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Welcome to “Our Business Plan” for PC21



Left:
Len O'Hagan,
Chairman NI Water



Right:
Sara Venning,
CEO NI Water

Northern Ireland is facing unprecedented risks to the environment and to the economy arising from its aging water and sewerage infrastructure and the current climate emergency.

Funding levels made available to NI Water in recent price controls have not been sufficient to stem the degradation of assets. As a result, our infrastructure is having widespread detrimental impact on the economy, by severely limiting development across the country in 25 of the 27 economic hubs identified by local councils for growth in the future.

We must also protect our safe, resilient drinking water supplies and distribution systems and invest in world class strategies to maximise the life and optimise the running costs of our aging existing infrastructure.

This document is Our Business Plan for the PC21 Price Control period (April 2021 to March 2027).

Our Business Plan sets out the step change in investment required to address the most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure – **NI Water requires capital investment of around £2.5bn, including the Living with Water Programme.**

Our purpose is to provide the water for life we all rely on to thrive. We deliver high quality drinking water to all our customers and return their wastewater safely to the environment today, tomorrow and for the longer term.

We are proud of the significant achievements we have made in water and wastewater services in the twelve years since we were established as Northern Ireland Water.

We have been leading the challenge in doing more for less - we have transformed the delivery of water and sewerage services, delivering record levels of service for our customers while reducing our cost base through sustainable efficiencies. NI Water has been successful in achieving levels of performance and efficiency akin to our counterparts in England, Wales and Scotland. We want to continue to build on this success and become world class for Northern Ireland.

This plan also sets out the performance improvements we are committing to deliver for our customers, building on our successes to date and continuing to drive efficiency and innovation.

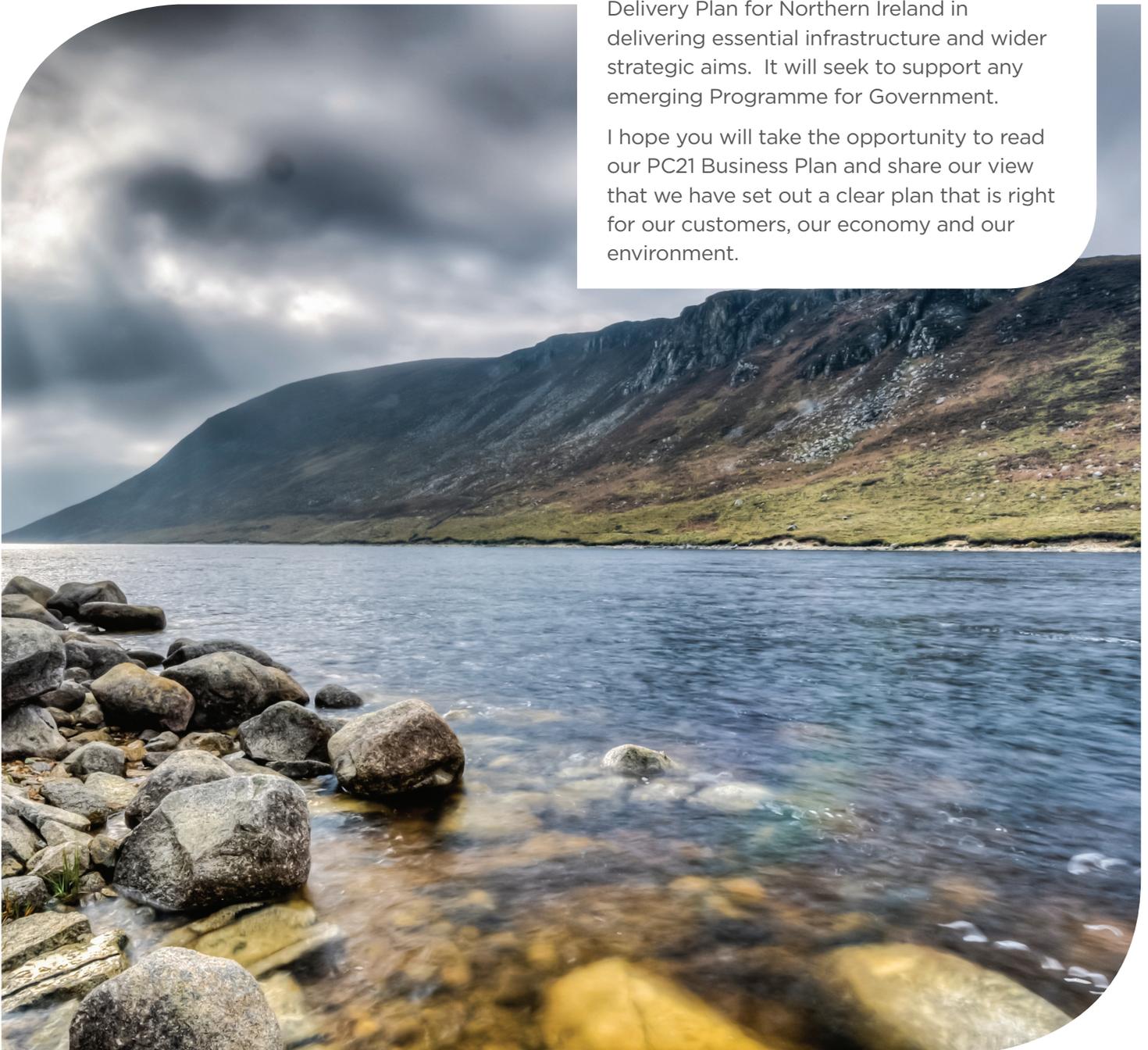
Listening to our customers' views and building these into our plans is also essential for us to ensure that our customers' needs are at the heart of our service delivery.

