

# Strategic Business Plan

## Northern Ireland Water

Final – 3 May 2007

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# 1 Executive summary

## VISION

- 1.1 Northern Ireland Water's aim is to match or exceed the performance levels of similar companies in GB against the key customer, environmental and financial parameters. This is a challenging timeframe given that the England and Wales industry has already had 17 years and over £50bn investment since its major reform of the water industry to make progress under a regulatory system which incentivises performance. The scale of change is truly transformational and should not be underestimated but it is a challenge to which NIW looks forward to meeting. The pace of change will be shaped by both the revenue received by the Company and by the organisational capacity of the Company.

## APPROACH

- 1.2 This Strategic Business Plan (SBP) sets out the vision and strategy for in the period 2007-2010 and provides supporting detail about how that strategy will be put into effect. It describes in outline terms developments for the period 2010-2015. A summary version is being prepared for publication so that customers and other interested groups can see what NIW will deliver in return for the revenue received either from customers or Government and shareholder investment. This plan represents a regulatory settlement determined by Government ahead of the appointment of the economic regulator from 1 April 2007. From that date, the regulator will oversee NIW's delivery of regulatory outcomes in line with the licence. This approach is the same as that taken for the water industry in England and Wales in 1989.
- 1.3 The plan is premised on the revenue assumptions based on Direct Rule Government policy on the introduction of domestic and other water charges. The decision on water charging is now one for the incoming Executive to take.

## CONTEXT

- 1.4 Investment in water and sewerage services had been significantly lower than GB levels over a number of decades. The disparity was most acute during the 1990s when investment levels in England and Wales were high and significant improvements to quality standards were achieved. Investment in NI assets has been substantially increased in recent years and the positive impact of that can be seen. The proportion of the population served by compliant sewerage works has risen from 63% in 2004 to 77% in 2006 (compared to 99% in E&W). Water quality in Northern Ireland has also improved from 98.65% in 2004 to 99.34% in 2006. This compares to England and Wales levels of 99.96%. Those figures both demonstrate the improvements already made and the scale of further improvement required. That improvement is an urgent priority to avoid EU infraction proceedings.

## BENEFITS

- 1.5 The delivery of good quality water and wastewater services is vital to secure public health and protect the environment. The creation of NIW and accompanying changes constitute a major opportunity to transform the delivery of these services in Northern Ireland. The key benefits to be realised are:
  - Improved services to customers as a result of over £1.6bn of investment in the period 2007-14 and better working practices. Over time, customers will experience fewer supply

interruptions and less out of sewer flooding. Further improvements in responding to customer contact and other queries will be implemented.

- Improved water quality and reduced environmental pollution with the investment primarily focused on the legacy of compliance issues at treatment works. Under this plan, by 2010, non compliance will be almost halved in wastewater with a projected compliance level of 91%. In the same time period, non-compliance will be reduced by two thirds in terms of drinking water quality with a projected compliance level of 99.77% (MZC)
- By building on operating expenditure (Opex) efficiencies already achieved, delivery of at least £44m Opex efficiency by 2010. In the three years to 2010, capital efficiencies of 17% are targeted.
- Improved organisational capability to deliver outcomes and meet stakeholder needs through investment in both systems and staff to ensure the skills needed are developed;
- Financial sustainability. As a result of the planned introduction by Direct Rule Ministers of domestic charges phased over three years, NIW would become fully self-financing and have the ability to plan in a medium to long term way for the future investment and customer improvements needed to achieve parity with similar companies in GB by 2015. The development of improved asset management approaches will significantly improve the use of existing assets and deliver better capital solutions in the future.

1.6 This plan demonstrates how NIW will achieve the improvements in customer and environmental outcomes while delivering year on year efficiencies and enhancing the systems, data and human resource capability of the business. It recognises the risks to delivery and addresses how these will be managed.

1.7 It is vital to the success of NIW that the progress expected by key stakeholders should be challenging but achievable and that the priorities and speed of progress to be delivered for the financing available should be agreed between the Company, its shareholder and the relevant regulatory bodies such as the economic and environmental regulators.

1.8 This plan is important to the establishment and successful operation of NIW. It will also provide a basis for the longer term. The first full regulatory periodic review in 2009 will set the scene for NIW in terms of outputs and finance for the period 2010-15. It is therefore critical that NIW is able to secure a positive outcome to that exercise to support delivery of the 2015 aim.

1.9 This is a strategic plan which focuses on the key issues facing the Company in the period 2007-10.

1.10 The Strategic Business Plan is divided into the following sections:

- **Vision and strategy:** the big picture in terms of future direction and information.
- **Providing Quality Services to Customers:** building a customer culture for the delivery of high-quality customer services and standards.
- **Investing for the future:** delivering effective capital investment to improve environmental performance and developing industry standard asset management approaches.
- **Transforming the business:** developing the capacity, capability and technology to deliver high performance and significant efficiencies whilst maintaining the operation of the business.

- **Financial planning:** an overview of the key sources and uses of funding in the SBP period; the financing of the business; returns to the shareholder and key financial targets.
- **Working with stakeholders:** the importance of stakeholders; NIW's objectives and details of how each will be engaged.

## 2 Vision and Strategy

### VISION

- 2.1 NIW's vision for the period to 2010 is to build a business that delivers efficient and sustainable water and wastewater services for its customers and the community.

### AIM

- 2.2 Experience from the GB water industry has demonstrated that significant progress can be made quickly. However, to put in place robust and lasting improvements across the board takes time. The GB industry has already had 17 years of development (and over £50bn of investment). Therefore, NIW has set itself the challenging aim of matching or exceeding the performance levels of similar GB water companies by 2015. To achieve that aim, NIW will require two phases of transformation. The first will focus on putting in place the key building blocks which will close the gap in performance by major improvements to the delivery of core services. Compliance with EU standards will rise sharply as a result. The second phase will identify how NIW can most rapidly and sustainably match and exceed the performance levels of the comparator group and put in place a strategy to deliver that outcome. The focus will be on improving serviceability, achieving upgraded efficiencies and investing wisely to support the development of both NIW and the NI economy more broadly.

### OPPORTUNITY

- 2.3 The creation of Northern Ireland Water is the most exciting development in the water industry today. Northern Ireland needs high quality water and wastewater service to support economic growth and enhance the environment. The changes put in place by the water reform agenda mean NIW will both continue to deliver a public service from within public ownership and achieve commercial performance levels in terms of financial and customer outputs.
- 2.4 As a government owned company subject to independent regulation, NIW will be expected to deliver substantial improvements in service and in environmental performance as well as the financial outcomes which will secure the business' long term viability and ensure growth in the value of the taxpayers' investment in the company.
- 2.5 This plan focuses on 2007-10 and defines the progress the Company intends to make to close the performance gap significantly in that period. The focus for this next three years is to deliver substantially better quality services at a lower cost while putting in place the supporting culture, processes and systems to achieve the aim for 2015.
- 2.6 Currently, water and wastewater quality standards in Northern Ireland are below England and Wales levels. In wastewater Northern Ireland has around 50 medium to large works failing to comply with their discharge standards. This is an overall compliance figure of 84% of works in 2006. These works serve population equivalent of 77%. In England and Wales, comparable compliance was over 99% (90% in 1990). The Northern Ireland performance has improved markedly from 63% in 2004 as a result of recent investment.
- 2.7 In water quality terms, England and Wales compliance for 2005 was 99.96% (99.45% in 1995). For 2006, the Northern Ireland equivalent was 99.34%. Nonetheless this has improved from 98.65% in 2004 as a result of recent investment.
- 2.8 A similar pattern emerges on the known serviceability indicators such as mains bursts, interruptions to supply and leakage levels with Northern Ireland performance below that in

England and Wales. This is despite major improvements in areas like leakage which have reduced by 42% over the past 5 years.

- 2.9 Progress has also been made to improve operational efficiency. Operating cost efficiencies of £25.4m per annum have been achieved in the 4 years since April 2003. Nonetheless, against objective criteria, it is clear that Northern Ireland Water needs to make further progress to achieve comparable efficiency levels to the England and Wales industry. This plan sets out how this will be achieved.
- 2.10 The issues faced by water companies vary depending on customer numbers, population density, topography and length of coastline. NIW's natural comparator set (with similar characteristics in these areas) would be South West, Wessex, Welsh and Scottish Water. Under this plan, (and recognising that the decision on the introduction of water charges will now be for the incoming Executive to take) the average cost of service provided by NIW per household will be £374 in 2009/10 (although with the planned Government subsidy this would be pegged in terms of average charges to customers to the E&W average of £334). The average bill for the comparator group by 2009/10 will be £406 (with a range stretching from £502 for SouthWest Water to £332 for Scottish Water) which suggests that NI projections are competitive based on equivalent regions.
- 2.11 The next regulatory price review in 2009 will enable progress to be evaluated and will provide the platform on which to set out the best approach to closing the remaining performance gap to be defined in greater detail.

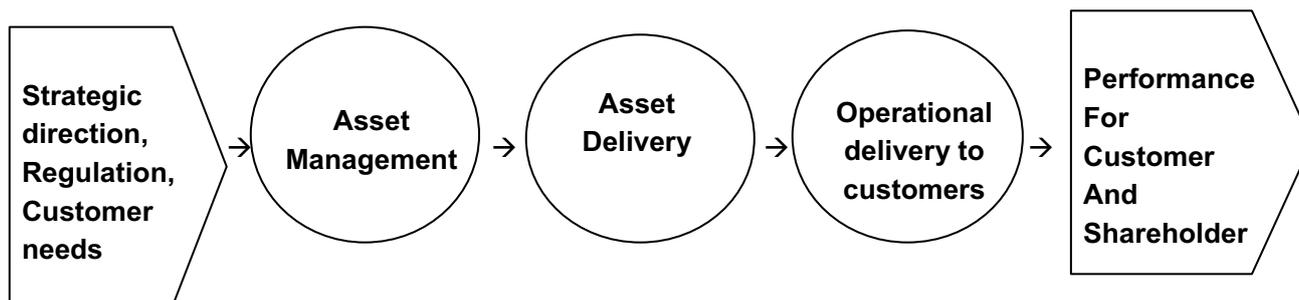
#### CRITICAL SUCCESS FACTORS

- 2.12 To support the vision and provide a focus for its delivery NIW has established four themes or critical success factors, which are set out in the table below. These have been developed into a balanced scorecard approach and form the basis for the succeeding four chapters of this plan.

Critical Success Factor	Purpose
Customers	Committed to our customers and our community
Compliance	Enhancing the environment
People	Building the capacity to deliver
Cash	Creating value through a sustainable service

#### STRATEGY : MAKING THE CHANGE

- 2.13 Comparisons using established regulatory parameters demonstrate that NIW must close a considerable gap in performance compared with GB water industry. It must do this at a time of unprecedented change inside the business and externally in Northern Ireland. This will require a major transformation programme to develop a sustainable, high-performing business. That transformation will have two phases: the first will focus on reducing the performance gap by investing wisely and efficiently and by improving capability. The diagram below sets out the business operating model for the first phase. The core processes described lie at the heart of any water utility. The restructuring and improvement of these core processes is fundamental to delivery of the first phase of transformation.



2.14 For these reasons, the company strategy is to focus in its first three years on:

- consolidating the organisation in its vastly different operating environment and improving on current levels of service; (year one)
- becoming outward looking and service oriented, a significant shift of attitudes across the company on customer service, financial management, health and safety and environmental performance; (year one)
- delivering efficiencies through a series of major initiatives to reduce procurement costs, put in place robust asset management approaches and putting in place the data gathering, systems and processes to enable us to measure accurately performance and to use it to accelerate performance improvement; (years one to three)
- identify gaps in skills and experience in the context of the new operating environment and taking action to develop the workforce and supplement with new skills where required to deliver the SBP; (years one and two)
- a new performance culture, based on the values and supported by relevant accurate metrics, designed to deliver and where possible, out perform the business plan targets; (years one to three)
- formulation of the business operating model for the next planning period; (year three)
- playing its part in developing the NI economy and in improving the environment both by virtue of the scale of its programmes to reduce river and coastal pollution and by building on its commitment to sustainable development.

2.15 The second phase of transformation will be focused on identifying and delivering the benchmark GB industry standards in customer service, efficiency and environmental performance. This phase of transformation will commence in preparation for the 2009 periodic review and will be characterised by:

- Continued investment focused on quality improvements and increasingly directed at improving water quality through replacement of water mains and reductions in pollution incidents through upgrading of sewer networks (subject to the outcome of the 2009 regulatory review);
- Enhanced efficiency performance to GB standards building on the system changes to asset management, procurement and operational ways of working in phase one to deliver maximum benefit for customers and stakeholders alike;
- Improvements to the customer service as a result of the ongoing investment and the improved understanding of the asset base;

- Identification and implementation of the right business model to deliver services based on fuller financial, asset and customer data delivered in phase one and the improved understanding of the business and capability within the business.

2.16 Taken together these phases of transformation will deliver:

- Service and value for money improvements for customers combined with industry leading government financial support to vulnerable groups;
- Long term sustained growth in value for the shareholder;
- Evidence-based performance and efficiency gains to support regulatory scrutiny;
- A dynamic organisation with a focus on skills, performance and providing opportunities to its staff;
- Environmental improvements and economic gains for NI as a whole.

