move to questions from members.

1154. **Mr Shannon**: May I ask a couple of questions, or only one?

1155. **The Chairman (Dr Birnie)**: Most members have managed to make the most of their time. I will indulge you as long as the number of supplementary questions is not excessive.

1156. **Mr Shannon**: You say that the new rating system is fair. However, all today's witnesses — and, to be honest with you, my constituents — say that the new system is anything but fair. Pensioners in particular tell us that it will place a financial pressure on them that they have not had to deal with before. Suggestions have been made about increasing the savings threshold and about single people's incomes. It has also been suggested that pensioners who are just outside the benefits threshold might fall into a gap. We discussed that this morning, and I am concerned about it.

1157. Despite your submission, I am not convinced that the new system is fair; neither are the people that I represent. How do you respond to those concerns?

1158. **Mr O'Reilly**: I will ask Mr McClure to speak about the range of additional reliefs and, specifically, the reliefs for pensioners and those on low incomes, which are under consideration. The new arrangements will redistribute the rates burden: some households will pay more; others will pay less. Moving from a system based on 1960s rental values to one based on capital values causes a redistribution of the rates burden to those who live in higher-value properties. However, that is not always the case. I can explain it in more detail if you want.

1159. It is being described as a fairer system because the Government believe that it distributes the rates burden more fairly.

1160. **Mr Brian McClure (Department of Finance and Personnel)**: The present system distributes the rating burden among householders based on 1960s rental values. Therefore the tax base is all over the place; there has been no revaluation since the mid-1970s. Indeed, the evidence used in constructing the valuation list then was taken from the late 1960s. The revaluation on a capital-value basis will redistribute the rating burden; it will not in itself raise more revenue.

Many people pay much more than they should under the present system; the new system will redress the balance.

1161. The revaluation exercise — which has not been carried out for more than 30 years and which is long overdue — will change the basis of valuation. The Government recognise the need to provide reliefs over and above the statutory housing benefits system. I will try to explain the proposed rate-relief scheme and the enhanced pensioner-relief scheme in order to alleviate people's concerns.

1162. May I give you an example of the sort of relief that is available under the present statutory scheme, what will be available under the proposed rate relief scheme, and under the enhanced rate-relief scheme? Take the example of a single pensioner aged between 60 and 64 who lives in a house with a capital value of £150,000 and a rates bill of £900. Under the existing housing benefit system, the income of such a person in order to qualify for relief would have to be £10,430 a year or less; the rebate on their rates bill would be £86. Under the new rates-relief scheme, they would get £412. The maximum eligible yearly income will increase from £10,430 to £13,500.

1163. That is what is proposed under the new rates relief scheme.

1164. As part of the St Andrews Agreement, the Government have made legislative provision for an additional £4 million specifically targeted towards pensioners. Enhanced pensioner relief is one of the proposals that we considered with Help the Aged and Age Concern. The Government wish to share the detail of that with the political parties, and it is hoped that that will be communicated in writing this week. The enhanced provision will increase the rates bill to £518 and increase the maximum eligible yearly income to £14,320. It will make a significant difference to the statutory housing-benefit scheme.

2.30 pm

1165. Unlike some council tax abatements and concessions, the Government wish the package of relief measures to be introduced in Northern Ireland to be predominantly based on ability to pay. It is impossible to give a ready reckoner explaining how the measures will affect every individual, because every household is different and every individual's circumstances are different. However, it will use the same levers as the housing-benefit system but will provide more generous income thresholds to allow the relief to be delivered to where it is most needed.

1166. The Department considered the savings limit, which has been mentioned, with Help and Aged and Age Concern in respect of delivering enhanced pensioner relief. Those organisations, which were advised by Eileen Evason, who is an expert in this field, took the view that that was not the best way to deliver more relief to lower-income pensioners. The Department took that view into account when formulating the proposals. It is hoped that a proposals paper will be sent to the political parties this week once it has been cleared by the Secretary of State.

1167. **Mr Shannon**: I am aware of very few people who would qualify for any reductions. I represent Strangford, where housing prices are rising — as they are rising across the Province — by £150 a day. I am not sure how many people will qualify for those benefits. It poses a great question for me.

1168. I want to ask about lessons learnt elsewhere. Does the Department have any plans to revisit policy decisions in light of recent developments in Scotland and England? I am referring to the Lyons Inquiry and the Burt Inquiry.

1169. I also want to ask about the agriculture sector, which is mentioned in the Department's submission.

1170. **Mr Raymond McCartney**: That is one question that covers about 40 subjects. *[Laughter.]*

1171. **Mr McClure**: Forgive me if I miss anything.

1172. We do not know what the outcome of the Lyons Inquiry will be because the report has been delayed until March. The Chancellor of the Exchequer announced that he wanted other reviews to align with the findings from the

Lyons Inquiry. We do not expect to hear anything, and they are remaining tight-lipped as to the possible contents of the report of the Lyons Inquiry.

1173. The Burt Inquiry was an independent inquiry in Scotland and its outcome is currently under consideration by Scottish Ministers. That inquiry is of interest, but the package of reform measures that the Government are proceeding with in Northern Ireland were worked up in the light of local consultation. There is nothing in the findings of the Burt Inquiry that has taken the fancy of Government and that they would seek to replicate in Northern Ireland.

1174. **Mr Shannon**: An interim report of the Lyons Inquiry has been published. Can you answer in respect of that?

1175. **Mr McClure**: Yes. However, that report focuses more on the structure and role of local government than on reform of council tax.

1176. **Mr Shannon**: This question may have been asked already. In light of that answer, will the Department be happy to revisit policy decisions once it has a chance to consider the interim report? That is what we want to know; not whether the Department will wait for the outcome of the final report. If aspects of that report are different from the Department's policy, will the Department be prepared to reconsider them?

1177. **Mr McClure**: That is a decision for Ministers. We have examined the interim report, and Ministers do not believe that anything in it has any resonance with what is happening in rating reform in Northern Ireland. There are likely to be points of interest in the final report, but we will not know what that report will contain until March or April 2007.

1178. However, the answer to your question is yes; I believe that Ministers would take into account any outcome of the Lyons review. Nevertheless, our understanding is that any recommendations of the Lyons review would not be implemented until after the next general election. Therefore, any fundamental change in the funding of local government is likely to be two or three years away: it will not happen in the short to medium term.

1179. **Mr Shannon**: I wish to ask a question on agricultural-occupancy clauses, which is a matter that I am familiar with. There is currently no provision within the rating system to address that important factor.

1180. A house in the countryside may be valued for rates purposes at £300,000. However, if that property is subject to an agricultural-occupancy clause, it is immediately devalued. People can get a loan on those properties only from the Ulster Bank and the Halifax. I have sought opinions from three different estate agents, all of whom have said that there must be a 50% reduction in the value of such properties because they will not sell on the open market for £300,000. Those properties will only sell for £150,000, because of the agricultural-occupancy clause.

1181. The rates system gives every working farm a 20% reduction, but the valuation with an agricultural-occupancy clause may be 50% lower. That matter must be looked at. If someone cannot sell a house for £300,000, it is not worth £300,000. If someone can only sell a house for £150,000, that should be its rateable value. The Department has not taken that issue on board, and that concerns me.

1182. My colleague Edwin Poots and I have raised this matter at another level. We have asked the Department to revisit its regulations on this matter. You happen to be here today, so this is a chance to ask you the same question.

1183. **Mr McClure**: That is a good question. Every house must be valued against a set of statutory assumptions that relate to whether a house has a freehold, whether it is a vacant possession, etc. The exact saleability of every property interest in Northern Ireland is not what is assessed for taxation purposes.

1184. Every house is valued against that set of statutory assumptions. As Mr Shannon said, one of those assumptions means that particular clauses are not taken into account. After consulting with the Ulster Farmers' Union and other representative bodies the Government

considered that the policy that they have introduced is a fairer way of dealing with the matter.

1185. For example, if the Government decided that they wanted to allow a percentage discount for a particular planning restriction or clause in a deed, it would have an unequal impact between the more modern bungalow-type farmhouses, and traditional farmhouses. Most of the older traditional farmhouses are not subject to the restrictions that Mr Shannon mentioned. Therefore, the more modern houses would be subject to a discount and the older farmhouses would not. The Government believed that it was fairer that all farmhouses in Northern Ireland should receive a discount. The rationale is that farmers, of course, cannot really choose where they want to live; they have to live with the land.

1186. That is the rationale for the reduction, which, I hasten to add, currently applies under the existing system based on net annual value (NAV). A more generous reduction is provided in relation to capital value.

1187. The level of reduction is a matter entirely for the Commissioner of Valuation; it is not set out in the legislation. However, not only did we consult on the policy, but the Valuation and Lands Agency consulted with the Ulster Farmers' Union in relation to the level of that reduction.

1188. **Mr Shannon**: The Ulster Farmers' Union, of which I am a member, has a bit of a problem in listening to its members. As a result, it is not always reasonably astute about what its members are saying. About 2,000 or 3,000 households in the whole of the Province would probably qualify for the reduction.

1189. I have spoken to officials from DFP, and I am happy to say that they seemed sympathetic. I hope that you people at the higher level will also be sympathetic to the request. Please look at it seriously. A house worth £300,000 will only be worth £150,000 if it has an agricultural-occupancy clause. A 50% rates reduction for houses that have agricultural-occupancy clauses would go a long way to resolving the issue.

1190. **Mr Cree**: The subgroup also has to deal with non-domestic rates, and that is an issue that we are concerned about. Your paper — for which I thank you — states that the extra revenue generated from the gradual removal of derating will be available for investment in public services and infrastructure. That is a fine statement, and I hope that it is true. Has DFP calculated what the revenue impact will be if Northern Ireland firms go out of business due to the ending of industrial derating?

1191. **Mr McClure**: You have met representatives from the Northern Ireland Manufacturing Focus Group (NIMFG) today; I am sure that they will have mentioned the Pricewaterhouse-Coopers study on the issues facing the manufacturing sector. The numbers employed in the manufacturing sector have been steadily declining for some time. It has been profiled, and it is expected that the sector will continue to shrink in any case, due to wider market pressures from around the world.

1192. We have taken account of the fact that the manufacturing sector is reducing in size. It is the Government's assessment that the ending of industrial derating will not cause any significant closures in the manufacturing sector. However, following consultations in a working group with the NIMFG and Amicus, the Government have agreed that next year's rating level will be at 30% rather than the planned 35%, and that is pending a full review of the policy planned for April 2007.

1193. The Government do recognise the serious concerns of industry, and they have already agreed to review the policy next year. That will be done thoroughly, involving consultations not just with NIMFG and Amicus but also other industry groups.

1194. **Mr Cree**: Do you have actual figures for the likely further decline of the manufacturing sector?

1195. **Mr McClure**: I do not have them to hand, but I will write to the subgroup with those projections. We have had as open an engagement as possible with NIMFG, and we have shared our projections with them. I am

more than happy to share the information with the subgroup.

1196. **The Chairman (Dr Birnie)**: Are you saying that you are not building in any additional decline specifically driven by the reduction in manufacturing?

1197. **Mr McClure**: That is correct.

1198. **The Chairperson (Dr Birnie)**: Leslie, please be concise.

1199. **Mr Cree**: I have two questions on domestic rates. I am sure that you are aware of DSD's press statement of 23 November in which it was estimated that between 5,000 and 24,000 people in Northern Ireland who were entitled to housing benefit were not claiming it. What does that mean for the rates relief scheme?

1200. With regard to the appreciation of house values and future revaluations, what assurances can the Department give that the formula will be adjusted downwards to reflect the increases in market values in future revaluations?

2.45 pm

1201. **Mr O'Reilly**: I will answer the first question on non-claimants, and Brian will deal with the more technical question on revaluations.

1202. The Government are aware that not all reliefs are being taken up, particularly in the privately owned sector. There is a much higher take-up of reliefs in the social-rented sector. Early in the new year, the intention is to put together an information and publicity campaign to ensure that people are made aware of the available reliefs. When the new system is introduced, the Rate Collection Agency (RCA) will send information to all householders to remind them about the existing reliefs, and to explain the relief scheme and whether they qualify for it. The RCA is aware of the issue and has plans to improve understanding across the community of the availability of relief because, even under the existing system, there is not full take-up of reliefs.

1203. **Mr Cree**: I am pleased to hear that, and I hope that the information sent out will be better than the leaflet on water charges, which poses as many questions as it answers.

1204. **Mr McClure**: The RCA recently developed a detailed take-up strategy for the existing housing-benefit scheme. The twin aims of the strategy are to simplify the claims process for claimants with entitlement and to improve communication partnership arrangements with ratepayers, the advice sector and the Social Security Agency (SSA). We have discussed the issue with Help the Aged and Age Concern and will continue to do so.

1205. Increased take-up of housing benefit is a win-win situation for everyone. It means that more money comes into Northern Ireland but, more importantly, people in need receive the benefits to which they are entitled. Everyone must do his or her level best to ensure that take-up improves. The RCA developed its strategy in consultation with the voluntary sector, and details will be announced early in the new year. The strategy will be included in the proposals paper that will be sent to the political parties this week. It is an important issue and central to ensuring that those in need get what they deserve.

1206. Mr Cree asked whether the formula related to the appreciation in house values will change. The formula is that house values multiplied by the rate equals the rate bill. If house values rise, the rate should reduce accordingly because of the change in currency. It will probably reduce by more than that because, as a natural consequence of new houses being included and improvements to property being made, the tax base enlarges naturally every year. The 15,000 to 20,000 new houses built in Northern Ireland every year are added to the tax base. Therefore if the same levels of revenue are raised from the rating system, there should be at least a corresponding reduction in the rate.

1207. However, revenue raised from the rating system depends on the Budget decision of, I hope, the Assembly or the Government and the individual budget decisions of the 26 district councils. Although those processes are related, they are separate.

1208. **Mr Cree**: I am concerned about the propensity for the rate to increase dramatically due to perceived demand for other capital and revenue projects. The rate, therefore, is open-ended.

1209. **Mr McClure**: Yes, but the increase in house prices at the next revaluation scheduled for 2012 should lead to at least a corresponding reduction in the rate in the pound — all other matters being equal. That is not the small print but the large print.

1210. **Mr O'Reilly**: A simple point, sometimes missed, is that rates and council tax are different from income tax. The Government set a particular rate in the pound for income tax. However, they do not say that should they achieve £X billion of revenue, they will stop charging people income tax. The rate in the pound charged for rates is driven by an initial decision taken by Government or district councils on how much revenue they want to raise. Therefore the rate in the pound flows from that decision. It is not an open-ended revenue-raising system: the revenue required is decided first, and that determines the rate in the pound for individual rates bills.

1211. **Mr Cree**: Mr Farley from the Northern Ireland fair Rates Campaign told the subgroup earlier that income tax was introduced as a temporary measure during the Napoleonic wars. We have suffered from it ever since.

1212. **Ms Ritchie**: I have several questions, but they are all part of a larger one.

1213. First, what cost implications are associated with student relief? Secondly, there seems to be confusion about the methodology used in calculating non-domestic rates. Would you clarify that?

1214. We understand that the Northern Ireland Fair Rates Campaign has asked DFP for an analysis, by income and tenure, of the proportion of households that would be better off as a result of rating reform. I understand that DFP suggested the use of the continuous household survey and the family resources survey to inform that analysis. Has there been any outcome?

1215. **Mr McClure**: The final question is the easiest. Yesterday, the Northern Ireland Statistics and Research Agency (NISRA) published on its website an analysis using information from the 2001 census, which has been linked to most of the capital values. NISRA has managed to link around 550,000. The sample is much more comprehensive, and the impacts, as regards tenure, are there for everybody to see. However, the analysis cannot link with income.

1216. DFP, along with colleagues in the Department for Social Development (DSD), has done some work linking the Northern Ireland family resources survey, which is a survey of about 1,800 households in Northern Ireland that is carried out regularly, with the capital values. We will be advising the Northern Ireland Fair Rates Campaign of that work, and we will also advise the subgroup if needed. The work is ongoing, but I would be happy to come back to the subgroup with whatever information we glean as and when we get it.

1217. Non-domestic rates are calculated by multiplying the net annual value of a property by the rate in the pound. As you well know, there are two rates in Northern Ireland — regional and district. Does your question relate to the actual valuation assessments?

1218. **Ms Ritchie**: Yes.

1219. **Mr McClure**: The last revaluation of non-domestic property took place in 2003, and the basis of that valuation is rental value as at April 2001. For consistency, all valuations are done to a single valuation date. The Valuation and Lands Agency (VLA) carried out those assessments. There are about 75,000 non-domestic properties, and VLA has been doing the revaluations fairly regularly.

1220. Anything that would affect the rental value of a property would affect the net annual value — even the quality of the finish. The net annual value of a shop could be affected by location, size, what services the building has and how convenient it is. Everything that would affect the value of the property would be reflected in its net annual value. Does that answer your question?

1221. **Ms Ritchie**: That is fine at this point.

1222. **Mr McClure**: There is no simple formula involved — everything is taken into account. VLA undertakes those valuations.

1223. You asked about the cost implications of student relief. DFP's estimated cost for that is £3 million to £4 million. We predict that up to 3,000 households will benefit from that relief, and that is the figure on which we are currently working.

1224. **Ms Ritchie**: In the Secretary of State's proposals that will be forwarded to the political parties, is there any reference to a hardship scheme?

1225. **Mr McClure**: No. That was considered earlier in the process, in the 2002 consultation paper, 'Review of Rating Policy'. Given the package of other measures, Ministers considered that that was not necessary. There is a hardship scheme for the non-domestic sector, but, at this time, the Government do not plan to introduce a hardship scheme for the domestic sector. However, that, as with every policy, must be kept under review.

1226. **Ms Ritchie**: Being a representative from the rural community, I have a final point concerning farm dwellings. Article 24 of The Rates (Amendment) (Northern Ireland) Order 2006 proposes a discount on buildings used for agricultural diversification projects. The imposition of rates could negate such initiatives in rural areas, and, in many instances, negate diversification as a supplement for agriculture incomes. Is it possible, in certain circumstances, to exclude such buildings from rates to assist a beleaguered agricultural community?

1227. **Mr McClure**: Yes, it is possible to legislate. Rating is entirely a devolved matter. Subject to issues of state aid, a local Assembly would be entitled to review the policy and come up with a more generous relief. However, as with all forms of relief, everyone else would have to pay a little more.

1228. **Ms Ritchie**: Presumably you have not calculated the cost implications of that.

1229. **Mr McClure**: We have calculated the cost implications for the scheme that is going ahead, and a regulatory impact assessment was published. It would not be too taxing a process to produce some estimates for you. It depends on where you draw the line, and what you want to include. The present scheme is for buildings that are currently considered agricultural and, therefore, not valued, never mind rated, but if they do fall into a use that means that they are rateable, then there is a 50% rates holiday. That is what the farm diversification scheme proposes, but it is possible for an Assembly to review that and to consider a different percentage or a complete rates holiday for a period.

1230. You will be aware that there are issues concerning unfair competitive advantages for new entrants. Established entrepreneurs could find themselves in competition with people who are not paying rates, but it is possible to review that.

1231. **Mr Raymond McCartney**: We have heard evidence from various groups today. The Fair Rates Campaign said that the equality impact assessment was not properly carried out:

"We say that the EQIA was not properly carried out because the Continuous Household Survey (CHS) was not available to assist the analysis of the single capital value system which was subsequently chosen as the new model to calculate our rates."

1232. Do you have any comment on that?

1233. **Mr McClure**: A final equality impact assessment was published, but, in addition, the Department is committed to carrying out further work. Part of that further work includes the work that NISRA has undertaken, and that was published yesterday. The original work was a spatial analysis examining how section 75 groups were represented in different district council areas. The NISRA analysis is much more sophisticated and goes as far as to include household areas. One of the pieces of data collected through the census is section 75 grouping, so it was possible, at least for the main groups, for that work to be done, and it has now been published.

1234. The Department believes that it has fulfilled its statutory requirements, and in continuing to monitor the equality impact of the policy, it is, in fact, exceeding them.

3.00 pm

1235. Members may know that before the draft Order was debated in Westminster, Michael Copeland, a pensioner, sought leave to apply for a judicial review. One issue listed on the affidavit was that the Department had not conducted a proper equality impact assessment. Leave to apply for a judicial review was not granted, and no criticism of the Department was made. The courts, therefore, have considered the issue.

1236. **Mr Raymond McCartney**: My second question relates to an issue that Margaret mentioned. Domestic rates come under the umbrella of a fair system. At present, there is a fixed number of dwellings in Northern Ireland. Roughly how many people would benefit from a reduction in rates? If, for example, 100,000 households pay rates, would 75,000 benefit under the new system?

1237. **Mr McClure**: Do you want exact figures as to how many households would benefit? Bare statistics, showing the impact on households, have been published. However, we do not have access to the potential number of households that would benefit. Such statistics are not available to us.

1238. **Mr Raymond McCartney**: At present, rates bills are fixed; under the new system, that will change. I am looking to know how many households would pay less. That is what most people want to know.

1239. **Mr McClure**: I will find that information.

1240. **Mr O'Reilly**: While Brian is looking for that precise figure, I should point out that there is an interaction of two factors. Individual household rate liability might be reduced by the transition from the existing system to the new system. Those are the figures that the Minister termed "winners and losers". On top of that, two other factors interact: since the Government plan to increase overall rates bills by 6% next year, that gain will be offset. The bill may be reduced as the rates system changes, but it will also increase because of the overall 6% increase in average bills across the Province.

1241. The second factor that has a bearing on the issue is the circumstances of the individual households. Those circumstances determine whether the households are entitled to transitional relief and whether they are entitled to the various benefits that interact with rates bills. Although it is relatively easy to use the Noble index to provide figures for multiple deprivation by household, it is more difficult to take account of the circumstances of individual property owners.

1242. **Mr Raymond McCartney**: You mentioned a paper that has been forwarded to the Secretary of State's office and that will be sent to the political parties. Does the paper contain a timeline? To whom it will be sent?

1243. **Mr McClure**: The paper should be sent to party leaders this week. It is with the Secretary of State. I am not quite sure how it will be released. All the groundwork with Help the Aged and Age Concern has been done. There is an agreed proposals paper, which will be sent out along with the letter.

1244. I have found the information that Mr McCartney asked for. I cannot provide absolute figures at the moment, but I will send them to the subgroup. The majority of ratepayers will experience a reduction in their rate bills as a direct consequence of the revaluation, assuming revenue neutrality. Some 68% of ratepayers will either face a lower bill or pay less than an extra £1 per week. Fewer than one fifth of ratepayers will face increases in rate liability of more than 25%. Transitional relief will be available to those who face an increase of more than 33%.

1245. **The Chairman (Dr Birnie)**: May I ask that the letter to the party leaders be copied directly to the subgroup? We would, otherwise, have to wait another day or so for it to come through to us.