We are pleased to be working with the principal stakeholders who have helped us shape this plan:

- Department for Infrastructure (DfI)
- NI Environment Agency (NIEA)
- Utility Regulator (UR)
- Drinking Water Inspectorate (DWI)
- Consumer Council Northern Ireland (CCNI)

Our PC21 Business Plan supports key elements of the current draft Outcomes Delivery Plan for Northern Ireland in delivering essential infrastructure and wider strategic aims. It will seek to support any emerging Programme for Government.

I hope you will take the opportunity to read our PC21 Business Plan and share our view that we have set out a clear plan that is right for our customers, our economy and our environment.



Fast Read

Introduction

NI Water is responsible for delivering water and sewerage services that every aspect of life in Northern Ireland depends on. By supplying clean fresh water and safely managing wastewater, NI Water safeguards public health, underpins economic growth and protects the environment, which benefits everyone in Northern Ireland.

It is our duty to invest in water and wastewater infrastructure at appropriate levels to meet the needs of current and future generations.



Our Strategy

In preparation for setting out our plans for the PC21 period, we refreshed “Our Strategy” for NI Water which provides a longer-term view across the next 25 years (2021-2046). This strategy is underpinned by five strategic priorities:

- **Customer** – Delivering an exceptional customer experience
- **Water** – Delivering great tasting clean and safe water to meet customer demand
- **Economy** – Efficiently delivering infrastructure to underpin sustainable growth
- **Nature** – Protecting and enhancing the environment
- **People** – Providing a great place to work

These priorities form the backbone of this plan and, in a world that is changing fast, are key to tackling strategic risks and taking advantage of technological and innovative opportunities.

The strategic risks include; climate change, compliance with new legislation, rising customer expectations, customer demographics, innovation and our governance and funding model.

The opportunities include harnessing global water knowledge, moving to outcomes-based analysis and solutions, innovation, new technology, data analytics to drive efficiency, value, sustainability and service for customers, and enabling a thriving regional economy in Northern Ireland.

Our PC21 Business Plan sets out how our plans for the next six years contribute to achieving our ambition.

Stakeholders and Customers

We recognise the fact that we can't deliver our plan alone. Working with stakeholders and customers is critical.

We have prepared our PC21 Business Plan in collaboration with our Principal Stakeholders. In addition we have been having conversations with our customers and senior officials in Political Parties and Local Councils.

Our principal stakeholders have formed the basis for discussion, working and challenge groups throughout the preparation period for the PC21 Business Plan. These included:

DWQWG	Drinking Water Quality Working Group
EQWG	Environmental Quality Working Group
SPWG	Social Policy Working Group
CEOG	Consumer Engagement Oversight Group
CAWG	Cost Assessment Working Group

We continue to transform the way that we engage with customers, moving to an ongoing participatory approach rather than carrying out a quantitative survey for the purpose of the Business Plan. We have engaged IPSOS Mori as our strategic customer engagement research partner, so we can build on the qualitative research we have carried out to date.

We would like to take this opportunity to thank all of our principal stakeholders for their cooperation to date and we look forward to continuing the collaborative approach as we progress through the PC21 process.

We would also like to thank the Political Parties and Local Councils who have helped us to validate the consequence of funding constraints, prioritise expenditure and advocate the importance of this critical infrastructure investment.



Figure 1 - Primary Stakeholders, Parties & Councils

Social & Environmental Guidance

Government priorities for PC21 are set out in Department for Infrastructure's Draft Social & Environmental Guidance (S&EG) for Water and Sewerage Services (2021-27).

At the time of writing Northern Ireland's political parties have reformed a devolved government for Northern Ireland at Stormont.