2.17 Consideration has been given to alternative models for phase one including those involving more extensive partnering and outsourcing. However the absence of sufficiently strong financial and performance metrics across the business would make that approach very risky in terms of having certainty about securing value for money. The decision on the level of partnering/outsourcing is therefore one for the second phase. In addition, the Government have set out the need for a review of the level of private sector participation in the delivery of water and wastewater services in 2008.

## 3 Providing Quality Services to Customers

### INTRODUCTION

- 3.1 Approximately 795,000 domestic, agricultural, commercial and business properties in Northern Ireland are connected to the public water supply and each day of the year NIW supplies some 619 million litres of good quality drinking water to customers and treats 133 million cubic meters of wastewater from the 660,000 properties connected to the wastewater system. The services offered are fundamental to public health and the environment. Practically every person makes use of these services every day.

### MAKING THE CHANGE

- 3.2 NIW needs to:

- improve the infrastructure so that there are better levels of service delivered to the customer and take account of customer priorities in doing so. In addition, NIW needs to ensure that expectations are aligned with the timeframe for delivery. The details of the investment in assets are set out in section 4.
- create a customer focused culture which recognises that customer experience of Northern Ireland Water will determine its reputation in the community. This will be supported by investment in training, technology and performance culture.
- meet the targets for customer service and responsiveness and demonstrate efficiency as part of the evidence required by the Regulator to justify future investment levels to further improve customer outcomes.

- 3.3 Specifically NIW plans to:

- Work with its partners, Crystal Alliance, to provide billing (for those services the company will bill customers for) and customer contact services that are industry standard and meet the needs of customers. This includes major improvements in response to written complaints and time taken to answer telephone calls at the contact centre;
- By 2010, reduce by a half the properties affected by interruptions to supply exceeding 12 hours compared to 2006/7 levels;
- Focus on low pressure problems initially by collecting better information about their extent and then setting in place a targeted programme for their alleviation;
- Introduce better telemetry and mobile working technology and improve maintenance regimes to the water and wastewater networks to reduce the likelihood of interruptions to water supply and out of sewer flooding as well as improving the time taken to respond to such incidents;
- Improve its asset data (Asset Management Plan, asset updates from mobile units) and target investment to address customer problems;
- Target efficiency savings in both operating and capital costs to hold customer bills down to the minimum level consistent with the service required through a range of transformational projects.

- Operate to the standards we will set out in codes of practice which will be subject of consultation with the Consumer Council and agreement by the economic regulator;

## KPIs

- 3.4 The table below sets out challenging performance targets for customer and network service. The table demonstrates the progress NIW expects to make in the period to 2010. Some of the targets will depend on the decisions reached by the incoming Executive about water charges. These areas are highlighted in italics in the table below.

KPI	Actual 2005/6	Target 2006/7	2007/8	2009/10	2014/15
Supply interruptions – number of properties experiencing unplanned and unwarned interruptions in excess of:					
6 hours	2.05	#	2.00	1.00	0.30
12 hours	0.87	0.30	0.25	0.15	0.10
24 hours	0.01	#	0.03	0.01	Nil
(Expressed as a percentage of households)					
Written complaints – number of written complaints dealt within 10 working days as a percentage of total written complaints (%)	92.03	90	96	98	100
<i>Customer Billing - number of billing contacts dealt within 5 working days expressed as a percentage of total billing contacts. Billing contacts include account queries, change of address, request for alternative payment arrangements etc. and can be received by telephone, in writing, by e-mail and by personal visit. (%)</i>	#	#	96	98	100
<i>Billing of Metered Customers – number of bills based on a meter reading expressed as a percentage of total metered accounts (%)</i>	#	#	95	95	99
Ease of telephone contact - customer calls answered during business hours (8am to 8pm Monday to Friday, 8am to 6pm Saturday, 10am to 6pm Sunday) within 30 seconds (%)	89	93	93	96	98

Key to table:

# not measured / no target

## CUSTOMER PRIORITIES: BILLING AND CONTACT

- 3.5 Currently Water Service collects over £40m from the non-domestic sector. Under the policy proposals of the Direct Rule Government, the move to direct charging would lead to a tenfold increase in the number of bills issued each year as 630,000 domestic customers and a further 69,000 non domestic customers would be billed. A Customer Relation Centre has been established in conjunction with our partner (Crystal Alliance) to manage billing and operational queries and further enhance the service provided in responding to queries and resolving customer service issues. In all cases we aim to give a prompt, courteous and professional response. An independent market research company will continue to carry out regular surveys on call handling satisfaction. In anticipation of billing, NIW has put in place a range of payment options for the expanded customer base to ensure convenience and levels of

payment are maximised. Standard OFWAT methodology will be used to measure the customer interface performance.

### METERING PROJECTIONS

- 3.6 As with the introduction of domestic charging, the future of the metering policy will be subject to decisions by the incoming Executive. However, in building this plan, the Company has made projections for metering under the policy of the existing Government which are set out below. The next phase of NIW's metering programme will provide for the introduction of domestic metering for all new build first time connections and pensioner applicants. It will also include provision for pursuing the non-domestic metering programme. The table below sets out projected numbers of new meters.
- Pensioners: Based on statistical analysis of the capital valuations of domestic properties, the following assumptions on the number of pensioner meter applicants are provided in the table below.
  - New Build/ First Time Connections: On average Water Service completes 14,000 new connections each year and this level is expected to continue.
  - Non-Domestic (Commercial, Agricultural & Industrial): The proposed programme includes non-domestic meter installations, in pursuit of NIW's policy on metering as the preferred method of billing for this sector.

Year	Pensioners	New Build/ First time connections	Non-Domestics	Total Cost (£)
2007/08	24000	14000	6000	£4.81m
2008/09	12000	14000	6000	£6.13m*

\* - this figure allows for the appropriate deployment of new technologies for meter reading to offset the additional operational costs associated with the increase in the meter base.

- 3.7 The review of domestic metering policy, scheduled for 2008/09, will advise on the planned number of installations for future years.

### CUSTOMER WATER SUPPLY ISSUES

- 3.8 A top priority for any water provider is to ensure water is available to customers and any interruptions to supply are minimised. Properties experiencing supply interruptions of greater than 12 hours are targeted to reduce by a half to 0.15% by 2010 and to 0.10% by 2015. The organisation has also commenced measuring interruptions of greater than 6 hours and 24 hours and will agree targets with NIAUR for these periods once the methodology and current performance are clear. The number of times that customers fail to receive adequate notification of a planned interruption, or supply is not subsequently restored within the specified time period will be reduced.
- 3.9 NIW will address the problem of inadequate water pressure. The first steps during 2007/08 are to develop a methodology for measuring this and set KPIs against Ofwat's standard parameters. A plan of action to address the problems identified will then be put in place.
- 3.10 In parallel with upgrading water treatment works, the water resource strategy also targets significant demand reductions to provide for long-term security of supply with minimum increase of the requirement to abstract water. This twin track supply and demand strategy will be supported by extensive leakage control activity over the next few years to achieve economic levels of leakage. Reduction in leakage will build on the substantial progress

already made and not only makes economic sense by avoiding the cost of treating of water not used but also has benefits in terms of security of supply and benefits to the environment. In the longer term, customer awareness programmes will concentrate on influencing patterns of water usage to avoid wasteful consumption.

### **SEWER FLOODING**

- 3.11 A methodology to collect reliable data on sewer flooding has been developed and is now being applied against Ofwat standard parameters for numbers of properties affected by and at risk of both internal and external flooding. NIW is moving to a more pro-active, risk-based methodology which will deliver a reduction in the numbers of both pollution and out-of-sewer flooding incidents.

### **SUSTAINABILITY**

- 3.12 NIW is the largest contributor to the protection of the environment by virtue of the scale of programmes to reduce river and coastal pollution. NIW recognises the importance of contributing to reducing the carbon footprint as a means of alleviating global warming. The Company is serious in its desire to improve environmental performance (in addition to improvements to compliance levels) by:
- Continuously improving NIW's Environmental Management System and maintaining the ISO 14001 status;
  - Increasing the use of green energy which already runs at 8% of the total by looking at the opportunities in the market and by piloting the scope for use of wind and water powered energy sources in the SBP period. NIW plans to increase the use of green energy to 10% by 2010 and to 15% by 2015;
  - Developing relationships with NGOs and other stakeholders and where appropriate working with them to manage the business in a more environmentally friendly and sustainable way;
  - Considering the management of NIW's estate to enhance biodiversity and provide amenities for interest groups, where appropriate;
  - Building on existing work to set challenging targets for the lengths of water main and sewers to be provided by trenchless technology;
  - Building on existing work to set challenging targets for the re-use/recycle potential of excavated material on above ground assets;

## 4 Investing for the Future

### INTRODUCTION

- 4.1 Investment levels in water and wastewater treatment in Northern Ireland have been much lower than those in the rest of the United Kingdom for decades until the urgent need to address the non-compliance with EU Directives on water quality led to an increase in funding. This has already brought about a significant improvement in water quality from water treatment works, but more remains to be done especially to improve and maintain the water distribution network to approach the standards in GB.
- 4.2 NIW plans to invest £667m in its capital works programme in the period to 2010. This equates to nearly £1m per working day over the three years. This level of investment will deliver major improvements. The scale of the gap means that it will take until 2015 to achieve GB levels of performance. In recognition of this, Government has established a committed 7 year debt facility to avoid the previous annual funding uncertainty and enable long term planning by NIW. The capital programme for this SBP has been subject to audit by an independent reporter who performs a similar role for water companies in GB.
- 4.3 Asset Management Plans are a central part of the regulatory arrangements being introduced from April 2007. While two previous plans have been produced to inform government funding decisions, these have not formed part of a formal regulatory process. Effective asset management information and records is the basis for planning the extension, replacement, maintenance or decommissioning of assets to optimise asset performance. The importance of good asset management approaches and systems cannot be over-stated as they are fundamental to achieving optimal investment decisions. NIW does not currently have the necessary asset management systems in place to deliver to full OFWAT reporting requirements. It has however commenced the development of the necessary approaches and many of these will be in place for the 2009 Periodic Review.

### MAKING THE CHANGE

- 4.4 **The improvement in quality standards set out in this plan will only be achieved if NIW succeed in:**
  - **Delivering a major environmental improvement programme while realising 17% capital efficiencies in the end to end asset management process;**
  - **Optimising the existing asset base to secure the best possible performance from assets which are no longer fit for purpose, while introducing substantial changes to working practices and delivering efficiencies;**
  - **Introducing the necessary asset management systems to promote future efficiencies and support the investment required for the future. An important aspect of this is the build up of much improved asset information to inform decision taking such as cost and asset condition data from the mobile work management system;**
  - **Developing and implementing more effective management processes and strategies to achieve capital efficiencies.**

### BENEFITS

- 4.5 By 2010, NIW has targeted the achievement of the following outputs:

- The number of wastewater treatment works (WWTW) meeting their numeric discharge standard will increase from 83.9% in 2006 to 91% by the end of 2009. Formal compliance with this figure will be achieved after one calendar year of sampling. This includes providing treatment by the end of 2007 at the 9 sites in NI currently being infringed for failing to comply with the Urban Wastewater Treatment Directive;
- The large number (about 850) of small WWTW (PE < 250) with descriptive consents will be maintained and improved where necessary;
- The number of people served by compliant wastewater treatment works will increase from 77% in 2006 to 94% by the end of 2009;
- Improvements in the sewerage network as a result of an investment of 21% of the capex programme, making more Combined Sewer Overflows compliant and renovating sewers;
- Improvements in drinking water quality will increase Mean Zonal Compliance from 99.34% in 2006 to 99.77% for the calendar year 2009;
- Overall leakage will be reduced to the new Economic Level of Leakage position of 135.5 million litres per day by 2010 from a peak of 291 million litres per day in 2001/2;
- The water network will be improved as a result of the relining/replacement of 910 km of mains by March 2010;
- Efficiency savings in delivery of the capital works programme of 17%.

## KPIs

- 4.6 The table below shows the key environmental and network compliance targets from 2007/08. NIW will adopt the Mean Zonal Compliance (MZC) measure of drinking water quality. This is the approach favoured by the Drinking Water Inspectorate and will make NIW performance directly comparable with the GB industry. The scale of improvement in both water and wastewater compliance in the period to the end of 2009 is very substantial.