1246. **Mr O'Reilly**: We will check with the Minister; however, that issue is connected to the political process. Matters that arise from the St

Andrews Agreement, for example, normally go to the party leaders.

1247. **Mr Shannon**: Could the letter be with the subgroup the next day?

1248. **The Chairman (Dr Birnie)**: As Jim says, it would be helpful if it were with the subgroup the next day.

1249. **Mr O'Reilly**: It is in all our interests for it to be with the subgroup quickly.

1250. **The Chairman (Dr Birnie)**: What legal advice has DFP received about any state-aid compliance issues that relate to having some sort of cap on the increase in manufacturing derating? Is there an issue with the European Commission? We have received conflicting statements about that.

1251. **Mr McClure**: I do not want to be unhelpful, but I do not want to say too much about that. If the issue were debated too openly, people could be hindered in what they want to do in the future.

1252. DFP's assessment, however, and that of its legal advisers, is that there is a risk that any change in derating would not be compliant with EU state-aid rules. However, DFP believes that the consequences of non-compliance in either repayment or in the risk of fines are not high. Therefore there could be an acceptable risk.

1253. Member states examine the tax regimes of other member states. Therefore state-aid compliance would not be a major inhibitor, if I may put it that way. DFP believes that there is a risk that such a cap might not be compliant but that the consequences of non-compliance are not major.

1254. **The Chairman (Dr Birnie)**: Is the £4 million that has been set aside for extra relief measures since the St Andrews Agreement included in the Northern Ireland block, or is it additional? Where will that money come from?

1255. **Mr McClure**: Given that the Secretary of State has already announced a 6% regional-rate increase for the coming year, there is no possible mechanism for recovering that from other ratepayers. That, I believe, is the long-term aim. That will represent a loss to the departmental expenditure limit in the coming year.

1256. **The Chairman (Dr Birnie)**: Does that mean that it will come from within the block?

1257. **Mr McClure**: Yes.

1258. **The Chairman (Dr Birnie)**: What about thereafter?

1259. **Mr McClure**: That will depend on what Ministers — local or direct-rule — wish to do.

1260. **The Chairman (Dr Birnie)**: That is interesting.

1261. **Ms Stanton**: I want to ask Leo a quick question about the take-up of benefits. Given that a publicity and information pack campaign about benefits is to be launched, I wrote to the Minister a while ago asking what specific effect that would have on elderly people. The campaign against fraud that was occurring a while ago meant that old people were becoming too scared to collect their benefits. I was told that that would be taken into consideration when the review takes place.

1262. Will resources be set aside, not only for publicity and information but for a substantial number of extra welfare-rights personnel who will provide outreach assistance and go into people's homes? It has been recognised that older people have a sense of pride when it comes to such matters. Therefore welfare-rights personnel must be able to go to older people's homes and sit down with them. Of course, that must apply to other people as well as to the elderly.

1263. **Mr O'Reilly**: As Brian has mentioned, there are several angles to that. The RCA has responsibility for such matters, as does the Housing Executive through its work as the administrator of the housing benefit scheme. However, more important is the SSA, because it has its own benefits-awareness personnel. DFP wants to plug into those networks.

1264. Ms Stanton's point about elderly people is particularly relevant. Low levels of take-up often occur with them, possibly for the reasons that the member mentioned, or simply because there is an apparent reluctance among elderly

people to take up benefits, particularly those who are in the private, owner-occupied sector.

1265. There is a lower level of take-up in that sector. The Housing Executive seems to have a better contact system, which means that it can identify those people who are entitled to benefits much quicker.

1266. **Mr McClure**: I cannot talk to the detail of that issue, but I do know that the RCA hopes to improve its partnership arrangements with the advice sector and other Government bodies, such as the SSA, so that it can work with them to improve targeting.

1267. **Ms Stanton**: The Department will insist that extra money be there to employ welfare-rights personnel.

1268. **Mr McClure**: As I have said, I cannot talk to the detail of that issue, but if members wish, I will follow up on that point. I need to consult with those who are involved with the take-up strategy. It does not fall within my remit, but I know that they want to improve capacity building to ensure improved take-up. However, I will write to the subgroup on that point.

1269. **Mr O'Reilly**: As Brian suggested, the basic housing-benefit arrangements provide a win-win situation for all of us. If people claim their national benefits, there is no loss to Northern Ireland. Therefore it is in everyone's interest that people claim their benefits.

1270. **The Chairman (Dr Birnie)**: This may be the last question. What consideration has been given to proposals, which I think have come from both the Federation of Small Businesses (FSB), and, to some extent the Northern Ireland Manufacturing Focus Group (NIMFG), that part of rating liability be transferred to a dedicated fund for, for example, training? In other words, instead of companies paying rates at 35%, the margin between 25% and 35%, or between 25% and 30% would be paid into a dedicated training fund.

1271. **Mr McClure**: Amicus and NIMFG made that suggestion late in the industrial derating talks with the Secretary of State. It has been discussed with Minister Hanson, who has since written to Maria Eagle, the Minister with responsibility for the Department for Employment and Learning (DEL) and the Department of Enterprise, Trade and Investment (DETI). The proposal is currently with the Ministers.

1272. The Government are interested in the proposal, and I think that they would like the NIMFG and Amicus to engage with the Skills for Business Network to formulate firmer proposals. At the moment, they have an outlined proposal. Ministers are interested, but there needs to be further engagement on the matter. The proposals were discussed at a recent NILGA (Northern Ireland Local Government Association) meeting with the Minister, so it has been raised at several meetings.

1273. I have one more point. I know that the Minister will write to Basil McCrea and NIMFG on that subject in the new year.

1274. **The Chairman (Dr Birnie)**: We have time for one more question.

1275. **Mr Clyde**: I have only been at the meeting for a short time, but I want to support all that Jim said about farm dwellings. The policy affects the area that I represent, which is similarly rural to Jim's constituency. That policy should be given sympathetic consideration.

1276. **The Chairman (Dr Birnie)**: That was another reference the agricultural-occupancy clause.

1277. Are there any remaining questions?

1278. **Mr Cree**: The small-business relief scheme was turned down this year, but it will be considered again next year. I believe that it works well in Scotland. What are your thoughts on it?

1279. **Mr McClure**: The small-business relief scheme was introduced in Scotland in 2003 and in England in 2005. When its effectiveness in Scotland was reviewed, the outcome was not entirely positive. Therefore I assume that the Government wanted to wait for the scheme to bed in in England before its possible introduction in Northern Ireland. A second review has been agreed for 2007.

1280. A recent development has been the FSB proposal for a rates-reinvestment fund, which would be associated with small-business relief.

1281. The FSB is lobbying Ministers on that, so it is a live issue. It is possible that the review of industrial derating will be coupled with small-business relief.

3.15 pm

1282. **Mr Cree**: It is; they are indirectly linked.

1283. **The Chairman (Dr Birnie)**: Thank you both very much for attending and for your written submission. We may need further elaboration on the statistics, and we would be grateful for your assistance with them. I wish you well for the holiday and for the future.

Adjourned at 3.15 pm.

Thursday 4 January 2007

Members in attendance for all or part of proceedings:
Dr Esmond Birnie (Chairman)
Mr Leslie Cree
Mr Raymond McCartney
Mr John O'Dowd
Ms Margaret Ritchie
Mr Jim Shannon
Ms Kathy Stanton
Mr Peter Weir

Witnesses:

Mr Victor Hewitt	Economic Research Institute of Northern Ireland
Mr Seamus McAleavey Ms Frances McCandless	Northern Ireland Council for Voluntary Action
Mr Brian Ambrose Mr Declan Billington Mr Alastair Hamilton Mr Nigel Smyth	Confederation of British Industry
Mr Leo O'Reilly Mr Richard Pengelly	Department of Finance and Personnel

The subgroup met at 10.35 am.

(The Chairman (Dr Birnie) in the Chair.)

1284. **The Chairman (Dr Birnie)**: Mr Hewitt, welcome to the subgroup. Thank you for the written submission from the Economic Research Institute of Northern Ireland (ERINI). The comprehensive spending review (CSR) and the Programme for Government provide the terms of reference for this subgroup, and it aims to identify spending priorities and efficiencies for the next three-year period. Perhaps you will make some initial comments and then take questions from the members.

1285. **Mr Victor Hewitt (Economic Research Institute of Northern Ireland)**: Mr Chairman, thank you for the invitation. I am pleased to be here this morning. I apologise for the paucity of paper. The information in the public domain about the CSR process in Northern Ireland is limited, compared to the information available on the CSR process in the United Kingdom as a whole. I could find no information of any great use on the Department of Finance and Personnel (DFP) website — the people who are actually running the thing — whereas the Treasury has an entire website devoted to the subject. However, I will do my best to suggest areas into which the subgroup may wish to probe further. It is a tribute to the subgroup that it is meeting, because the process could continue to the summer with nothing coming into the public domain until the last minute.

1286. This is the second comprehensive spending review. The first occurred after the Labour Government came to power in 1997. At that time, the Chancellor decided to stick with the spending plans of the previous Administration for two years and to use that period to conduct a comprehensive review of expenditure requirements for the United Kingdom as a whole. That comprehensive spending review reported in 1998, which is virtually a decade ago.

1287. As the title suggests, a comprehensive spending review is an opportunity to look more fundamentally than is normally the case at the pressures that face the public sector over a longer period of time. Studies have been commissioned by the Treasury to consider long-term trends that fit the background of public services in the UK on matters such as demographics, globalisation and climate change.

1288. The first CSR coincided with a change to the public expenditure regime. For centuries, the public expenditure regime was cash based. It operated in terms of the money that was spent in cash. Then two things happened: the classification of public expenditure changed; and a new planning regime was brought into

existence. That planning regime introduced the concepts of the departmental expenditure limit (DEL) and annually managed expenditure (AME). The departmental expenditure limit is an attempt to fix expenditure, usually for three years. Expenditure must be controllable to do that with any degree of confidence. Annually managed expenditure is essentially volatile. It is demand led. A classic example is benefits — people who qualify are entitled to benefits. That fundamental distinction was introduced, and we had a DEL/AME split in the block at that time.

1289. Essentially, the rule was that one could not move spending from annually managed expenditure to departmental expenditure limit, or, generally, vice versa. Therefore, departmental expenditure limit became the focus of what could be done in Northern Ireland.

1290. Departmental expenditure limit here is adjusted by way of the Barnett formula, which gives Northern Ireland a population share of any change in a comparable programme in the rest of the UK — essentially in England, which is the benchmark. It is important to understand that the formula makes adjustments at the margins. It does not calculate the entire baseline, which is a historical construction, adjusted each year according to what is happening in comparable programmes in England.

1291. If a lot of money goes into areas with which Northern Ireland is 100% comparable, we will get our population share of that change. If it goes into areas with which we have low comparability — the classic example would be defence — we will not get a share. Many assets in England, primarily water and sewerage, are no longer in the public domain, so it is important to understand how the mechanism works.

1292. Annually managed expenditure is examined twice a year. It is obtained on a use-or-return basis: one gets what is needed, but surpluses cannot be retained or used for other types of expenditure — they are ring-fenced.

1293. The expenditure regime changed in 1997, and there have been further changes between then and the current CSR. The greatest change has been the move from cash-based budgeting to resource budgeting, which is common in the private sector. In resource budgeting, expenditure is scored on an accruals basis — in other words, it is assigned to the period in which it occurred, even though payments may be made outside that period. An example would be electricity bills, where payment for the last quarter of a year would not be received until the first quarter of the following year. For accounting purposes, such expenditure would be assigned to the period in which it was incurred.

1294. Resource accounting and budgeting has been the most fundamental change in the public expenditure regime, and it has taken quite a long time to bed in — even now, some people struggle with it. Anyone outside the system will struggle to understand what is going on, as all sorts of strange things begin to appear, such as impairment charges and cost-of-capital charges. However, the basic idea is relatively straightforward.

1295. There are two budgets; a resource budget — the current expenditure budget, which pays for doctors' and nurses' pay, etc — and a capital budget, which is for investment. The link between the two is via a mechanism known as the capital charge. Capital charges exist to remind people that when the public sector makes an investment, it denies those resources to the private sector. Therefore there is an opportunity cost of making that investment in the private sector. A capital charge is therefore imposed on the amount of capital that is used up and denied to the private sector.

1296. The trick is that that capital charge does not sit in the capital budget any longer; it goes into the resource budget and competes with all the other claims on that budget. If you are investing a great deal in capital, you had better be sure that you are likely to get a productive return on it, because you will be charged against your resource budget for the capital investment that you have made. If you were to build a large headquarters in the middle of a town, where property prices are expensive, you would pay

for it considerably through pressure on resources that are needed for other purposes. That is the basic operating mechanism.

1297. The Barnett formula is the major mechanism by which our underlying departmental expenditure limit is adjusted over time.

10.45 am

1298. The regional rate is the largest and most important source of revenue available to Northern Ireland. That has only become embedded into the public expenditure system since the period of devolution. Prior to that it was considered a financing item rather than an expenditure item. Other sources of income include the sale of assets and a borrowing function that we secured with the Treasury. If one meets certain requirements — and those requirements keep bouncing around and become more onerous over time —one can borrow £200 million a year. However, it will have to be paid back and should be used to fund capital.

1299. One needs to be careful about aligning the borrowing term with the life of the asset that is being funded. For example, if one takes out a 25-year loan and buys an asset that will last 10 years, for the next 15 years one is paying for an asset that gives no return.

1300. The presentation of efficiency savings is important and worth mentioning. Efficiency savings do not increase the overall quantity of resources available; they take away resources from inefficient uses and make them available for front-line services. They do not increase the overall envelope of money available. That efficiency saving comes from the existing baseline, and the baseline does not grow because of the savings.

1301. When looking at efficiency savings in an overall context, it is not helpful to take the additions you may get from the departmental expenditure limit through the Barnett formula and the sale of assets and add on the efficiency savings as if they were an additional pot of money that has become available over and above the existing baseline. That is something to look out for: it would not be good practice to do that. However, that does not mean that efficiency savings are not a valuable means of funding. They fall into two categories. The first is that of savings made by more services with the same resources. For example, the Health Service can deliver more operations with the same amount of resources that it has at the moment by operating more efficiently. That is a straightforward use of the term. The second category, which is more important in the budgeting situation, is of so-called cash-releasing efficiency savings. That means you do the same with fewer resources. What you save in terms of the resources is released as cash and can be recycled into something else. For example, if the Health Service does the same number of operations at a lower cost, that money can be released and transferred to build a road or to fund another activity. Efficiency savings can be tricky.

1302. There is little information available on the pressures on the block grant. The other things to watch for are uncovered pressures. There will be a number of reviews with expenditure consequences. The biggest of those is the review of public administration (RPA) where there will be upfront costs of adjusting from 26 to seven councils. There will be redundancy payments because that is the only way to get efficiency savings in the long term. I am not sure how much of that is covered in existing expenditure plans; however, we know it is coming.

1303. The other issue is revenue foregone — and in that case we are talking about water charges. When you see the process in the round, you realise how important relatively small things like water charges are. What we will get through the Barnett formula and the CSR in many instances will barely meet pay and price pressures.

1304. To achieve service development, a Department must rely on self-help, rather than money from Whitehall. The Department must sell assets, obtain efficiency savings — particularly cash-releasing efficiency savings — and obtain other receipts, which might include

additional rates, as a result of the ending of industrial derating and the introduction of water charges.

1305. **The Chairman (Dr Birnie)**: Thank you; that was very helpful. We move to questions from members.

1306. **Mr Cree**: I am particularly interested in the matter of savings, and I am not sure that I have really got my head around that matter yet. The Secretary of State has said that he will set a target for annual efficiency savings of 3% for Northern Ireland Departments. Is that achievable? If so, how will those savings be spent?

1307. **Mr Hewitt**: Such savings are generally achievable; the question is whether they are achievable without damaging services. A classic example of that occurred in the late 1980s and early 1990s, when, year after year, the National Health Service was required to make cash-releasing efficiency savings to the benefit of the rest of the system. Over time, the cumulative effect of such cutbacks caused a great deal of damage to the Health Service. One must be realistic about this matter — public services are, first and foremost, people-based. Efficiency savings means fewer people, which, in turn, often means lesser services. To some extent, such efficiencies are illusory.

1308. When a Department has been deemed to have made cash-releasing efficiency savings, its budgetary allocation will be reduced accordingly. Those savings will be returned to the centre and reallocated during the budget process.

1309. **Mr Cree**: Departments have a serious ongoing problem with capital expenditure, and they do not achieve targets. How should that problem be addressed?

1310. **Mr Hewitt**: Project management lies at the heart of that problem. To some extent, that is also a legacy of past practice. If one does not do something for a long period, one loses that ability, and it takes time to regain it. If we have not built roads for ages, and we suddenly start a large road-building programme, we will not have available the necessary skills. We have to build up those skills over time.

1311. Moreover, we have made the capital programme quite complex. The strategic investment programme involves the blending of conventional expenditure — straightforward block payments for construction — with non-conventional finance: public-private partnerships (PPP) and PFI, whereby a Department effectively enters into a contract with the private sector to raise capital, which is repaid over a period of 20 to 25 years. We have started down that path, but the contracts are very complex. Lawyers are asked to think about everything that can possibly go wrong.

1312. There is a lovely story about the consideration of the building of a school under PFI. Lawyers asked what would happen should an aircraft crash into the school, and two days were spent working out how such an event would be dealt with. A solution was found, and negotiations were about to move on when a lawyer halted proceedings by asking what would happen should that event occur twice. Negotiations can, therefore, go on for a long time. Underspend of capital has been a serious issue for almost a decade now.

1313. **Mr Cree**: That is so for all Departments, is it not?

1314. **Mr Hewitt**: Yes. What is not spent in one year can be carried forward into another under the multiple-year system.

1315. You can ally that to borrowing. The Comptroller and Auditor General's report on the strategic investment programme and the reinvestment and reform initiative (RRI) borrowing states that in fact, we have borrowed money that we did not use. He did not put a figure on it, but that is an expensive business because it means that you have borrowed money that you are going to be paying back over 25 years, and it is sitting there. We should not get ourselves into that situation.

1316. The brief answer is that capital has become much more complex. The private finance initiative, for example, started off as a great idea. However, we ran into contractual

problems. Then the Office of National Statistics and the Audit Office made a classification change. The original idea was that PFI projects would not be on the Government's balance sheet. That was one of the advantages of doing it that way; you did not have to find capital cover. The reclassification brought a lot of schools back onto the Government's balance sheet and meant that it was not worthwhile to do it that way.

1317. We have started and stopped, and there are complexities in the middle. What we probably need is a period of relative stability so that we can actually go and get things done. For roads, it takes six years from conception to laying the first stone; that is one of the reasons why the Westlink seems to have taken forever.

1318. **Mr Weir**: The Comber bypass took 31 years.

1319. You are right to highlight the importance of the capital underspend. I previously served on the Finance Committee of the Assembly, and each quarter we were faced with vast amounts of underspend on the resource side. Departmental officials consistently told us that it was a one-off for whatever reason. Yet the one-offs seemed to come up every quarter.

1320. On the capital side there is a whole series of problems. There are problems with borrowing, as you have indicated, and there are problems with public expectation. Whenever the public hear of large-scale capital announcements and then absolutely nothing happens, it creates problems at various stages. Any Executive would be trying to make special cases to the Treasury at Westminster for investment because of special circumstances. If at various stages in the financial year we have underspent large amounts of capital or resource underspend, it becomes more difficult to argue for more money. Are there any lessons, perhaps from outside Northern Ireland, which we can draw on to try and solve that problem?

1321. Another concern under devolution was the Executive programme funds, which were supposed to be very innovative in nature. They were supposed to produce fresh thinking and cross-cutting themes. Disappointingly, in reality we saw the same bids that had failed to get funding under departmental allocations come up again in the Executive programme funds. There is a question mark over how effective that was.

1322. In your report you attach great importance to the Chancellor's suggestion of an innovation fund. What action can be taken to make sure the innovation fund does not repeat the mistake of the Executive programme funds, with a repetition of those bids that would have been funded had there been more money about?

1323. Finally, you have made reference to education and health in your document. Because of the inefficiencies in the education system, highlighted by Bain, there is almost a contingent side that we might call "invest to save". I can see how you could make a suggestion in relation to that.

1324. You said that the levels of growth in health are unsustainable. Are you simply saying that the level of growth cannot be maintained or that, in real terms, there would be either a reduction or a freezing of health expenditure?

11.00 am

1325. **Mr Hewitt**: I will deal with your last point first. We have been in an extraordinary public-expenditure period from about 2000, when the taps were turned on and money started to flow in significant quantities. Where supply is sticky — where it is difficult to ramp up production — and demand increases dramatically, there will be some additional production but prices will start to rise. For example, it is difficult to conjure up houses when demand increases, and so the price of houses rises. Public services are not that different.

1326. We have doubled the amount of money on health provision over a six-year period, and it has been impossible to absorb that into additional services; therefore much of it has gone into pay and prices. Doctors' contracts are one example: we have doubled the salaries of doctors and reduced the amount that we ask from them through the new contract.

1327. When the system has ramped itself up in the expectation that it is going ahead with 6%,

7% or 8% real growth each year and then the tap is suddenly turned off, the adjustment back down will be quite painful. That can be seen most dramatically in hospital provision in England, where many services are now under considerable pressure. I suspect that that will also be the case in Northern Ireland, unless the rest of the block is stripped to maintain expenditure on health.

1328. Northern Ireland has only two big battalions for expenditure — health and education — and health is by far the biggest at about £4 billion. Merely to keep services going each year would require an increase of at least 8%. There is no use in looking at general inflation when talking about health expenditure; inflation on health expenditure is often in double figures. In order to get that sort of money flowing into the Health Service year after year when the overall block is growing by about 1% or less in real terms would mean stripping money from elsewhere. That will not be realistic in the longer term. Health provision will have to adjust to a leaner diet.

1329. Mr Weir mentioned the Executive programme funds, which were an interesting experiment in which to be involved. They had a variety of origins, one of which was to address cross-cutting themes as a genuine issue — for example, children. A second, and probably more political, origin was to encourage Departments and parties to work together on issues by dangling money in front of them.

1330. **Mr Cree**: Did it work?

1331. **Mr Hewitt**: It did not work particularly well. The children's fund took for ever to come into creation, and the Secretary of State has now reinvented it.

1332. Bids were also mentioned. What I found amusing at the time was that Departments said that the money taken out of their baseline would wreck their delivery, and they listed all the services that they would have to sacrifice in order to make available the money for the Executive programme funds. However, when it came to bidding money back, Departments did not bid back the services that they said they would have to close in order to develop the programme funds.

1333. The biggest problem is one that people do not appreciate: our structures are not designed for cross-cutting operations. We have departmental structures — or silos — across the system with responsibilities for particular issues.

1334. We were asking the Departments to communicate with one another, to work out a common plan and to deliver against a cross-cutting theme, but we did not have the administrative apparatus to achieve that.