This Draft Social and Environmental guidance reflects current policies and legislative commitments.

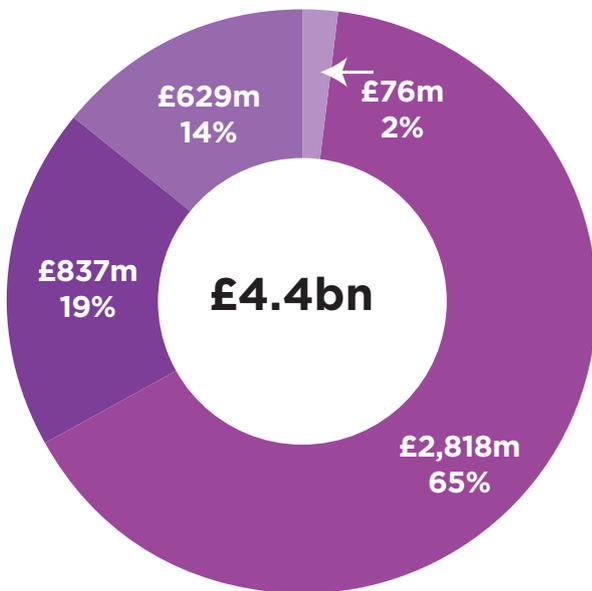
In addition, we recognise the Climate Emergency declared by the UK government. Our Strategy and Business Plan reflect this emergency particularly within the "Nature" strategic objective.

Funding the Plan



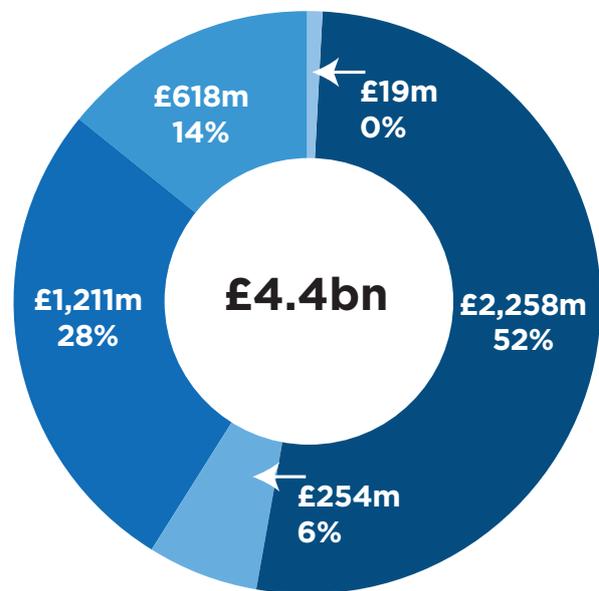
Over the PC21 period,
our proposals will cost
£4.4bn

Sources of funding



- Revenue including subsidy £2,818M (65%)
- Grants & contributions £629m (14%)
- Borrowing £837m (19%)
- Working capital £76m (2%)

Uses of funding



- Capital expenditure £2,258m (52%)
- Operating costs £1,211m (28%)
- Interest & dividend £618m (14%)
- PPP costs £254m (6%)
- Cash tax £19m (0%)

Figure 2 - Sources and Uses of Funding

Operational Efficiency

We have transformed the delivery of water and sewerage services in Northern Ireland, delivering record levels of service while reducing our cost base through sustainable efficiencies.

Using new efficiency models developed with the Utility Regulator, we estimate the gap to the upper quartile company in England and Wales is reduced to 7% in 2018/19 from 49% back in 2007/08.

In PC21, we have set challenging efficiency targets. We plan to reduce operating costs by a further £9.2m. This equates to a total savings of £32m over the period.

We recognise it is progressively harder to deliver efficiencies when quick wins have already been captured but our plan sets out that we will continue our efficiency journey. By the end of PC21 we are proposing to close 80% of the gap to the upper quartile company in England and Wales through “Planning for the Future” projects.

£32m

Total efficiencies delivered in PC21



Planning for the Future

Our ‘Planning for the Future’ programme for PC21 builds on the success of the Achieving Customer Excellence (ACE) Programme in PC15.



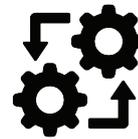
Contact management



Intelligent operations centre



Reliability centred maintenance



Asset delivery: decisions & capabilities



Commercial 2.0



Smart metering



Next generation M&E



Energy matters



Excellence in capital programmes



Performance excellence

Figure 3 – Ten Key Opportunities

The programme has identified ten transformational opportunities across the business to improve our operational and capital efficiency whilst delivering enhanced service and value for our customers and motivating and inspiring our people.