KPI	Actual 2005	Actual 2006	Target 2007	2009	2014*
<b>COMPLIANCE</b>					
Drinking water quality – percentage compliance with the Water Supply (Water Quality) Regulations (NI) 2002:					
(a) taking into account Authorised Departures	99.73	99.66	99.72	99.81	99.90
(b) not taking into account Authorised Departures	99.19	99.42	99.60	99.80	99.90
<b>Mean Zonal Compliance: water quality at the tap (%)</b>	<b>99.02</b>	<b>99.34</b>	<b>99.44</b>	<b>99.77</b>	<b>99.90</b>
<b>Operational Performance indicator (turbidity, iron, manganese) (%)</b>	<b>#</b>	<b>98.87</b>	<b>98.90</b>	<b>99.00</b>	<b>99.65</b>
<b>Wastewater quality (note 1) - wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a</b>					
(a) percentage of works	81.7	84.0	84.0	91.0	100.0
<b>(b) percentage of population equivalent</b>	<b>66.8</b>	<b>77.0</b>	<b>82.5</b>	<b>94.0</b>	<b>100.0</b>

KPI	Actual 2005	Actual 2006	Target 2007	2009	2014*
<b>COMPLIANCE</b>					
Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents (infraction risk) (%)	#	76.3	80.2	92.4	100.0
Pollution incidents (high/medium) – reduction in the number of pollution incidents attributed to NIW based on 2004-2006 average (%)	#	#	5	11	32
Capex issues and initiatives - completion of schemes costing over £250k, scheduled to start in the Capital Works Programme (%) +	93	90	90	90	90

Note to table:

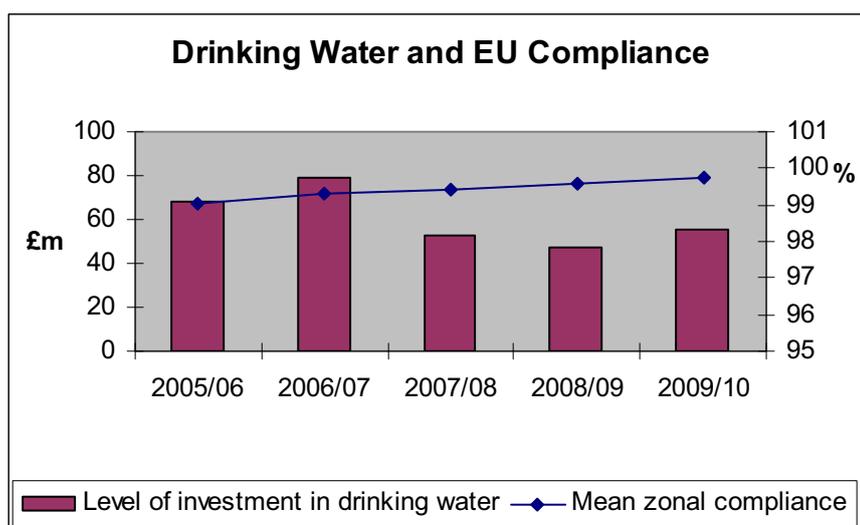
- 1 This target includes a small number of wastewater treatment works with < 250 population equivalent and an Environment and Heritage Service (EHS) numeric discharge standard. Wastewater standards do rise between 2006 and 2007 as new major works are completed. The growth in population served by compliant works shows this but this is offset in terms of properties of compliant works by population growth bringing smaller non-compliant works within this category and by some uplifting of standards by EHS.

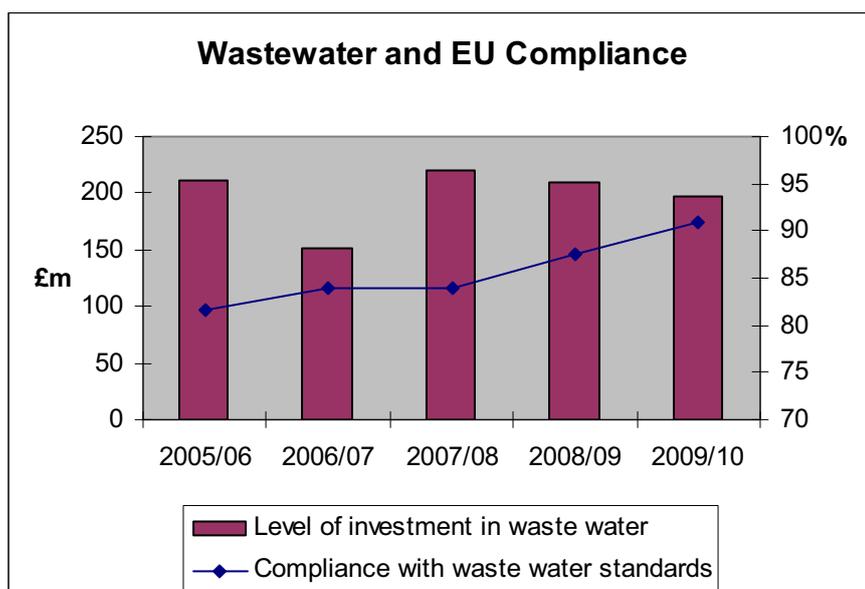
Key to table:

- \* performance beyond 2009 will depend on the funding priorities and allocation at the 2009 periodic review of prices
- + target set on financial year basis
- # not measured / no target

### CAPITAL PROGRAMME

- 4.7 In terms of outcomes, the tables below show both how the drinking water quality and wastewater compliance will improve over the period to 2010 as well as the levels of investment year on year.





- 4.8 Investment in Northern Ireland's water and wastewater infrastructure is essential in order both to meet key environmental standards and to be able to deliver good quality services to customers. Despite recent investment and consequent quality improvements, quality enhancement to achieve wastewater compliance standards remains the single largest driver of asset spend during the period accounting for some 42% of the capex programme from 2007 to 2010. This will raise the total number of compliant works to 91% (treating 94% of the population served) by the end of 2009 and will represent a major improvement. The Omega PPP contract which will contribute to this improvement.
- 4.9 In terms of water supply, much of the required investment has now been made or is to be delivered through a Public Private Partnership project (known as the Alpha project) which will treat 50% of water supplied. The remaining investment over the 2007-10 period is necessary to upgrade remaining works serving customers in the Armagh and Omagh areas.
- 4.10 There is also a large amount of work to be done on the water and wastewater networks – the growing network of 26,500km of water mains and 14,500km of sewers which constitute the below ground infrastructure. A substantial programme of water main rehabilitation and sewerage system replacement has been identified. Much of this will take place in the 2010-2015 period after the investment in treatment works is complete. Nonetheless, in the period to 2010, NIW will still invest around £77m in completing water main area rehabilitation plans and undertake priority drainage area plans leading to remedial works in those areas. In addition the major investment of almost £100m in the Belfast Sewer Project will be completed in the period reducing both river pollution and the likelihood of out of sewer flooding and increasing the capacity of the system. In order to maintain and improve the small wastewater treatment works (serving a population of less than 250) investment of nearly £30m is proposed.
- 4.11 The CWP has been constructed to deliver the KPIs stated above, of which the main drivers are:
- Provision and extension of a high quality wholesome water supply which complies with drinking water standards;

- Improvement in environmental performance by compliance with Waste Water Treatment Works discharge standards;
- Reduction in pollution incidents and untreated discharges from the sewerage system;
- Improvements to the constancy of supply of water and reductions to leakage of treated water.

4.12 NIW's capital works programme is costed at £667m for the 3 year period 2007-2010 and £769 m for the 4 year period from 2010-14. The programme has been compiled using similar approaches to England & Wales. In addition the proposed programme has been reviewed at each stage of its development by Halcrow, a firm of engineers who perform a Reporter review role on behalf of OFWAT for a number of GB water companies, to assess its accuracy, necessity and appropriateness. The programme takes account of issues raised by this review process. The table below sets out the breakdown of the Capital programme across the period 2007-14. The major proportion of the capital budget arises from the work identified in the Capital Works Programme although there are other capital costs both to provide plant and vehicles and to invest in new technology and metering.

#### NIWL Capital Expenditure DRD Final Sustainable Case Nominal Post Efficiency

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Total
CWP	229,976	211,120	225,793	212,147	201,639	184,407	170,806	1,435,889
E&P Capitalised Salaries and Overheads	5,479	4,973	3,640	3,704	3,769	3,836	3,903	29,304
SWwTW's	-	5,401	5,536	5,674	5,816	5,962	6,111	34,500
Capital Contributions	-10,055	-9,936	-10,480	-11,413	-11,265	-11,547	-11,836	-76,533
Technology Programme	11,092	12,639	7,856	-	-	-	-	31,587
Connections	2,344	2,250	2,087	2,124	2,161	2,199	2,238	15,402
Accommodation	-	-	-	-	-	-	-	-
Asset Management – NIAMP3	2,303	2,861	1,939	-	-	-	-	7,103
ICT	2,162	930	863	806	820	834	849	7,264
Metering	4,808	6,131	2,175	2,457	2,501	2,545	2,589	23,207
Customer Billing	553	102	95	501	98	100	528	1,977
Other	24,372	19,081	13,233	9,808	10,094	10,493	11,589	98,670
<b>Total Post Eff. Nominal</b>	<b>273,034</b>	<b>255,552</b>	<b>252,738</b>	<b>225,809</b>	<b>215,632</b>	<b>198,829</b>	<b>186,777</b>	<b>1,608,369</b>

#### CAPEX EFFICIENCIES

4.13 The capex programme includes 17% efficiencies to be achieved in the period to 2009/10. Thereafter there is an ongoing annual efficiency assumption of 0.72% pa based on the application of the Ofwat capex efficiency approach to NIW. The table below summarises capex efficiency on a year by year basis. The targets rise sharply taking account of the fact that most Capital expenditure for 07/08 is already committed.

Year	2007/08	2008/09	2009/10	2010-2023
In year capex efficiency (%)	2.1	6.4	9.5	0.72 pa
Cumulative capex efficiency (%)	2.1	8.3	17.0	-

4.14 The capital efficiencies identified above will be realised through more effective procurement processes and strategies. This will be delivered by:

- Using standard cost information to drive price negotiations. The availability of robust standard cost data will allow individual project sponsors to assess contractor's proposals against benchmark data allowing objective assessment of proposals to be made. The standard cost data will inform Project Sponsors and allow them to target negotiations to maximise potential cost savings;
- Continuing to use frameworks along with design and build projects to deliver new capital works. Cross-functional teams will continue to work closely with designers and contractors to deliver projects; this embeds ownership of projects across NIW. An integrated supply chain will deliver efficiencies through bulk purchasing economies of scale and operational standardisation;
- Eliminating the risk of over-specification through replacement of Water Service bespoke Mechanical and Electrical standards with industry norm (WIMES) standards. Refinement of standards provides potential savings on individual components of projects. Standardisation of solutions will drive efficiencies through the adoption of common approaches to the delivery of projects. This will involve developing agreed standard solutions, defining project scope in terms of need to maximise opportunity for value for money and from the scope, specify outcomes rather than detail. This will lead to transparent and collective evaluation of proposals based on whole life cost;
- Adopting innovative procurement techniques such as Value Stream Management, Total Quality Management, Constraint Management and project bank accounts will deliver benefits when compared with traditional delivery routes;
- Applying industry recognised Asset Management tools including risk management in assessing asset life and serviceability.

#### **OPERATIONAL EFFECTIVENESS**

4.15 The CWP will provide the much needed improvement in infrastructure quality over time. Alongside that, NIW also recognises the critical importance of optimising the existing asset base through good operational management and investment in technology to support better management of the infrastructure. In the next three years NIW plans to invest around £30m in new technology which will deliver efficiencies and/or improve the effectiveness of the organisation. This will build on current good practice – the current compliance figures have been achieved by sustained attention to works which are operating beyond the capacity for which they were designed as a result of new higher standards and/or population growth. The need to optimise the existing asset base is a theme across all of the Water Industry. The main improvements to be implemented in the period 2007-10 are:

- Investment in telemetry for sites such as sewage pumping stations not currently covered by the system to enable better early warning of operational failures to reduce pollution and flooding incidents;

- The development and implementation of improved maintenance approaches to equipment and plant to reduce the risk of operational failures through proactive, risk-based techniques;
- The introduction of mobile working technology and industry standard business processes which will deliver significant efficiency, service and asset management improvements;
- The development of strategic and tactical asset management processes to enable better risk-based decision making to optimise the existing asset base and target investment more effectively.

#### **DEVELOPING ASSET MANAGEMENT**

- 4.16 A key priority for NIW will be the creation of an end to end asset management process which is comparable to GB industry best practice. An investment of around £7m over the next three years is required to support the development of this process and prepare the Asset Management Plan needed for the 2009 Periodic Review. This should provide the basis for both better informed strategic decision making within the business and regulatory decisions on the level of investment the customer should be asked to fund in the next regulatory period. This is a core part of the wider transformation plan which is described in greater detail in the next chapter but this dimension is addressed here because it is integral to the investment programme.
- 4.17 The development of robust Asset Management Plans requires an understanding of asset performance and of the risk of deterioration (or improvement) to service at a range of interventions. The fundamental element is the asset information system, which will be maintained and acknowledged as the source of all asset information. In NIW this is termed the Corporate Asset Register (CAR) and there will be a CAR for above and below ground assets. NIW plans to introduce the CAR for above ground assets during 2007 coordinated with the introduction of the Mobile Work Management (MWM) system, which will provide the updated information required. A rudimentary underground CAR called the Network Information Management System NIMS is already in place and will be updated during 2007-08.
- 4.18 However, the introduction of the CAR is only the first stage of understanding asset performance. It will take time for the asset performance data, such as pipe bursts, to be translated into trends which can be used for asset maintenance planning. In the interim, expert knowledge, often obtained from front line operational staff is often the best way of prioritising capital spend. Acknowledging the importance of records and data will require a significant change in culture and the introduction of MWM will be an enabler for this change.
- 4.19 Subject to the timetable for the 2009 periodic review of prices, NIW will deliver a draft Asset Management Plan by autumn 2008. This will identify the investment priorities for the long term with a particular focus on the period ahead; develop NIW's strategy and associated policies for investment; assess current asset performance and compare against future requirements; and identify the cost of delivery and compare that to industry norms. This will be used to monitor and benchmark the organisation's performance.
- 4.20 Thereafter, NIW will integrate asset management in the day to day operation of the organisation as a dynamic process, developing systems and homing in on data needs. The quality of data to provide good management information will improve as systems, such as mobile work management and regulatory accounting are developed. Asset management will be undertaken by functional area, measuring and benchmarking performance, identifying and spreading best practice, prioritising spend and delivering efficiencies.
- 4.21 Increased standardisation of processes, equipment and services across the whole organisation will give benefits for procurement and operational effectiveness. This will

complete the move away from the separate arrangements employed when Water Service previously had four geographic divisions.