1335. The only sensible way in which to deliver something such as an innovation fund would be to allocate responsibility to one Department and to ensure that all other Departments were subservient to that Department on delivery. However, it is quite difficult to have a system in which the permanent secretaries of 11 Departments are saying that, because they are ultimately accountable for their resources, they do not want them in someone else's hands. There would be difficulties in practice.

1336. **Mr Weir**: Are there any lessons to be learned from outside, particularly about capital underspending?

1337. **Mr Hewitt**: Probably not, apart from lessons in simple, hard-grind management.

1338. Interestingly, as I mentioned, we have end-year flexibility, which operates on the block and which has not been cascaded down to Departments — they do not carry forward underspends each year automatically. Such decisions are made at the centre, and Departments have to make a case for retaining underspends.

1339. There are pluses and minuses in retaining such a position. However, the Treasury has been looking at filtering down end-year flexibility to Departments in Great Britain and giving them responsibility for delivering outputs rather than managing inputs into the system.

1340. **Ms Ritchie**: I have a two-part question. First, the final page of your submission says not to forget the Northern Ireland Office (NIO). You

referred to the fact that its funding is a reserved matter, which lies with Whitehall, and that a restored Executive and Assembly would have to take such funding into account. How would a prospective Executive and Assembly deal with that type of funding?

1341. Secondly, in the section on priorities, you refer to transportation, employment and the old chestnut that is investment in skills levels. Given that economic growth is a priority during the period of 2006-08, and that the Department for Regional Development is undertaking a review of the regional development strategy (RDS), what are the principal concerns about how we address economic growth?

1342. Will the review of the RDS have a significant impact in addressing economic growth and deficits in transport infrastructure? Moreover, what other measures would you like to see addressed?

1343. **Mr Hewitt**: I thought that it was worthwhile to flag up the NIO issue, because it is almost never mentioned. It is possible that if the Executive come back into office during the CSR period, they will inherit the functions of the NIO, or a significant proportion of those functions, including policing, justice and prisons.

1344. It is very much in MLAs' interests to have some idea of what is happening to the NIO in the CSR because — and I am not saying that the Treasury would do it — if the NIO were to be stripped to the bone before it were handed over to the Executive, that pressure would have to be absorbed by the block. Therefore it is in your interest to find out how the NIO is faring.

1345. I emphasise that the NIO is a Whitehall Department and is not covered by measures such as the Barnett formula. When it comes back into the block, it will be covered, and we will receive some consequential on what is spent on policing or prisons in the rest of the UK, but any shortfall will have to be made up from the block, and other services will have to give way, depending on priority. I put that down as a marker. It is well worth keeping an eye on the NIO.

1346. Ms Ritchie mentioned priorities and the transportation strategy. That cannot be entirely divorced from the overall investment strategy for Northern Ireland (ISNI). The original ISNI was a collection of departmental wish lists sewn together and presented as a strategy: there was no great coherence to it. Subsequently, the Departments have tried to work on that. We did some work with the Strategic Investment Board (SIB), and we asked what type of investment would be most likely to contribute to economic development. The answer to that tends to be investment in networks of one form or another as opposed to investment in social capital or, to some degree, the environment.

1347. The major example of a network is the road network. Of course, that is not the only network — telecommunications and energy networks are also important. It is a matter of looking at the issue from the right perspective. If we start from the perspective that networks are important, we must identify the truly strategic networks that must be open to us. We must also identify where we need to be able to move our goods and services to and from. As Northern Ireland is on an island, the obvious answer to that is to use the ports: either the traditional seaports or the airports.

1348. That approach can be generalised into a concept for economic development — the need to connect with the rest of the world. This island has a total population of about 5 million, and our part has a population of about 1·7 million. If we are to make our way in the world, we must connect with the world. When we start to think in those terms, priorities fall out almost automatically. We must have good physical and electronic connections with the rest of the world. We must prioritise and identify where we can get the most connection for a given amount of expenditure. That does not mean that every class-B road should be stripped or not maintained, but we must acknowledge that certain roads are much more important than others to the movement of people and resources.

1349. **Mr O'Dowd**: In the autumn, a revised investment strategy will be produced for consultation in tandem with the CSR. Since the

publication of the first investment strategy, SIB has highlighted escalating capital costs, capacity problems and the need to provide for the revenue consequences of new infrastructure developments. What are your views on that and on private finance initiatives (PFIs)?

1350. **Mr Hewitt**: Everyone who works on a capital project starts out with relatively optimistic views about what can be done, but, as time goes on, costs almost inevitably increase. That is in no way a new phenomenon. It was originally envisaged that the work on Belfast City Hospital would cost about £7 million, but it ended up costing £77 million. Granted, the work took some time to complete, but project optimism — or, as economists call it, optimism bias — is endemic in the system.

1351. The Treasury has tried to overcome that optimism bias by issuing its Green Book on economic appraisal guidance, but it is almost inevitable that the cost of any capital project will escalate, and for many different reasons. For example, IMD Little prepared a report on the railways in Northern Ireland, and an investment programme for railways was put in place. However, as work on the programme progressed, new issues and health and safety requirements had to be taken on board. Thus the overall bill for renovating the railways system — a very modest system — increased dramatically. Good planning up front is vital, and much of that is simply down to project-management skills.

1352. You asked about PFI, Mr O'Dowd. I do not know whether you recall its origins. In 1992, the Conservative Government were strapped for cash. The recession meant that a great deal of money had to be spent on benefits and none was available for capital projects. The Government, therefore, came up with the idea of bringing in the private sector to deliver capital projects that the public sector would lease over time. The idea took off, and what was intended as a relatively modest initiative was introduced to all sorts of areas in which it caused difficulties, such as running prisons, the provision of hospitals, and so forth.

11.15 am

1353. The basis of the PFI deal is that the private sector take forward certain projects. However, it will carry the risks only if it is rewarded for doing so; it will not undertake finance projects for nothing. With PFI deals, it is essential to ensure that risk is placed where it can best be managed. The private sector will accept a high level of risk but will demand a large return for doing so. If projected costs are calculated incorrectly, the public sector ends up with assets that, even though they are redundant, must be paid for over a long time.

1354. One example is Balmoral High School, which was one of six schools in the pathfinder programme. The pupil projections for Balmoral High School turned out to be hopelessly wrong because of a change in the area's demographics. Nonetheless, the building has been constructed and the contract is in place. Unless the contract is buried, and that would be expensive, the public sector will be paying for an empty school for the next 25 years. Those who are involved in conventional expenditure can also get their projections wrong, but they probably have more room for manoeuvre because land can be sold off. However, that cannot be done when there is an existing contract.

1355. PFI has its place, but its role was overstated at the time of its introduction, and a new more level-headed approach is now being adopted. The private sector can bring much to the party through delivering capital on time. PFI schools, for example, tend to be built much more rapidly and to budget, because there is every incentive for the private sector to do so. When I gave a presentation on PFI in Belfast city hall, I remember saying that not too many such buildings would come from PFI deals — and they will not. PFI deals tend to produce buildings that are utilitarian and manageable, because that keeps the cost down. Therefore all the schools that are being built under PFI have basically the same outward design. Unless Government are prepared to pay the additional money, PFI will not provide buildings such as Belfast city hall or the Customs House.

1356. **The Chairman (Dr Birnie)**: As you probably know, Victor, this subgroup's terms of reference are to identify priorities for spending in the CSR. The Subgroup on Economic Issues, to which you have been the adviser, works alongside this subgroup. Its report has identified a set of investment priorities. Will you quickly summarise the subgroup's suggestions and your views on its identification of priorities?

1357. **Mr Hewitt**: Much of its suggestions relate to the network theme that I mentioned and include, for example, many road projects. The Treasury would not be particularly concerned about any individual road in which the Assembly may have an interest. The Treasury would say that the upgrading of a particular road is a matter for a devolved Administration. It would say that if the Administration want to allocate money to such a project, that is fine. I included the batch of examples in my submission to the Subgroup on Economic Issues to illustrate what could be done should additional funding be secured.

1358. However, the real objective is to secure that additional funding from the Treasury rather than tie it to specific measures. Indeed, you would not wish that to happen. It would be unconstitutional for the Treasury to be involved at that level of detail. As far as economic priorities are concerned, the major one is probably roads investment. There was an issue surrounding investment in education — in higher education rather than in schools — in the strategic investment programme, about why so much money was being invested in schools at a time when the numbers on school rolls were falling by between 30,000 and 50,000.

1359. There was a noticeable gap in particular areas when our list of priorities was set against those of the South's national development plan. We are spending much more on basic education in schools in comparison with what the South is spending, whereas it is spending much more on roads. Our economic priorities are concerned mostly with the roads network and on increasing our knowledge ability. You come up against the perennial problem that there is no single, overall driving objective in Government — there is responsibility across a range of issues. Provision must be made for people's education and health and for driving the economy. The amount of direct expenditure that goes into the economy is now small in comparison with the other programmes.

1360. **Mr Cree**: This is probably a simple question to answer. The Department of Finance and Personnel (DFP) has told us that any additions from the Chancellor's package will be needed to fund general pay and price inflation. Is that accurate? If so, what are the implications for public expenditure under a restored Executive?

1361. **Mr Hewitt**: That is probably realistic, depending on what assumptions the Executive have made about what they will get. The Chancellor's package with regard to the departmental expenditure limit has essentially flatlined. There has been no change in real growth. It has been maintained at the same level, which goes from around 8·5% to 9·2%. In my calculation, I assumed that there would be around 0·8% of real growth, an increase of about 3·5% per annum. There are different ways of presenting that. I simply presented it by showing what real growth will be in 2010-11 compared with what it will be in 2007-08, which will be about £900 million.

1362. That can also be presented cumulatively. The Executive would receive another £300 million in the first year, £600 million in the second year and £900 million in the third year. Therefore £1·8 billion would be the overall total. However, when one considers the general wage pressure, an uplift of 3·5% is not a huge amount. Although the block is not all for wages, a large proportion of it is. It will certainly not come in at 3·5%. Most of that money will be absorbed by pay and prices. Most of the service development that the Assembly will undertake will be through self-help measures, such as increases in rates, water charges, sales of assets, efficiency savings where they can be found, and so on.

1363. **Ms Ritchie**: One priority that was mentioned was employment. Northern Ireland has the problem of regional inequalities in

employment. How do you envisage an incoming Executive and Assembly dealing with that?

1364. **Mr Hewitt**: There are issues surrounding scale. For example, Fermanagh has a population of only some 50,000 people. In some respects, the scale of the problem in Fermanagh, in absolute terms, is manageable. In areas where the population is denser, the problem is greater. The way forward is to tune areas to their natural competitive advantages. Fermanagh will not be hugely attractive to inward-investment companies. However, its future could lie in the development of high-value-added tourism services, because that would be playing to its strengths.

1365. Areas that are closer to the coast are probably more attractive to inward investment. Those areas would have to play to their advantages — their infrastructure and the quality of available labour. Systems must be tuned to opportunities.

1366. Inactivity is a huge problem. Northern Ireland has an inactivity rate of about 29%, as opposed to approximately 21% in the rest of the UK. It is really tragic that so many young people who are not in third-level education are inactive. To solve that problem requires a major effort, but we cannot do it all on our own. The benefits system must be tweaked, but that is beyond our control.

1367. It should be a major priority to get those people re-engaged with the labour market, for their own good as much as for the good of the general populace.

1368. **The Chairman (Dr Birnie)**: Victor, thank you for your written submission and for answering our questions. The session was extremely comprehensive and helpful, and we wish you and ERINI well. A happy new year to you.

1369. **Mr Hewitt**: Mr Chairman, a happy new year to you also. If ERINI can do anything further for you, we are more than happy to help.

1370. **The Chairman (Dr Birnie)**: I welcome Seamus McAleavey, the chief executive of the Northern Ireland Council for Voluntary Action (NICVA), and Frances McCandless, its director of policy. Thank you for your written submission and for coming here today. It may be a tall order given the time limitations, but the subgroup is trying to identify priorities for spending and investments, cost pressures and efficiency savings. Perhaps you could begin with a short statement, bearing in mind the subgroup's terms of reference on the comprehensive spending review, and then take questions from members.

1371. **Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action)**: Mr Chairman, thank you very much for inviting us to address the subgroup. We welcome the opportunity to do so.

1372. NICVA's remit is to deal with issues concerning disadvantage, and that is reflected in our written submission. The current UK comprehensive spending review is even more important than those of the past and is likely to have far-reaching consequences. As Mr Hewitt and others have noted, the Government have trailed the fact that public expenditure will be tightened. That does not mean that there will be a reduction, but there will be less money to go around — Mr Hewitt has already mentioned issues such as wage inflation. Some parts of the Government believe that those measures should apply at higher levels.

11.30 am

1373. Northern Ireland receives most of its money through the Barnett formula — a few extra pieces come from the rates, water charges if they are introduced, and the Peace programme. There is not a lot of room for manoeuvre.

1374. Departments are examining the scope for efficiency savings. That gives cause for concern because Northern Ireland does not carry out that activity very well. Quite often, efficiency savings translate into cuts, with budget directors reducing expenditure and dropping items that are considered to be peripheral. NICVA does not think that the track record is good and has made representations to the Minister on the issue. We have got a commitment that the Department of Finance and Personnel will test

the proposed efficiency savings. That is an important issue that the subgroup should monitor.

1375. The CSR in England has paid quite a lot of attention to the voluntary sector's involvement in the delivery of public services. That needs to happen here, because we are behind in that regard.

1376. NICVA broadly agrees with the Secretary of State's cross-cutting priorities. Public expenditure covers a wide area, and there is a danger of everything becoming a priority. We are not saying that the outgoing items are not of any value or have been completed, but we feel that the four incoming items are very important.

1377. NICVA gave evidence to the Subgroup on the Economic Challenges Facing Northern Ireland and has said a fair bit on the subject. Most people feel that there needs to be some sort of transformational change in the economy of Northern Ireland if the economic situation is to be improved.

1378. NICVA's focus is on disadvantage; our sector has lobbied Government strongly on creating an effective anti-poverty strategy for Northern Ireland. We are pleased to see that being included as a cross-cutting priority.

1379. As far as NICVA is concerned, the publication of 'Lifetime Opportunities' is only the beginning of the process. If the Government want to be strategic about certain issues, they need to set out their high-level objectives — what they are really trying to achieve — so that we ordinary people can understand what is happening and can evaluate whether those objectives have been achieved. The strategy document begins to set out the Government's key strategic thinking. However, policies need to be put in place to direct spending in order to address some of the issues and make the strategy work.

1380. We would like to explain our position on domestic rating and water reform if that is acceptable, Mr Chairman.

1381. **The Chairman (Dr Birnie)**: Yes, but please be brief because we are concentrating on the CSR today.

1382. **Mr McAleavey**: NICVA found the consultation exercise on domestic rating to be quite good. We support a system based on capital values. We believe that the power will rest with Members, if they are in Government, and that it will be for Members to decide how much is to be raised by way of rates. The proposed system provides a formula as regards apportionment.

1383. There has been much discussion about capping. NICVA does not see a need for capping: rather, the issue is apportionment. Capital values have been increasing quite a lot recently. However, that does not necessarily mean that people should worry that their rates will double because the price of their house has doubled in the last five years. The charge will be determined by how much the Government need to collect. The proposed system is fairer. Many problems regarding apportionment have been created as a result of not having changed the system since 1975.

1384. NICVA was not keen on the introduction of water charging. However, if that is to be the case then charging needs to be progressive. Our interest is in protecting the people who are least able to pay. Those principles are important. As the matter is associated with the RRI, Members' hands may be tied. However, people at the lowest end as regards ability to pay need to be protected.

1385. NICVA has never been sold on the proposed model. Most people in Northern Ireland are against the privatisation of water services.

1386. Our view is that the model should be one that is in social ownership. A not-for-profit company could instead be created. We believe that that model could be reconsidered. That has been done in Wales, and there have been similar moves in Scotland. We worry about the issues raised by the Consumer Council in respect of controlled assets and what might happen to those in the future.

1387. The issue is incredibly complex, and many fear that the public's eye may be wiped in the process.

1388. **The Chairman (Dr Birnie)**: Thank you very much, Seamus and Frances, for your presentation. We will now take questions.

1389. **Mr Raymond McCartney**: First, page 3 of your submission mentions how inefficiencies have been tackled by cutting frontline services. The submission goes on to deal with the making of efficiencies through administrative spending. Can you provide examples of costings that could help to demonstrate those efficiencies, if they were made in the way that you envisage?

1390. Secondly, your submission states that NICVA believes that the anti-poverty and social inclusion strategy is a "good basis for going forward." Can you elaborate on that and on the strategy's potential impact?

1391. **Mr McAleavey**: We said that, in respect of economic challenges, Northern Ireland was a very risk-averse place. The culture of life is dominated by the public sector because so much of the GDP goes through the public sector. Therefore, what the public sector does is very important.

1392. We see a culture that is somewhat afraid of making mistakes and of being held to account as a result. That results in ever more administrative burdens and red tape. We know of voluntary organisations in receipt of public money that have undergone audits. Public money must be accounted for — there is no argument about that — but it must be done efficiently and effectively. The public audit culture is increasingly burdensome. It seems that that culture must always cost money. We know of incidents in which thousands of pounds have been spent in order to check on £100. A disproportionate amount of money is spent on auditing. That is not to say that auditing is not vital, but, in our view, there are bound to be many ways to streamline the process.

1393. In relation to voluntary organisations, we have said that — and Government have agreed with us, although nothing has really happened yet — where there are multiple funders of service and voluntary organisations, one Department or agency should be responsible for audit. There is no need for five, six or seven organisations auditing organisations for relatively small amounts of money. That problem probably occurs across the system. The problem is not the cost of the Northern Ireland Audit Office, but the cost of internal audit systems.

1394. **Ms Frances McCandless (Northern Ireland Council for Voluntary Action)**: I will answer the second question about the anti-poverty and social inclusion strategy.

1395. We warmly welcomed the anti-poverty and social inclusion strategy as a high-level plan that, at last, set out the problems in Northern Ireland and some long-term goals. That was the start of finding a way to discuss solutions. Our problem is that the strategy does not yet provide solutions and is very light on policies that might deliver those long-term outcomes. We welcomed the focus on the different stages of life: children and young people; early years; people in work or of working age, and older people.

1396. Another problem with the strategy is the big focus on work as the route out of poverty. Many people of working age will never be able to access work, either because of disability or caring responsibilities. There is no recognition of the low-wage economy or of the other challenges that may be faced by people of working age.

1397. We want the policy content of the strategy to be fleshed out. In addition, we would like to see a budget for the strategy and interim targets to be set that will take us towards 2020. There should also be a focus on key areas such as early years provision, economic inactivity and housing.

1398. Those elements are very much tied in with Victor Hewitt's earlier comments. We cannot drive the economy forward or be a high-value, high-skills economy without putting money into early years provision at the earliest developmental levels and addressing the waste of the skills of those who are economically inactive — currently young people. Following John Semple's review of housing, something must urgently be done to address where the people who will be working in this so-called thriving economy will actually live.

1399. **Ms Ritchie**: Seamus and Frances, you are very welcome. Bearing in mind that we must concentrate on the priorities for the comprehensive spending review and the fact that a certain emphasis has been placed on the need to implement a good anti-poverty strategy, from where should the funding for that strategy come? Does NICVA perceive the need for a dedicated fund, which, therefore, would transcend all Departments, for the implementation of an anti-poverty strategy?

1400. **Mr McAleavey**: In the past, we have commented on the ineffective elements of targeting social need (TSN) and, subsequently, new targeting social need (New TSN). Our main point was that although the scheme promised a lot, it did not deliver on that promise. Our belief was that the notion of skewing resources in Departments did not seem to be working: civil servants were accounting for their spending after the fact and were attributing that to TSN and New TSN. We told the Government that rather than promise the sun, the moon and the stars, they should provide an effective, adequately funded strategy.

1401. The high-level strategy outlined in our presentation would allow the Departments to adhere to the cross-cutting theme of the comprehensive spending review by giving them the chance to announce their planned initiatives for the next number of years. For example, the Department of Education could announce its intention to invest in early years schemes. We highlighted fleetingly the fact that voluntary organisations on the Shankill Road carried out similar work under the Urban I programme. Those organisations received a small amount of money from a European peace and reconciliation fund, but when that funding ended, much of the programme had to end as well. The Government must be much more strategic.

1402. We have been asked from where the Government should take the necessary money. Obviously, they must find the money in other areas of the Northern Ireland block grant. Certain measures and schemes must either be reprioritised or, because they do not come high enough up the agenda, cease to be funded. Alternatively, as everyone seems to think, the money could come from efficiency savings.

1403. Aside from those options, the money could come from increased revenues, such as additional rates and charges. However, at the end of the day, that is for the Government to decide. They must determine what they should prioritise, from where they should take the necessary resources and how they should apply them.

1404. **Mr Shannon**: Mr Hewitt from ERINI mentioned efficiency savings, which are referred to in the NICVA presentation also. The CSR target is £800 million. That is a massive amount of efficiency savings. I am keen to hear where those could come from. Mr McAleavey commented that there are savings that could be made. Is £800 million realistic?

1405. **Mr McAleavey**: In anyone's terms, £800 million is a large amount of money. However, in a block grant of £16 billion, it is proportionate. Last year, £300 million of the Northern Ireland block grant was not spent. Some of that money might be rolled over to this year. NICVA believes that there is no need for six, eight, 10 or 11 internal administrative Departments in Northern Ireland. The Departments could be combined. Of course, the Government are combining services such as estates management and human resources.

1406. In an organisation the size of the Government, it is always possible to make efficiency savings. There is little doubt about that. However, NICVA fears that the culture has been about having less money to spend and what that money will not be spent on — rather than about efficiency savings. That has been NICVA's experience, and that culture must change.

1407. Over the years, Northern Ireland's voluntary organisations — albeit on a much smaller scale — have achieved efficiency savings. They have squeezed out costs in their processes. Therefore, I am sure that anyone can do that.

1408. **Mr Shannon**: I have some concerns about trimming funding from local services, resulting in the loss of a critical service to a particular section of the public. That practice should be discouraged and replaced with other options. For example, Mr McAleavey mentioned audits as an example of how savings could be made.

1409. Another question, which I should have liked to ask the previous witness, but which I will take the opportunity to ask you since you are here, is in relation to bad debt. It is all very well to talk about the money that is going to be brought in through the rates and so on, but bad debt is something that has not been touched on this morning in the way that it should have been.

11.45 am

1410. If you have money coming in on the left hand and bad debts on the right hand, sometimes the balance is not there. Do you have any figures on what the amount of bad debt flowing from domestic rates and water charges might actually be?

1411. **Mr McAleavey**: I have no idea what the level of bad debts might be. Our view is that everyone should pay their way, within reason. I do not know what the level of bad debt would be.