The programme also introduces new innovative technologies, methodologies and approaches to achieve better outcomes and address root cause issues through data, evidence and analytics.

Step Change in Capital Investment

The NI Water Board is endorsing a £2.5bn Capital Investment Plan for Northern Ireland including £1bn for our share of the Living with Water Programme.

The Living with Water Programme will address the backlog of wastewater and environmental needs of the Greater Belfast Lough area.

This compares to total capital investment in the PC15 period (2015 to 2021) of £0.9bn.

Our plan delivers the highest priority needs derived from our strategy and our environmental regulators:

Water provision is our most essential service, critical for life, the economy and the environment. We have identified £337m of investment required to provide safe, clean, drinking water to approximately 875,000 homes and businesses across Northern Ireland.

Sewerage provision is a critical service and is vital for public health, the economy and the environment. We have identified £1,004m of investment required to provide safe return of wastewater to the natural environment. This includes improvements to wastewater treatment works, our sewer network and wastewater pumping stations. Historically this area has been underfunded, which is now resulting in a large number of economically constrained towns across Northern Ireland.

We have assessed that we require £387m of planned and reactive **Maintenance Investment** to maintain existing levels of service and £126m of **capital programme running costs**. These have increased from current levels due to the increase in the size of the capital programme to address the backlog of investment in wastewater.

In addition, we have assessed that we require £178m of **Management and General** investment, which will be instrumental in creating a world class organisation that collaborates effectively with its supply chain to deliver innovation and efficiency.

Our planning tools have developed significantly over the last six years. We are

confident that our proposals are evidence based and in the best interests of health, the economy and the environment in Northern Ireland.

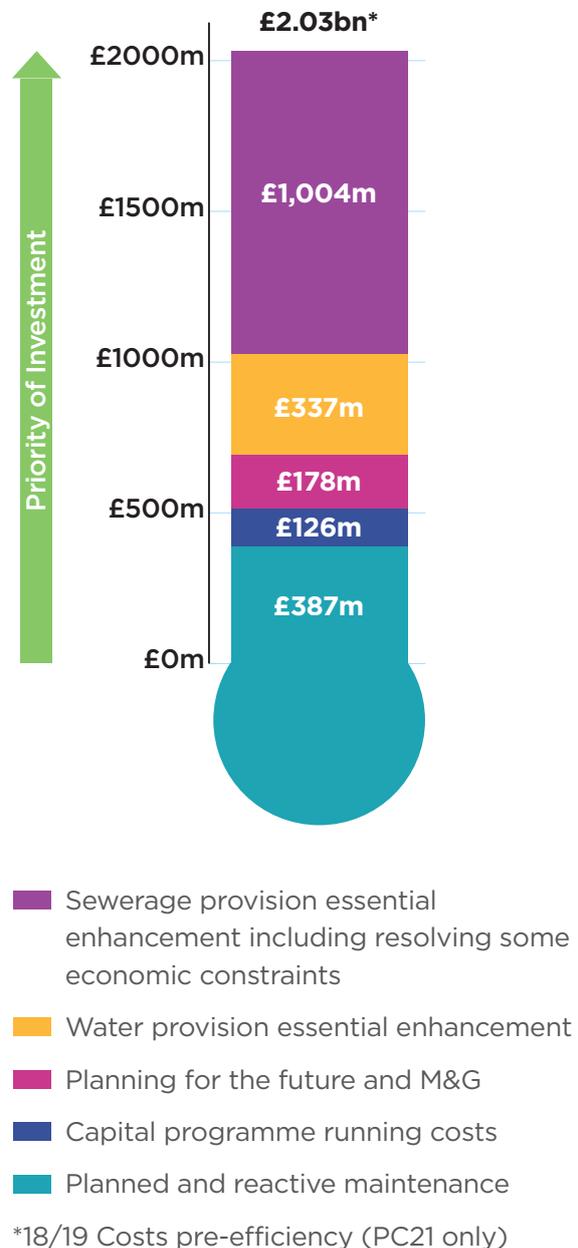


Figure 4 – Capital Investment by High Level Priority Sequence

Stakeholders have recently agreed that LWWP will be delivered over two price control periods so this PC21 Business Plan reflects £2.03bn capital investment (18/19 prices pre-efficiency).

Capital Efficiency

NI Water has identified £117m of opportunities and initiatives to improve the efficiency of our capital investment into the PC21 period and establish a realistic achievable capital efficiency target.

This rises from approximately 1.75% in Year 1 to 9.04% in Year 6.