- 4.22 Asset management systems and the associated trends in asset performance will allow more of a risk based approach to be applied to asset maintenance and renewal. Currently asset maintenance of plant tends to be “fix on failure” which has implications on the staffing and procurement costs. As a consequence of this approach, there is a tendency to build in a high degree of overcapacity into the systems. A risk based approach may to change the balance between active and reactive maintenance and therefore impact on the overall design approach.

#### **BEYOND 2010**

- 4.23 The CWP outcomes have been specified in detail for the period to 2010. The planned programme for the period 2010-2015 has also been set out based on the drivers summarised above although the actual programme will be set by the periodic review of prices in 2009. Decisions on the relative priorities for capital investment will be informed by the requirements at that time.
- 4.24 Currently NIW believe that the major investment will be required in the water and waste water networks to improve the performance of the below ground infrastructure, to reduce pollution incidents and increase the security of supply for customers. However, it is clear that there will be new obligations to be taken into account for PR09 exercise.
- 4.25 Foremost among these is the Water Framework Directive (WFD). This deals with the whole spectrum of inland and coastal waters and is managed on a river basin basis. Unlike previous directives which tended to focus on end of pipe solutions, the WFD works at river basin level to achieve good ecological and chemical status for all water bodies by 2015. It uses an integrated approach to the protection, improvement and sustainable use of Europe’s water.
- 4.26 At present not enough is known about the requirements of WFD and other daughter directives which will be set as part of the implementation of the Directive to enable a fully costed plan to be developed. However it is clear that there will be a significant impact on NIW. Work has commenced with the environmental regulators to develop the economic tools designed to inform the programme of measures in the River Basin Management Plans.
- 4.27 It will be important that Ministerial guidance on the pace and degree of implementation of the WFD is available in early 2008 to inform the scale of the capital programme required in the period 2010 -15. In doing so, Ministers will need to take account of the full costs and implications of the WFD alongside the other remaining legacy issues

## 5 Transforming the Business

### MAKING THE CHANGE

- 5.1 NIW's aim, by 2015 is to match or exceed the performance levels of comparable England and Wales water companies. NIW recognises that a major transformation programme is required to deliver a sustainable business delivering at those levels.
- 5.2 The key transformational challenges facing NIW are to:
- Develop a high quality performance culture delivering outputs from the core business processes of asset management, asset delivery, operational management and delivery of customer and stakeholder requirements. An important measure of success will be the effectiveness of NIW in securing the funding from the 2009 regulatory review to support the future investment and operational improvements needed to delivery these plans.
  - Deliver efficiencies: In the period to 2010, NIW will need to deliver cost efficiencies of 17% in capital expenditure (as set out in the previous chapter) and £44m of operating expenditure).
  - Develop people and improve organisational capability: In any major transformation where the organisation is being set new targets or is working in a new environment, a substantial focus is needed on the people of the organisation to ensure that the skills and capability of the organisation match the need.
  - Improve information management and systems: NIW currently does not collect, use or systemise data in a way that meets its needs or those of regulators post April 2007. It needs to develop an information strategy supported by systems to meet its managerial and regulatory needs.

### BENEFITS

- 5.3 The key organisational outputs will be:
- Successful outcome to the 2009 Periodic Review process with future sustainability and projected business improvements secured through a combination of demonstrable success in delivering this plan and a compelling case supported by good information about future needs.
  - The development of a performance culture for NIW that fits with the new operating environment and the outcomes sought by the business and motivates staff to see the business' objectives as their own and to achieve them. This will be supported by the introduction of more flexible reward, recognition, grading and performance arrangements that align to NIW's business needs and facilitate new ways of working;
  - NIW will have achieved (or exceeded) its efficiency targets through improved ways of working leading to workforce reductions and better procurement and contract management approaches, resulting in improved shareholder value and lower customer bills;
  - The delivery of fit for purpose management information supported by systems to provide data integration and to meet business needs in terms of new HR IT systems, improved procurement systems, new work management and mobile working arrangements and upgraded financial systems.

## KPIs

5.4 The key “people” targets in this period will be:

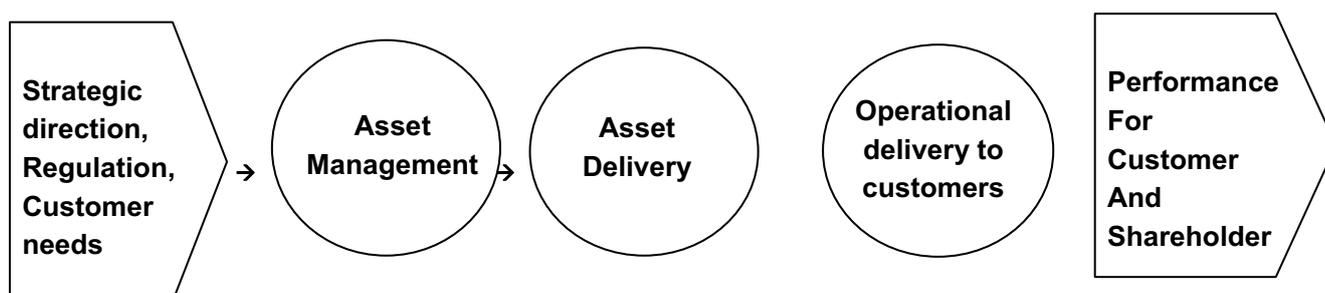
Key Performance Indicator	Actual	Target			
	2005/06	2006/07	2007/08	2009/10	2014/15
Health and safety - reduction in the number of 'days lost' due to accidents based on the previous three year average (%)	#	5	5	5	5
Health and safety - reduction in the number of 'lost day' accidents based on the previous three year average (%)	#	5	5	5	5
Manpower numbers - number of posts	#	1,926	1,881	1,412	#
Staff attendance (%)	95.10	95.42	96.50	#	#
Staff satisfaction levels - increase in the number of staff saying NIW is a good place to work from 2005/06 result (%)	#	#	20	60	#

Key to table:

# not measured / no target

## BUSINESS OPERATING MODEL

5.5 The diagram below sets out the business operating model for the first phase of transformation. The objective will be to improve the delivery of the core processes to realise the achievement of the objectives set out in this plan as well as preparing for future improvements in the 2010-15 phase.



The initiatives to improve these core processes are:

- The creation of an end to end asset management process which is comparable to GB industry best practice to inform strategic and regulatory decision taking about future investment;

- Innovative procurement and contract management approaches combined with unit cost data to drive capital efficiencies as part of the asset delivery process;
- Introducing new technology and ways of working to improve operational efficiency and effectiveness in avoiding and responding to customer problems;
- Developing the management and cost information which the Company will need to inform the 2009 Periodic Review Process and, in conjunction with the initiatives above, building a coherent plan for the future which addresses customer concerns, takes account of environmental regulatory priorities but is also affordable.
- Changes of this nature and importance only work if there are corresponding changes to the culture and supporting behaviours, and if the support processes (e.g. HR, finance, Procurement) and systems are improved in tandem. This section addresses the cultural and behavioural changes which the transformation will require and sets out in greater detail the approach to efficiencies and management information. It also addresses the need to develop and bring in new skills to meet the new requirements on NIW. Other initiatives set out above have been addressed in sections 3 and 4 above.

#### **PERFORMANCE CULTURE**

- 5.6 At the heart of any transformation are the people of the organisation. The employment relationship is central to employee motivation, satisfaction and commitment, and those have a critical influence on business performance. In particular they are critical for delivery of high quality customer service and enhanced efficiency levels.
- 5.7 To support a positive employment relationship, an NIW wants to build a shared commitment between employer and employee. NIW will set out what it will offer employees on reward and recognition, the working environment and job satisfaction in return for employee loyalty, commitment and a positive attitude. This approach will be underpinned with new HR policies, a performance management system including behavioural competencies and regular staff attitude surveys. NIW is committed to working with employees and their representatives to introduce the new approaches required and will negotiate any changes to terms and conditions in line with established good practice.
- 5.8 NIW sees the health and wellbeing of staff as an important part of its employee contract. Since its appointment last April, the NIW Board has made health and safety a high priority for the business. Through a mixture of improved systems and reporting of incidents (including near miss incidents) and a heightened management focus on the prevention and learning of lessons from accidents at work, NIW aims to move towards a zero accident culture. NIW will be working with its key suppliers in 2007/08 to deliver performance improvement.

#### **BEHAVIOURAL CHANGE AND SKILLS DEVELOPMENT**

- 5.9 To support the delivery of the vision for NIW and as part of the building of a performance-oriented culture, the business has developed a set of core values and associated behaviours which it would wish everyone in the organisation to develop and espouse. These values will be incorporated into the new performance management system. NIW's core values are set out in the table below:

Results	Can Do Will Do
Teamwork	Growth through change

- 5.10 A set of supporting behaviours to underpin the values has been developed and introduced across the organisation.
- 5.11 Linked to the vision and values, management recognises the need to develop the skills of the workforce to meet the many challenges described in this plan. In some areas new skills will be needed to supplement those already in the business and in other areas capability will need to be built. As part of this approach the business has so established a transitional training and development strategy. This highlights the core areas to be addressed, particularly in relation to leadership, people management, performance and communications.

#### **HUMAN RESOURCE STRATEGY**

- 5.12 To deliver on the employee promise and on the objectives of this plan. NIW will be developing and implementing a number of important changes to the way the organisation works. These include:
- The sustained investment and introduction of new technology and improved ways of working to provide opportunities for staff at all levels to grow their skills and contribute to the provision of better services to the community;
  - In line with the regulatory out performance incentives for the business as a whole, incentive arrangements which will motivate the workforce to achieve and outperform targets. All employees will have access to a modest bonus scheme based on corporate performance initially (provided personal performance is at least satisfactory) followed by a mixture of corporate and individual performance. Bonuses will be linked to the achievement of challenging targets and will be based on market rates.
  - Creation of a more flexible workforce through the introduction of apprentice/graduates, interim executives, consultant support and fixed term contracts so that overall staffing levels can better reflect the long and short-term needs of the business. Both staff development and recruitment will take account of the outcome of a skills assessment in respect of transformation;
  - A pay and grading review across the business focusing on reducing the number of tiers of management. This will be complete in 2007/8 and include proposals on the number of layers, the nature of roles and supporting competences required;
  - The negotiation of terms and conditions of employment that better meet the needs of the business including the harmonisation of the industrial and non-industrial grades to create an integrated approach, linked with improved performance management through appropriate incentive schemes and consistent management action and systems;

#### **EFFICIENCY**

- 5.13 NIW will be focused on delivery of substantial operational efficiencies at the same time as driving service and quality upwards. NIW will achieve its £44m operating expenditure efficiency targets by 2010 through a series of major projects which will target the key areas of cost within the business. The approach to capex efficiencies has been set out in the preceding chapter and this section focuses on opex efficiencies. The opex efficiencies envisage overall workforce reductions of 36% from 2003/04 including approximately 500 post reductions in the 2007-10 period.
- 5.14 The key drivers of opex efficiency will be:

- The introduction of mobile working systems and practices will improve productivity, enhance asset knowledge and enable a reduction of around 180 posts by March 2009;
- Investment in telemetry and automation will improve responsiveness to customer problems, enhance the skills of the workforce and enable the reduction in costs through fewer site visits.
- The improvement in the procurement of goods and services and the management of the existing contract base within NIW will target annualised savings of £4.4m by 2010. NIW will work with the market to drive cost out of the business where it makes strategic sense to do so. The reviews of the principal processes, activities and supporting systems will determine the most cost effective and efficient way of delivery either by contracted or in-house staff. This is also expected to deliver operational contractors cost savings, achieve improved contractor performance and improve contractor relationships.
- The organisation will further develop partnership working with the PPP contractors, the customer billing and contract partner and in areas such as payroll and IT service delivery, where services will be procured through partnerships. The objective of these partnerships is to deliver high quality services at the lowest cost through well defined contractual arrangements which encourage optimal benefit for company and provider;
- The improved processes and targeting of resources emerging from the functional reviews within Operations are likely to produce a further 180 post reductions by March 2010. These reviews will build on the new technology and develop more streamlined processes. These reductions include some as a result of the planned the rationalisation of the estate. This rationalisation will focus on more effective service delivery and includes plans to rationalise the current 5 Belfast offices into a single functional Head Office. It is planned that any estate changes should be fully self-financing.
- Improvements across the business will result from a series of smaller but important enabling initiatives. These include the introduction of new systems; increasing financial and commercial awareness; the introduction of incentivisation arrangements and a focus on better management and supporting HR systems. Further structural change may be considered in the period to 2010 and almost certainly will be required in the following period.