1412. **Mr Shannon**: It is something that I am concerned about, but if you do not have anything, that is fair enough.

1413. **Mr Cree**: I want to pick up Jim's point about efficiency savings. You have expressed your concerns about public-sector efficiency savings leading to cuts in front-line services. To approach that from a different angle, does NICVA accept that there is a pressing need to address inefficiencies in the public service?

1414. Secondly, in your submission you say that many people live in houses that they could not afford to buy at today's prices. You then go on to say that people generally live in houses that reflect their means. I find that a little confusing. It is a bit of a contradiction.

1415. You also refer to the umbilical link between the anti-poverty strategy and 'A Shared Future'. That is a good example. Do you think that there is a similar umbilical link between social inclusion and economic competitiveness? I think that that is likely. How could it be reflected in the CSR?

1416. I will end with a simple question in order to make you feel happy. Mr Hewitt talked about the lack of transparency in DFP's approach here as compared with the Treasury. Have you any concern about that?

1417. **Mr McAleavey**: The Treasury has held 120 meetings with voluntary organisations in England. They set out what they had heard, and there were five key themes that came back to them. The Chancellor began to address that in his pre-Budget statement. Our focus is on the voluntary sector, but I think that that is happening across a whole range of things. We do not see that in Northern Ireland, so we are certainly weaker in the CSR debate.

1418. I agree that there are bound to be inefficiencies in organisations as big as the Government, and they have to be addressed. It is noble, and it can be done, but we have not had a great culture of doing it.

1419. As for the contradiction in relation to housing, we accept that people tend to buy the standard of housing that they can afford. However, houses gain in value, and people think that if they were buying the same house now they would not be able to afford it. However, the relative capital values remain the same. There is a formula. When I studied history at university, we looked at the Belfast census of 1905. We used rateable values of houses to broadly identify social classes. There is a relationship. It is not so much about the actual formula but how it is applied to raise the amount of money that you need from rates.

1420. I see less of a contradiction there. There will always be anomalies — people who are much more asset-rich and cash-poor.

1421. Rate relief is needed to address all such cases.

1422. **Ms McCandless**: I shall answer the question about the link between social inclusion and economic competitiveness. We certainly see that link as it relates to wasted human capital, with 29% of the potential economic workforce sitting at home. That is a massive waste. Moreover, societies such as those in Scandinavia, which tend to be more equal and more socially inclusive, are incredibly successful. The economies of those countries are as open as that of the South of Ireland. More equal societies seem to result not in a worsening of economic competitiveness, but in its growth. We see social inclusion and economic competitiveness as very closely linked.

1423. Societies that are more equal and inclusive tend to spend less on addressing issues such as road deaths, security, and crime in general. Those problems tail off as equality increases. There is much evidence from around the world of a direct correlation between those matters, so we are spending money on problems that other countries are not. We are not spending money on areas such as early years. We should be increasing that funding in order to make the most of the potential of each of our citizens, because that will help the economy to thrive.

1424. **The Chairman (Dr Birnie)**: What do you think may be the implications of the comprehensive spending review for the community and voluntary sector? What do you see as some of the specific cost and spending pressures and other problems that you are likely to encounter over the next three years, and what would you like to get out of the comprehensive spending review?

1425. **Mr McAleavey**: We had a brief meeting with the Minister for Finance and Personnel, David Hanson, who also happens to be the Minister for Social Development, and has responsibility for relations between the Government and the voluntary sector. We made the point that what had emerged from the consultation with the voluntary sector in England was not a million miles from the situation in Northern Ireland. They have found that the funding relationship has been broken. We think that it is worse here than in England and that that must be fixed. We need better mechanisms for accounting for public money. The audit problem is worse here. We need investment in skills development in the voluntary sector, and something should be done to try to build the asset base. That would help voluntary organisations to provide more public services. Those are some of the matters that must be addressed.

1426. Our fears relate to efficiency savings. Often, budget directors see the services that voluntary organisations deliver on behalf of the Government as peripheral services that may not be required under a statutory duty. They believe, therefore, that they should get rid of those services at once. The irony — which I believe that some in Government have accepted — is that those services may well be the most efficient, effective and cost-effective. However, that just does not seem to matter. We have a real fear of losing some of the most efficiently and effectively delivered services.

1427. **Mr O'Dowd**: I have an observation, rather than a question, which relates to the anti-poverty strategy. Victor Hewitt spoke about public expenditure, and he said that he believes that spending on the Health Service is going to reduce dramatically. I believe that such efficiency savings will also have a major impact on poverty. If front-line services are taken away from the Health Service, which is a major employer, areas of high deprivation will be worst hit. Let us take the Royal Victoria Hospital as an example. It is in an area of high deprivation, and employs many low-paid workers from that area, such as cleaners and catering staff. That is where efficiency savings will hit. That will follow through into the trusts, which, in turn, will hit people in the community and voluntary sector. What are your views on how we should tackle that matter through the Government's anti-poverty strategy? Have you raised that issue with the Government?

1428. **Mr McAleavey**: You mentioned where cuts are likely to fall in the Health Service.

1429. The Conservative Government of the early 1990s introduced efficiency savings. When those savings were being made in the

health services, I remember spokesperson after spokesperson saying that they would not affect front-line areas such as the delivery of medical services. They fell in areas such as cleaning services, and, as Mr O'Dowd said, quite a lot of other low-paid jobs are hit by such cuts. Ultimately, the state of hospitals, infection rates and so on were the disastrous results of those savings, so it would be a disaster if we ended up in that position a second time around.

1430. However, as we have been saying for years, some skewing away from acute services into preventative medicine is necessary. It takes a long time for people to get a return on such changes. We spend minuscule amounts of Health Service money on prevention and on building up people's health so that they will not make the expensive calls. Therefore we need to think about how we shift that focus. At the high end, health costs seem to shoot up for those who are very well paid. I believe that health inflation is somewhere in the region of 9% or 10%: something needs to be done about that.

1431. We need to have an open debate in Northern Ireland about where we should put our specialist services and how we should access them. At the same time, we should debate our community services. Without that debate, health services will continue to eat up the budget, and we will continue to complain. As it stands, education and health are the two big pots. If one wants efficiencies, one could say that money is being taken from one of those pots to be given to the other. Where the block is concerned, the other Departments do not count.

1432. **Ms McCandless**: The health arena is a good example of how efficiency savings are implemented. Indeed, we saw that occur a couple of years ago in that sector. An edict comes from the Department through the boards and trusts — and other intermediary funders that they might use — and eventually hits the voluntary and community sectors. There is no doubt that that translates as a straight cut. However, those are the services that do the most difficult work with regard to turning public health around. Therefore peer mediation is important in areas such as smoking cessation, getting kids to stay away from drugs, or getting women to participate in schemes such as Sure Start so that their kids have better diets. Those are the societal issues that are really hard to change; the Government do least well with those and our sector does best. Such schemes are most vulnerable to those kinds of peripheral cuts, so they are good examples of how cuts are being made in areas that appear to be the easiest in which to make savings. However, those cuts may affect the effective and long-term transformations that are needed to make the big shift towards public health and well-being and away from acute services and hospital beds.

1433. **Mr Shannon**: Following on from what my Friend opposite said, I heard on the news this morning that health services across the water are being affected by cost efficiencies. One GP was sent letters telling him to cut back on his referrals and on the type of medication that he prescribes. Are those savings efficient? They may be savings, but I suggest that they are not efficient. That is just an observation.

1434. **The Chairman (Dr Birnie)**: Are there any more questions or observations? I would prefer questions.

1435. Your written submission states that you support what you term the "transformational change" in rebalancing the economy towards expanding the private sector. You also gave evidence to the Subgroup on the Economic Challenges facing Northern Ireland specifically about the Chancellor's package. I do not know whether you have had time to look at that subgroup's report, but we wonder whether you have any comments to make on the sort of investment priorities that it identified. You perhaps heard Victor Hewitt talking about areas such as so-called networks, particularly for matters such as roads and some skills.

1436. **Mr McAleavey**: We have not given that issue much consideration since we met that subgroup.

1437. **The Chairman (Dr Birnie)**: Frances, I think it was you who made the point previously — and strongly — that greater social equity and economic competitiveness are possible, and you

cited places such as Sweden and Denmark as examples of that.

1438. However, someone playing devil's advocate might point out that Sweden and Denmark are national economies, whereas Northern Ireland is a regional economy. Could you reflect on that point? There are certain policy instruments that we do not have at our disposal.

12.00 noon

1439. Could you say a little about what you think might be the difference that devolution and restoration of the institutions could make in some of those areas, or whether you think that there are areas in which devolution might not make much of a difference? In that case, UK-wide social policy change will be necessary.

1440. **Ms McCandless**: Clearly, the big issue is taxation. There is very little power within a devolved Assembly's grasp in respect of that, other than local taxation and charges. Various proposals and suggestions on local taxation have been on the cards over the years, as well as rates and water charges.

1441. Dr Birnie is right to say that our hands are tied because Northern Ireland is a region, not a nation state. However, it is absolutely in the gift of the Assembly to provide excellent education and health systems. This region is small enough to garner the benefits to be had from sustainable development and growth technologies. In respect of those matters, there are benefits in being small, rather than a large nation state.

1442. Particularly on education and health, there is absolutely no reason for a devolved Assembly not to provide a bonus by fixing the parts of the system that are currently broken. Parts of the system are excellent, and that is great, but we must fix the parts of the system that are currently not working in order to ensure that all children become potential achievers for themselves and for the economy. We must ensure that the health system brings the bonus of good health for our citizens, rather than being a constant drain on the public purse. As technology advances, that drain will increase as demands are made for new drugs and technologies. Education and health are the two primary areas in which the Assembly can trigger beneficial change.

1443. **The Chairman (Dr Birnie)**: As there are no further questions, I thank you, Seamus and Frances, for your time, for answering our questions and for your written submission. I wish you well in your future work, and I wish you and your organisations a happy new year.

1444. **Mr McAleavey**: Thank you, Mr Chairman. We gathered together the views of the voluntary sector and sent a copy of that document to individual MLAs. That paper addresses a very broad range of issues that members and their parties may wish to consider in the context of the next elections and what the Assembly does thereafter.

1445. **The Chairman (Dr Birnie)**: Elections concentrate the mind wonderfully. Thank you very much.

The subgroup was suspended at 12.02 pm.

On resuming —

1.16 pm

1446. **The Chairman (Dr Birnie)**: Good afternoon, gentlemen. Welcome to the subgroup, and thank you for coming earlier than originally planned. The members of the Confederation of British Industry (CBI) Northern Ireland delegation are the director, Nigel Smyth; the chairman, Declan Billington; the vice-chairman, Brian Ambrose; and the chairman of the CBI Northern Ireland economic affairs committee, Alastair Hamilton.

1447. Thank you for your written submission, which members of the subgroup have received. Once you make some brief introductory remarks, we will move to questions.

1448. **Mr Declan Billington (Confederation of British Industry)**: On behalf of the CBI, I thank you for the invitation to attend the subgroup. The CBI holds the CSR close to its heart, and we welcome the opportunity to put our position on record. Since we have already made a written submission, we will set the scene and move to the discussions.

1449. Among the priorities of Government spending are the efficient and effective delivery of public goods and services and the prioritisation of public resources to deliver the best outcomes for society. Given that funding in Northern Ireland is fixed, the efficient delivery of public goods and services means that the more efficient we are, the more goods and services can be delivered.

1450. The CBI believes that the CSR should focus on expenditure that creates economic growth and economic enablers. The question is: how can Northern Ireland raise its economic game? In particular, how can it achieve robust, productivity-based growth and an increased economic-activity rate? That will translate into more, better-paid jobs for our people, which will in turn alleviate the high levels of poverty that we have in Northern Ireland. Alastair will touch on those points shortly.

1451. However, despite large historic increases in public expenditure, we have been disappointed nationally and locally in the outcomes. It is important that the CSR addresses the failure to deliver outcomes, even though money has been invested.

1452. The Executive and the Assembly need to agree some key strategic outcomes, against which all policies should be measured to determine their priority in the Budget. The smaller the number of strategic priorities, the better.

1453. It is important to focus on what is workable. Although new initiatives may be welcome, it is important to get the basics right first. One important issue that Alastair will touch on is the transformation of public services; our submission to the subgroup addresses that area in detail. Achieving greater efficiencies is very important. The number of civil servants in 2006 was 15% higher than it was in 1998.

1454. We would, however, argue strongly against the blunt, across-the-board cuts that were introduced following recommendations in Sir Peter Gershon's review: 'Releasing resources to the front line: Independent Review of Public Sector Efficiency'. Efficiency savings should be focused on areas in which there are known inefficiencies. For example, Prof John Appleby's report, 'Independent Review of Health and Social Care Services in Northern Ireland', identified such areas.

1455. There is also a need to ensure that there is administrative capacity in those Departments that will have increased workloads as they become involved in enabling economic growth. We must address the bottlenecks that inhibit economic growth — for example, planning. In short, we need to focus our resources on those areas that add value to the public and spend less money on those areas that add cost to the block. I will ask my colleague Alastair to add a little more detail, and then we will be happy to take questions.

1456. **Mr Alastair Hamilton (Confederation of British Industry)**: It is important to say a little about how we arrived at our submission to the subgroup. It is the aggregated view of all CBI members through its economic affairs committee — that is the point where we

aggregate all the views. We have since checked that view against the national CBI view, and, by and large, it is pretty much in line with what is coming out of Centre Point but with a few specific focus areas for Northern Ireland. I want to take a few minutes to emphasise some of the detail in the points that we have raised — I know that you are keen to get to the questions.

1457. Our submission covers three key areas: knowledge and skills; the physical environment; and the operational environment. In those three areas, we have tried to put forward views that take us away from step, incremental change into something much more dynamic and forward-thinking. Some, if not all, members will have reviewed the draft regional economic strategy and some its stated targets. The CBI has been forceful in saying that the drive in that strategy is very small. Some targets are set to increase by less that 1% over the next 10 years. That does not give us hope that we will achieve the dramatic economic change needed in Northern Ireland.

1458. Therefore, it is in that context that we made our comments on the CSR, because we see that as a key plank in starting to deliver some of the economic benefits that are needed in Northern Ireland.

1459. On education and skills, among our key points is the need for all school leavers to come out with numeracy and literary capability. In 2004-05, 41% of people leaving school did not have those skills, which employers in Northern Ireland consider essential. Similarly, science, technology, engineering and mathematics are the four key planks that we want to see coming out of third-level and fourth-level education. Again, we want to see emphasis on those areas.

1460. On infrastructure, there are two key areas. We would like to see a lot of effort put into reducing journey times on strategic roads across the Province. Conversely, we would like to see an increase in the average road speeds in peak periods to in excess of 50 mph. That is in our submission.

1461. A lot has been done over the past few years to try to improve our telecommunications infrastructure. The obvious next step is to build on the good programme that has been put in place in order to provide 100% broadband availability and to start to increase the speeds to up to 8 megabytes and 10 megabytes.

1462. We want a programme put in place that will secure 10% a year export growth for enterprise in manufacturing and tradable services. That is achievable if we put in the effort and drive to make it happen.

1463. Finally, on the rate of employment, it would be easy for us to get a little complacent about the very enviable position that Northern Ireland is in and perhaps to take the foot off the pedal. However, we need to drive even harder to increase employment, especially with the changes in legislation that allow older people to continue to play an active part in employment in Northern Ireland.

1464. **Mr Cree**: Thank you, gentlemen, for your helpful and informative paper. There are a couple of points that I wish to query. Your submission referred to the bleak picture in respect of skills. On page 4 of your submission, the section titled "Public Expenditure Priorities" identifies three areas: essential, intermediate and higher skills. Should skills improvement be the number one priority for the CSR?

1465. **Mr Billington**: In order to grow the economy, it must be. Fiscal incentives have been mentioned, but the right number of people with the right skills sets is needed to make successful, value-added, businesses work. A key pillar of that will be the skills set. As you have identified, our report states that we are coming up short at all levels. Indeed, to quote some other statistics, although there has been a 27% increase in education spending since 2001, we are not seeing the outputs from that. Although skills are important, and money is being spent, results are not being delivered. We must get the outcomes right. Young people must have the basic three Rs by the time they leave school, and we must deliver the right skills sets at all levels in order to support business and business growth.

1466. **Mr Cree**: My other question refers to the section at the end of the report, "Managing environmental and natural resource issues",

which I found interesting. What is the economic or business case to ensure that environmental stewardship and sustainable development becomes a priority in the CSR?

1467. **Mr Billington**: The world is moving towards using environmentally sustainable technologies. If we ignore that, we can expect that, over time, businesses will suffer as a result of failing to become energy efficient or to manage resources efficiently. Focusing on encouraging and developing sustainable technologies and enterprises prevents businesses from being damaged, but it also provides opportunities — if we are best in class at what we do. We can sell and export those technologies just as we sell and export other technologies. For example, there are companies in the CBI that are involved in water purification and recycling around the world.

1468. Why can we not be leaders in energy management and energy efficiency? In every threat, there is an opportunity. Businesses must now work in the context of being environmentally sustainable. That cannot be ignored; it must be embraced.

1469. **Mr Weir**: Thank you for your presentation. I have three questions. First, you outlined a full programme of public expenditure priorities. Have you given any thought to a ballpark figure of the cost of implementing that programme?

1470. **Mr Billington**: I will pass that question to Nigel.

1471. **Mr Nigel Smyth (Confederation of British Industry)**: We have not addressed the cost for the education and skills sector, but for science and technology, we have given a figure of £40 million. The costs are largely deliverable from efficiency savings. All our responses recognise that there is a limited pot of money and that best use must be made of that money. There are significant opportunities to reduce costs and to re-engineer the public sector to save money in order to allow money to be spent. The majority of that could be incorporated in the efficiency savings.

1472. **Mr Weir**: Secondly, you mentioned the pressing problem in the private sector of delays in the planning system. Those delays prevent private-capital programmes from proceeding. You also mentioned the problems in ensuring efficient delivery of public services, or the Government's point of view on that. Allied to that, there have been significant departmental underspends year on year, particularly when moving from resource spending to capital projects in Northern Ireland. From the public's point of view, capital projects seem to have taken an inordinate length of time, resulting in large underspends each year that must be rolled over. There is a much longer period for the delivery of certain capital projects than should be the case.

1473. Do you have any advice as to how the CSR can tackle that problem?

1.30 pm

1474. **Mr Billington**: I shall make some general comments and then pass over to Nigel. Some years ago, planning was identified as a serious issue; however, I see little improvement in that situation. Issues arise from time to time, but it is a point of concern.

1475. I recently chaired a dinner of members of the construction industry and the SIB. Questions were asked about the situation in which many foreign nationals are working on building sites while fewer local people are being trained in modern construction apprenticeships. A representative of one large company asked how anyone could recruit and train people for a £20 million or £30 million project when it is delayed for a year. Who carries the labour costs for that? It goes beyond Government budgets not being spent in the year for which they were planned; it goes to the point at which employment and training opportunities for those people in more vulnerable areas of our society are being lost simply because we are not managing the planning issue. Planning is the roadblock that is causing a lot of problems for businesses.

1476. Nigel has had several meetings with the SIB, and he might want to comment in more

detail on how to remove some of those roadblocks.

1477. **Mr Smyth**: Before I touch on planning, I should point out that Northern Ireland Departments have been weak on the procurement side and on skills traditionally, and we welcomed the creation of the SIB and the skills that it has brought into play.

1478. Departments have also been weak on strategy, the classic example being education. Fifteen months ago, we challenged the Department of Education (DE), which was literally going to double its capital expenditure within 18 months, despite the fact that the terms of reference of the Bain Report had not even been agreed. We asked the Department how it could do that without even knowing what schools it was going to invest in. The result has been that companies have made bids, some of which have been pulled or are under review. That sends out all the wrong messages to the sector. There is a lot of work to be done on education, an area in which the problems are significant. However, good progress has been made on roads and water. There have been delays in health, but some major projects came through last year.

1479. We have had a good ongoing dialogue with the Planning Service. We welcomed its introduction of a strategic planning division in the third quarter of 2005. The Planning Service needed to identify significant economic public-sector infrastructure projects and speed those through the system. It has done just that, although that has not been reflected by some of the key statutory consultees. The feedback that we are now getting from some of those consultees is that the introduction of the strategic planning division is producing results. A great deal of work on planning remains, but good work is being done that we need to build on and not set aside.

1480. **Mr Billington**: May I add one more point? We talk about planning in general, but the Planning Service has statutory consultees. It is often said that the Environment and Heritage Service (EHS) is the late responder, significantly failing to meet its deadlines. In other countries, failure to respond is not considered a problem, as no response is presumed to be a clean bill of health, and the process continues. The EHS's response times must be addressed in order to alleviate planning problems.

1481. **Mr Weir**: Thirdly, many of us were disappointed by the economic package suggested after the political parties met with the Chancellor, and I suspect that the CBI shares in that disappointment. One suggestion was for the establishment of an innovation fund. Given that support from Government has not always been invested as well as it should have been, what advice would you give on how the introduction of an innovation fund should be tackled? Where should it be targeted?

1482. **Mr Billington**: In discussions with the CBI nationally, the message that I received was that the chances of winning an argument with the Chancellor would be much better if it was aligned to matters on which he is quite keen. He is bound to be more receptive to the idea of an innovation fund.

1483. **Mr Smyth**: I would draw members' attention to what we have set out today. We have highlighted several priorities or initiatives. We are conscious that we do not want to go overboard, because costs go with those initiatives; this is building on existing work.

1484. There is a concern that the number of postgraduates in the STEM subjects — science, technology, engineering and mathematics — is dropping when they should be on the increase. The amount of expenditure on R&D in engineering and technology in the South of Ireland is going up by vast amounts, while the opposite is the case in Northern Ireland.

1485. Many small companies will not take the research route. However, they can be encouraged to take the innovation route by working on product development and support. To do so, they need to link in with their local further education (FE) college before they link in with a university.

1486. Therefore there is a range of options, and we suggest that first-time engagement vouchers

be introduced. We need to create more demand and make universities more responsive to that. Good work is being done; for example, a collaboration fund that has a lot of capabilities is being set up. However, the CBI believes that that fund is under-resourced.

1487. The CBI has set out a great deal of ideas in its papers, and an innovation fund would be one such good idea.

1488. **Mr Billington**: As Nigel has rightly said, a lot of businesses have small operations. That means that a relationship with a university or an FE college will be necessary if one wants to promote innovation. Therefore the mechanisms that enable that relationship to develop and the way in which the universities structure themselves in support of R&D and innovation are important. The way in which to do that is to create a critical mass of postgraduates in the university infrastructure.

1489. The Republic is going down that route in a big way, and given the current planned level of expenditure for postgraduate degrees, including doctorates, I question whether Northern Ireland will be able to match it.