Capital Efficiency Target

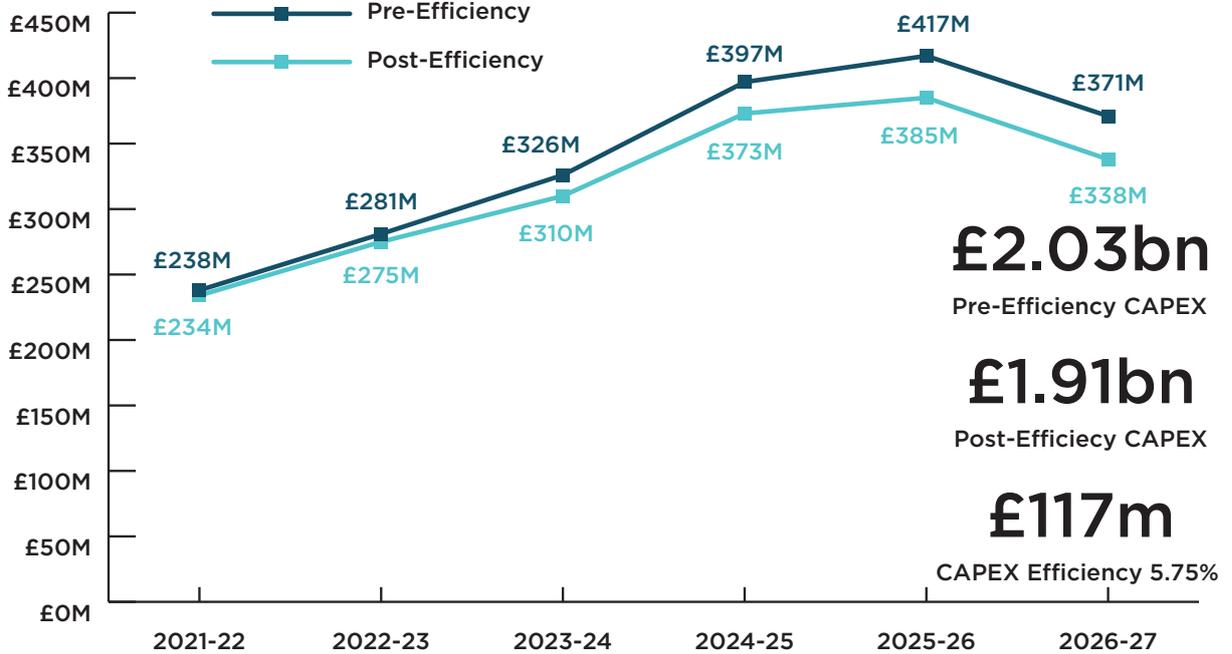


Figure 5 - Capital Efficiency Target

A total of eighteen potential Efficiency Initiatives were considered initially by NI Water. These were shortlisted down to the following eleven efficiency initiatives most likely to contribute materially to capital efficiency in PC21.