#### FUTURE STAFFING LEVELS

5.15 It is projected that there will be overall workforce reductions of around 500 staff by 2010 (a reduction of 36%), leaving a total workforce of just over 1,400. NIW will seek to achieve these reductions by voluntary means and is committed to taking all possible steps to avoid compulsory redundancy. NIW will develop a staff reduction programme in 2007/8 with most of the reductions taking effect in the two years from March 2008.

5.16 The table below sets out the projected workforce reductions over the period to 2010.

(as at 31 March)	2006/7	2007/8	2008/9	2009/10
<b>Total</b>	<b>1,926</b>	<b>1,881</b>	<b>1,716</b>	<b>1,412</b>
Difference	-	(45.5)	(210.5)	(514.0)
Difference as %	-	(2)	(11)	(27)

- Around 80% of the workforce reduction will be delivered in Operations, which will reduce its posts by around 400 in the period to 2009/10. This will be achieved through the mobile

working initiative, improvements from all the functional reviews in areas like increased field resource productivity, more automation and the replacement of primarily paper based administrative systems with electronic systems. This reduction includes 53 posts on sites to be run by the Alpha and Omega Public Private Partnership providers. These staff will either transfer to the PPP providers or there will be the equivalent number of post reductions in Operations.

- The Engineering and Procurement Directorate will reduce staff numbers by approximately 33% in the 2007–10 period. This reorganisation will be implemented within the context of the delivery of a demanding CWP.
- The partnership with Crystal Alliance in Customer Contacts and Billing has significantly reduced the Customer Service Directorate staffing in 2006/07. There will be a further reduction by 2010 alongside absorption of new activities associated with customer metering and new regulatory requirements.
- The HR Directorate plan significant changes to systems and processes and the introduction of more management led procedures resulting in some reductions in staff numbers by 2010.
- Finance and Regulation and Asset Management will have modest increases in staff to 2010 as new functions and tasks will be required under the new regulatory and GoCo environment. Where appropriate, surplus staff will be redeployed to these areas.
- NIW plans to build its capability by recruitment of apprentices, trainee, scientists and graduates. There have been an estimated 15 trainees each year from 2008/9 on appropriate salaries. These posts will be integrated into the workforce once they have been properly trained. The scheme is one of the ways of addressing the risk facing NIW of significant numbers of retirees in the coming years. The apprentice scheme will add about 20 staff to the workforce at any given point but will ultimately be absorbed without increasing the total numbers.

#### **INFORMATION MANAGEMENT AND SYSTEMS**

- 5.17 The use and management of information will be critical to the ability of the organisation to manage its business, optimise its use of funding and delivery of associated objectives as well as being central to building successful relationships with the economic regulator and securing a positive outcome to the 2009 periodic review. It will also be an important tool to support NIW in measuring performance improvement and efficiencies as they transform their business.
- 5.18 In a recent review of NIW performance based on the OFWAT Overall Performance Assessment (OPA), Water Service results showed both the gap in performance described earlier and the lack of data in some area. NIW currently does not have the ability to compare and report on data across the business, and instead uses different IT systems and reporting tools to manage the business.
- 5.19 As a result, NIW will develop an information strategy which will define the information required to manage the Company effectively both now and in the future and to provide information to regulators. To enable this, the transformation programme will introduce new and improved management systems and supporting information management practices to NIW. Specific elements included within this are:
- Development of a Model which will outline all of the key data elements necessary for NIW to meet its internal and external customer and regulatory needs

- Management Information Strategy identifying current data within the business, any gaps and how these will be transformed to meet the future needs of the business.
- Cleansing of existing information and the necessary changes) of this data to a format which make it accessible to the other business systems and the Corporate Data Warehouse
- The Development of a Corporate Data Warehouse and Reporting Solution will provide a repository for those elements of data crucial to NIW in the reporting of organisational and regulatory performance.
- Implementation of Technology to support mobile working to be introduced in October 2007 will facilitate greater data collection and accuracy.
- The introduction of an HR payroll and supporting IT system by October 2007 and replacement of their Labour Costing/Time-booking solutions by early 2008
- Introduction of an Asset Management repository and associated asset registers by December 2007
- Development of enhanced procurement systems by March 2008 and improved linkages between the financial systems and the procurement and capital works systems (subject to resource requirements)
- Development of a regulatory Reporting Model for the of the PR09 submission
- Development of interfaces to allow existing NIW information systems to share data more easily

#### **TRANSFORMATION COSTS**

- 5.20 To succeed, there is a need to invest upfront in transformation to deliver the efficiencies and the enabling measures which will then generate more efficiency as well as improved outcomes for customers and stakeholders.
- 5.21 However the benefits of the programme outweigh the costs by 2009/10, and even when NPV factors are taken into account, show substantial net benefit in the years to 2015.
- 5.22 More detail on transformation programme costs is currently being developed as part of the exercise to scale, prioritise and phase the programme. Details for 2007/8 will be included in the forthcoming annual business plan and budget. A three year view will be prepared in May 2007.
- 5.23 Expenditure on transformation in 2007/08 will focus around the key deliverables in terms of:
- Operational reviews and implementation of the Mobile Work Management project
  - New HR systems and implementation of the HR Strategy
  - Enhanced finance and regulatory capability and systems
  - Improvement of management information and supporting systems
  - Investment to improve procurement capability and systems to enhance efficiency

- Investment in technology such as additional telemetry and automation to deliver better services and enhance efficiency
- Projects to develop the organisational culture and customer focus as well as managing the transformation programme

### **Post 2010**

- 5.24 The transformation agenda will be tackled in two phases. In the period to 2010, NIW will focus on transforming the delivery of core services and as a result reducing the performance gap to England and Wales companies. While the systems and capability issues will have been addressed and resolved in the first phase, there will remain significant steps to be taken to secure the 2015 aim of performance levels which match or exceed those of comparable water companies. The second phase of transformation will identify and implement the best strategy to achieve that aim.
- 5.25 That will apply to the need for further efficiencies where there is strong evidence that further efficiencies can be delivered on an ongoing basis beyond 2010. Major decisions will also need to have been taken on the future strategic direction of the business such as the level of services to be provided in-house and where strategically the market can better meet the needs of the business. But until the data and metrics for the current business are fully understood these decisions cannot be taken without significant risks in value loss to the business.

## 6 Financial projections

### INTRODUCTION

- 6.1 As a GoCo, NIW is a stand-alone entity. Existing Government policy is that it should become self-financing from 2009/10 when tariff phasing subsidies will end. Decisions on the introduction of direct charging are a matter for the incoming Executive but would change the nature of organisation's finances from central government funding to a tariff and volume basis in which customers are initially subsidised on a phased basis by Government.

### MAKING THE CHANGE

- 6.2 The key aspects of securing high financial performance are:
- The establishment of financial sustainability with long term assurance over revenue. In the event of domestic charging, the collection of cash from customers being charged for the first time will be a key issue facing NIW in its early years;
  - the importance of maintaining the annual dividend payment to DRD as a return on taxpayers' investment. NIW faces the challenge of delivering that outcome within a challenging operating environment and financial envelope; and
  - Developing financial capability to support the reporting of shareholder and regulatory financial data.

### BENEFITS

- 6.3 The key cash related targets are:
- Achieving operating efficiencies of £44m and capital cost efficiencies of 17.0% by 2009/10 respectively;
  - Under the Direct Rule Government's plans, collecting income from customers not previously paying water charges. The total revenue to be collected from customers in 2007/08 under these plans would be £121.0m.
  - Creating a sustainable business and ensuring the payment of dividends of c£34m pa. The plan also takes account of the need to create shareholder value in terms of growth in RCV net of debt. The plan is based on dividend returns of 5.1% pa and total shareholder returns of 10% in the period to 2014 taking dividend and RCV growth (net of debt) together.

### KPIs

- 6.4 The key finance related targets in this period will be:

KPI	Actual 2005/6	Target 2006/7	2007/8	2009/10	2013/14
Leakage - reduction in overall leakage (million litres per day)	177.8	169.0	157.0	135.5	135.5
Operating margin – excluding exceptionals (%) (note 1)	#	#	25.44	26.34	32.63
Comparative operating cost efficiency – expressed in £m from a 2003/4 base (note 2)	17.9	24.6	29.8	44.0	55.6
Comparative efficiency – expressed as a percentage of total capital expenditure (%)	#	#	2.1	17.0	19.3

KPI	Actual 2005/6	Target 2006/7	2007/8	2009/10	2013/14
Billing – percentage of bills issued on time	#	#	The target for this area will be set in light of the decision reached on the introduction of water charges		
Average number of debtor days outstanding	#	#	The target for this area will be set in light of the decision reached on the introduction of water charges		

*Notes to table:*

- 1 *Operating margin calculated as net surplus/deficit on operations before interest and cost of capital charges (after adjustment for voluntary early departure and one-off transformation costs)*
- 2 *Efficiencies expressed in 2006/07 prices*

*Key to table:*

- # *not measured / no target*

#### FINANCIAL STATEMENTS KEY POINTS

6.5 A full set of projected financial statements for NIW are presented at Appendix A.

Key points regarding the financial performance of NIW are :

- NIW is forecast to make a profit each year before tax and financing charges (the EBIT level). In 2007/8 Water Service is projected to make a post tax profit of £5.3m by 2013/14 we expect post tax profit to have grown to £22.5m. Profitability post 2009/10 will however be dependent upon the outcome of the 2009 price review which will determine NIW's charges to customers. The operating margin for the business increases from 26% to 33% (which is consistent with industry norms) between 2007/08 and 2013/14 this reflects the benefits of business transformation and in the early years to costs of restructuring hitting the P&L.
- We project that NIW will provide shareholder returns both through the payment of a dividend growing from c£34m in 2007/08 to c£48m by 2013/14. NIW is also projected to show significant growth in capital value as measured by the regulatory capital value RCV from the opening RCV of £800m to a closing RCV in 2013/14 of £2,167m which represents a compound growth rate of 15.3% pa over the business plan period. The combination of dividends and capital growth are expected to give total shareholder returns of 10.0%
- Over the initial period to 2010 NIW significantly reduces its requirement for funding from Government as the phasing subsidy expires. However throughout the period to 2013/14 we project that Low Income Protection Subsidy will be required, as a result of Government policy in this area.

#### WATER AND SEWERAGE CHARGES

6.6 *This section sets out the detail underpinning the plans of the Direct Rule Government to introduce from 1 April 2007 charges for domestic customers. NIW recognises these decisions will now be taken by an incoming Executive but has retained this section to show transparently how the arrangements would work under the policy framework to which NIW were working in preparing this plan. Under these plans, the majority of domestic customers will be unmeasured customers, so will pay water and sewerage charges based on the capital*

value of the property. Metering will be mandatory for new connections, and optional for the elderly. For the first time, a new sewerage charge will be introduced from 1 April 2007 for all metered customers, made up of a standing charge and a volumetric charge.

- 6.7 The summary charges below show what customers would pay<sup>1</sup> under the Government's charging proposals. The increase in average charges between 2007/08 and 2009/10 is based on Government's commitment to support the phasing in of customer charges over the period to 2009/10 through a phasing subsidy.

Average Overall Charges	2007/08	2008/09	2009/10
Water	£49	£102	£159
Sewerage	£51	£112	£175
Combined Water & Sewerage	£100	£214	£334

- 6.8 These figures are based on NIW's forecasts and will be fixed for the three years to 31 March 2010<sup>2</sup>. What is clear from the table however is that once the phasing subsidy payments have expired in 2009/10 the charges faced by customers will be in line with England and Wales water charges at £334 (although this is with a Government subsidy to peg average charges to customers to the E&W average and without this charges would be £374) which is below NIW's assessment of the average bills from the comparator group (Wessex, South West, Scottish and Welsh Water) which is £406 pa.
- 6.9 At present the business plan is based on average charges for water and sewerage services in Northern Ireland growing in line with projected charges for England and Wales in the period 2010/11 to 2013/14. However, charges for 2010 onwards will be agreed with NIAUR as part of the next periodic review of tariffs. It is assumed that this review will be undertaken on the basis of the principles outlined in the NIW Licence<sup>3</sup> and consistent with the principles of water regulation observed in England and Wales. This is expected to take into account actual outturn costs to deliver the standards set by the Regulators, as well as NIAUR's expectation of efficiencies over that period.