1490. **Ms Ritchie**: I wish to ask three questions. The first deals with the regional transportation strategy and the structural roads' maintenance budget. I note that you say that a future Executive and Assembly must:

"deliver a five year ring fenced budget for structural roads maintenance at levels envisaged by the Regional Transportation Strategy".

1491. Given that the current budget for structural roads' maintenance has been left wanting and has considerable deficits, how could the Assembly make that a priority and deal with the deficit?

1492. Secondly, I note that one of the CBI's main concerns is to make environmental and natural resources a priority. How would a future Executive achieve such an objective?

1493. Perhaps you could answer those questions first — I shall then ask my third question.

1494. **Mr Billington**: Those are interesting questions.

1495. CBI members were annoyed about what happened with the maintenance budget. Although they were encouraged to equip themselves to support what was planned and to be prepared, they ended up investing in equipment to support the maintenance programme, only to find a substantially reduced spending programme available. Annual chopping of budgets to below the planned level carries not only a risk of not delivering a high-quality infrastructure but damages the businesses that will carry out the infrastructural repairs.

1496. From that point of view, it is important that there is certainty that the businesses can plan — that is why we are talking about a five-year plan — and can see, equip and resource themselves for that level of business while knowing that it exists. That is why we are talking about ring-fenced funding and a five-year plan. Nigel may wish to comment further on the other points.

1497. **Mr Smyth**: The key message is consistency. The maintenance budget had been rising for a few years. However, it was cut by about £20 million last year, although there is talk that it may increase. Unfortunately, it was an easy budget to cut. That sends out all the wrong signals. Many parts of the construction sector lack confidence. They do not look just at that budget but at the broader investment strategy in Northern Ireland. People question whether it will be deliverable. That is an unhelpful perspective overall, as one needs to create market confidence for the players.

1498. Therefore a commitment is necessary. The CBI would like the figure for the maintenance budget to be £80 million to £90 million, but whatever it is, it would be helpful all round to have a firmly set five-year plan.

1499. **Ms Ritchie**: Last December, the Northern Ireland Audit Office (NIAO) published its report 'Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure'. That report made recommendations to improve the ISNI, as well as the departmental investment

plans to enhance the delivery of that strategy. It also made recommendations to manage and fund the investment strategy.

1500. I recognise that the report was released only recently. Although you might not have had the time to study it, you might wish to make some cursory comments that you could share with the subgroup that might inform our report.

1501. **Mr Billington**: We have already touched on some of the issues. Businesses investing capital expenditure under the reinvestment and reform initiative (RRI) must be certain that projects will happen so that those businesses can plan and equip themselves. It must also be clear when those expenditure programmes will happen. Time and again, plans have not been progressed because of the way in which the Government have managed public finances. The publication of the Bain Report may have resulted in delays in the construction of schools. Planning delays and other issues that I have mentioned have created uncertainties that add substantial tendering costs to businesses. A business might not lose the tender, but the project may be withdrawn.

1502. A new Executive must address issues that create planning uncertainty. Planning should indicate when a project will happen. Nigel spoke about the strategic planning and management of projects and about how there was a plan for schools expenditure before the publication of the Bain Report. The business community asked how the two could be reconciled. Inevitably, the plans that had been announced for schools expenditure were subsequently withdrawn.

1503. **Mr Smyth**: For my sins, I read the NIAO's report.

1504. **Ms Ritchie**: You are sad.

1505. **Mr Smyth**: It was a most welcome report, and it was clear about funding, an area in which transparency is needed. We also had concerns about affordability. It is important for the Executive and the Assembly to make funding more transparent. That was one of the report's key recommendations.

1506. The need for more detailed plans was also highlighted. Ten-year plans are all very well, but industry, which has to invest in skills and capability, is looking for detailed project planning over a two- to three-year period. The situation is changing. Capital expenditure was traditionally £650 million or £700 million; however, this year, if all goes well, we expect to spend £1·3 billion, which is a big increase. The private sector will not be found wanting, but its biggest concern — and ours — is the public sector's ability to deliver. The report is most welcome, because it raises those important issues.

1507. **Mr O'Dowd**: Many of the points that I wanted to raise have already been covered, and I will not ask Mr Billington to repeat himself. However, I will ask for his views on the performance of the Department of Enterprise, Trade and Investment (DETI). How well does that Department deliver? Does it have a sufficient budget? The question may be self-answering.

1508. **Mr Billington**: The CBI focuses on outcomes. Our written submission has identified a need to support economic enablers. DETI has financial responsibility for Invest Northern Ireland. There has been much uncertainty about what money is available, year on year, and the first call on available in-year funding under the concordat between DETI, the Department of Finance and Personnel (DFP) and the Office of the First Minister and the Deputy First Minister (OFMDFM). That issue must be addressed not only annually but on a reasonable three- to five-year basis. That will enable DETI and Invest NI to go out and win investment for Northern Ireland, knowing that there is three years' funding to support it. There was much uncertainty in the private sector about what would, or would not, be supported, and that will have damaged investment.

1509. Our written submission touches on other areas. We are concerned about the energy subsidy that was to have addressed stranded costs in Northern Ireland. Those costs make heavy-energy-intensive businesses uncompetitive, and we want that issue to be

addressed. DETI has failed to deliver on that issue. The business community sees costs rising, and industrial rating is adding to those costs. Although the Government want to impose a new cost, they have not remedied the results of their past failures. That is an obvious quid pro quo and an area of concern.

1510. The single energy market is also an area of concern. The regulator is under pressure to find adequate resources. He needs to work with his counterparts in the South to ensure that the single energy market works to the benefit of Northern Ireland as well as to the island of Ireland.

1.45 pm

1511. What we are basically saying is that we have to make sure that the Department is adequately resourced. If we are arguing that the economy needs to grow, DETI's role will become much more challenging. It should be adequately resourced to support the work that it does in enabling the economy to grow.

1512. I will pass on to Brian on tourism.

1513. **Mr Ambrose (Confederation of British Industry)**: To link back to Leslie's first point, about Invest Northern Ireland, if we do not manage to attract sufficient foreign direct investment, we do not need a lot of high skilled jobs. Dublin, which has seven of the world's top 10 pharmaceutical companies, draws everything out of the system. Unless Invest NI is geared up to deliver, we are not going to get any step change in anything. So the need for R&D and skills is very much linked to that.

1514. Tourism can perhaps give us the quick wins that we are looking for. Tourism benefits every part of the economy and every part of the Province. Northern Ireland had two million visitors in 2006; there is no reason in the world for not getting that figure rapidly over three million. However, we will have to market ourselves and spend significantly more money doing so if we are to compete with everywhere else. We are not starting from a neutral base. We have an image to overcome. Tourism will have cross-party support and benefit the entire economy; however, it alone is not the answer.

1515. While FDI is possibly the single biggest opportunity, tourism will be one of the most immediate attractions if we can step up our game significantly. That includes the infrastructure. There is no point in talking about Titanic unless there is something to look at, or in going to the Giant's Causeway unless there is a decent visitors' centre.

1516. We need two other elements — marketing and skills. If we do not invest in people, they will not step up to the mark. If you get poor service in a facility where the company has not invested a dollar in training people, it is not the individual's fault. Marketing and skills are fairly critical.

1517. **Mr Shannon**: You referred to a strategic planning body, which has been organised to respond to problems you have with delays. I have been told that in the rest of the UK you can get a response to a planning application within a month.

1518. How much of a difference has this new strategic planning body made to the planning process in reducing the time and what time would you like to see it reduced to?

1519. **Mr Smyth**: It is going to vary. Some that have gone through the strategic planning division within the Planning Service have included IKEA, Coca Cola Investment, some of the Water Service plans and other major public service infrastructure. They have certainly taken longer than four weeks. For very major schemes it takes a matter of months, but you would expect that with major schemes with environmental impact. We would welcome being able to get planning permission within three to four months for a very major scheme. Most of the current ones are taking years if not longer.

1520. Our concern is that there is now a level below that. If we ask for permission for a factory extension, we are told that that is not strategic; it is straightforward. However, it is still taking from six to nine months, and it should not take that long. There are issues with statutory consultees and the EHS.

1521. Last year we had a number of sessions with the EHS. John Cleland has done a report

on it. It has been putting more resources in. It has now got a planning tsar to push forward the change. The good news is that its backlogs have dropped significantly, although we are still looking at fairly modest gains. Indeed, a target for planning within the corporate plan was one of the things we achieved last year for the first time. The EHS has a fantastic corporate plan for building houses and restoring castles, but there is nothing about planning, which is extremely important. From now on there will be a target for that.

1522. It is very important that we keep up the pressure. There is certainly a resource issue. There has been a big increase in demand, and we accept that. However, Northern Ireland must have a system that can respond quickly. If the demand is there, resources should be available to address it. At the same time, planning fees have increased, meaning that a number of applicants are having to pay much more.

1523. **Mr Billington**: In his question, Mr Shannon identified the need to benchmark the planning system in Northern Ireland against systems in other parts of the UK. Why should the process take longer in Northern Ireland? It should not. Benchmarking and target setting that require EHS to respond within a time that would be acceptable in the rest of the UK should be pursued.

1524. **Mr Shannon**: Is the problem partly to do with the number of staff employed by the Planning Service or is it solely down to EHS?

1525. It is not always big schemes, such as IKEA and Coca-Cola, which are held up. Before Christmas, I met a man who employs a number of people in an electrical business. He said that applications from small- to medium-sized companies were getting held up also. He also works across the water, and he gave me examples of the timescales that operate there. I am keen to see how those processes could be advanced here, although it might take major change.

1526. **Mr Smyth**: In GB, the planning authorities are subject to targets and must process a certain percentage of applications within eight to 10 weeks. Very few applications in Northern Ireland would meet that target. Last year, we welcomed the modernisation of the planning process. Towards the end of 2005, we thought that we were starting to see some progress. However, at the beginning of last year, the Planning Service was swamped by single-house applications in the countryside, which distorted the whole system. Thousands and thousands of applications were submitted in the first quarter of last year, and the Planning Service would put up its hands and admit that that has distorted the system.

1527. The number of people employed in the Planning Service, and in some of the other agencies, has increased substantially. The big issue is skills and experience. Nothing will happen overnight. Some staff in the Planning Service are moving to the private sector too, so there is an issue there. We have seen an increase in the economic activity rate and that has created a big demand. However, when the demand increased in the late 1990s, we were slow off the tracks and did not respond as quickly as we should.

1528. **Mr Billington**: Government have put the people in to create the capacity. To my mind, there was a blip with the rural housing issue and the mad rush to beat deadlines. However, the Planning Service is adequately resourced now and needs to deliver.

1529. **Mr Shannon**: The rural housing issue has moved on: there is no excuse for any delays.

1530. **Mr Smyth**: During the last quarter of 2006, we heard that, for the first time, applications were starting to flatten out, if not decline. The Planning Service is getting rid of the backlog of rural housing applications. However, it caused enormous problems in the early part of last year.

1531. **Mr Shannon**: Do you feel that the eight-week period is achievable in Northern Ireland?

1532. **Mr Smyth**: Most of our members would be very happy if 90% of applications were processed in 12 weeks. EHS is allowed 30 days. At the moment, it is probably hitting a 60% to 70% return; EHS should have at least 90% of planning applications returned to the Planning

Service within 30 days and although it is addressing the issue, it would admit that it is not hitting that target.

1533. **Mr Shannon**: The Environment and Heritage Service has too much power, and that is part of the problem — in my opinion, of course.

1534. **The Chairman (Dr Birnie)**: That is not necessarily the subgroup's view —*[Laughter.]* Are there any other questions?

1535. **Mr Cree**: Surely the planning process is a cultural problem here. In the United States, it takes 30 days, and that is it. I do not know how that can be overcome in the short term.

1536. **Mr Billington**: I wonder whether the problem is confused priorities between the statutory consultees and the Planning Service. People are afraid to take decisions for fear of criticism. There was a resource issue, and there was a blip in coping with the demand. As far as the cultural issue is concerned, I do not understand why it would take longer in Northern Ireland than anywhere else in the UK. That must be challenged. A clear ranking of priorities needs to be explicit to all those involved so that they are quite clear on the decisions that they have to work their way through.

1537. **Mr Cree**: I have a question relating to the general economy. Northern Ireland is a regional economy and can benchmark itself against other parts of the UK. Which part of Europe would be relevant? Which country could we use as a best-practice example?

1538. **Mr Billington**: Twenty-five years ago I would have said the Republic. It took decisions that took its economy in one direction, whereas we were constrained, and we are where we are.

1539. Can you think of any, Nigel, because I cannot?

1540. **Mr Smyth**: An obvious example of success that comes to mind is the Republic of Ireland. Finland has been fairly successful too from quite traditional sectors. Nokia did not exist in 1988; it came out of a forestry company that made furniture, trees and wellington boots. It is very successful.

1541. **Mr Cree**: Sweden, for example, seems to me to have been quietly getting on with the job in a very good manner.

1542. **Mr Billington**: Sometimes I think that plans that we make now will take five to 10 years to come to fruition. Sweden must have planned five to 10 years ago.

1543. In my previous career with an American multi-national, I saw Swedish companies offshoring to China and eastern Europe. Their economic success is due to the fact that their parent companies are still there — they still retain the sales, marketing and the know-how, the high value end, and because we do not have many large indigenous businesses, we cannot retain the value-added services. We are too small and so are not able to benchmark in the way that they can. Furthermore, we are unable to offshore the lower value added and retain and upskill the higher value added because we did not start from that point. Their businesses evolve – we did not have them to start with.

1544. **Mr Smyth**: I think that you are looking ahead. Looking at the CBI's national response in the CSR, we are probably facing the most rapid changes ever. We think that we may have gone though a lot of changes in the past 10 years, but in terms of demographics, globalisation, technology, it is all ahead of us. However, Northern Ireland does have to raise its game in a number of ways.

1545. This subgroup has said before and there is no doubt that political stability is the key — that in itself will give a major boost in terms of confidence and various other things. We need to do a major amount and actually look at our education system. We need to have a major increase in our young people's expectations and aspirations, which is why it is important that all political parties realise that the economy is a driver.

1546. A lot of the issues that we are hearing today are relevant to the anti-poverty strategy. Our focus should be on young people. If we are going to stop some of our social problems, we need to give young people potential opportunities and good quality jobs, but they need to have the skills and the attitudes to work

their way through them. It is a shame that one of the biggest current problems is actually getting people with those skills and attitudes. So we need to do a lot to raise the expectations of our young people.

1547. **Mr Ambrose**: I work for a Spanish multi-national company, and I observed this kind of attitude when I was working in Spain. In Northern Ireland, we are pretty good at developing strategies and debating. However, Spanish companies put their money where their mouth is. You feel a similar energy in Asia. You do not have to question whether they are going to implement their strategies.

1548. As Declan said in his introduction, we can learn from other regions. We should focus on output and results rather than draw up more strategies and heavy documents. By the time one strategy has come down, we have written another one with five-year targets. Do not underestimate the power of learning from people who go out there and do it. If we adopt that mindset, it could transform a lot of what we have been trying to do, and my experience in Spain has left me in no doubt that we can do it.

1549. **The Chairman (Dr Birnie)**: With reference to what Brown has been saying, do you think that we have too much of a risk-averse mentality, particularly on the part of the public sector? Could that be part of the explanation for the slowness in the Planning Service: really it is in terror of being caught out having made making wrong decisions by planning appeals or the courts? Has that led to an overly defensive form of decision making? If that is the case, what do we do about it?

1550. **Mr Billington**: Certainly the business community's perception is that there is a risk-averse culture generally in the public sector. In our submission, we identify areas in which we can motivate and elevate management in the public sector by having the right incentive packages and rewards as well as the right punishments for failure to deliver.

1551. It works in the private sector, and I do not see any reason why implementing similar approaches should not work in the public sector.

1552. Mr Ambrose: Recently, the CBI asked a senior civil servant what he would do differently if the Northern Ireland Civil Service were his company. The response was interesting. It was that the Civil Service should stop doing much of what it is doing, because it employs a limited number of people who are working hard and professionally to produce various reports or documents. However, while they are doing that they are not working on other matters. Perhaps taking a fresh look at some of the things that the Departments are being asked do would free up those people to do much of what we have talked about in the last hour.

1553. **Mr Billington**: Given the uncertainty of a new devolved Assembly and what that may entail and the criticisms or challenges that the public sector may face, a Programme for Government that is signed off and agreed by all political parties would give clear and unambiguous direction. The public sector would not have the excuse of having to satisfy five different masters; it would have to satisfy only one — the Programme for Government.

2.00 pm

1554. **Mr Hamilton**: The previous question was on benchmarking. The problem is what to benchmark for. The CBI's key difficulty when engaging in the regional economic strategy and the CSR was to find people who had a vision of the future against which they could set the stretching targets that Brian described.

1555. To use Dr Birnie's words, there seems to be a "risk-averse" approach to setting stretching targets, because failing to meet them could leave us open to criticism. A defence mechanism against that is not to set such targets — as opposed to considering what the future looks like based on a benchmark for an area with similar challenges and putting every effort into achieving a much smaller set of targets. Three or four pages of wide-ranging targets should be distilled into half a dozen key targets that will make a difference and realise a vision for the future. All our efforts should go into making that happen rather than into adopting a defensive position on the setting of targets.

1556. **Mr Cree**: That is an interesting contribution, given that it is set against the background of people not being able to make their budgets year on year.

1557. **Ms Stanton**: I welcome the witnesses from the CBI. Whether in relation to five-year plans or 10-year strategies, we keep returning to the issue of flexibility. That must be the key ingredient in ensuring more movement on the planning of solutions and strategies.

1558. Nigel mentioned unemployment as one of the main factors in poverty. However, everyone knows that low income is an equal factor and must be addressed in any plans or strategies.

1559. **Mr Billington**: That is an important point. A high-value-added economy, which means high wages, must be created. If Northern Ireland remains a low-value-added and low-skilled economy, there will be low pay and that leads to poverty. Even at that low-pay level, Northern Ireland will not be able to compete with the low level of pay in Poland or China. Therefore in whatever way it is considered, low-value-added businesses will struggle to compete and provide an income that lifts people out of poverty. The entire economy must become value-added, whereby skills command more money and deliver better results for businesses.

1560. **Mr Cree**: I have a simple question that concerns many members. Twenty-nine per cent of people in Northern Ireland are economically inactive compared to 21% in the rest of the UK. What is the best way to solve that problem?

1561. **Mr Billington**: There are several barriers to solving that problem. There are not enough highly paid, better-paid or value-added jobs to entice people out of the benefits system; people are also trapped by the costs of childminding and childcare. One agency stated anecdotally that a woman would need to earn £500 a week to be better off than living off state benefits. Not only would she have to forgo her benefits, she would also have to pay for childcare to enable her to go to work.

1562. The third issue is that people in some parts of society lack skills and qualifications. If those people are not equipped with skills, they cannot enter, or return to, the job market. The big challenge lies in those deprived areas of society. I honestly believe that it is the toughest nut to crack: how do we upskill and motivate those people to enable them to return to the job market? When everything else is solved, that will still be the biggest and toughest nut to crack. It will not be easy, but we have to work at it.

1563. **Ms Stanton**: Do you agree that people who care for the elderly, disabled people or children in their homes should be considered as employees rather than as being on benefits? The caring profession should be seen as a productive employment route. In that way, carers would not be stuck in the benefit trap.

1564. **Mr Billington**: The work that carers do is certainly of benefit to society. Funding that work is a priority that must be managed within the Programme for Government. Spending money in one area means that money will not be spent in another, so it is a matter of balancing and managing priorities.

1565. Providing more opportunities for more people through retraining and reskilling, including finding alternative employment for those on incapacity benefit who can no longer do the jobs that they once did, will reduce the budgetary burdens in other areas. That will enable better support to be given to those people who help the less well off in society and whose contribution is not currently being recognised.

1566. **Mr Ambrose**: As Declan says, the benefit trap is a tough nut to crack. However, it would be unforgivable to continue to feed a system that allows a high percentage of kids to leave school without the basic skills that make them employable for most jobs. That area must be our focus if we are to avoid creating problems for the next generation.

1567. **The Chairman (Dr Birnie)**: This point is somewhat related; do you predict an increase in the number of migrant workers coming to Northern Ireland? Currently, there are between 15,000 and 30,000 migrant workers, many of whom have arrived since May 2004. Will that continue to increase until such times as we, as a

regional economy, learn how to tap into our so-called indigenous supply of labour? Arguably, we are not doing that at all well.

1568. **Mr Billington**: At a conference on the economy, I listened to a presentation by a company used by local government to model outcomes. I hope that I can correctly remember two of the points that were made. Over the next 10 years, the company expects 67,000 new jobs to be created in Northern Ireland; we believe that 140,000 jobs are needed. The company believes that 40,000 of those jobs will be filled by migrant labour, simply because the jobs that will be available will be the low-value-added, low-wage jobs for which local people do not want to leave the benefit trap. Therefore, migrant labour is filling a gap.

1569. The biggest risk to local society is if we do not upskill people caught in the benefit trap. If we fail to do that, or give them even basic skills, they will never be able to compete with people from abroad who have the necessary skills. Therefore, the onus is on us, as a society, to work hard to provide the skills that will lead them to employment.

1570. **Mr Smyth**: Furthermore, migrant workers are spreading to more professional and technical areas of employment, such as postgraduate, pharmaceutical, environmental or planning work. Some jobs are certainly well paid, but because of the nature of the industry — for example, the food-processing industry — local people do not want such jobs. Therefore, we expect that the numbers of migrant workers will remain at the current level, if not increase modestly.

1571. **Mr Shannon**: What is your opinion of working tax credits? Does the present system encourage people to get back to work or do changes to the system make it more advantageous for people to remain on benefits?

1572. **Mr Billington**: That is an interesting question. Various business leaders have observed to me that the biggest barrier to working is having a family.

1573. I have known people to walk away from jobs in which they earned £17, 000 or £18, 000 a year because they could not afford child-minding fees. The tax credit is a help that allows people on certain incomes to better afford things. However, until a better way to address people's childminding needs is found, the fees that even those who earn £17, 000 or £18, 000 a year will have to pay to have two or three children minded will be a major barrier to their ability to continue working. Although tax credit is a contribution, it is not the silver bullet that is needed to help some parts of the community to become more economically active.

1574. **Mr Smyth**: No research has been done by the CBI on that issue in Northern Ireland.

1575. **Mr Shannon**: One of the problems with the tax credit is that until someone gets a nasty letter at the end of the year saying that a mistake has been made and he or she owes money, it looks good on the surface.

1576. **The Chairman (Dr Birnie)**: Thank you, gentlemen, for your attendance. The subgroup will consider your written submission carefully when producing its recommendations on the comprehensive spending review for Government. The subgroup hopes to produce its report within the next 10 days or so. It wishes the CBI, and its member businesses, well in the new year.