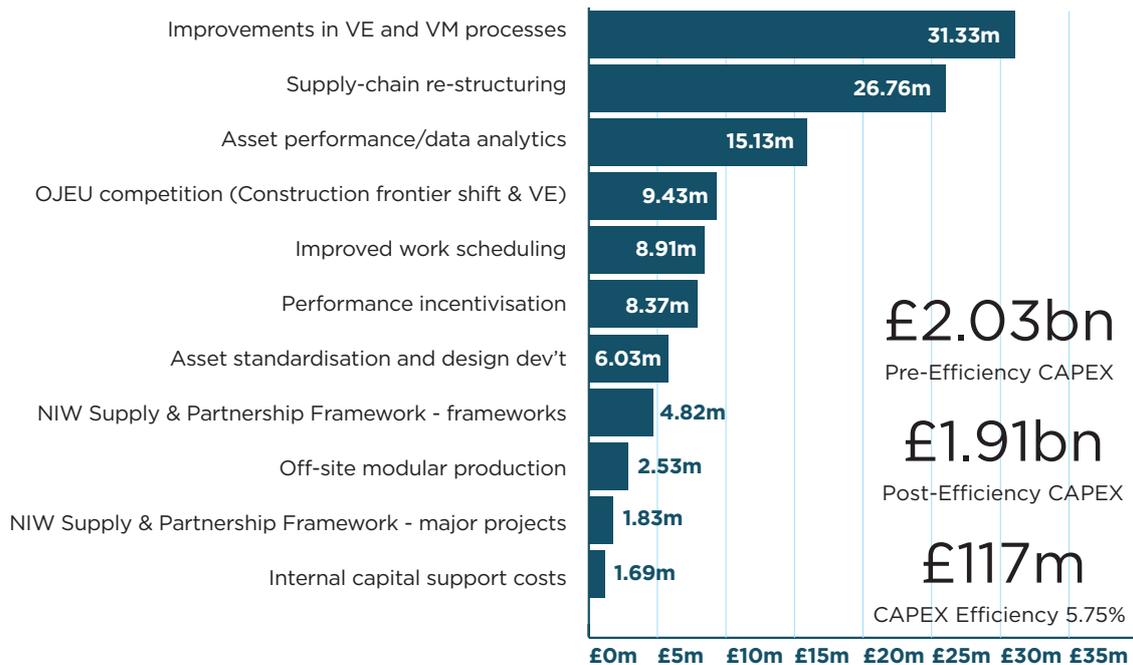


Figure 6 - Capital Efficiency Initiatives

Similarly, the “Planning for the Future” projects within the Management and General Portfolio enable this efficiency to be realised.

The Living with Water Programme (LWWP)

The Department for Infrastructure is leading the Living with Water Programme (LWWP) to deliver a Strategic Drainage Infrastructure Plan (SDIP) for the wider Belfast Lough area and catchments. The growth of Belfast City will stall unless there is significant investment.

The plan will work sustainably with all stakeholders to address legacy issues associated with the region. Based on the current strawman solution, it is anticipated that NI Water’s proportion of the total LWWP investment will be about £1bn.

Stakeholders have recently agreed that this will be delivered over two price control periods so £0.5bn of investment in the Living with Water Programme has been included in our PC21 capital investment requirement and £0.5bn will be invested in PC27.

It is anticipated that the LWWP will be separately funded through grant or other methods so that today’s customers do not have to pay for this historic underinvestment. It is also assumed that grant funding for the LWWP will not impact tariffs and as such has not been included in tariff projections.

Economic Constraints

Chronic underfunding for our wastewater assets has already resulted in curbs to economic development across Northern Ireland, including Belfast. We recognise that we cannot solve the issue of historic underfunding in one price control period, so we have been realistic in setting out that our plans in PC21 will only begin to solve the problem of development constraints and this will take several price controls to rectify.

- **Economic Hub Towns** - Local Councils identify hub towns that will drive the economy in the future. 25 of these towns have severely compromised sewerage

infrastructure. 12 of these towns will be addressed in PC21.

- **Other Large Towns** - 91 additional towns with population equivalents greater than 250 also have sewerage infrastructure that is compromising growth. 37 of these towns will be addressed in PC21.

It is expected that up to 30 additional large towns across Northern Ireland may be added to this category in the PC21 period.

Status ● Economic Constrained Area ● Serious Development Restriction ● PC21 investment

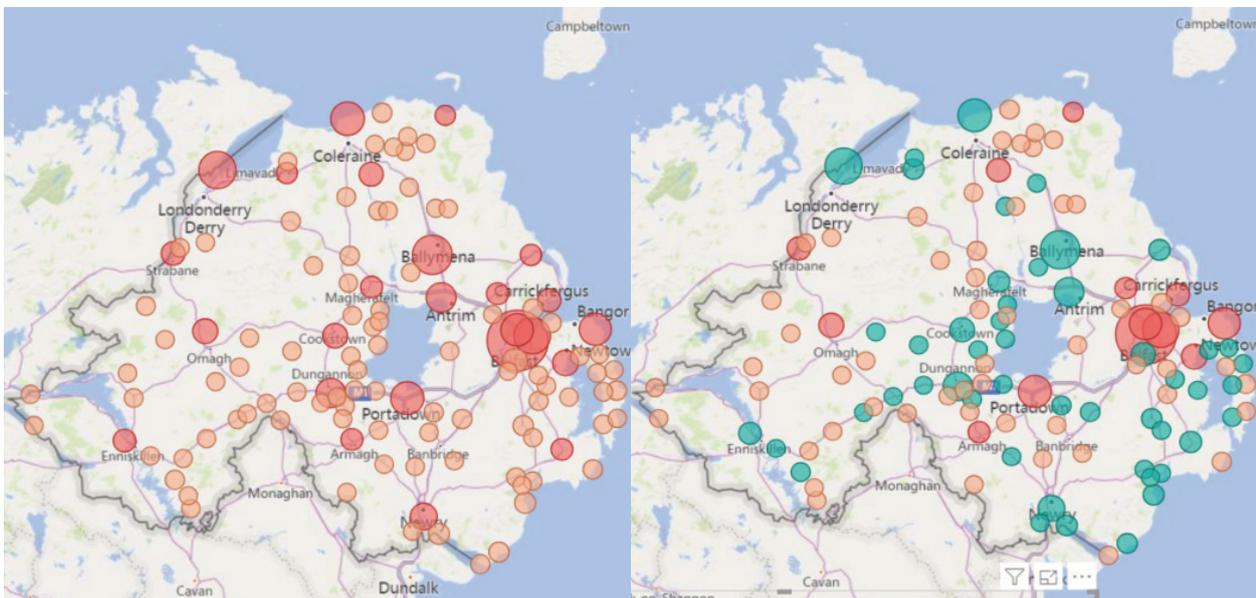


Figure 7 - Economically Constrained Towns

Improved Services for our Customers

We have identified investment to help us deliver the following key performance commitments for our customers:

- Deliver an exceptional customer experience
 - We have set ourselves a challenge to achieve our highest ever Net Promoter Score (NPS) which is an internationally recognised benchmark that spans all sectors, not just utilities. We will achieve this by reducing service failures and resolving issues on first point of contact.
- Water Quality - Based on our strong performance in PC15, we are setting higher targets on drinking water quality.
- Always on - We will continue to reduce unplanned interruptions to supply which we know inconveniences our customers.
- Leakage - We have struggled with leakage in PC15. In PC21 we are setting ourselves the challenge of achieving the sustainable economic level of leakage (150MLD) which is the point at which the cost of fixing a leak outweighs the benefit.
- Internal Sewer flooding - We will remove 57 properties at risk of internal sewer flooding.
- Pollution incidents - Based on our strong performance in PC15, we have set ourselves a challenge to achieve our lowest ever number of pollution incidents in PC21.
- Wastewater compliance - we see challenges ahead in wastewater compliance as we develop new datasets in preparation for a Mature Compliance Model - see further detail below. Initially we expect to see a dip in compliance as 5 wastewater treatment works cross the 250 population equivalent (pe) threshold which means they become subject to a numeric Water Order Consent.
- Carbon footprint - We recognise the serious threat that the Climate Emergency poses. As a result, we have set ourselves the target of ensuring that 100% of our electricity comes from renewable sources by 2027 whilst also ensuring that we make proportionate progress towards achieving the government's Net Zero Carbon target by 2050.

Wastewater Mature Compliance Model

During PC21, we will continue to work with NIEA to inform the development of a mature wastewater compliance model, which will align the reporting of wastewater compliance at the treatment works and in the sewer network with the rest of the UK. The current wastewater compliance model is based on

pre-announced rather than un-announced regulatory sampling at the treatment works and does not incorporate flow compliance in the sewer network. During PC21, we plan to make targeted opex and capex interventions to continue to improve the normal operation of all of our wastewater treatment works.

Supporting those in Need

While our household customers do not directly pay a water bill and therefore are not financially vulnerable in relation to our services, we recognise that they may be vulnerable due to age, disability or serious medical condition. We are working closely with CCNI, the Utility Regulator and a range of other organisations on the Consumer Vulnerability Working Group to ensure that

we grow our Customer Care Register. In addition, we will actively participate in the Utility Regulator's flagship project on consumer protection.

Balancing affordability and investment

Against a backdrop of underfunding in recent price controls and a step change in investment required for PC21, our ambition is to keep bills stable in real terms, and we are pleased that we have been able to achieve that. Our plan proposes that average bills will not increase in real terms over the PC21 period.

	2021-2027
Unmeasured Water Supply	+0.4%
Unmeasured Sewerage Services	-0.5%
Measured Water Supply	-0.9%
Measured Sewerage Services	0.0%
Trade effluent	+1.5%
Weighted Average Charge Increase	0.0%
WACI (Water)	+0.1%
WACI (Sewerage)	-0.1%

Figure 8 - Proposed Price Limits (Annual)

In PC15 customer demand was higher than forecast resulting in surplus revenue receipts. We have adjusted water and sewerage tariffs to ensure this is shared with customers in the PC21 period.

In 2017-18, we acquired the Alpha PPP contract. At the time of purchase, we had stated our intention to pass the benefits of the acquisition back to customers via their bills. This will result in a net saving of £13m to water customers over the PC21 period.

We continue to hold the view that customers today should not have to pay for past underinvestment by government, so we are working with the Department for Infrastructure to find an alternative source of funding for LWWP.

Figure 9 below summarises the Capital DEL and Cash Resource DEL required to underpin our plan.