## REVENUE

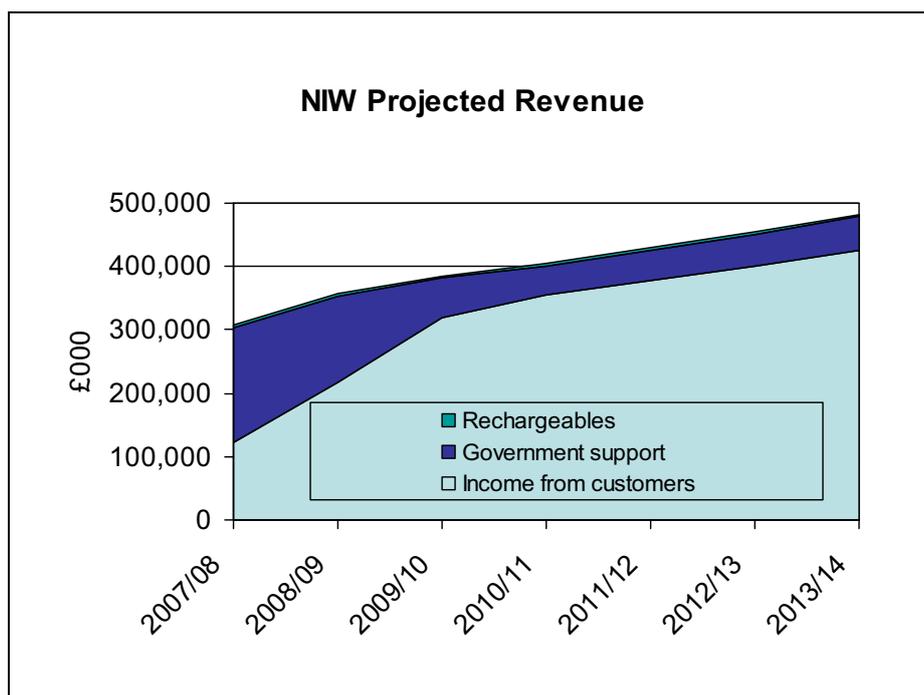
- 6.10 In developing this plan for the period to 2009/10<sup>4</sup>, revenue has been projected to comprise tariff income from customers, government subsidy of customers and income from rechargeable services. The mix of these components would change significantly over the business plan period under the existing Government's policy reflecting the increasing independence of the business from Government support as customer charges are fully introduced. This is shown in the figure below (the graph shows revenue projections in nominal terms).

<sup>1</sup> The charges are shown on the basis of what customers will face (i.e. the impact of the low income subsidy have been taken into account in the figures shown in the table.)

<sup>2</sup> NIW's licence allows adjustments to charges for a range of issues such as RPI increases; changes in assumptions regarding bad debt, customer numbers, PPP payments and so forth

<sup>3</sup> i.e. using the building block approach to calculating allowed revenues and using appropriate calculations of broad equivalence etc

<sup>4</sup> Revenues for the period from 2010/11 onwards will be determined by a regulatory price review in 2009/10



## EXPENDITURE

- 6.11 Operating expenses increase from £159.4m to £190.1 between 2006/07 and 2007/08. This is driven by a combination of new costs arising from the GoCo status including those currently met from elsewhere in Government, transformation projects related costs, (as described above), provision for the VER scheme and new operating costs that result from operation of new assets built under the CWP. The reduction in operating costs in future years is the result of the efficiency programme and the completion of the transformation programme. NIW will deliver cumulatively c£55m operating efficiencies on controllable costs by 2013/14.

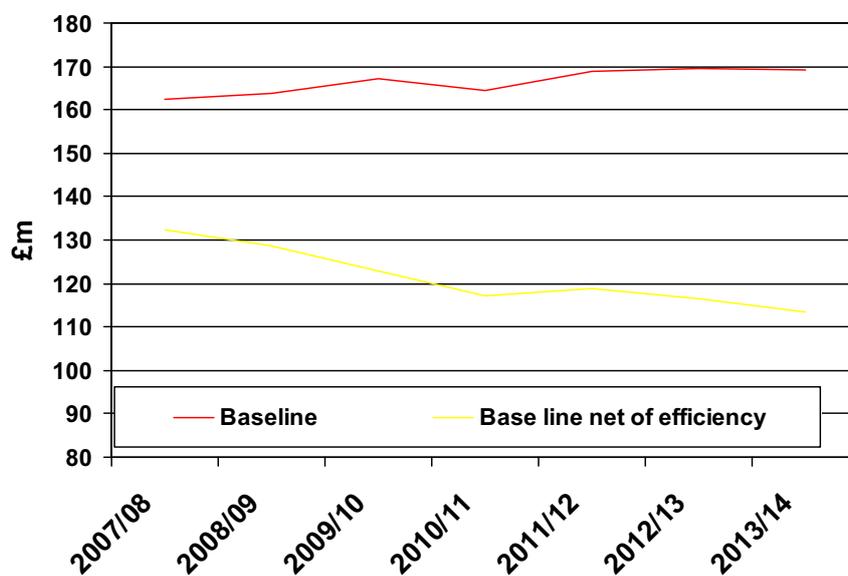
Year	2007/08	2009/10	2013/14
Baseline <sup>5</sup>	161.9	166.3	169.4
Opex Efficiencies	-29.8	-44.0	-55.6
Net Baseline Costs <sup>6</sup>	<b>132.1</b>	<b>122.3</b>	<b>113.8</b>
Business transformation, VER and opex from capex costs.	20.0	12.7	11.4
Pension, insurance & other costs	12.0	10.5	9.4
Customer Billing, contact and related costs	18.4	26.3	28.9
Regulatory Payments	3.5	4.0	4.5
Release of Government Grant and deferred credit balances	-0.5	-0.6	-0.8
Inflation	4.6	12.5	28.7

<sup>5</sup> An analysis of the baseline costs is presented in Annex A

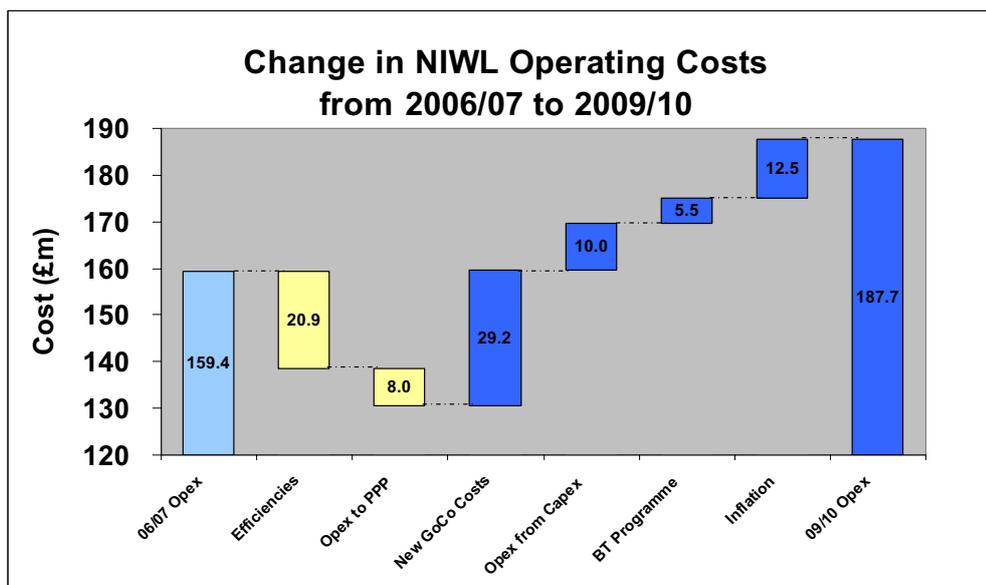
<sup>6</sup>

Year	2007/08	2009/10	2013/14
Total Opex in Business Plan	190.1	187.7	195.9
Efficiency as a % of Controllable Costs	<b>19.46%</b>	<b>28.78%</b>	<b>35.89%</b>
Efficiency as a % of Total Costs	<b>14.41%</b>	<b>21.67%</b>	<b>26.81%</b>

The commitment to efficiency is clearly demonstrated by the graph below in which base line costs (expressed in real terms) over the business plan period are shown before and after efficiency,



The chart below provides a view of the movement in operating & staff costs between 2006/07 and 2009/10 (real 2006/07 prices):

**FUNDING: DEBT**

- 6.12 The company will be created with an opening debt of £150m. Debt will be drawn down according to an agreed schedule to meet requirements, primarily driven by the capital investment programme profiled in this SBP. Interest cost of 5.25% on outstanding balances, fixed for the first three years. All debt will come from revolving loans provided by DRD. There are no rescheduled repayments of debt in the SBP period. Interest will be paid on debt at the rate of 5.25%. By 2009/10 debt will be some £696m and by 2013/14 £1,066m giving in the latter case an Ofwat determined ratio of debt to RCV of 52% (within the overall guidance from Ofwat of 60%).

The projected dividends are based on a return of 5.1% of regulatory capital value minus net debt. The actual dividend payments made in any year will be subject to Board approvals.

**FUNDING: EQUITY**

- 6.13 Shareholder equity will equal the opening RCV, less the £150m of the opening balance sheet accounted for by debt plus the value of any surplus assets (with an RCV of £800m, opening debt of £150m and surplus assets of £21.1m, this gives shareholder funds of £671.1million.)

**NEW REPORTING OBLIGATIONS AND THE FINANCIAL MANAGEMENT OF NIW**

- 6.14 Part of the business transformation for NIWL involves significant change in the financial management of the business:

- Management of the cash collection cycle via the Crystal Alliance partnership arrangement
- Internal monitoring of the CWP and overall financial performance at Finance Director, Chief Executive and executive team level, with oversight from the Board and the Board Finance Sub committee
- Development of a regulatory reporting capability
- Development of a shareholder reporting capability
- Systems investment, staff training and process improvement initiatives.

In addition NIW is prepared for the preparation of regulatory accounts and for their submission to NIAUR. In the period to the start of 2010/11 the regulatory reporting obligations will be limited while the reporting systems are introduced. However, those reporting obligations will increase as the systems become operational.

#### **CONTROL ENVIRONMENT**

6.15 The NIW has established a delivery and assurance framework which comprises:

- Compliance with the Companies Order and with the relevant aspects of the Combined Code for a GoCo including for example a range of sub-committees chaired by Non Executive Directors to focus in on key aspects of the business. Sub-committees have been established on audit, risk and reputation, asset investment and on nomination and remuneration;
- Annual business planning and detailed operational budgeting arrangements;
- Regular reports to the Board and its sub-committees reporting on progress against the business plan including key targets and other major work areas such as finance, health and safety and the environment;
- Biannual assurance statements from the Executive Team and Senior Management of the company;
- An Audit sub-committee, chaired by a Non Executive Director, to oversee the control framework. The appointment of new internal and external auditors with a clear programme of work focused initially around the control environment will support the sub committee. By partnering with expertise of this nature, NIW will be working to develop and improve its control environment to industry best practice standards.

6.16 This framework follows best practice for the corporate environment. There remain further measures which are still under development to increase levels of assurance. An example of this is the information management priority documented in Chapter 5 above which is essential if data quality is to be improved and assured.

## 7 Working with Stakeholders

### CONTEXT

- 7.1 NIW's stakeholders are of fundamental importance in the period of this plan. NIW is determined to build appropriate and open relationships in which there is recognition of the interests of all concerned. This section will deal specifically with relations with:
- The Department of Regional Development (DRD) as NIW's shareholder. DRD will also be responsible for the setting of future water policy and for funding NIW through customer subsidies and lending the Company the funds to support its investment programme;
  - The Northern Ireland Authority for Utility Regulation (NIAUR) as the economic regulator responsible for safeguarding customer interests through securing value and quality outcomes for customers;
  - The Environment and Heritage Service (EHS) and the Drinking Water Inspectorate (DWI) as the environmental regulators responsible for overseeing the company's attainment of environmental standards including safeguarding public health and preventing pollution;
  - The Consumer Council for Northern Ireland (CCNI) as the organisation responsible for representing customer interests.

### MAKING THE CHANGE

- 7.2 NIW faces an entirely new institutional framework from that which applied to Water Service. The establishment of the new company, taken together with the potential introduction of domestic water charges and the imperative to improve service while reducing costs, creates a substantial risk profile for the business.
- 7.3 Through an open and focused dialogue with stakeholders, NIW intends to promote a clear and common understanding of what the business will be able to deliver to what timeframe and to develop plans based on that understanding. The company will rightly then be challenged to deliver to the time and standards set. As part of the development of mature relationships, NIW intends to communicate its approach, its targets and how it will address problems if they come to pass.

### DRD

- 7.4 The creation of a company with Government as shareholder is a model which has been applied successfully to a range of businesses. The company welcomes the adoption of the principles the Shareholder Executive use and is committed to working with the shareholder to build and maintain confidence and trust in the company's ability to deliver.
- 7.5 The company recognises the importance of delivering the agreed rate of return for the investment made to the shareholder and of securing growth to the Regulated Capital Value as a result of investing efficiently and in the areas of highest priority. These issues are addressed more fully in the finance section.

### NIAUR

- 7.6 NIW is committed to working cooperatively with NIAUR. Initial meetings have been held and constructive with an open and transparent approach being taken on both sides. A statement of regulatory principles and intent has been put in place to provide clarity about how the regulatory regime will operate. As with all the new institutional relationships, the first year will

be a critically important time in building the type of relationship needed for the future. Over the period to 2010, NIW will:

- work with NIAUR to develop a regulatory regime suited to the unique requirements of Northern Ireland whilst making use of the OFWAT regulatory model;
- engage with NIAUR to ensure that NIW can meet the requirements set out for the 2009 Periodic Review process including in terms of the Asset Management Plan;
- in advance of that, deliver the information required by NIAUR in terms of the June Returns on levels of service, performance against targets and regulatory accounts to the timeframes agreed. NIW recognises the importance of providing timely accurate information in a range of areas, but believes that the information sought should be targeted and for defined purposes to avoid over-onerous regulation with the attendant cost implications for the consumer;
- as part of aligning expectations on the above issues, agree with the regulator the speed at which the required supporting systems and processes can be developed and implemented with assurance. NIW will work to agree a realistic timetable for delivery which takes account of the transformation facing it;
- Meet the obligations which emerge from the final version of the licence.