1577. **Mr Billington**: Thank you, Chairman. I want to make a couple of closing remarks. At the start of the meeting, I said that outcomes were important. The CSR is a way to deliver outcomes. History has shown that spending money and adequately financing, among others, the Department of Health, Social Services and Public Safety and the Department of Education does not necessarily deliver outcomes. I argue strongly that, having decided what the CSR's priorities are, as with any other Government policy, the focus should be on its management, implementation and delivery.

1578. **The Chairman (Dr Birnie)**: Those are important points. The subgroup will bear them in mind. Thank you very much.

1579. **Mr O'Dowd**: Those issues may not necessarily be the prime focus with regard to

health expenditure. The Appleby report stated there must be efficient management in the Health Service. However, it stated also that, compared with that in England, the Health Service here is underfunded.

1580. **Mr Billington**: The Appleby report argues that despite the large amount of money that is being put into the Health Service, there is no increase in performance. One would expect that a large increase in funding would bring about an increase in performance. That does not take away from the fact that the Health Service may still be underfunded. However, if money is injected, one expects that there will be a result.

1581. **Mr O'Dowd**: I do not argue with the point that it must be properly managed. I am merely pointing out that there are other issues.

1582. **Mr Smyth**: The report highlights that spending on a range of benchmarks was a lot worse in Northern Ireland in a number of areas, so more money may be needed. We argue, however, that efficiency must be a priority.

1583. **Mr O'Dowd**: No one is arguing that there should not be efficient management.

1584. **The Chairman (Dr Birnie)**: Thank you very much.

1585. I want to remind members that the witnesses from the Department of Finance and Personnel will not make any opening comments. They believe that their letter and written submission is sufficient. I ask members to examine those documents. Members will also find the model questions on the tabled paper useful.

2.15 pm

1586. **The Chairman (Dr Birnie)**: Good afternoon, gentlemen, and thank you for attending. I also want to thank DFP for its letter of 22 December 2006 and for its sizeable written submission. My understanding is that you do not intend to summarise the written submission but would prefer to go straight to the question-and-answer session. Is that what you wish to do?

1587. **Mr Leo O'Reilly (Department of Finance and Personnel)**: If I were to have made any opening comment, I would have spoken about the timetable and the framework. However, I suspect that the subgroup is already aware of those issues.

1588. **The Chairman (Dr Birnie)**: Yes, members are aware of those issues. I thank Leo O'Reilly and Richard Pengelly for attending this subgroup session.

1589. **Mr O'Dowd**: With regard to the east-west split, there are higher levels of disadvantage west of the Bann, in the border counties and in certain urban areas. What work is DFP doing with the comprehensive spending review to help to eradicate that long-term trend?

1590. Has the Department done any costings on the decentralisation of Civil Service jobs? I believe that a consultation document has been issued, or is due to be issued this month.

1591. **Mr O'Reilly**: DSD's neighbourhood renewal strategy takes the lead for balanced development in different parts of Northern Ireland; our written submission contains some background information on that issue. DFP's role is to provide a funding channel. As the subgroup is probably aware, several initiatives that are focused on the north-west are being developed. Working with the Irish Government, some regional development initiatives in the north-west are already operational. Public expenditure implications have already been taken into account and are also being factored into future plans.

1592. Does your second question refer to the dispersal and decentralisation of Civil Service jobs or public-sector jobs?

1593. **Mr O'Dowd**: I refer to public-sector jobs and Civil Service jobs.

1594. **Mr O'Reilly**: The member has anticipated correctly: a consultation document on that issue will be issued shortly. The reason that I asked about the distinction between Civil Service jobs and public-sector jobs is that, in the past, the focus has been on the location of Civil Service jobs. However, the RPA offers an opportunity to examine the distribution of public-sector employment across the region, its location and where different types of

employment are situated. DFP wants to ensure that, when decisions are taken on the location, for example, of new headquarters or structures that will be introduced under the RPA, they are taken holistically and not on a one-by-one basis; otherwise, certain functions could end up being located in certain places by default.

1595. **Mr O'Dowd**: I am not surprised to hear you mention neighbourhood renewal. No matter where I go to try to resolve a difficulty, the standard response that I hear is "neighbourhood renewal" or that I will have to wait until the RPA is finalised.

1596. Surely DFP has a role in ensuring that money for which it is responsible is targeted at areas of deprivation. Indeed, now that the anti-poverty and social inclusion strategy has been published, the Department has a greater role in ensuring that the finances that it controls are used to eradicate deprivation.

1597. **Mr O'Reilly**: There is a number of strands and levels of investment activity that can eradicate deprivation, disadvantage and regional disadvantage. First, there is an issue concerning the distribution of investment in infrastructure, and the Departments and the SIB are reviewing the timing and location of particular investments as part of the review of the ISNI.

1598. Secondly, there are proposals and ideas on how to accelerate particular roads programmes in order to assist the process of improving regional infrastructure. Beyond that, self-targeting of resources will combat deprivation — for example, social welfare benefits, by definition, follow deprivation.

1599. A third major way in which deprivation can be eradicated, and this links to Mr O'Dowd's second point about how advantage can be redistributed using public expenditure, is through the locating of public-sector jobs. As our background paper notes, more than half of the current expenditure goes on public-sector pay. That means that the spending power will lie wherever jobs are located across the Province.

1600. Finally, we can target particular initiatives, such as neighbourhood renewal, which has been mentioned, to address specific local problems, usually over a fixed period.

1601. Those measures can be effective in the short term. However, the way in which to secure long-term sustainable change using public expenditure, to the extent that that is possible, is through investment assistance; for example, through Invest NI; through targeting investment through the infrastructure investment programme; and through targeting and equal distribution of employment opportunities, using public expenditure to generate those opportunities.

1602. The regional dimension to all those policy strands must take into account mechanisms such as section 75 and the consultation on the distribution of public-sector jobs under the RPA.

1603. That is a brief summary of the broad strategic approach to be taken to address the issue.

1604. **Ms Ritchie**: I have several questions.

1605. I recognise that the NIAO report into the RRI was only published in December 2006, but has the Department formulated any reaction to that report? To date, has the Department taken any action on the issues raised in the report, particularly those on the ISNI?

1606. **Mr O'Reilly**: Richard shall deal with your questions in detail.

1607. The Department will publish a response to the report, which must be completed within a certain timescale. We are working on that response.

1608. **Mr Richard Pengelly (Department of Finance and Personnel)**: As members will know, NIAO reports are agreed with DFP. Some recommendations were agreed, and action was either taken on those before the report's publication or is under way. The substantive response must await any formal consideration of the report by either the House of Commons Select Committee on Public Accounts or a devolved public accounts Committee.

1609. We are proactively moving forward on those issues that have been agreed with the NIAO. For example, recommendations were made on greater clarity of reporting issues to the Assembly and Parliament and on the overall management of borrowing.

1610. **Ms Ritchie**: My next question relates to the overall Budget. The subgroup received a copy of the spending priorities by Department from DFP. We noticed that the Department of Health, Social Services and Public Safety (DHSSPS) spending priorities cover major pressures across all areas. Hospital stock is poor, and there is a maintenance backlog.

1611. The Bamford Review of Mental Health and Learning Disability (Northern Ireland) some time ago recommended a long-term Budget. What proposals are contained in the CSR for such a Budget? If there are no proposals, what can an incoming Executive and Assembly do to correct that? Another issue is free personal care, which arises from the Coughlan judgement of 1999.

1612. A need to increase social housing to 2,000 units has been identified, but DSD has identified only 1,500 of those units. What does the CSR need to do to reflect that increasing need for social housing and to reduce waiting lists? What discussions have taken place with DSD to address that need?

1613. **Mr O'Reilly**: I will make a generic point about those issues before commenting on each one. All expenditure pressures that have been identified in our papers will be, and are being, considered as part of the CSR process. Inevitably, the nature of that consideration means that choices must be made to balance available resources against priorities. That process will become much more intense over the coming months as we engage with Departments to work through more of the detail behind the issues that each has identified.

1614. DHSSPS has already written to all Departments to engage with it on the findings of the Bamford Review, and meetings have been held to identify the implications of that review for the various Departments. The review team recently wrote to all permanent secretaries to remind them of the potential implications and to ask them to consider pressing the case in their CSR material for the necessary funding to enable the review's recommendations to be implemented effectively.

1615. **Ms Ritchie**: For the housing units, read "thousands" instead of "2,000", which I originally said.

1616. **Mr O'Reilly**: A response on the issue of free personal care was given to one of the Assembly's subgroups. That was also a recommendation in the second report of the Subgroup on the Economic Challenges Facing Northern Ireland. As far as I can recall, DHSSPS provided that response and made the point that the global allocation of free personal care can sometimes mean that resources to provide personal care to a whole range of people are used without regard to their ability to pay. Again, it is about choices and prioritisation. That response referred to the experience in the Scottish Parliament, which proposed the introduction of free personal care but is now reviewing its approach.

1617. We are aware of the issue of housing affordability. There is also the interim Semple Report, which I think was published recently.

1618. **Ms Stanton**: The interim review of housing affordability has just been published, yes.

1619. **Mr O'Reilly**: As you know, a large chunk of the ISNI deals with a forward allocation for social housing. The questions to be asked are whether that allocation is sufficient to meet the level of need that has been identified in various reports and how we reallocate resources identified in the strategy to secure that additional level of investment. I cannot give a yes or no answer, because we are not yet at the point at which Ministers will be making decisions.

1620. **Mr Shannon**: My question concerns water charges and rates. If we were not to proceed with water and rating reforms, what consequences would that have for the CSR?

1621. I am not convinced that the RPA will produce lots of savings, but I am keen to get

your opinion on that. During the CSR period, what will be the costs of implementing the RPA? Will any savings accrue? If so, where?

2.30 pm

1622. **Mr Pengelly**: Over the CSR period, a phased introduction of water charging is planned. Currently, about £300 million a year of Northern Ireland's funding received through the Barnett formula is used to cover the costs of water and sewerage services. As you know, we get nothing for water through the Barnett formula, because water provision is a private-sector concern in England, so £300 million of the Barnett consequentials that we receive — for example, for health and education provision — is diverted to pay for water. When the Government-owned company (Go-co) becomes self-financing, that £300 million can be diverted from provision of the water and sewerage services into other local priorities such as health and education. Obviously, that will be three years from now, when full charging will be introduced, but something in the order of £300 million a year will be available for investment in other local priority services.

1623. Rate reform is not about reformulating policy to obtain additional revenue but about charges being better distributed, based on capital value rather than rental value. That will allow future decisions on rates increases to be applied more equitably; there have been perverse outcomes from previous rates increases. The revenue that an end to industrial derating will generate is built into the Budget process for 2007-08. Again, it is planned to roll that out through the seven years of the phasing out industrial derating. If that is not done, however, a funding deficit will have to be put right.

1624. **Mr Shannon**: I find it hard to understand the rates issue. I have yet to meet anyone in my constituency who does not say that their rates are increasing. Some of the rates are increasing by 50% or 70% — there must be a terrible lot of people somewhere getting rates reductions. I do not understand your system. It is all very well to say that there will not be a big difference between the old and the new rates levels, but the people whom I represent in Strangford will notice a difference.

1625. **Mr O'Reilly**: I was in attendance with my colleague Brian McClure at the meeting of this subgroup on 20 December at which that matter was discussed. It is one of those points for which I do not possess detailed information; however, if necessary, we can provide details about the number of properties and the changes in their rate liability. Precise data are available that analyse and break down the changes right across Northern Ireland.

1626. **Mr Shannon**: The Boston Tea Party will be a picnic compared with the ructions that will occur in Strangford.

1627. I asked a question on the RPA; will you answer that, please?

1628. **Mr O'Reilly**: As you are probably aware, in January 2006, Deloitte produced an initial piece of high-level work on the RPA for the Government. Deloitte compiled a lengthy report that gave a preliminary estimate of the costs and savings that may arise as a result of the RPA. However, we are now refining and revisiting those figures. DHSSPS is the most advanced Department when it comes to developing costing scenarios. It has had plans on the stocks for several years; it has therefore developed detailed figures on costs and savings. Richard may be able to quote some of those figures.

1629. Beyond that, we are still working with other Departments, particularly those in which substantial savings may be made. That work, which is part of the RPA's stream of work, is under way because we need to do such work on the issue for the CSR period. However, we have more detailed figures available for DHSSPS costs and savings.

1630. **Mr Pengelly**: There is a range of figures for health spending. For example, in 2005-06, in accounting terms, DHSSPS had to take a provision linked to redundancy costs. It was reasonably certain that the costs were going to fall. Those costs were estimated at that stage at £23 million for the restructuring of trusts, although other costs will also be associated with that. On the question of the link between costs

and savings, our rule of thumb on redundancy costs is that there is about a three-year payback period. Redundancy costs of about £23 million would therefore lead to an ongoing recurrent saving of around £7 million per annum. Many of the costs in health and education are associated with fundamental rationalisation: from many organisations to fewer organisations. Where there is redundancy, there will be a straight payback over time.

1631. In areas in which service provision must be enhanced, the relationship between costs and savings may not be so clear. For future salary savings, it will not be about paying a lump sum to someone to make him or her redundant but about enhanced levels of service provision, particularly for the RPA. With the transfer of some services from central Government to local government, there is an opportunity for greater synergy, because the population that is targeted with the service transferred often has better links with services currently provided by local councils; therefore there will be efficiency savings.

1632. We are working with Departments and we will engage with local councils to get a better feel for the detail of the roll-out of RPA and its associated costs and savings. That will be done with a view to ensuring that upfront costs have a defined payback period and that we achieve qualitative and quantitative savings.

1633. **Mr Shannon**: Is it inappropriate for councils to consider building new civic centres when it has not yet been decided whether there will be seven or 15 councils? The RPA is ongoing. Do you have an opinion on that? I hope that you do.

1634. **The Chairman (Dr Birnie)**: That may be an unfair question to ask of Mr Pengelly.

1635. **Mr Shannon**: It is a serious question.

1636. **Mr O'Reilly**: It is probably not for us to offer opinions on the matter.*[Laughter.]*

1637. Both Richard and I sat on a finance subgroup as part of planning for the restructuring of local government, so we understand the point that Mr Shannon makes. The point has been made about existing councils incurring increasing levels of debt that will be transferred to the new structures. Take Magherafelt as an example: it has very low levels of debt, yet other councils, for the very good reason that they have been investing in services, have higher levels of debt.

1638. Provided that an application for loan finance is within the specified powers of a local council, the Department of the Environment (DOE) cannot refuse it. Although DOE is monitoring the position, unless there is a difficulty, the Government are unlikely to intervene. In a sense, DOE and, to a certain extent, DFP act as postboxes, because loans are taken out from the National Loans Fund in the United Kingdom. Provided that loans meet the criteria, they are processed and the loan repayments start.

1639. **Mr Pengelly**: The legislation requires that DOE approve any loan that councils take out for capital investment; however, as Leo says, such approval extends only to ensuring that councils have the legal authority to incur the expenditure — namely, that it is on services on which local councils should properly spend money. The greatest control is the normal framework of public accountability: ultimately the loan will be serviced from taxpayers' money, and publicly elected representatives must ensure that they seek value for money and accountability in the services that they provide.

1640. **Mr Shannon**: Therefore councils should not take on debt if they know that it will become someone else's.

1641. **Mr Pengelly**: If the debt is taken out with due regard to value for money and to provide a service from which the relevant ratepayers will benefit in future, it is not so much a matter of incurring a debt that someone else will have to pay, but rather asking those who will benefit to pay.

1642. **Mr Shannon**: Certain people are not convinced of the advantages, let me put it that way.

1643. **Mr O'Reilly**: We are aware of the issue, and there has been correspondence with Ministers about it.

1644. **Mr Cree**: I have four questions. Richard mentioned the £300 million of Barnett consequentials that go towards paying for water services. Does that include the £50 million that was agreed in the green-dowry days of 1998?

1645. **Mr Pengelly**: It is not hypothecated as such. In 1998, when water was privatised in England, a lump sum was paid to the English companies, and the Barnett consequential was £50 million, which was then added to the Northern Ireland block. However, that £50 million will not have grown.

1646. **Mr Cree**: Is it payable annually?

1647. **Mr Pengelly**: Yes, the £50 million is available to local Ministers to spend on whatever purpose, and it will not disappear.

1648. **Mr Cree**: In paragraph 30 of your submission, you mention the potential for an "overly optimistic" scenario, in which any increases in public expenditure from the Chancellor's package will possibly be required for pay and price increase inflation, leaving only efficiency savings for spending priorities. That is the optimistic scenario. What would a less optimistic scenario be?

1649. **Mr Pengelly**: It is not that we have a definitive range of precise calculations. We consider the numbers and types of inflationary pressures that are in the system, and the likely range of outcomes through the Barnett formula. On one reading, they seem broadly comparable, so they could offset each other and leave efficiencies available for other issues. However, at this early stage in the process, there is no precise science to that.

1650. **Mr Cree**: Would you be concerned if a significant deficit was produced?

1651. **Mr Pengelly**: That is what the early stages of the local Priorities and Budget process is about, and that is why we have not yet commissioned information. Information about likely inflationary pressures that Departments might identify before Christmas would be different from those that it might identify in the spring of 2007. The CSR outcome will become available in the middle of 2007, and Ministers will then take decisions about how those funds are to be allocated. Our experience has always been that it is better to leave the identification of those pressures until as close to that time as possible, so that the information on which those decisions are based is as up to date as possible. Inflationary pressures do concern us, and we could commission a huge amount of work to identify them, but by the time that Ministers come to take decisions that information will be out of date.

1652. **Mr Cree**: Is it the normal philosophy to leave it until nearer the time?

1653. **Mr Pengelly**: No, the philosophy is to do it at what we consider to be the appropriate time. It is not about putting off the commissioning of information. For inflationary pressures that will start in April 2008, it strikes us that to begin to identify them in 2006 would be premature. As you can see in the material from the Departments that is included in our submission, they are scanning the horizon for the sorts of issues that they will face. Precise figures will be generated in early to mid 2007 to inform the Budget process that runs from mid to late 2007. Our experience has always been that that is the better time to do it.

1654. **Mr Cree**: I am probably handicapped, as I come from the private sector and am used to medium-term to long-term planning.

1655. Asset disposal will be a big issue over the CSR period. Have you identified any specific areas and, if so, how much they are likely to realise?

1656. **Mr Pengelly**: The figure that is quoted up to the end of the CSR period is based on individual departmental units that have reviewed their asset registers and patterns of disposals.

1657. The Department of Finance and Personnel is currently turning that overall forecast of likely disposals, which is based on some empirical evidence, into details of individual assets and the timing of their likely disposal. The easiest example is social housing; we have a fairly stable pattern of disposal of social housing to owner-occupiers. That is obviously not pinned down to individual houses; we are

trying to turn that overall forecast, which is based on previous patterns of disposal, into details of specific assets — that is one of the early parts of the work that we are doing on the comprehensive spending review.

2.45 pm

1658. **Mr Cree**: Have you done anything specific on water reform? There are quite a lot of assets there that may become available very quickly.

1659. **Mr Pengelly**: There is nothing specifically in the £1 billion that is linked to the assets of what will become the Go-co. However, we are absolutely clear that there will be a robust analysis of the assets that it holds and of what it needs to hold. Those assets, if and when disposed of, will benefit the block. They will not be sold off for the private sector to realise the benefit.

1660. **Mr Cree**: Or to realise the asset value and offset it against the capital value?

1661. **Mr Pengelly**: In the medium- to long-term, the water company will have a significant capital investment programme, which, in many cases, will be financed through lending by Government to the Go-co. Any asset disposals would reduce the need for Government to lend, and so would reduce borrowing charges and, hence, the charge to customers. Rather than Government having to lend money to the Go-co and use its capital expenditure, it would also free up capital for investment in other areas. The benefit will remain within the public sector in Northern Ireland.

1662. **Mr Cree**: Many people will be concerned about the continuing problem of the underspend, which, I believe, was 18% last year. Do you agree that that is a serious problem that undermines public confidence in public expenditure programmes? In the light of the failure to date to adequately address underspending, what is now being considered by DFP as a means to address that problem?

1663. **Mr O'Reilly**: I do not think that the overall underspend is as high as 18%. That figure may be linked to capital.

1664. **The Chairman (Dr Birnie)**: The 18% is the capital.

1665. **Mr O'Reilly**: Any level of underspending is obviously a matter of concern, and we acknowledge that. Given that one can never overspend, however, there will inevitably be a level of underspend. By the very nature of capital projects there is always an element of uncertainty and an element of slippage in the programmes from one year to the next that creates a level of underspend, but the Department would certainly not regard the figure of 18% as acceptable. It is not an excuse, but the reason for it is the substantial increase in the total level of capital investment that has taken place over the past few years. It has risen from roughly £600 million a year just a few years ago to over £1 billion a year. The rapid growth in the amount of investment that has taken place has meant that some of those programmes have slipped. The point we always make is that the money is not lost; it rolls over.

1666. **Mr Cree**: I understand that.

1667. **Mr O'Reilly**: Having said that, you are absolutely right. The figure is too high, and even if it is rolled over, it means that money was not used in year one or two that could have been used somewhere else to bring other projects forward.

1668. **Mr Pengelly**: I am genuinely not trying to be overly defensive on this point, but we need to bear in mind that capital is measured by reference to a fairly arbitrary cut-off date — 31 March. If £200 million was planned to be spent on 20 March but was spent on 1 April, it would appear as a £200 million underspend. Sometimes the figures can mask the fact that while there is slippage, it may be slippage of a couple of weeks, and nothing significant. Having said that, 18% is not acceptable.

1669. We have talked about the enhancement in the level of capital expenditure, and that has raised some capacity issues. Departments are dealing with a wider range of capital programmes than before. There is no question that while it is still not at the level we want to see, there are signs of improvement. We continue to work with the Departments and our

colleagues in the SIB to enhance our ability to take those projects forward.

1670. We are also working with Departments to get systems in place that will identify the possibility of slippage at an earlier stage. For example, if a Department were planning to take forward a project in the forthcoming year and realised at an early stage that it would not be possible to do so, then DFP could go to other Departments and accelerate projects due for funding at the tail end of the year. There is a range of measures in place to try and improve performance.

1671. **Mr O'Reilly**: This year, DFP have commissioned a specific exercise, which is ongoing, to work with Departments to identify weakness in forecasting. Indeed, such weakness may be in the way the centre is managing the spending profiles in year; seeking to spot slippages that appear to be emerging, and using its power to redeploy resources accordingly. The issue identified is significant and important, and DFP is taking it seriously. There has been a lot of work carried out on this issue, particularly in light of the 18% figure you quoted from last year.

1672. **The Chairman (Dr Birnie)**: Further to Mr Cree's question, I wish to ask a question regarding capital underspend. I understand that work has been taken forward with PKF Consulting. What is the expected reporting date and will the report contain an action plan and targets?