DEL projections

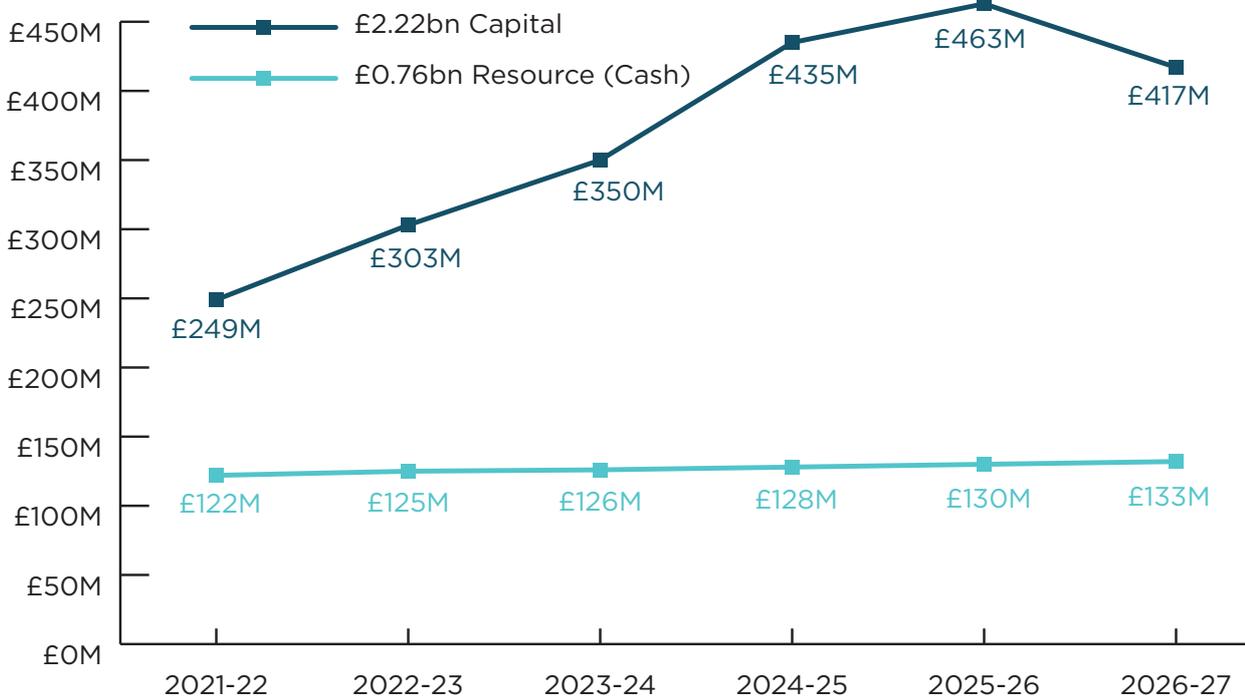


Figure 9 - DEL Funding Requirements

Securing Long Term Resilience

Our long-term operational resilience is vital to provide service to our customers, protect the environment and ensure the continued economic development of Northern Ireland. We know our customers and our stakeholders value this too.

For this price control we are keen to improve our financial resilience in line with the longer-term nature of our business. As a Government Owned Company and a Non-Departmental Public Body (NDPB), NI Water is subject to annual public expenditure cuts

and uncertainty over funding. We have none of the levers available to our UK counterparts when it comes to dealing with cost uncertainty. NI Water operates with minimal financial headroom, so our only recourse is to seek additional government funding, with no guarantee of success.

To support an informed discussion on financial resilience, we have embarked on preparing a Long-Term Viability Statement (LTVS) which we will share with our principal stakeholders in the near future.

Owning & Delivering Our Plan

We believe our Business Plan is strong and commits us to deliver an ambitious programme of investment that is right for Northern Ireland.

Delivery of our capital investment programme through our integrated capital delivery frameworks will provide our supply chain with the opportunity to collaborate and innovate to deliver work packages in the most efficient and sustainable way.

Cooperation with our wider supply chain, water industry research bodies and other

utilities to implement new technologies will help us to continue to deliver more for less.

Engaging our people will be critical to our success and we have recognised this as one of our strategic priorities. We want to attract, identify, develop and retain high-performing talent across all areas of our business through apprenticeship and graduate level entries. Having the autonomy to reward and incentivise our people is a topic we continue to work with our shareholder on, but it is critical to the delivery of our plan.

Governance of our Plan

The NI Water Board has driven the strategic development of our PC21 Business Plan. It has challenged the Executive Committee to put forward a plan that delivers for health, environment and economy in Northern Ireland while being affordable for customers and deliverable for our people and our supply chain.

The Board has obtained confirmation from its independent Board Assurance Advisor (Atkins) that the plan is clear, structured and evidence based, and the narrative is supported by robust data.

Figure 10 – Evidence Based Data Driven Strategy



- Nature** Protecting and enhancing the natural environment.
- Water** Delivering great tasting, clean and safe water to meet customer needs.
- Customer** Delivering an exceptional customer experience.
- Economy** Efficiently delivering infrastructure to underpin sustainable growth.
- People** Providing a great place to work.