#### **EHS AND DWI**

7.7 In contrast to NIAUR, there are already established working relationships in place with both EHS and DWI. These will undergo some change as a result particularly of NIW's move to corporate status and the consequent ending of Crown Immunity. In view of the significant non-compliance against wastewater standards and the need to continue improvements to drinking water quality, NIW is focused on working with EHS and DWI to:

- Agree the investment priorities for improving quality standards for the period to 2010 down to scheme level which the Company will then use as the basis for its Capital Works Programme;
- Maintain a constructive relationship in which NIW both meets its regulatory requirements including the prompt and accurate reporting of pollution and other incidents and acts speedily to mitigate the impact of those failures;
- Operate the Statement of Regulatory Principles and Intent agreed between the Company and its environmental regulators and endorsed by the Minister to ensure that, while the Company is fairly held to account for any management failures, progress to environmental compliance is linked to the funding in the Capital Works Programme.

#### **CCNI**

7.8 Consumer interests will be represented by the Consumer Council. Water Service is already working closely with Consumer Council on a wide range of customer issues.

7.9 Specifically in the period to 2010 NIW will:

- Work with the Consumer Council, in accordance with the new water and sewerage legislation, on consumer matters;
- Consult Consumer Council, in accordance with the Licence, on the introduction of new Codes of Practice on:

- Customers and relations with the Consumer Council
- Debt Recovery
- Leakage;
- Review the implementation of these Codes of Practice and work with the NIAUR and Consumer Council to determine need for modification or manner of operation.

#### **OTHER STAKEHOLDERS**

- 7.10 While this chapter has focused on the major stakeholders with whom NIW has institutional/regulatory arrangements, the company recognises the importance of the broader span of interested parties in the water business. In particular, as one of the largest businesses in Northern Ireland, NIW will be seeking to further its engagement with the business community in NI both in relation to improving the services offered to that community and in taking forward areas of common interest for mutual benefit. Other sectors to which NIW will be paying particular attention include local government, NGOs and interest groups, such as Northern Ireland Environment Link.
- 7.11 As the profile of NIW increases, so the Company is responding to the increased internal and external communications needs alongside effective media management. In addition to continuing development of systems for customer relations management, metering and billing, NIW's internet web-site facilities will be upgraded.

#### **CORPORATE SOCIAL RESPONSIBILITY.**

- 7.12 NIW also recognises its obligations to engage inform and educate the public on water and sewerage issues. The Company will continue to promote key public awareness themes such as health, water efficiency, the water cycle and environmental responsibility, using media such as newspaper articles, exhibitions, visitor centres and targeted sponsorships.

## APPENDICES

Appendix A - Detailed financial statements (Note these statements are built on the basis of existing Government policy. The decision on the source of funding for the future will be one for an incoming Executive to take)

Appendix B – Consolidated Key Performance Indicator List

Appendix C – Capital Works Programme

## Appendix A - Detailed financial statements

### NIWL: PROFIT AND LOSS PROJECTIONS

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ADDED ACCOUNTS	CURRENT FORECAST	NIW BUSINESS PLAN MODEL							
<b>Revenue</b>									
Income from customers	37,157	37,274	121,041	217,371	319,823	355,877	376,715	399,439	424,841
Government Subsidy <sup>1</sup>	-	-	182,767	134,542	62,122	44,952	48,517	50,963	54,204
Rechargeables	4,141	4,596	3,582	4,241	3,460	3,547	3,635	3,726	3,819
	41,298	41,870	307,391	356,153	385,406	404,376	428,867	454,128	482,864
<b>Expenditure</b>									
Operating Expenditure	(150,348)	(159,416)	(190,120)	(197,473)	(187,738)	(181,386)	(189,459)	(192,039)	(195,902)
PPP/PFI Operating Expenditure	(2,243)	(2,284)	(1,912)	(20,371)	(37,659)	(38,296)	(38,937)	(39,507)	(39,538)
Depreciation	(124,267)	(112,700)	(12,586)	(18,762)	(25,041)	(28,856)	(32,508)	(35,755)	(37,962)
Infrastructure Renewal Charge	-	-	(35,668)	(38,022)	(40,785)	(43,226)	(45,990)	(48,966)	(53,800)
<b>Total Expenditure</b>	<b>(276,858)</b>	<b>(274,400)</b>	<b>(240,286)</b>	<b>(274,627)</b>	<b>(291,223)</b>	<b>(291,765)</b>	<b>(306,894)</b>	<b>(316,268)</b>	<b>(327,201)</b>
<b>Net surplus / (deficit) on operations before interest and cost of capital charges</b>	<b>(235,560)</b>	<b>(232,530)</b>	<b>67,105</b>	<b>81,526</b>	<b>94,183</b>	<b>112,611</b>	<b>121,973</b>	<b>137,860</b>	<b>155,663</b>
Interest payable on Loans	(46)	(6,500)	(11,086)	(20,577)	(30,712)	(40,023)	(46,351)	(51,381)	(54,752)
Cost of Capital Charge	(198,118)	(206,160)	-	-	-	-	-	-	-
Dividend	-	-	(33,956)	(35,006)	(36,028)	(37,995)	(40,624)	(43,883)	(48,119)
Deferred Tax	-	-	(16,806)	(18,285)	(19,041)	(21,776)	(22,687)	(25,944)	(30,273)
Cash Tax	-	-	-	-	-	-	-	-	-
<b>Net deficit on operations after cost of capital charges</b>	<b>(433,724)</b>	<b>(445,190)</b>	<b>5,257</b>	<b>7,658</b>	<b>8,401</b>	<b>12,817</b>	<b>12,312</b>	<b>16,652</b>	<b>22,519</b>
Opex Margin <sup>2</sup>			21.83%	22.89%	24.44%	27.85%	28.44%	30.36%	32.24%
Opex Margin excluding exceptional <sup>3</sup>			25.44%	26.72%	26.34%	28.29%	28.87%	30.77%	32.63%
Net debt / RCY gearing ratio			32.85%	43.15%	49.10%	51.82%	53.19%	53.18%	51.82%
<b>Government Subsidy</b>									
Phasing Subsidy	-	-	171,840	100,783	-	-	-	-	-
Pegging Subsidy	-	-	-	11,492	27,855	-	-	-	-
Low Income Subsidy <sup>1</sup>	-	-	9,817	21,698	34,267	44,952	48,517	50,963	54,204
Septic Tank Subsidy <sup>4</sup>	-	-	1,110	569	-	-	-	-	-
<b>Total Government Subsidy</b>	<b>-</b>	<b>-</b>	<b>182,767</b>	<b>134,542</b>	<b>62,122</b>	<b>44,952</b>	<b>48,517</b>	<b>50,963</b>	<b>54,204</b>

#### Notes

1. Low Income Subsidy post 2011/12 has been assumed to remain at the same level as 2010/11 & 2011/12 (in % terms)
2. Opex margin calculated as net surplus / deficit on operations before interest and cost of capital charges divided by total revenue
3. Opex margin excluding exceptional<sup>3</sup> calculated as net surplus / deficit on operations before interest and cost of capital charges (after adjustment for voluntary early departure and one-off transformation costs) divided by total revenue
4. Income from septic tank emptying has been phased in line with other new charges

**NIWL PROJECTED BALANCE SHEET**

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	AUDITED	CURRENT	NIW BUSINESS	NIW BUSINESS	NIW BUSINESS	NIW BUSINESS	NIW BUSINESS	NIW BUSINESS	NIW BUSINESS
	ACCOUNTS	FORECAST	PLAN MODEL	PLAN MODEL	PLAN MODEL	PLAN MODEL	PLAN MODEL	PLAN MODEL	PLAN MODEL
<b>Fixed Assets</b>									
Tangible Assets	6,046,100	855,162	1,102,036	1,405,995	1,588,491	1,742,217	1,879,351	1,993,458	2,088,473
Investments	62	62	63	65	66	68	70	71	73
	<b>6,046,162</b>	<b>855,224</b>	<b>1,102,099</b>	<b>1,406,059</b>	<b>1,588,557</b>	<b>1,742,285</b>	<b>1,879,421</b>	<b>1,993,530</b>	<b>2,088,546</b>
<b>Current Assets</b>									
Stocks & work in progress	1,685	2,000	2,880	3,268	3,381	3,295	3,426	3,473	3,532
Debtors due within one year	32,093	33,574	42,653	67,853	91,350	102,673	112,124	119,211	127,217
Cash in bank and hand	23	26	-	-	-	-	-	-	-
Interest asset (PPP - Omega & Kinnegar)	-	1,307	2,755	5,468	8,255	11,118	14,058	17,078	20,179
	<b>33,801</b>	<b>36,907</b>	<b>48,288</b>	<b>76,589</b>	<b>102,987</b>	<b>117,086</b>	<b>129,608</b>	<b>139,762</b>	<b>150,928</b>
<b>Creditors: amounts falling due within one year</b>	<b>(88,113)</b>	<b>(56,200)</b>	<b>(427,331)</b>	<b>(731,682)</b>	<b>(905,609)</b>	<b>(1,035,692)</b>	<b>(1,150,249)</b>	<b>(1,234,119)</b>	<b>(1,287,119)</b>
<b>Net Current (Liabilities) Assets</b>	<b>(54,312)</b>	<b>(19,293)</b>	<b>(379,043)</b>	<b>(655,093)</b>	<b>(802,622)</b>	<b>(918,605)</b>	<b>(1,020,640)</b>	<b>(1,094,357)</b>	<b>(1,136,192)</b>
<b>Total Assets less Current Liabilities</b>	<b>5,991,850</b>	<b>835,931</b>	<b>723,056</b>	<b>750,966</b>	<b>785,935</b>	<b>823,680</b>	<b>858,780</b>	<b>899,173</b>	<b>952,354</b>
<b>Creditors: amounts falling due after one year</b>	<b>(4,781)</b>	<b>(4,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Provision for Liabilities and Charges</b>	<b>(4,251)</b>	<b>(10,831)</b>	<b>(46,699)</b>	<b>(66,952)</b>	<b>(93,520)</b>	<b>(118,448)</b>	<b>(141,236)</b>	<b>(164,977)</b>	<b>(195,640)</b>
<b>Net Assets</b>	<b>5,982,818</b>	<b>821,100</b>	<b>676,357</b>	<b>684,015</b>	<b>692,416</b>	<b>705,232</b>	<b>717,544</b>	<b>734,196</b>	<b>756,715</b>
<b>Taxpayers Equity</b>									
General Fund	3,784,317	783,017	-	-	-	-	-	-	-
Shareholders Capital	-	-	671,100	671,100	671,100	671,100	671,100	671,100	671,100
Revaluation Reserve	2,089,227	23,283	-	-	-	-	-	-	-
Government Grant Reserve	109,274	14,800	-	-	-	-	-	-	-
Retained Profit	-	-	5,257	12,915	21,316	34,132	46,444	63,096	85,615
	<b>5,982,818</b>	<b>821,100</b>	<b>676,357</b>	<b>684,015</b>	<b>692,416</b>	<b>705,232</b>	<b>717,544</b>	<b>734,196</b>	<b>756,715</b>
<b>Note - Creditors</b>									
Creditors									
DRD revolving loan			(48,851)	(47,423)	(46,975)	(44,047)	(43,863)	(42,614)	(41,896)
PPP-PF/Finance leases			(333,411)	(524,710)	(696,244)	(826,330)	(937,163)	(1,017,731)	(1,065,785)
Dividend Creditor			-	(111,190)	(110,080)	(110,780)	(110,401)	(110,059)	(109,877)
Deferred Income			(33,956)	(35,006)	(36,028)	(37,995)	(40,624)	(43,883)	(48,119)
			(11,112)	(13,353)	(15,283)	(16,540)	(18,197)	(19,832)	(21,443)
			(427,331)	(731,682)	(905,609)	(1,035,692)	(1,150,249)	(1,234,119)	(1,287,119)