1673. **Mr Pengelly**: We have been discussing the emerging findings. I am not sure of a precise date for the report, but DFP is looking to bring this to a conclusion in the next month or so, if not sooner. The report will include findings, conclusions, and recommendations for the way forward although it may not include specific action plans. DFP will be preparing detailed action plans to take forward with Departments based on the conclusions and recommendations.

1674. **The Chairman (Dr Birnie)**: I wish to ask questions based on your written submission. For example, as regards "Chart 9: Breakdown of Efficiency Savings by Gershon Classification", I am unclear as to what "Gershon Classification" means. The chart shows that 26% of the efficiency savings have been classified as "Other". What does that cover? The chart also states that 15% of the efficiency savings have been classified under "Procurement". Does that mean that less is being procured; is it being procured more efficiently, or are we talking about a combination of the savings in other categories?

1675. **Mr Pengelly**: I will run through the categories, leaving the category "Other" to the end. "Procurement" is about smarter procurement; it is the savings that arise from centralised procurement — economies of scale and better contract negotiation. "Productive" refers to productive time — getting more outputs for the same level of inputs, and better throughputs through better use of staff. "Corporate" relates to corporate overheads and efficiency savings linked to back-office administration and is closely aligned to the category "Administration" — it is a general squeeze on the corporate and administrative headquarters costs. "Transactions" represents streamlining transaction processing, particularly relating to benefits and e-enabling of benefit transactions. "Allocative" is a wonderful term, and it refers to prioritisation. In other words, as regards the overall efficiency with which the Government discharge their duty, is money being spent on issues that are not a priority, and therefore could it be used better elsewhere?

1676. **The Chairman (Dr Birnie)**: Could that include a straightforward reduction in spending by the Government?

1677. **Mr Pengelly**: That could happen if the case were clearly made that the spending was not in an area of priority and the money could be put to greater use in some other area of higher priority. As regards "Other", I am sorry, but I do not have a detailed breakdown of that with me. However, it encompasses a range of small issues.

1678. **The Chairman (Dr Birnie)**: Your submission outlines 10 value-for-money reviews in the various Departments. Departmental efficiency delivery plans are also mentioned. Is there a tight connection between

the two? Does a value-for-money review identify areas for improvement, and an efficiency plan set out how spending will be reduced in those areas over a certain period?

1679. **Mr Pengelly**: In its approach to the comprehensive spending review, the Treasury tends to use terms such as "value-for-money review" and "efficiency delivery plan" interchangeably. Ministers here have taken the view that zero-based reviews of programmes should be objective assessments that take into account the ministerial priority of a programme and how it will be delivered. For such reviews to be objective, it would be strange to rule out at the start that more money should be spent on a programme.

1680. For example, one value-for-money programme concerns social housing. The Housing Executive is working independently to increase, from 1,500 to 2,000, the number of new-build housing units each year. Value-for-money reviews fundamentally aim to identify the scope for efficiency savings and to do things smarter or better in order to deliver better outcomes. However, reviews may also identify areas in which good outcomes are forthcoming and further investment might help achieve the Government's overarching priorities.

1681. Efficiency delivery plans are designed to identify areas where robust efficiency savings can be achieved. They set out the detailed mechanics for achieving and capturing those efficiencies.

1682. **Mr Weir**: I want to ask you about a couple of issues, in particular, the RPA. The RPA will probably have the largest single impact on the comprehensive spending review that is unique to Northern Ireland. It is certainly one of the biggest issues. I take issue with some of the things that you have said, such as on longer-term efficiency savings, the report by Deloitte that you mentioned, and the benefits of coterminosity in relation to delivery of services. However, I will leave those issues aside for the moment.

1683. I wish to clarify something in your submission. Annex B of your submission relates to the value-for-money studies. Following the title of section 1(a), "Structural Issues – Review of Public Administration", there is a figure in brackets of £200 million. To what does that figure refer?

1684. **Mr Pengelly**: That is the likely overall cost of the health component of the RPA.

1685. **Mr Weir**: Do other figures in brackets also refer to overall costs? For example, the figure of £2 billion appears in brackets after "Labour Productivity" in section 1(b). Is that the overall additional cost of improving labour productivity?

1686. **Mr Pengelly**: No. That £2 billion refers to the current spend on labour productivity.

1687. **Mr Weir**: Therefore, the £200 million in section 1(a) of annex B refers to the current health spend?

1688. **Mr Pengelly**: Yes.

1689. **Mr Weir**: A summary table at the end of annex B shows key spending areas and programmes. A figure of £300 million is shown for the RPA for 2007-08. Is that the overall estimated cost of the RPA?

1690. **Mr Pengelly**: No. Again, that figure is the current overall spend in areas that the RPA will impact on, with the exceptions of health, education and the Water Service.

1691. **Mr Weir**: I am trying to understand this clearly; forgive me if I am being obtuse. The £300 million is being spent on RPA-related areas. For the sake of argument, let us say that the RPA was not happening in 2007-08. Would that money be available elsewhere?

1692. **Mr Pengelly**: When the Treasury began the comprehensive spending review, Whitehall Departments were informed that they must run a programme of value-for-money reviews. The Treasury anticipated that those reviews would cover something in the order of 40-50% of the current departmental spends.

3.00 pm

1693. The table in members' packs identifies the areas that we are subjecting to value-for-money reviews. Of the total current spend, we

shall review programmes to the value of £6,599·4 million.

1694. **Mr Weir**: I would like to know what the figure of £300 million represents in practical terms.

1695. **Mr Pengelly**: That is the cost of providing services in areas that are under review as part of the RPA. Part of that review will concern how those services are provided. If RPA were not happening, those services would still continue on their current basis.

1696. **Mr Weir**: Can you provide any estimates of the projected cost of the RPA over those periods, other than what was produced by Deloitte?

1697. **Mr Pengelly**: We are currently working with the Departments, rather than remaining focused on the Deloitte report, which was very much a strategic overview. We are now drilling down and we have the detail of all of the RPA-affected bodies and services. We are working with individual Departments to examine provision on a service-by-service basis, and to examine the cost of achieving change.

1698. **Mr Weir**: Presumably, you are principally referring to the RPA as it relates to local government — a separate category from RPA activities concerning health and education. What else would the review cover?

1699. **Mr Pengelly**: It would also cover areas such as urban regeneration and roads.

1700. **Mr Weir**: Broadly speaking, it would mean the transfer of responsibilities?

1701. **Mr Pengelly**: Yes. The figures that I have cited will not cover the cost that is currently incurred by local government.

1702. **Ms Ritchie**: My question concerns the spending priorities of Departments. In particular, I refer to the Department of Regional Development and structural road maintenance. The paper that you have provided states that the public transport programme in Northern Ireland seeks to deliver the objectives of the regional transport strategy. One of the objectives of that strategy was to ensure that the network was maintained and that there was no depreciation in that asset. However, the allocation of funding to structural road maintenance has been reduced over the last few years. How does the Department intend, through the CSR, to address that matter?

1703. As for management of the asset base, I understand that the Department will be receiving proposals for Workplace 2010 and bids in that respect. How will the future management of the asset base create savings, and how will it meet the needs for decentralisation?

1704. **Mr O'Reilly**: I understand that Workplace 2010 has been examined by a separate subgroup. It would probably be safer for us not to say too much on that matter, because the experts and the detail have been with another subgroup.

1705. **Dr Birnie**: That subgroup has finished its deliberations.

1706. **Mr O'Reilly**: We can certainly address the other points. The point that was made on roads maintenance is factually correct; there was a reduction in the allocation for structural roads maintenance in the current financial year, but there is an enhancement for next year. We have not yet reached the £100-million-a year figure that was estimated as necessary.

1707. We are certainly aware of that issue. Public representatives raise that matter quite frequently, so it is high on the agenda of issues to be examined during the current comprehensive spending review. I cannot confirm that we will increase that spending to £100 million because, ultimately, that is not my decision.

1708. **Mr Pengelly**: Structural maintenance has a link to underspending. Historically, initial budget allocations for structural maintenance have never reached the level that my colleagues in the Roads Service would like to see. However, the monitoring process has always offered the opportunity to make some further in-year reallocations made possible by slippage and underspend in other areas. That is an area in which we would happily praise our colleagues in the Roads Service because, more than any

organisation in the public sector, when it asks for money, it has a record of delivering actual spend on the ground, if you will pardon the pun.

1709. **Ms Ritchie**: Will the September monitoring round result in any further funding allocations this financial year for structural road maintenance?

1710. **Mr Pengelly**: The proposals on that are currently with the Secretary of State.

1711. **Mr Pengelly**: This may not be specifically linked to Workplace 2010, but, generally, assets held by Departments have an associated cost as regards depreciation and cost of capital. Better asset management — reducing the volume of assets held — would give rise to recurrent savings, which would come back to Ministers for reallocation. There would be a tangible benefit.

1712. **Mr O'Dowd**: Procurement policies were mentioned earlier. I will go back to my original point. If we take the Erne Hospital, which is probably one of the biggest economic units west of the Bann, will the CSR look at the procurement opportunities that the hospital will provide as regards local food manufacturers, producers, or service industries, etc, instead of what is happening now, which is that the cheapest contract is chosen?

1713. From a social responsibility perspective, permitting such a procedure would target local industry, manufacturers and food producers as suppliers and would have a positive financial impact on the wider community.

1714. **Mr Pengelly**: It is a difficult area. Ultimately, there is always a cheaper way of doing things. In cash terms, centralised procurement — procuring services on a Northern Ireland basis from suppliers outside the Northern Ireland marketplace — may enable you to pay less for services than if you went to local suppliers. However, against that there are tangible and intangible benefits from sourcing local suppliers. It would be for Ministers to take such decisions at the appropriate time.

1715. There could be a situation in which there is a very clear value-for-money argument, together with an analysis, which could appear to be poor value for money because you would be paying more for the same services.

1716. There is no general policy supporting the approach outlined by Mr O'Dowd. The example he uses would fall to colleagues in the Department of Health, Social Services and Public Safety (DHSSPS) for determination. Although DFP advises Ministers on overall allocations and on strategic allocations for services, responsibility for service delivery would fall to colleagues in DHSSPS who hold the budget. It would be possible for them to work alongside colleagues in DETI on local economic development issues, where there could be a payback for both Departments through a specific course of action.

1717. **Mr O'Dowd**: Is there a role for the CSR to look at the wider procurement policy?

1718. **Mr Pengelly**: Yes. That could be taken forward as part of the process discussed earlier. It would be a very valid issue that could be considered alongside the other issues in the spring of next year, in the detailed analysis of how public expenditure should be utilised in the CSR period.

1719. **Mr O'Reilly**: Procurement is subject to a fairly specific set of rules and regulations — particularly European procurement and competition rules for larger contracts. There is not a great deal of discretion.

1720. **Mr O'Dowd**: That happens in larger contracts certainly. However, I am talking about smaller contracts in the service industry.

1721. **Mr O'Reilly**: There are policies on competitive tendering even in smaller contracts. Our colleagues in central procurement directorate (CPD) could give the subgroup a lot more detail and background on that than we would be equipped to do if it wants to explore the issue further.

1722. **The Chairman (Dr Birnie)**: CPD and the Equality Commission recently completed a report on guidelines on social issues in procurement. However, I do not know whether that would shed any light on this point. You are correct. European competition law limits what can be done to a certain degree.

1723. Are there any other questions?

1724. At the beginning of the session, Mr O'Reilly, when you were answering questions, you mentioned projects in the north-west, and that prompts a further question.

1725. What discussions have there been between the Treasury and the Irish Government on so-called joint funding? If indeed there have been discussions on that issue, to what extent would any such funding be additional to the departmental expenditure limit?

1726. **Mr O'Reilly**: I understand that one of your subgroups has taken evidence from representatives of the Irish Government, and that they confirmed that there are ongoing discussions between the Irish Government and the Treasury. Both DFP and OFMDFM have also been present at those meetings.

1727. Furthermore, the Irish Government have indicated that they would consider contributing to specific projects in Northern Ireland in which there is a potential or manifest all-Ireland benefit. The Treasury has confirmed that any such allocations would be over and above anything that the Treasury and the UK Government would provide or any revenue that would be raised.

1728. As I said, those discussions are ongoing. No specific amounts of money have been mentioned in those ongoing discussions, at least not in my earshot, although I have asked. Certainly there has been discussion about the potential for contributing to specific projects, including roads projects, but that is information that you are probably already aware of.

1729. **Mr Cree**: Has the Secretary of State identified any priorities for the CSR?

1730. **Mr Pengelly**: The current position in terms of a backdrop for Departments' initial thinking is the priorities that were established in December 2005 when the Budget was launched: economic development, high-quality public services, equality and diversity. Additionally, the Secretary of State has recently identified for Departments the overarching strategies such as sustainable development and the anti-poverty strategy. Departments must also factor the delivery of those strategies into any thinking about forward pressures and issues. We are also continuing to build on the priority funding packages that were announced — renewable energy, skills and science, children and young people. It is very much at a high strategic level.

1731. **The Chairman (Dr Birnie)**: Thank you for coming, and for your written submission. We wish the Department well in the new year.

Appendix 4

Minutes of Proceedings

Wednesday, 6 December 2006 in Room 135, Parliament Buildings

In the Chair: Mr Jim Wells MLA

Present: Mr Leslie Cree MLA
Mr Alex Maskey MLA
Mr Raymond McCartney MLA
Ms Margaret Ritchie MLA
Mr Jim Shannon MLA
Mr Peter Weir MLA

In Attendance: Mr Alan Patterson (Principal Clerk)
Mr Hugh Farren (Clerk)
Ms Hilary Bogle (Assistant Clerk)
Mr David Douglas (Clerical Officer)
Ms Lucia Wilson (Assembly Senior Researcher)
Ms Roisin Kelly (Assembly Researcher)
Mr Simon Kelly (Assembly Research Assistant)
Mr Brian Crowe (UUP Researcher)
Dr Dara O'Hagan (SF Researcher)
Ms Nuala O'Neill (SDLP Researcher)
Mr Philip Weir (DUP Researcher)

The meeting commenced at 2.05pm in closed session.

1. **Apologies**

Apologies were received from Mr Mark Durkan MP MLA and Mr Mitchell McLaughlin MLA.

Ms Margaret Ritchie deputised for Mr Mark Durkan and Mr Alex Maskey deputised for Mr Mitchell McLaughlin.

2. **Introductions**

Members noted details of secretariat support staff and sub-group membership.

3. **Declaration of Interests and Transitional Assembly Privilege**

Members noted that the Transitional Assembly's Standing Orders 29 (f) state that, 'before taking part in any debate or proceeding of the Assembly, a Member shall declare any interest,

financial or otherwise, which is relevant to that debate or proceeding, where such interest is held by the member or an immediate relative.'

The Chairman asked members to declare any relevant interests.

No relevant interests were declared.

Members noted the information in relation to privilege contained in Paragraph 8 of Schedule 1 to the Northern Ireland (St Andrews Agreement) Act 2006.

4. **Sub-group Procedures and Terms of Reference**

Members noted the procedures for the sub-group, as approved by the Programme for Government Committee.

It was agreed by consensus that meetings would be held in closed session with oral evidence sessions held in public, this will be reviewed if necessary. Members noted that the procedures allowed up to two researchers/advisers per party to attend closed meetings.

Members noted the Terms of Reference for the sub-group, as approved by the Programme for Government Committee.

The sub-group agreed, by consensus, that it would meet every Wednesday and, as the sub-group has to report on three areas, these would be full day meetings.

5. **Background Papers**

Members noted the three background papers that had been prepared by Assembly Researchers. Assembly Researchers gave a brief overview of the papers which had been prepared prior to the written Terms of Reference being available.

It was agreed that the Assembly Researchers should request the second Asset Management Plan and that they should carry out further research on Water Reform in the undernoted areas –

- The Strategic Business Plan – financial model.
- Letter of Governance.
- Licence details.
- Asset management.
- Estate Management.
- Future implications on the economy, assets and the environment.
- Sustainability.

Members noted the contents of the tabled copy correspondence between the Committee on the Programme for Government and the Secretary of State. Following discussion it was agreed, by consensus, that the sub-group should avail of the opportunity afforded to it in the last paragraph of the Secretary of State's letter and invite Departmental officials to brief the Committee on the Water Reform proposals.

Members were informed that background papers had been commissioned from the Department of Finance and Personnel and the Department for Regional Development. Mr Maskey requested that the papers be available next Monday in order to give the Members sufficient time to study them prior to next Wednesday's meeting.

Members noted the contents of a tabled briefing note that had been prepared by Assembly Research following the issue of the Chancellor of the Exchequer's Pre-Budget Report released earlier in the day.

6. **Work Programme**

Members discussed the contents of the tabled draft Work Programme. It was agreed, by consensus, that there should be four oral evidence sessions at the next three meetings of the sub-group and that written submissions should be requested from other organisations. Members agreed the organisations to be invited to give oral and written evidence.

7. **Any Other Business**

Members agreed that relevant papers should be copied to the Economic sub-group to ensure that there was no unnecessary duplication or confusion where issues were of common interest. The Economic Sub-Group has agreed to copy its papers to this sub-group.

It was agreed that, due to the Christmas recess, the meeting scheduled for the week beginning 1 January 2007 should be set for Thursday 4 January 2007.

8. **Date, Time and Place of Next Meeting**

The next meeting of the sub-group will take place on Wednesday 13 December 2006 at 10.00am in the Senate Chamber, Parliament Buildings and Members agreed that the oral evidence should be held in open session and televised.

Wednesday, 13 December 2006 in the Senate Chamber, Parliament Buildings

In the Chair: Mr David McNarry MLA

Present:
Mr Leslie Cree MLA
Mr Paul Girvan MLA
Mr Raymond McCartney MLA
Ms Margaret Ritchie MLA
Mr Jim Shannon MLA
Ms Kathy Stanton MLA

In Attendance:
Mr Alan Patterson (Principal Clerk)
Mr Hugh Farren (Clerk)
Ms Hilary Bogle (Assistant Clerk)
Mr David Douglas (Clerical Officer)
Ms Lucia Wilson (Assembly Senior Researcher)
Ms Roisin Kelly (Assembly Researcher)
Mr Brian Crowe (UUP Researcher)
Dr Dara O'Hagan (SF Researcher)
Mr Joseph Doherty (SF Researcher)
Mr Richard Bullick (DUP Researcher)
Ms Grainne McEvoy (SDLP Researcher)

The meeting commenced at 10.08am in closed session.

1. **Apologies**

Apologies were received from Mr Mark Durkan MP MLA, Mr Mitchell McLaughlin MLA and Mr Peter Weir MLA.

Ms Margaret Ritchie deputised for Mr Mark Durkan, Ms Kathy Stanton deputised for Mr Mitchell McLaughlin. Mr Paul Girvan deputised for Mr Peter Weir from 1.55pm.

2. **Draft Minutes of the Meeting of 6 December 2006**

The draft minutes of the meeting of 6 December 2006 were agreed for publication on the Assembly website.

Proposed: Mr Jim Shannon
Seconded: Mr Leslie Cree

3. **Matters Arising**

Mr McCartney requested that it be placed on record that, due to the late receipt of papers for the meeting, it was not possible to read them all in time for the meeting.

4. **Revised Sub-Group Procedures**

Members noted the revised Sub-Group Procedures.

5. **Updated Work Plan**

Members agreed the Updated Work Plan. It was agreed, by consensus, that the next meeting of the sub-group on Wednesday 20 December would be held in room 135.

6. **Updated Assembly Research Paper on Water Reform**

Members noted the updated Assembly Research Paper on Water Reform.

7. **Correspondence**

Members noted the contents of the following documents:-

- Uncorrected Hansard Transcript of evidence taken at the Economic Sub-Group meeting on Thursday, 7 December from the Department of Regional Development.
- CBI submission on Comprehensive Spending Review in Northern Ireland.
- Letter dated 4 December 2006 from the Committee on the Programme for Government to the Secretary of State seeking deferment of the water Reform legislation and reply from the Secretary of State dated 7 December 2006.

Members noted the contents of the following tabled documents:-

- Covering letter dated 12 December 2006 and submission received from the Northern Ireland Authority for Energy Regulation.
- Copy letter dated 30 November from the Northern Ireland Office to the Programme for Government Committee.
- Copy letter dated 11 December 2006 from the Chairman of The General Consumer Council to the Minister for Regional Development.

Open session

8. **Evidence Session with the Regulator (Northern Ireland Authority for Energy Regulation)**

Members noted the written submission received from the Regulator.

Members took evidence from the Regulator, Mr Iain Osborne.

The Chairman thanked the witness for attending.

9. **Evidence Session with the Coalition Against Water Reform**

Members noted the written submissions received from the Coalition Against Water Reform and the Northern Ireland Anti-Poverty Network.

Members took evidence from the following witnesses:-

Mr Pat Torley, Official, Amalgamated Transport and General Workers' Union – representing the Water Service Trade Union.

Ms Goretti Horgan, Chairperson, NI Anti-Poverty Network

Mr John Corey, General Secretary Northern Ireland Public Service Alliance/Chairperson, Coalition against Water Reform.

The Chairman thanked the witnesses for attending.

12.30pm – the meeting adjourned for lunch

1.15pm – the meeting resumed in closed session.

10. **Issues arising from morning session and preparation for afternoon session**

Following discussion it was agreed that Members should forward, to the Clerk, any additional questions that they wish the Regulator to address in writing. The Clerk will then submit these to the Regulator for response.

Members noted the contents of a tabled document, outlining the layout for Sub-Group Reports, which had been agreed at the Programme for Government Committee meeting on 12 December 2006.

Members noted the contents of a tabled written submission received from the General Consumer Council.

Open session

11. **Evidence Session with the General Consumer Council**

Members took evidence from the following witnesses:-

Mr Steve Costello, Chairman, General Consumer Council

Mrs Eleanor Gill, Chief Executive, General Consumer Council

1.55pm Mr Paul Girvan joined the meeting

The Chairman thanked the witnesses for attending.

2.25pm - the meeting adjourned

2.25pm - Mr Jim Shannon left the meeting

2.33pm - the meeting resumed in open session

12. **Evidence Session with the Department for Regional Development and the Water Service**

Members took evidence from the following witnesses:-

Mr David Sterling, Grade 3, Department for Regional Development

Mr Nigel McCormick, Grade 5, Department for Regional Development

Ms Katharine Bryan, Chief Executive, Water Service

The Chairman thanked the witnesses for attending.

Closed session

7. **Any Other Business**

It was agreed that the Clerk would produce a draft Report on Water Reform and issue it to Members for their comments.

8. **Date, Time and Place of Next Meeting**

The next meeting of the sub-group will take place on Wednesday 20 December 2006 at 10.00am in room 135, Parliament Buildings.

The meeting adjourned at 4.15pm.