## NIWL CASHFLOW PROJECTIONS

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
	NIW BUSINESS PLAN MODEL						
<b>Operating Cash Flow</b>							
EBITDA (excl. IRC)	115,360	138,310	160,009	184,693	200,471	222,582	247,425
Changes in working capital	(19,282)	(27,016)	(24,059)	(14,165)	(9,765)	(8,383)	(8,783)
Change in provisions for liab. & charges	(2,563)	(7,776)	(280)	(96)	(96)	(10)	(10)
Change in provisions for bad debt	3,981	7,687	10,262	7,525	4,545	2,025	2,247
Change in deferred income balance	1,905	2,241	1,930	1,257	1,657	1,634	1,611
Change in pension & VER provisions	656	2,056	(2,456)	(4,278)	(4,347)	(4,218)	(1,848)
<b>Total</b>	<b>100,056</b>	<b>115,503</b>	<b>145,407</b>	<b>174,937</b>	<b>192,465</b>	<b>213,630</b>	<b>240,642</b>
Cash tax paid	-	-	-	-	-	-	-
<b>Financing Cash Flow</b>							
Change in PPP-PFI/finance leases	-	(461)	(110)	(300)	(378)	(342)	(182)
Change in PPP interest asset (Omega & Kinnegar - Off balance sheet)	(1,449)	(2,715)	(2,789)	(2,864)	(2,942)	(3,021)	(3,103)
Interest paid	(11,086)	(20,577)	(30,712)	(40,023)	(46,351)	(51,381)	(54,752)
Proceeds from asset sales	2,101	6,461	4,415	-	-	-	-
<b>Total</b>	<b>(10,434)</b>	<b>(17,292)</b>	<b>(29,196)</b>	<b>(43,187)</b>	<b>(49,671)</b>	<b>(54,745)</b>	<b>(58,037)</b>
<b>Investing Cash Flow</b>							
Capex - Infrastructure (incl. IRC)	(124,957)	(102,638)	(109,695)	(119,405)	(102,888)	(116,759)	(136,420)
Capex - Non-Infrastructure	(148,076)	(152,915)	(143,043)	(106,403)	(112,744)	(82,069)	(50,357)
<b>Total</b>	<b>(273,034)</b>	<b>(255,553)</b>	<b>(252,738)</b>	<b>(225,809)</b>	<b>(215,632)</b>	<b>(198,829)</b>	<b>(186,777)</b>
<b>Total cash flow before dividends</b>	<b>(183,411)</b>	<b>(157,342)</b>	<b>(136,528)</b>	<b>(94,059)</b>	<b>(72,838)</b>	<b>(39,944)</b>	<b>(4,171)</b>
Dividends paid	-	(33,956)	(35,006)	(36,028)	(37,995)	(40,624)	(43,883)
<b>Change in net cash/debt</b>	<b>(183,411)</b>	<b>(191,298)</b>	<b>(171,534)</b>	<b>(130,087)</b>	<b>(110,833)</b>	<b>(80,567)</b>	<b>(48,055)</b>
<b>Output</b>							
Investing CF	333,411	524,710	696,244	826,330	937,163	1,017,731	1,065,785
Total CF	(183,411)	(255,553)	(252,738)	(225,809)	(215,632)	(198,829)	(186,777)
Net debt	(333,411)	(191,298)	(171,534)	(130,087)	(110,833)	(80,567)	(48,055)
		(524,710)	(696,244)	(826,330)	(937,163)	(1,017,731)	(1,065,785)

## Appendix B – Consolidated KPIs

This appendix sets out a full list of the KPIs for NIW. At present not all the data required for the full list of regulatory measures is available. The list below has been approved by the NIW Board and covers both targets capable of measurement in 07/08 and those requiring work both to provide a suitable methodology and to allow sensible targets to be set. The latter category will be targets for measurement in 2008/9 and beyond. *Those measures in italics will be dependent on the decision of an incoming Executive regarding water charging.*

KPI	Actual	Target			
	2005/6	2006/7	2007/8	2009/10	2014/15
<b>CUSTOMERS</b>					
1. Supply interruptions (DG3) - no. of properties experiencing unplanned and unwarned interruptions in excess of:					
6 hours	2.05	#	2.00	1.00	0.30
12 hours	0.87	0.30	0.25	0.15	0.10
24 hours	0.01	#	0.03	0.01	Nil
(Expressed as a percentage of households)					
2. Written complaints - number of written complaints answered within 10 days as a percentage of total written complaints (%)	92.03	90	96	98	100
3. <i>Customer billing. Number of billing contacts dealt within 5 working days expressed as a percentage of total billing contacts. Billing contacts include account queries, change of address, request for alternative payment arrangements etc. and can be received by telephone, in writing, by e-mail and by personal visit. (%)</i>	#	#	96	98	100
4. <i>Billing of Metered Customers – number of bills based on a meter reading expressed as a percentage of total metered accounts (%)</i>	#	#	95	95	99
5. Ease of telephone contact - customer calls answered during business hours (8am to 8pm Monday to Friday, 8am to 6pm Saturday, 10am to 6pm Sunday) within 30 seconds (%)	89	93	93	96	98
6. Telephone contact. Total calls NIW received on customer contact lines, total calls abandoned, and the number of callers unable to connect because all lines were busy. (An independent market research company also carries out a survey on call handling satisfaction.) (note 4) - % of calls not abandoned - % of calls not all lines busy - % customer satisfaction	#	#	New target being developed by OFWAT – not yet set for NIW		
7. Sewer flooding. Number of properties affected by an incident of internal sewage flooding caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather	#	KPI Target Under Construction			

KPI		Actual 2005/6	Target 2006/7	2007/8	2009/10	2014/15
8.	Sewer flooding. Number of properties affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed 'other causes')	#	KPI Target Under Construction			
9.	Sewer flooding. Number of properties considered to be at risk of flooding by sewage, caused by overload, more frequently than once in 10 years	#	KPI Target Under Construction			
10.	Pressure. Number of properties at risk of receiving pressure below reference level of 10 metres head at a flow of 9 litres per minute, expressed as a percentage of total properties	#	KPI Target Under Construction			
<b>CASH</b>						
11.	Leakage - reduction in overall leakage (million litres per day)	177.8	169.0	157.0	135.5	135.5
12.	Operating margin – excluding exceptionals (%) (note 2)	#	#	25.44	26.34	32.63*
13.	Comparative operating cost efficiency – expressed in £m from a 2003/4 base (note 3)	17.9	24.6	29.8	44.0	55.6*
14.	Comparative efficiency – expressed as a percentage of total capital expenditure (%)	#	#	2.1	17.0	19.3*
15.	<i>Billing – percentage of bills issued on time</i>	#	#	<i>The target for this area will be set in light of the decision reached on the introduction of water charges</i>		
16.	<i>Average number of debtor days outstanding</i>	#	#	<i>The target for this area will be set in light of the decision reached on the introduction of water charges</i>		
<b>PEOPLE</b>						
17.	Health and safety - reduction in the number of 'days lost' due to accidents based on the previous three year average (%)	#	5	5	5	5
18.	Health and safety - reduction in the number of 'lost day' accidents based on the previous three year average (%)	#	5	5	5	5
19.	Manpower numbers - number of posts	#	1,926	1,881	1,412	#
20.	Staff attendance (%)	95.10	95.42	96.50	#	#
21.	Staff satisfaction levels - increase in the number of staff saying NIW is a good place to work from 2005/06 result (%)	#	#	20	60	#

KPI	Actual 2005	Actual 2006	Target 2007	2009	2014
<b>COMPLIANCE</b>					
22. Drinking water quality – percentage compliance with the Water Supply (Water Quality) Regulations (NI) 2002:					
(a) taking into account Authorised Departures	99.73	99.66	99.72	99.81	99.90
(b) not taking into account Authorised Departures	99.19	99.42	99.60	99.80	99.90
<b>23. Mean zonal compliance - water quality at the tap (%)</b>	<b>99.02</b>	<b>99.34</b>	<b>99.44</b>	<b>99.77</b>	<b>99.90</b>
<b>24. Operational Performance Indicator (Turbidity, Iron and Manganese) (%)</b>	<b>#</b>	<b>98.87</b>	<b>98.90</b>	<b>99.00</b>	<b>99.65</b>
<b>25. Wastewater quality (note 1) - wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a</b>					
(a) percentage of works	81.7	84.0	84.0	91.0	100.0
<b>(b) percentage of population equivalent</b>	<b>66.8</b>	<b>77.0</b>	<b>82.5</b>	<b>94.0</b>	<b>100.0</b>
26. Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents (%)	#	76.3	80.2	92.4	100.0
27. Pollution incidents (high/medium) – reduction in the number of pollution incidents attributed to NIW based on 2004-2006 average (%)	#	#	5	11	32
28. Capex issues and initiatives - completion of schemes costing over £250k, scheduled to start in the Capital Works Programme (%)	93	90	90	90	90

*Notes to tables:*

- 1 *This target includes a small number of wastewater treatment works with < 250 population equivalent and an Environment and Heritage Service numeric discharge standard.*
- 2 *Operating margin calculated as net surplus/deficit on operations before interest and cost of capital charges (after adjustment for voluntary early departure and one-off transformation costs)*
- 3 *Efficiencies expressed in 2006/07 prices*

*Key to table:*

- # *not measured / no target*  
 \* *Target to 2013/14*

## Appendix C – Capital Works Programme

### **CAPITAL WORKS PROGRAMME      2007/08 – 2009/10**

The full Capital Works Programme has been passed to Halcrow for independent reporter review. For the purposes of the SBP a high level summary is provided. More detail on the 07/08 Programme will be included in the 07/08 business plan.

The composition or make-up of projects contained in Northern Ireland Water Capital Works Programme is based on a number of assumptions, including:

- The need to maintain the current programme of improvements to existing water treatment works.
- Target those high priority wastewater treatment works which do not achieve their compliance standards. The prioritisation methodology has been agreed with the Environmental Regulator.
- Target adequate funding to maintain a sufficient level of infrastructure improvements, carried out through the Watermain Rehabilitation Programme and the Drainage Area Plans. As the emphasis switches from wastewater treatment to a programme of infrastructure improvement over the next few years it is necessary to have the appropriate support systems in place to ensure efficient delivery of this increasing programme.

#### **2007/08 CAPITAL PROGRAMME**

Some £230 million of capital projects are scheduled for delivery during 2007/08. This includes the continuation of projects previously started along with the commencement of new projects.

Some major projects which are scheduled for completion during 2007/08 include:

- The North Coast Wastewater Treatment Works – this £40 million project will serve Portrush, Portstewart, Coleraine and the surrounding environs and meet the requirements of the relevant European Directives. This project will provide suitable treatment to ensure that 2 of the 9 sites currently being infractioned for failure to comply with the Urban WasteWater Treatment Directive will meet the necessary requirements.

Other major projects (at a cost ranging from £5m to £10.5m) scheduled for completion during 2007/08 include:

- Ballybrakes/Glenstall (Ballymoney) Wastewater Treatment Works
- Tandragee WasteWater Treatment Works
- Carran Hill (Crossmaglen) Water Treatment Works
- Clay Lake (Keady) Water Treatment Works

It is planned to commence over 25 projects targeted at high priority wastewater treatment works. This will continue the on-going work to ensure compliance with the appropriate EC Directives and meet the regulatory discharge consent standards. Significant projects within this programme of work (at a cost ranging from £6.5m to £23.0m include:

- Antrim Wastewater Treatment Works

- Enniskillen Wastewater Treatment Works
- Portaferry Wastewater Treatment Works
- Limavady Wastewater Works

It is also planned to start work on improving the wastewater treatment facilities at a number of locations on the Ards Peninsula, including Ballywalter, Cloghy, Portavogie, etc.

Improvements to the water treatment works at Seagahan (Armagh area) are also scheduled to commence in 2007/08.

It is planned to target improvements to the water main infrastructure in a number of areas throughout Northern Ireland, including Lough Fea (Cookstown/Draperstown), Cookstown, Cargan (Ballymena), and Altnahinch (Ballymoney). This will commence a three year programme of work to reline or replace some 910km of water main.

Work will continue on the improving the sewer network in Londonderry City as well as the £127m Belfast Sewer Project.

#### **2008/09 CAPITAL PROGRAMME**

Some £222m of capital projects are scheduled for delivery in 2008/09. This will include completion or substantial completion of some previously commenced projects and the start of new projects.

The programme of work to improve wastewater treatment compliance will continue with some 12 projects scheduled for completion and 20 programmed to start, including major improvements at:

- Ballycastle Wastewater Treatment Works
- Toome Wastewater Treatment Works
- Warrenpoint Wastewater Treatment Works

Work will also commence on improvements to the water treatment works at Lough Bradan, (Omagh) and on the upgrade of the Crew Hill (North Lisburn) Service Reservoir. Targeted priority improvements to the water main infrastructure in a number of areas throughout Northern Ireland, including Ballinrees (North Antrim), Dunore (Crumlin/Lough Neagh) and The Glens will also take place during the year.

Improvements to the sewerage network resulting from the outcome programme of Drainage Area Studies. Targeted areas include East Belfast, Portadown, Craigavon and Seahill. The areas selected result from the prioritisation methodology agreed with the environmental regulator and work will be targeted at making Combined Sewers Overflows compliant and reducing the risk of out-of-sewer flooding.

#### **2009/10 CAPITAL PROGRAMME**

Some £253m of capital projects are scheduled for delivery in 2009/10. As above, this will include completion or substantial completion of some previously commenced projects and the start of new projects.

This year will see the commencement of a major project to improve the infrastructure and wastewater treatment facilities in the South Lisburn/Maze area. This project is expected to cost in the region of £30 million.

Commencement the project to upgrade the Carmoney Water Treatment Works project will complete the current programme of WTW improvements outside the PPP programme.

In terms of the WWTW programme, some 16 improvement projects are scheduled to be completed in the year while a further 21 improvement projects will commence, including:

- Coalisland Wastewater Treatment Works
- Plumbridge Wastewater Treatment Works
- Bessbrook/Newry Wastewater Treatment Works

There will be an increase in the relative expenditure on improving the water main and sewer infrastructure. Projects to improve the water main network will be undertaken at various locations throughout Northern Ireland including Castor Bay, Banbridge and Dungannon (North Antrim). Improvement to the sewer network will also continue with work being undertaken at Coleraine, Upper Falls, etc. Again, this work will target those high priority requirements.

During the year the tunnel section of the Belfast Sewer Project will be completed while work will continue with the necessary hydraulic and structural upgrade of the sewer network in the city.