Wednesday, 20 December 2006 in room 135, Parliament Buildings

In the Chair: Dr Esmond Birnie MLA

Present:
Mr Wilson Clyde MLA
Mr Leslie Cree MLA
Mr Paul Girvan MLA
Mr Raymond McCartney MLA
Ms Margaret Ritchie MLA
Mr Jim Shannon MLA
Ms Kathy Stanton MLA
Mr Peter Weir MLA

In Attendance:
Mr Alan Patterson (Principal Clerk)
Mr Hugh Farren (Clerk)
Ms Hilary Bogle (Assistant Clerk)
Mr David Douglas (Clerical Officer)
Ms Lucia Wilson (Assembly Senior Researcher)
Ms Roisin Kelly (Assembly Researcher)
Mr Brian Crowe (UUP Researcher)
Dr Dara O'Hagan (SF Researcher)
Mr Philip Weir (DUP Researcher)
Ms Grainne McEvoy (SDLP Researcher)

The meeting commenced at 10.02am in closed session.

1. **Apologies**

Apologies were received from Mr Mark Durkan MP MLA and Mr Mitchell McLaughlin MLA.

Ms Margaret Ritchie deputised for Mr Mark Durkan, Ms Kathy Stanton deputised for Mr Mitchell McLaughlin. Mr Paul Girvan deputised for Mr Jim Shannon until 11.35am. Mr Clyde deputised for Mr Weir from 2.26pm.

2. **Draft Minutes of the Meeting of 6 December 2006**

The draft minutes of the meeting of 13 December 2006 were agreed for publication on the Assembly website.

Proposed: Ms Margaret Ritchie
Seconded: Mr Leslie Cree

3. **Written submissions received on Water Reform**

Members noted the contents of written submissions received from –

- Federation of Small Businesses.
- Friends of the Earth.
- Northern Ireland Environmental Link.
- Strategic Investment Board.
- Help the Aged/Age Concern.
- Ulster Farmers' Union.
- Additional Paper from the General Consumer Council setting out its suggested recommendations for the Sub-Group.

Members also considered a Paper from the General Consumer Council setting out questions on Water Reform. Members agreed that the Paper should be forwarded to the Department for Regional Development, Water Service and the Regulator for urgent response.

4. **Correspondence**

Members noted the contents of the following documents:-

- Northern Ireland Grand Committee Question on Water Reform.
- Letter dated 15 December from the Department for Regional Development on Water Reform.
- Letter dated 8 December from the Department for Regional Development to Lord Glentoran re: Draft Water and Sewerage Services (NI) Order.

Members noted the contents of a tabled written submission received from the Confederation of British Industry on the Comprehensive Spending Review and Programme for Government; Rates Charges; and Water Reform. Members agreed that the sub-group would take evidence from the Confederation of British Industry, on the Comprehensive Spending Review and Programme for Government, at the meeting of the sub-group on 4 January 2007.

10.10am - Mr Weir joined the meeting

5. **Initial Draft Report on Water Charges**

Members considered the Initial Draft Report on Water Charges and agreed a number of additional points. Initial Draft Report to be updated and placed before Members at the next meeting.

6. **Updated Assembly Research Paper on Rates Charges**

Members noted the updated Assembly Research Paper on Rates Charges.

7. **Written submissions received on Rates Charges**

Members noted the contents of written submissions received from –

- Rural Development Council.
- Citizens Advice Bureau.
- Ulster Farmer's Union.

Open session

8. **Evidence Session the Northern Ireland Manufacturing Focus Group/Amicus**

Members noted the tabled written submission received from the Northern Ireland Manufacturing Focus Group/Amicus.

Members took evidence from the following witnesses:-

Mr Basil McCrea, Chief Executive, Northern Ireland Manufacturing Focus Group

Mr Patsy Forbes, Chairman, Northern Ireland Manufacturing Focus Group

Mr Jim Donaghy, Amicus

9.52am – Ms Stanton left the meeting

The Chairman thanked the witness for attending.

9. **Evidence Session with Help the Aged/Age Concern**

Members noted the joint written submission received from Help the Aged/Age Concern.

Members took evidence from the following witnesses:-

Ms Elaine Campbell, Head of Policy, Age Concern

Ms Pam Tilson, Political Affairs Officer, Age Concern

Ms Michelle Bagnell, Policy Officer, Help the Aged

Mr Duane Farrell, Head of Policy, Research and Communications, Help the Aged

11.35am - Mr Girvan left the meeting
- Mr Shannon joined the meeting

12.05pm - Mr Weir left the meeting

12.10pm - Mr Weir rejoined the meeting

The Chairman thanked the witnesses for attending.

Closed Session

It was agreed that the sub-group would re-convene at 1.00pm.

12.20pm – the meeting adjourned for lunch

1.00pm – the meeting resumed in closed session.

10. **Issues arising from morning session and preparation for afternoon session**

Members discussed the issues arising from the morning session in preparation for the afternoon evidence sessions.

Open session

11. **Evidence Session with Northern Ireland Fair Rates Campaign**

Members noted the written submission received from the Northern Ireland Fair Rates Campaign.

Members took evidence from the following witnesses:-

Mr Michael Kelly, Member NI Fair Rates Campaign

Ms Anne Monaghan, Member, NI Fair Rates Campaign

Mr Raymond Farley, Member, NI Fair Rates Campaign

Mr Stan Blaney, Member, NI Fair Rates Campaign

The Chairman thanked the witnesses for attending.

12. **Evidence Session with the Department of Finance and Personnel**

2.18pm - Mr McCartney left the meeting

2.20pm – Mr McCartney rejoined the meeting

Members took evidence from the following witnesses:-

Mr Brian McClure, Head of Rating Policy Division, Department of Finance and Personnel

Mr Leo O'Reilly, Budget Director, Central Finance Group, Department of Finance and Personnel

2.26pm - Mr Weir left the meeting
- Mr Clyde joined the meeting

The Chairman thanked the witnesses for attending.

Closed session

13. **Consideration of outcomes for draft report**

It was agreed that the Clerk should write to the Department of Finance and Personnel for clarification on issues highlighted by Members before agreeing outcomes for draft report.

14. **Any Other Business**

There was no other business.

8. **Date, Time and Place of Next Meeting**

The next meeting of the sub-group will take place on Thursday 4 January 2007 at 10.00am in room 152, Parliament Buildings.

The meeting adjourned at 3.40pm.

Thursday, 4 January 2007 in room 152, Parliament Buildings

In the Chair: Dr Esmond Birnie MLA

Present:
Mr Leslie Cree MLA
Mr Raymond McCartney MLA
Mr John O'Dowd MLA
Ms Margaret Ritchie MLA
Mr Jim Shannon MLA
Ms Kathy Stanton MLA
Mr Peter Weir MLA

In Attendance:
Mr Alan Patterson (Principal Clerk)
Mr Hugh Farren (Clerk)
Ms Hilary Bogle (Assistant Clerk)
Mr Sean McCann (Clerical Officer)
Ms Roisin Kelly (Assembly Researcher)
Mr Brian Crowe (UUP Researcher)
Dr Dara O'Hagan (SF Researcher)
Ms Grainne McEvoy (SDLP Researcher)

The meeting commenced at 10.00am in closed session.

1. **Apologies**

Apologies were received from Mr Mark Durkan MP MLA and Mr Mitchell McLaughlin MLA.

Ms Margaret Ritchie deputised for Mr Mark Durkan, Mr John O'Dowd deputised for Mr Mitchell McLaughlin. Ms Kathy Stanton deputised for Mr Raymond McCartney from 1.15pm.

2. **Draft Minutes of the Meeting of 20 December 2006**

The draft minutes of the meeting of 20 December 2006 were agreed for publication on the Assembly website.

Proposed: Mr Peter Weir
Seconded: Ms Margaret Ritchie

10.04am – Mr O'Dowd left the meeting

10.05am – Mr O'Dowd returned to the meeting

3. **Supplementary information received on Rates Charges**

Members noted the contents of the supplementary information received from the Northern Ireland Fair Rates Campaign, Help the Aged/Age Concern and the Department of Finance and Personnel on Rates Charges.

4. **Supplementary information received on Water Reform**

Members noted the contents of the supplementary information received from the General Consumer Council on Water Reform.

5. **Initial Draft Report on Rates Charges**

Members considered an Initial Draft Report on Rates Charges.

6. **Updated Assembly Research Paper on the Comprehensive Spending Review and Programme for Government**

Members noted the updated Assembly Research Paper on the Comprehensive Spending Review and Programme for Government.

7. **Written submissions received on the Comprehensive Spending Review and Programme for Government**

Members noted the contents of written submissions received from –

- Strategic Investment Board
- Rural Development Council
- Northern Ireland Environmental Link
- Northern Ireland Local Government Association

Open session

8. **Evidence Session with the Economic Research Institute of Northern Ireland**

Members noted the written submission received from the Economic Research Institute of Northern Ireland.

Members took evidence from Mr Victor Hewitt, Director, Economic Research Institute of Northern Ireland.

Mr Weir left the meeting at 11.20am

The Chairman thanked the witness for attending.

9. **Evidence Session with the Northern Ireland Council for Voluntary Action**

Members noted the written submission received from the Northern Ireland Council for Voluntary Action.

Members took evidence from the following witnesses:-

Mr Seamus McAleavey, Chief Executive, Northern Ireland Council for Voluntary Action.

Ms Frances McCandless, Director of Policy, Northern Ireland Council for Voluntary Action.

11.35am - Mr Peter Weir returned to the meeting.

The Chairman thanked the witnesses for attending.

Closed Session

12.04pm – Mr Raymond McCartney left the meeting.

10. **Issues arising from morning session and preparation for afternoon session**

Members discussed the issues arising from the morning session in preparation for the afternoon evidence sessions.

It was agreed that the sub-group would re-convene at 1.10pm.

12.20pm – the meeting adjourned for lunch

Open session

1.15pm – Ms Kathy Stanton joined the meeting

11. **Evidence Session with the Confederation of British Industry**

Members noted the written submission received from the Confederation of British Industry.

Members took evidence from the following witnesses:-

Mr Nigel Smyth, Director, Confederation of British Industry

Mr Declan Billington, Chairman, Confederation of British Industry

Mr Brian Ambrose, Vice-Chairman, Confederation of British Industry

Mr Alastair Hamilton, Chairman, Confederation of British Industry, Northern Ireland Economic Affairs Committee

1.59pm – Mr O'Dowd left the meeting.

2.05pm – Mr O'Dowd returned to the meeting.

The Chairman thanked the witnesses for attending.

12. **Evidence Session with the Department of Finance and Personnel**

Members noted the written submission received from the Department of Finance and Personnel including a paper on priorities identified by the eleven Departments.

2.14pm - Mr Weir left the meeting

2.15pm – Mr Weir returned to the meeting.

Members took evidence from the following witnesses:-

Mr Leo O'Reilly, Budget Director, Central Finance Group,
Department of Finance and Personnel

Mr Richard Pengelly, Head of Central Expenditure Division,
Department of Finance and Personnel

The Chairman thanked the witnesses for attending.

Closed session

13. **Consideration of outcomes for draft report**

Members debated the outcomes from the evidence sessions to inform the draft report.

14. **Any Other Business**

There was no other business.

8. **Date, Time and Place of Next Meeting**

The next meeting of the sub-group will take place on Wednesday, 10 January 2007 in closed session at 10.00am in room 135, Parliament Buildings.

The meeting adjourned at 3.34pm.

Thursday, 10 January 2007 in room 135, Parliament Buildings

In the Chair: Mr David McNarry MLA

Present: Mr Leslie Cree MLA
Mr John O'Dowd MLA
Ms Margaret Ritchie MLA
Mr Jim Shannon MLA

In Attendance: Mr Alan Patterson (Principal Clerk)
Mr Hugh Farren (Clerk)
Ms Hilary Bogle (Assistant Clerk)
Mr David Douglas (Clerical Officer)
Mr Sean McCann (Clerical Officer)
Ms Roisin Kelly (Assembly Researcher)
Mr Richard Bullick (DUP Researcher)
Mr Brian Crowe (UUP Researcher)
Dr Dara O'Hagan (SF Researcher)

The meeting commenced at 10.08am in closed session.

1. **Apologies**

Apologies were received from Mr Mark Durkan MP MLA, Mr Mitchell McLaughlin MLA, Mr Raymond McCartney MLA and Mr Peter Weir MLA.

Ms Margaret Ritchie deputised for Mr Mark Durkan, Mr John O'Dowd deputised for Mr Mitchell McLaughlin.

2. **Draft Minutes of the Meeting of 4 January 2007**

The draft minutes of the meeting of 4 January 2007 were agreed for publication on the Assembly website.

Proposed: Mr Jim Shannon
Seconded: Ms Margaret Ritchie

3. **Matters arising**

Members noted the contents of the under-noted documents in response to points raised by Mr O'Dowd at the last meeting of the Sub-Group –

- Equality Commission for NI/Central Procurement Directorate - Guidance on equality and sustainable development considerations in public sector procurement - Consultation draft.
- Department of Finance and Personnel - Public Procurement Policy.
- Procurement Guidance Note 03/04 - Social Considerations in Public Procurement.

Mr O'Dowd expressed appreciation that the information was received so promptly.

Members noted the contents of a tabled letter dated 9 January 2007 from the Northern Ireland Authority for Energy Regulation together with attached response to questions raised by the General Consumer Council.

Members noted the contents of a letter dated 8 January 2007 from the Department for Regional Development on Water Reform together with attached response to questions raised by the General Consumer Council.

Members agreed that the contents of these documents should be copied to the General Consumer Council and that the outstanding reply from the Water Service, in relation to the questions put forward by the General Consumer Council, should be copied to the General Consumer Council and Members on its receipt.

4. **Consideration of draft Report on the Comprehensive Spending Review and Programme for Government; Rates Charges; and Water Reform**

Members considered the draft report paragraph by paragraph.

Introduction
Paragraphs 1 – 6 were agreed.

Section 1 – Comprehensive Spending Review

Background
Paragraphs 7 – 9 were agreed.

Summary of concerns raised with sub-group
Paragraphs 10 – 20 were agreed.

Annex A was agreed as amended.

Consideration of issues: Priorities for a Draft Programme for Government
Paragraph 21 (a) to (d) were agreed.

Paragraph 21 (e) was agreed as amended.

Additional point (f) to be inserted was agreed.

Addressing Restricted Growth in Public Expenditure
Paragraphs 22 – 26 were agreed.

Early Consideration and Consultation on Priorities & Budget 2008-09 to 2010-11
Paragraph 27 was agreed.

Paragraph 28 was agreed as amended.

Achieving Resource Releasing Efficiencies
Paragraph 29 was agreed as amended.

Paragraph 30 was agreed as amended.

Paragraph 31 was agreed.

Making better use of existing resources
Paragraphs 32 - 33 were agreed.

Investing in Northern Ireland's Growth
Paragraph 34 was agreed.

The bullet points were agreed as amended.

An additional bullet was agreed.

Use of an Agreed Economic Package
Paragraphs 35 – 36 were agreed.

11.22am – the meeting adjourned

11.40am – the meeting resumed

It was agreed that a further meeting of the sub-group would be necessary in order to sign off the Report with the agreed amendments and that a form of words for any further suggested amendments should be forwarded to the Clerk by lunch-time on Monday 15 January 2007.

Section 2 – Rates Charges

Background
Paragraphs 37 – 40 were agreed.

Summary of Concerns
Paragraphs 41 – 44 were agreed.

Paragraph 45 – deferred for consideration at the next meeting following a request for further information.

Paragraphs 46 – 50 were agreed.

Consideration of Issues

Suggested recommendation in relation to farmhouses. Form of words to be submitted to the Clerk.

Paragraph 51- deferred for consideration at the next meeting.

Paragraph 52 was agreed.

Paragraph 53 - deferred for consideration at the next meeting.

Paragraph 54 was agreed.

Paragraph 55 - deferred for consideration at the next meeting. Form of words to be submitted to the Clerk.

Paragraphs 56 – 57 were agreed.

Paragraph 58 – deferred for consideration at the next meeting following a request for further information.

Paragraphs 59 – 61 deferred for consideration at the next meeting.

Paragraphs 62 – 63 were agreed.

Section 3 – Water Charges

Background

Paragraphs 64 – 66 were agreed.

Summary of Concerns

Paragraphs 67 – 77 were agreed subject to updating in light of information received from the Department for Regional Development and the Northern Ireland Authority for Energy Regulation.

Consideration of Issues

Paragraph 78 - deferred for consideration at the next meeting. Form of words to be submitted to the Clerk.

Paragraphs 79 – 85 were agreed.

Paragraph 86 - deferred for consideration at the next meeting following a request for further information.

Paragraph 87 was agreed.

Paragraph 88 - deferred for consideration at the next meeting.

Paragraphs 89 – 93 were agreed.

5. **Any Other Business**

Members noted that a request under the Freedom of Information Act had been received by the Transitional Assembly asking for 'A copy of all documents issued by any statutory body to the Programme for Government or any of its sub-groups, as well as any transcript of any meeting of the Programme for Government Committee or any of its sub-committees.' Members further noted that the Programme for Government Committee is considering the request.

Members noted that the Programme for Government Committee agreed at its meeting on Monday 8 January that transcripts of evidence sessions (Hansard reports) should be published, on the website, once each sub-group report has been agreed by the PfG Committee.

6. **Date, Time and Place of Next Meeting**

The next meeting of the sub-group will take place on Wednesday, 17 January 2007 in closed session at 10.00am in room 135, Parliament Buildings.

The meeting adjourned at 12.30pm

Wednesday, 17 January 2007 in room 135, Parliament Buildings

In the Chair: Dr Esmond Birnie MLA

Present: Mr Leslie Cree MLA
Mr Paul Girvan MLA
Mr John O'Dowd MLA
Ms Margaret Ritchie MLA
Mr Jim Shannon MLA

In Attendance: Mr Alan Patterson (Principal Clerk)
Mr Hugh Farren (Clerk)
Mr Colin Jones (Assistant Clerk)
Mr Sean McCann (Clerical Supervisor)
Mr David Douglas (Clerical Officer)
Ms Lucia Wilson (Assembly Senior Researcher)
Ms Roisin Kelly (Assembly Researcher)
Ms Grainne McEvoy (SDLP Researcher)
Dr Dara O'Hagan (SF Researcher)

The meeting commenced at 10.08am in closed session.

1. **Apologies**

Apologies were received from Mr Mark Durkan MP MLA, Mr Mitchell McLaughlin MLA, Mr Raymond McCartney MLA and Mr Peter Weir MLA.

Ms Margaret Ritchie deputised for Mr Mark Durkan, Mr John O'Dowd deputised for Mr Mitchell McLaughlin and Mr Paul Girvan deputised for Mr Peter Weir.

2. **Draft Minutes of the Meeting of 10 January 2007**

The draft minutes of the meeting of 10 January 2007 were agreed for publication on the Assembly website.

Proposed: Mr Jim Shannon
Seconded: Ms Margaret Ritchie

3. **Written Submission from the Water Service on Water Reform**

Members noted a response from the Water Service to a series of questions raised by the General Consumer Council.

4. **Consideration of draft Report on the Comprehensive Spending Review and Programme for Government; Rates Charges; and Water Reform**

Members noted that the majority of the report had been agreed at the last meeting, but that several paragraphs had been deferred for further consideration and in addition several proposed amendments had been received by the Clerk.

Members considered the paragraphs in the draft report which had been deferred or for which further amendments had been proposed.

Executive Summary

Paragraph 2 was agreed as amended.

Paragraph 3 was agreed as amended

Section 1 – Comprehensive Spending Review

Investing in Northern Ireland's Growth
Paragraph 34:

Final bullet point was agreed.

Section 2 – Rates Charges

Summary of Concerns
Paragraph 45 was agreed.

Consideration of Issues
Paragraph 53 was agreed as amended.

Paragraph 51 was agreed

A new paragraph was agreed for insertion after paragraph 52.

A new paragraph was agreed as amended for insertion after paragraph 53.

Mr Girvan joined the meeting at 10.28am.

Paragraph 56 was agreed as amended.

Paragraph 58 was agreed as amended.

Paragraph 60 was agreed.

The meeting was suspended at 10.50am.

The meeting continued in closed session at 11.02am.

Paragraph 61 was agreed as amended.

Members noted that amendments agreed to paragraph 61 would impact on paragraph 4 of the Executive Summary and agreed to defer consideration of this paragraph until later in the meeting.

Section 3 – Water Charges

Consideration of Issues

Paragraph 78 was agreed as amended.

Paragraph 86 was agreed.

Paragraph 87 was agreed as amended.

Paragraph 88 was agreed as amended.

Executive Summary

Paragraph 4 was agreed as amended.

Recommendations

It was agreed that staff should make consequential amendments to recommendations to reflect the amendments agreed to the main body of the report.

It was agreed that paragraphs 1 – 96 as amended stand part of the sub-group's report.

It was agreed that the Executive Summary as amended stand part of the sub-group's report.

It was agreed that the Recommendations as amended stand part of the sub-group's report.

It was agreed that the full report as amended be adopted as the sub-group's report to the Programme for Government Committee.

5. **Any Other Business**

Members noted that the amended report would be issued to the Programme for Government Committee on 18 January 2007 and would also be sent to the sub-group's nominated members and those substitutes present at today's meeting.

It was agreed that the Chairperson could sign off the minutes of proceedings of today's meeting for inclusion in the report.

The meeting adjourned at 11.40am

Appendix 5

Direction Issued by the Secretary of State

Northern Ireland Office
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London SW1P 4PN
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Facsimile 020 7210 0246
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Secretary of State for Northern Ireland

Mrs Eileen Bell, MLA
Speaker of the Assembly
Parliament Buildings
Stormont
Belfast
BT4 3XX

23 November 2006

Dear Eileen.

PROGRAMME FOR GOVERNMENT COMMITTEE

One of the elements of the St Andrews Agreement is a Programme for Government Committee to agree priorities for a restored Executive and to make preparations for restoration. It is intended that the Committee should meet regularly over the coming months, at least once a week.

I, therefore, hereby direct under paragraph 2(2) of Schedule 1 of the Northern Ireland (St Andrews Agreement) Act 2006 that the Business Committee shall establish a Programme for Government Committee to meet at 12:00 noon on Monday 27 November and subsequently at dates and times to be agreed by the Committee.

I also direct that:

- The Committee should be made up of 10 MLAs with the number of members from each party being on the following basis – 3 DUP, 3 Sinn Fein, 2 UUP, 2 SDLP

- The meeting on 27 November should be chaired by one of the Deputy Speakers (Mr Francie Molloy and Mr Jim Wells) (who shall not count for the purposes of the composition set out above) with future chairing arrangements to be agreed by the Committee

Northern Ireland Office

- The Committee's procedures, membership arrangements and arrangements, including chairing arrangements, for any subgroups of the Committee shall be such as shall be determined by the Committee.

I am content for officials in OFMDFM and other NI Departments to do all they can to facilitate the Programme for Government Committee and its sub-groups, including attending meetings and providing information, if this would be helpful.

RT HON PETER HAIN MP
SECRETARY OF STATE FOR NORTHERN IRELAND

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